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Are we in the "4th wave" of economic development?

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PUBLIC INFRASTRUCTURE IN ECONOMIC DEVELOPMENT AND GROWTH: EVIDENCE FROM RURAL MANUFACTURERS

By John M. Halstead and Steven C. Deller

ABSTRACT

The role of public infrastructure in economic development and growth is examined and reported here. Specific attention is paid to the importance of infrastructure to small rural manufacturing firms in upper New England and Wisconsin. Study results suggest that while infrastructure is important to small manufacturing firms, other community attributes such as overall community attitudes toward change and the underlying forces of firm start-ups are more important. While adequate investments in infrastructure may be necessary for economic development and growth, it is not sufficient.

INTRODUCTION

The role of public infrastructure in economic development and growth remains at the center of a large and growing academic and policy debate. The common perception is that investment in public infrastructure sets the cornerstone for economic growth and development. Numerous studies purport

The Role of Amenities and Quality of Life In Rural Economic Growth

Steven C. Deller, Tsung-Hsiu (Sue) Tsai, David W. Marcouiller, and Donald B.K. English

A structural model of regional economic growth is estimated using data for 2243 rural U.S. counties. Five indices designed to capture specific amenity and quality of life characteristics are constructed using fifty-four separate indicators. Results suggest that amenity characteristics can be organized into consistent and meaningful empirical measures that move beyond ad hoc descriptions of amenities. In addition to insights into the influence of local characteristics ranging from tax burdens to income distribution on regional economic growth, results suggest that predictable relationships between amenities, quality of life, and local economic performance exist.

Key words: economic growth, amenities, quality of life, rural.

Rural economic structure in many parts of the United States has undergone significant changes over the past two decades. Traditional goods-producing sectors such as agriculture and manufacturing are giving way to service-producing sectors, such as those that support natural resource-based leisure activities. As America becomes more urban the resources that rural areas offer, like open space, natural amenities, and "small town values," become more valuable. Increasingly, people appear to be placing greater value on natural resource-based amenities and related attributes that contribute to regional quality of life. One behavioral manifestation has been a willingness to relocate to experience these attributes. Indeed, many researchers, such as Howe, McMahon, and Propst, conclude that Americans are moving to rural

and Deller, Halstead and Deller, Rudzitis). In a detailed review of the literature, Gottlieb suggests that the argument for using amenity attributes as an economic growth tool appears powerful. Even if such a strategy fails to create additional job and income growth, constituents presumably would benefit. Concern has been expressed, however, that such changes may yield higher levels of local underemployment, lower income levels, and generally lower overall economic well-being (Marcouiller and Deller). There is a perception that substituting traditional jobs in resource extractive industries and manufacturing with more service oriented jobs yields inferior earnings power, benefits, and advancement potential.

While shifts from market-based (e.g., extractive and manufacturing) activities to

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The Review of Regional Studies

The Official Journal of the Southern Regional Science Association

Are We in the 4th Wave of Economic Development?*

Steven Deller[a]

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Abstract: How states, as well as communities, have approached economic growth and development policy has varied over time, going through various stages or waves. The idea that we have gone through three such stages or waves has been widely discussed and studied by both academics and practitioners. In this address, I lay out a series of arguments that we have entered a fourth stage or wave in how communities approach economic growth and development. Specifically, communities are refocusing their attention less so on promoting business development and more on making their community attractive to people. Sometimes referred to as "place-making," the idea is that if we make the community as attractive to people as possible, people will want to live in the community and create business opportunities. This shift from focusing on people rather than businesses is fundamental to how communities think about economic growth and development.

Keywords: economic development, policies, place-making
JEL Codes: O10, R11, R28

1. INTRODUCTION

State and local governments have a long tradition of trying to influence the competitive position of their state and or community. For example, in 1791, the State of New Jersey offered tax incentives to industrialist Alexander Hamilton to encourage the location of a manufacturing plant. The famous Erie Canal, completed in 1825, is one of the first public

There is a long tradition of attempts to influence local economic growth in the U.S.

- Tax incentives were offered by the state of New Jersey in 1791 to industrialist Alexander Hamilton to influence the location of a manufacturing plant.
- The famed Erie Canal, completed in 1825, is one of the first public investments in infrastructure and was justified in terms of offering a cheap and safe way to transport agricultural products to markets.
- The earliest corporations were created by states to provide a mechanism to encourage private investments in economic growth (e.g., the Erie Canal).
- By 1884 the State of Pennsylvania had invested over $100 million and placed promoters of the state on the board of directors of more than 150 corporations.

Foxconn could get up to $200 million in cash a year from state residents for up to 15 years

Jason Stein and Patrick Marley Milwaukee Journal Sentinel

Published 12:42 p.m. CT Jul. 28, 2017 | Updated 6:33 p.m. CT Jul. 28, 2017

View Comments

Video: Foxconn to bring manufacturing and assembly jobs to state

Foxconn Technology Group pledged to invest $10 billion to build a display panel plant in Wisconsin that could employ up to 13,000 workers. *Wochit*

MADISON - To lure Foxconn Technology Group to Wisconsin, state residents will have to do more than just forgo taxes from the Taiwanese electronics giant. They will have to pay cash — writing checks for up to $200 million a year.

Foxconn Chairman Terry Gou (left) and Gov. Scott Walker sign a memorandum of understanding regarding Foxconn's plan to build a $10 billion factory in Wisconsin. *Mike De Sisti / Milwaukee Journal Sentinel*

Big Incentives Won Alabama A Piece of the Auto Industry

By Rick BrooksStaff Reporter of The Wall Street Journal
April 3, 2002 12:01 am ET

PRINT TEXT

VANCE, Ala. -- In 1993, Alabama persuaded Mercedes-Benz to build its first U.S. auto plant here by offering the luxury-car maker $253 million worth of incentives -- $169,000 for every job Mercedes promised the state.

Amazon's HQ2 deal with New York, explained

Everything you need to know about Amazon's deal with New York

By Sam Raskin | Updated Feb 14, 2019, 12:12pm EST

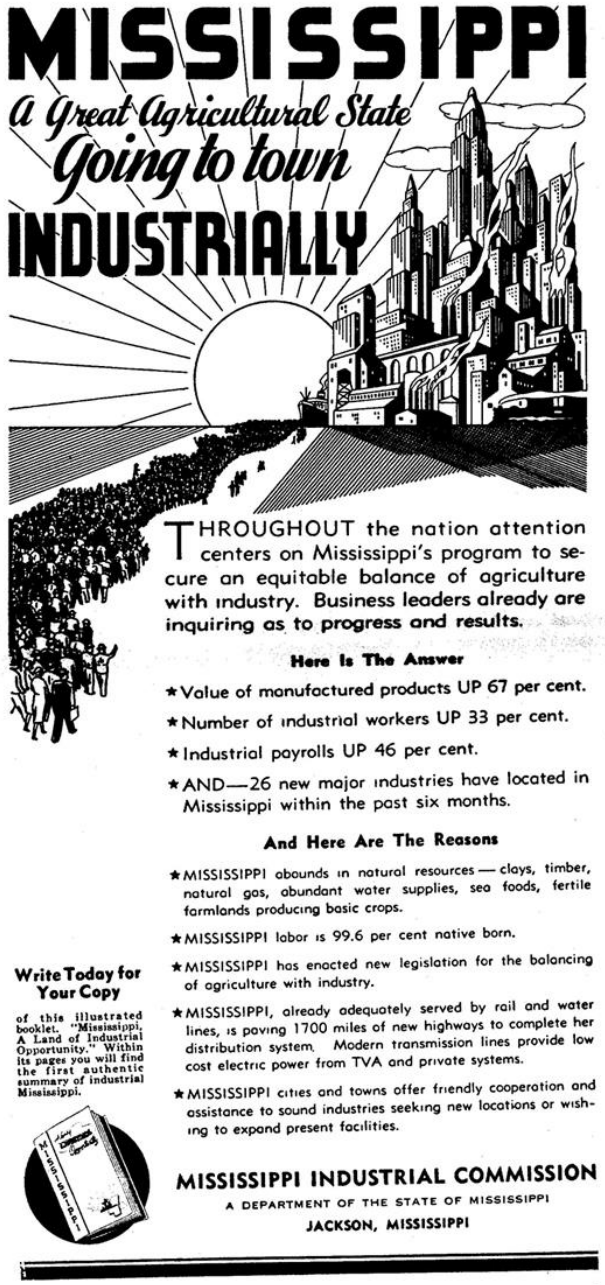
After the decision was made public, Mayor Bill de Blasio and Gov. Andrew Cuomo gathered with other city and state officials to gleefully announce that they had sealed the deal, which includes just shy of $3 billion in subsidies.

Mississippi Balance Agriculture with Industry (BAWI) policies of the Great Depression era (1933)

Established the idea of a positive business climate around ideas of:

- Cheap labor
- Cheap land
- Limited regulation
- Limited taxation

First shots fired in the “new war between the states”.



MISSISSIPPI

A Great Agricultural State Going to town INDUSTRIALLY

THROUGHOUT the nation attention centers on Mississippi's program to secure an equitable balance of agriculture with industry. Business leaders already are inquiring as to progress and results.

Here Is The Answer

★ Value of manufactured products UP 67 per cent.

★ Number of industrial workers UP 33 per cent.

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Write Today for Your Copy

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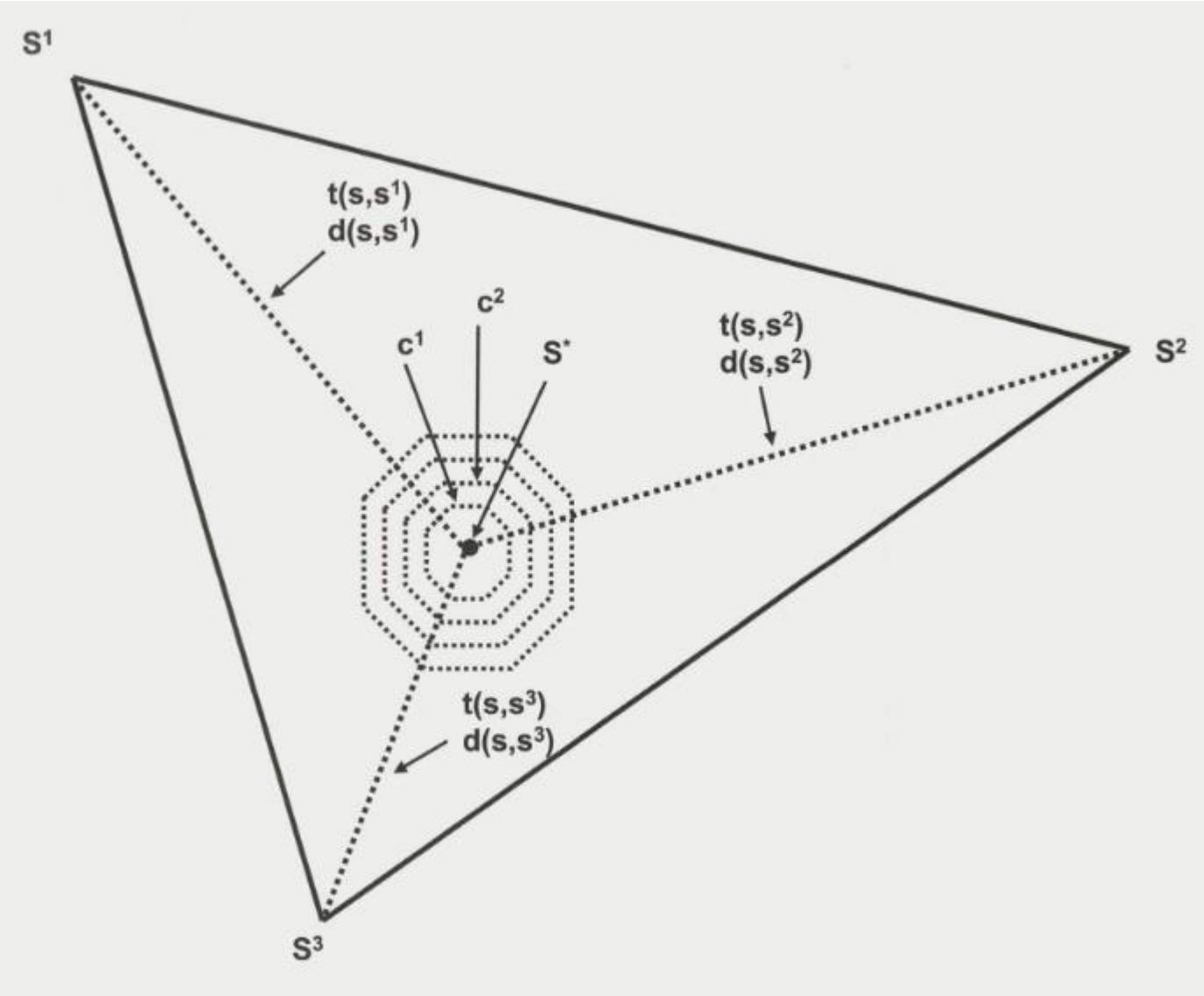
MISSISSIPPI INDUSTRIAL COMMISSION

A DEPARTMENT OF THE STATE OF MISSISSIPPI

JACKSON, MISSISSIPPI



Neoclassical Firm Location Theory

Transportation cost minimization is the focal point.

Two step process:

1. Transportation costs selections a general region to locate.

2. Local cost factors (e.g., land, labor, tax, regulation costs) drives a specific site location.

For established large manufacturers this made a lot of sense….hence the Mississippi Balance Agriculture with Industry polices made sense.

Three “waves” of economic growth and development strategy thinking.

1st Wave: Industry Recruitment, focus on manufacturing.

This flows directly from the Mississippi Balance Agriculture with Industry (BAWI)

Drove home the idea that a “positive business climate” required cheap labor (labor unions “bad”), cheap land, low taxes, limited regulations.

Texas Office of the Governor:

Texas offers companies of all sizes and across all industries one of the best business climates in the nation, with a fair, transparent tax and regulatory structure designed for businesses to succeed. With no corporate or personal income tax at the state level, companies operating in Texas enjoy one of the lowest overall tax burdens in the country. Texas is committed to maintaining its position as the best state for business, and passed legislation providing over $4 billion in tax relief for businesses. Texas prides itself on being a right-to-work state and will continue to make strategic investments to ensure it maintains our competitive advantage, allowing businesses to prosper and grow.

North Carolina Economic Development Organization :

North Carolina has a proven track record of reducing and streamlining business taxes. At 2.5 percent, our state has the lowest corporate income tax rate in the country. North Carolina's business costs rank among the lowest in the nation, making our state a more profitable place to work. Recent tort reform, streamlined practices and the strengthening of business courts in the state have earned North Carolina accolades and rankings among the best legal climates in the U.S. What does this mean for you? When there's less red tape and litigation, your business can reach new heights, faster.

Florida Economic Development Organization:

Florida consistently ranks among the best states for business, thanks to its pro-business state tax policies, competitive cost of doing business and streamlined regulatory environment. Florida is working on legislative, fiscal and marketplace initiatives such as insurance tort reform, targeted industry incentives and many more. Florida is also a right-to-work state. Businesses thrive in this low-tax environment, and employees enjoy the benefit of no personal income tax.

Tennessee Economic Development Organization :

Tennessee is proud to be a right-to-work state with no personal income tax on wages. Our state and local tax burdens are among the lowest in the country, and our state budget operates with a healthy surplus rather than a deficit. Successful overhaul of our tort and workers compensation laws.

Idaho Department of Commerce:

In Idaho, we keep our costs and taxes low, and we remove the burdensome regulations that get in the way of success.

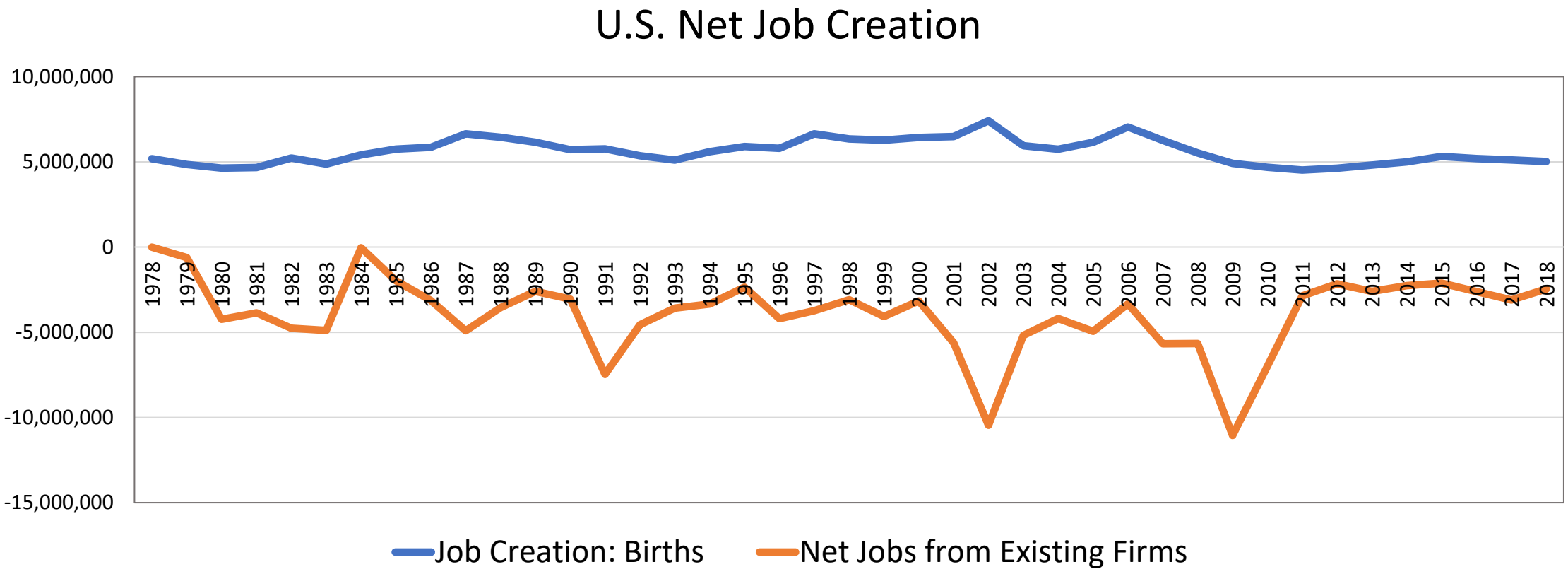
Three "waves" of economic growth and development strategy thinking.

1st Wave: Industry Recruitment, focus on manufacturing.

- Big firms were the focus of attention. (What is good for General Motors is good for America.)
- Tax incentives. (Throw money at businesses to move to your state.)
- Public dollars invested in infrastructure

2nd Wave: Smaller Businesses, focus on existing businesses.

Work by David Birch (1981) found strong evidence that job growth comes not from large but smaller, and more recent work (Haltiwanger, Decker, Miranda) notes particularly newer, firms.



2nd Wave: Smaller Businesses, focus on existing businesses.

Business Retention and Expansion:
Green Bay, WI Chamber of Commerce

BRE is a proactive approach to economic development designed to better understand the challenges and opportunities businesses in our community face, and connect them with what they need to succeed. BRE also focuses on gathering feedback and insights on the overall business climate, which is aggregated and analyzed to identify trends.

In economic development we see firms growing in three ways:

- Growth/expansion of existing firms (business expansion and retention)
- Creation of new firms (entrepreneurial development)
- Attraction of external firms to the market area (business recruitment)

2nd Wave: Smaller Businesses, focus on existing businesses.

The U.S. economy started shifting from a “goods” producing economy (manufacturing) to a “service” producing economy.

BUSINESS

How Citibank Made South Dakota the Top State in the U.S. for Business

Little South Dakota (pop. 833,000) holds $2.5 trillion in bank assets — more than any other state. Here's why.

AMY SULLIVAN AND NATIONAL JOURNAL JULY 10, 2013

Three “waves” of economic growth and development strategy thinking.

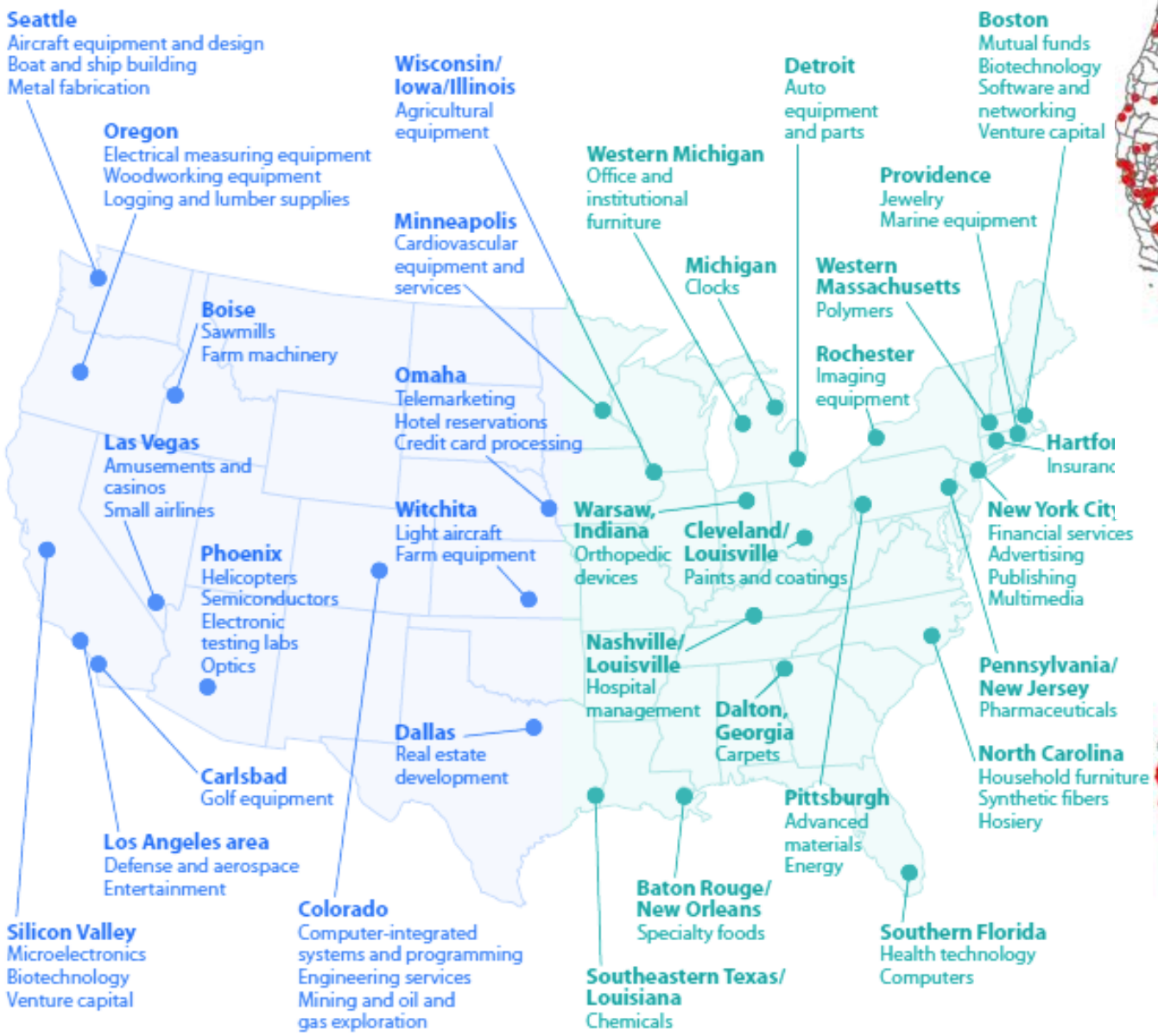
3nd Wave: Public-Private Partnerships, focus on “clusters”.

Almost single handedly due to Porter and EDA’s embracing of Porter.

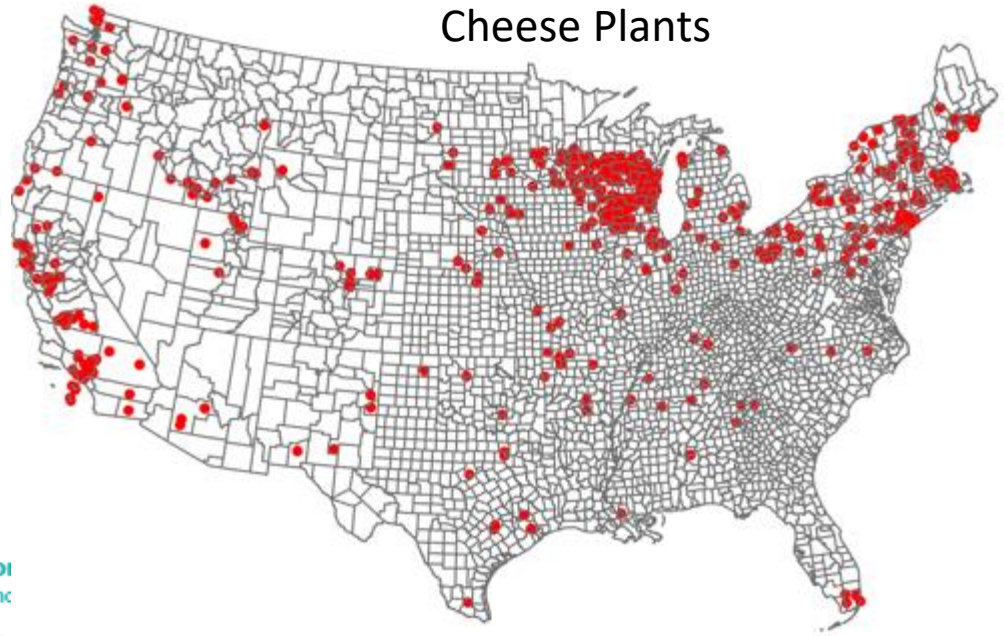
Focus limited resources on existing industrial “clusters” with an eye toward new-emerging “clusters”.

Networking is key to dynamic and vibrant clusters, to facilitate such networking form public-private partnerships.

Invest in public institutions that can support the cluster.



Cheese Plants



Wineries

Three “waves” of economic growth and development strategy thinking.

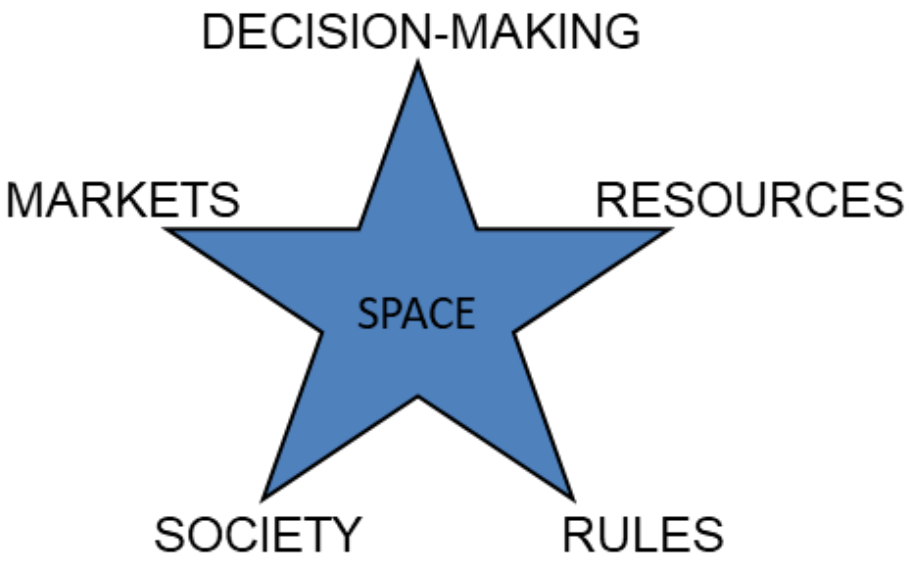
3nd Wave: Public-Private Partnerships, focus on “clusters”.

Viable clusters are more than just businesses interconnected through geographically grouped supply chains.

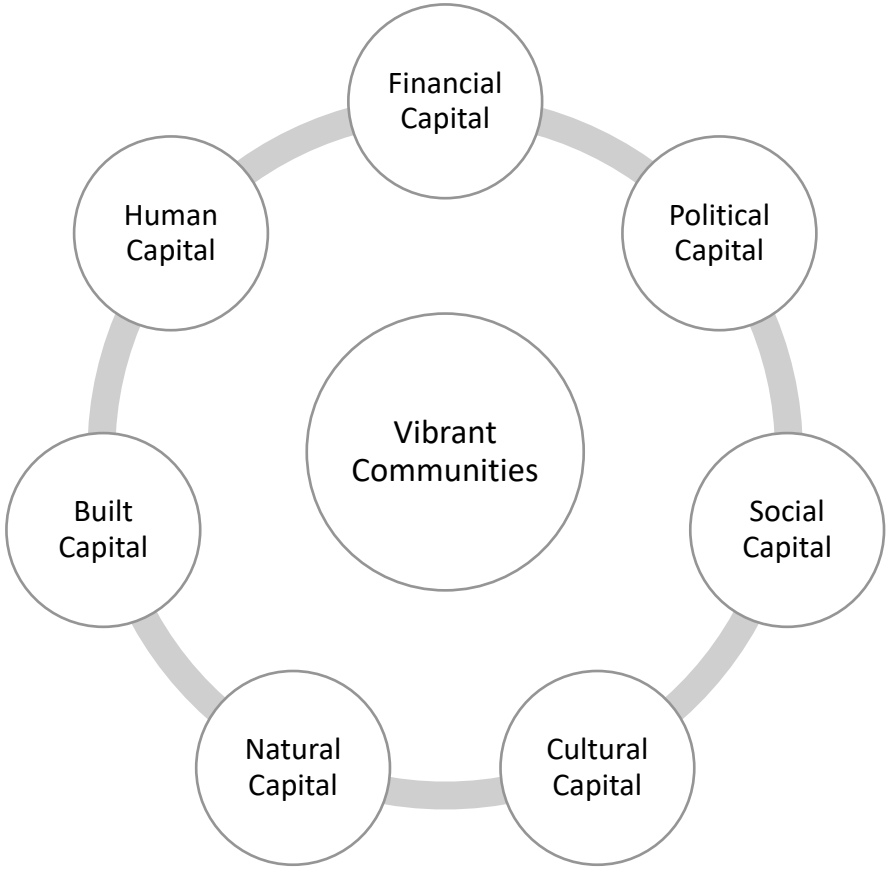
There are strong notions of social capital within viable clusters.

People started to realize that there are multiple factors at play beyond taxes, labor costs, land prices and regulations. We need a “systems thinking” approach.

The Shaffer Star



The Floras' Community Capitals



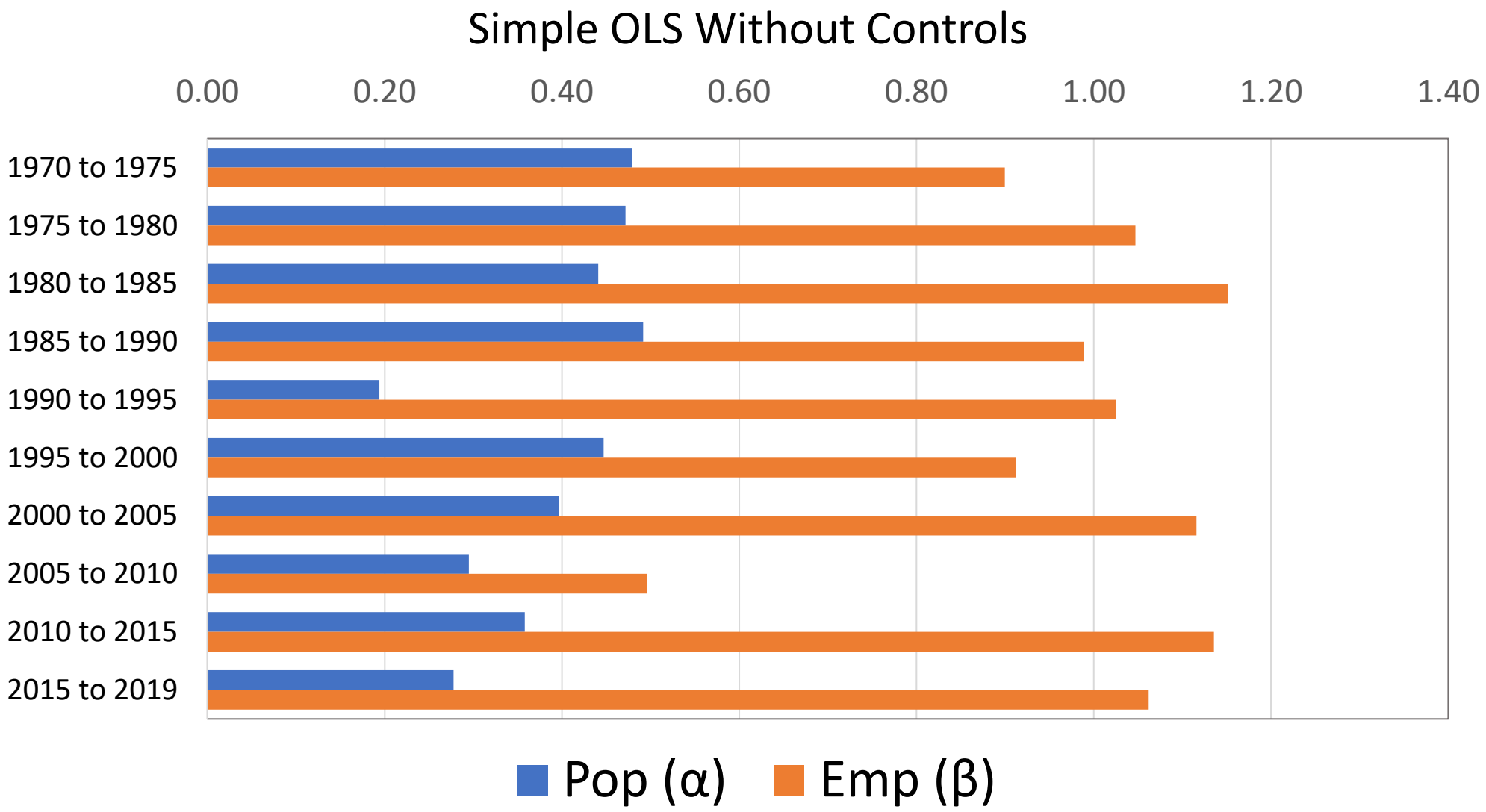
Do People Follow Jobs, or Do Jobs Follow People?

Carlino-Mills Partial Adjustment Framework

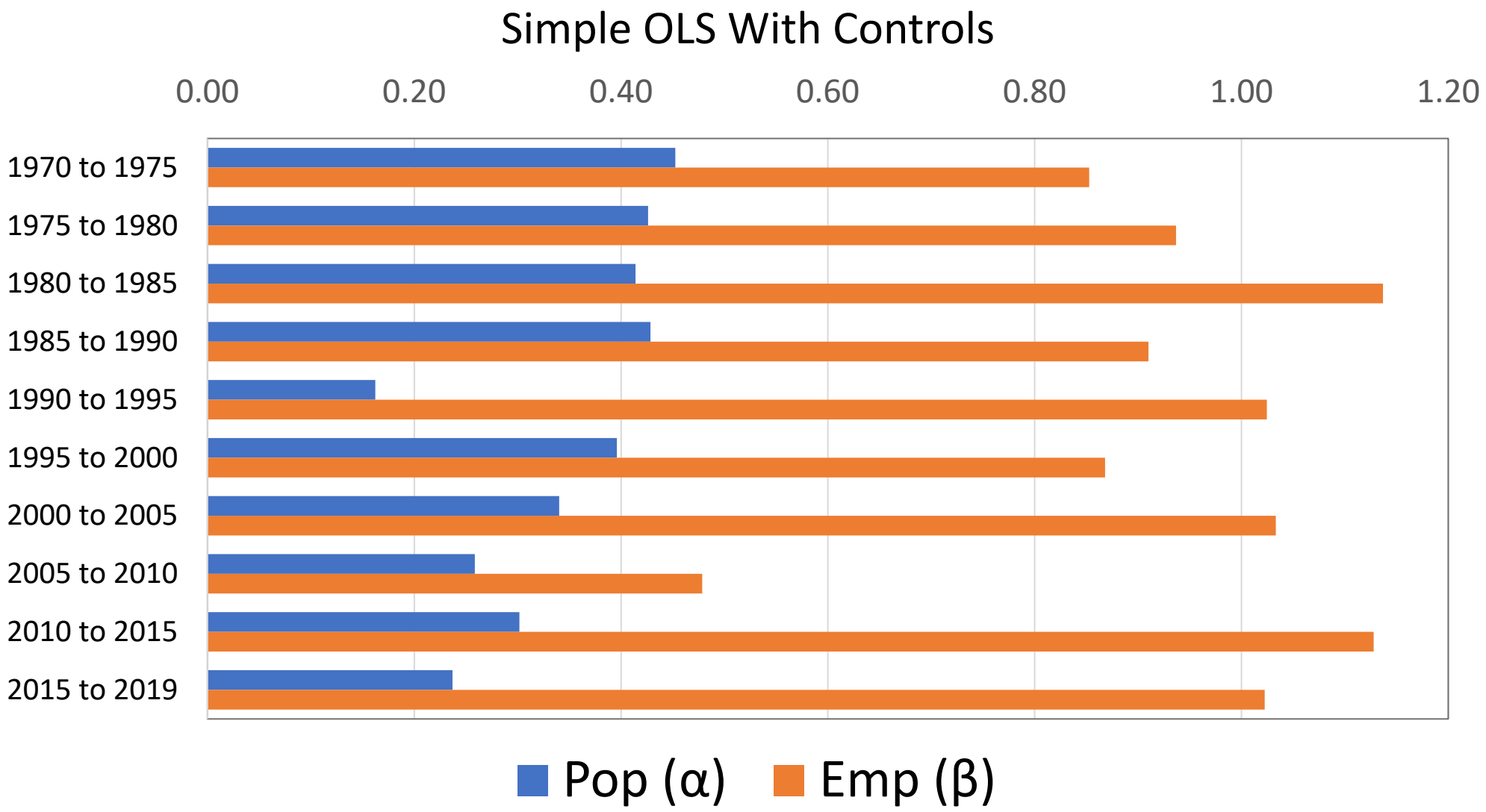
$$\Delta P_{t,t-1} = \alpha_0 + \alpha_1 P_{t-1} + \alpha_2 \Delta E_{t,t-1} + \sum \gamma X$$

$$\Delta E_{t,t-1} = \beta_0 + \beta_1 E_{t-1} + \beta_2 \Delta P_{t,t-1} + \sum \gamma Y$$

I. $\alpha_2 = \beta_2 = 0$ people do not follow jobs and jobs do not follow people
II. $\alpha_2 = 0, \beta_2 > 0$ jobs follow people
III. $\alpha_2 > 0, \beta_2 = 0$ people follow jobs
IV. $\alpha_2 > 0, \beta_2 > 0$ jobs follow people and people follow jobs



Over all time periods “jobs follow people” is a consistent finding.



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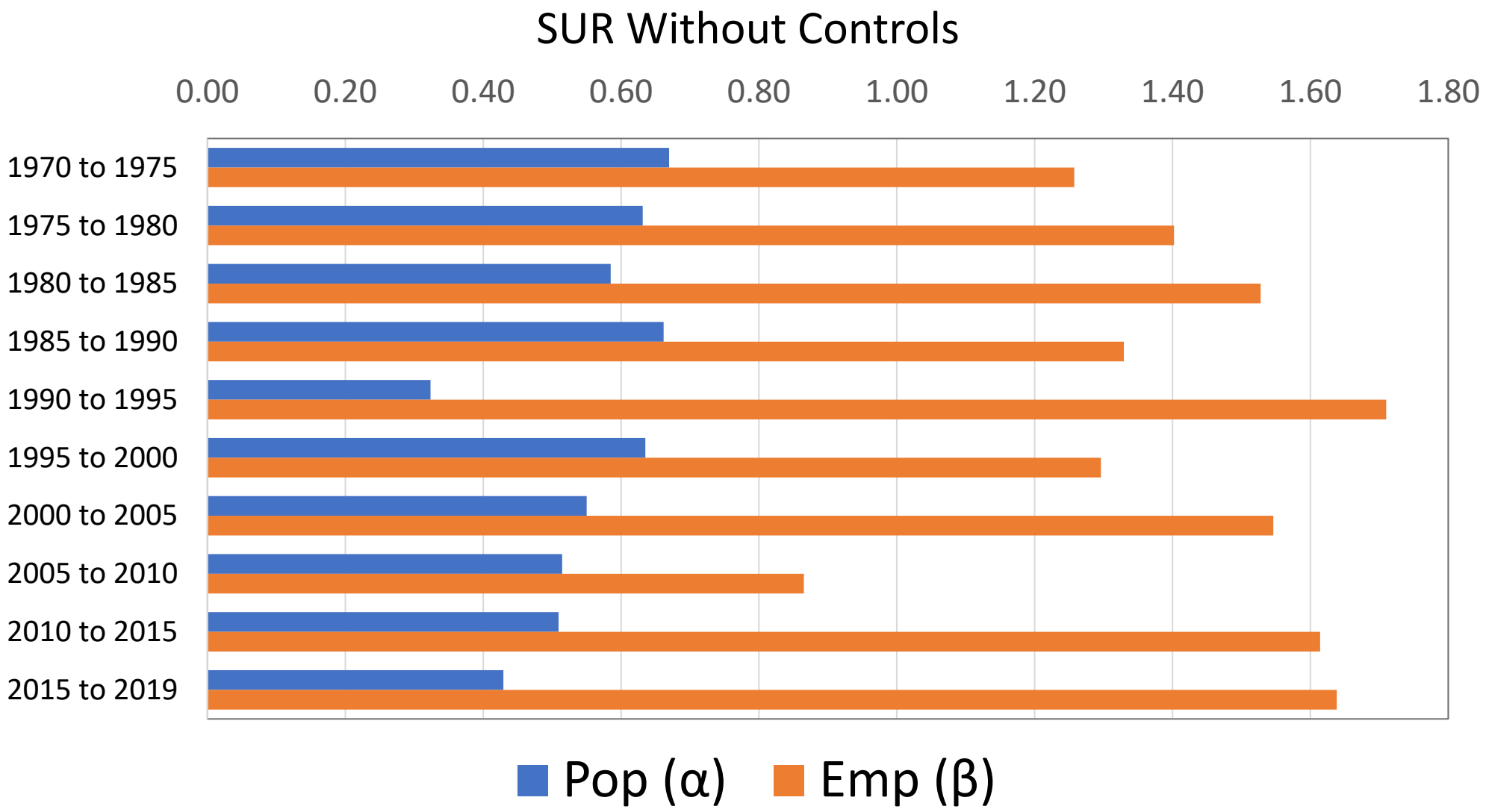

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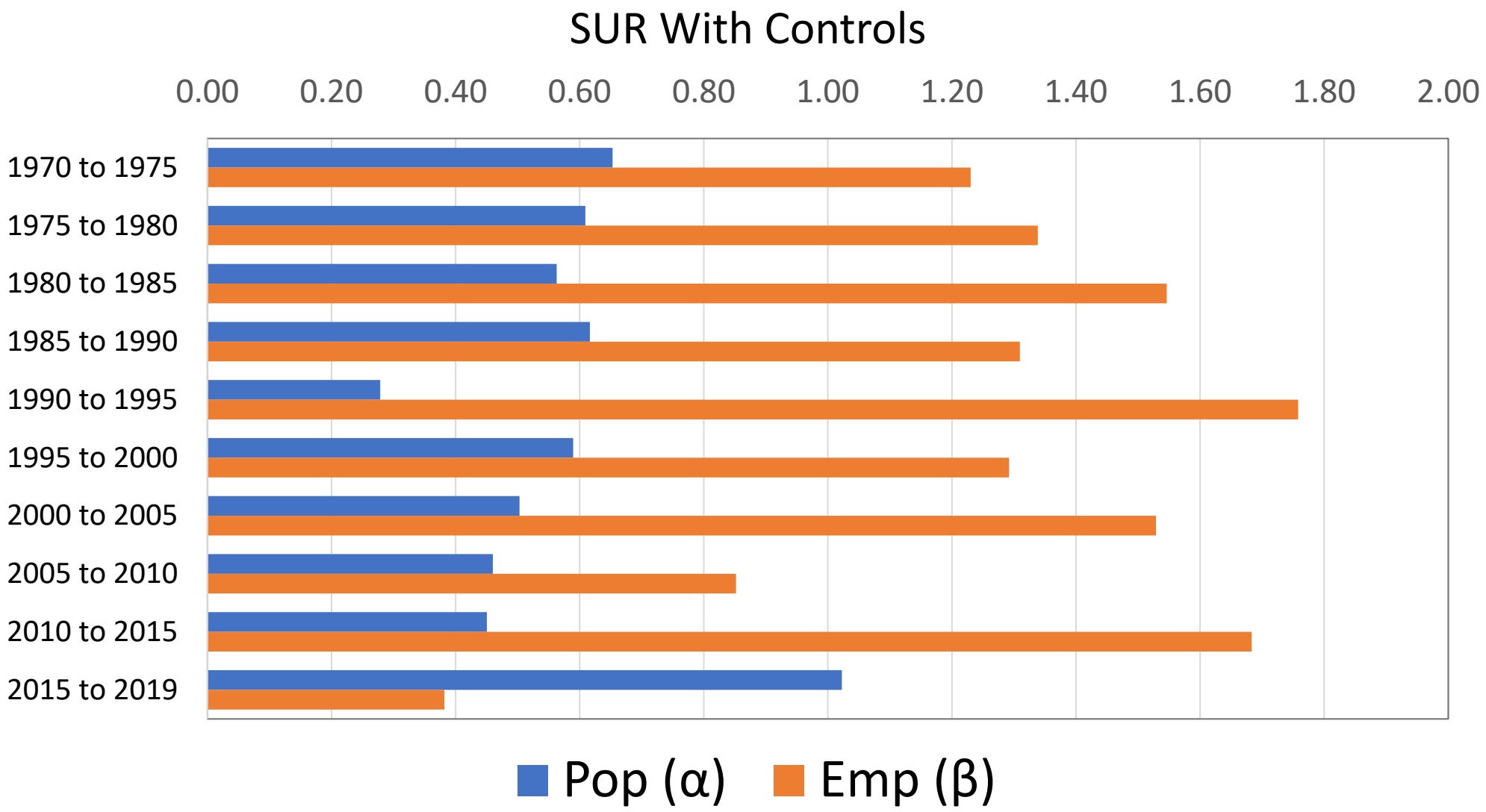

Over most time periods “jobs follow people” is a consistent finding.

Are we entering a **4th wave** of economic growth and development strategy thinking?

Are communities shifting from a “jobs, jobs, jobs” view of economic development to a “people, people, people” view?

Realization that “jobs follow people”?

Are we entering a “systems thinking” approach to economic growth and development?

Are we entering a **4th wave** of economic growth and development strategy thinking?

Halstead and Deller (1997) reported that one respondent to the survey stated: "[f]ind an area that you want to live, then start your business." (p160).

Henry, Barkley and Boa (1997) spread and backwash effects in South Carolina urban areas: quality of life drives the results.

Amanda Weinstein (etal) Brookings paper on QoL and growth.

"Place-Making" as an economic development strategy.

Are we entering a **4th wave** of economic growth and development strategy thinking?

Should this **4th wave** be "top down" or "bottom up"?

"Top-down"? No, probably not. Glaeser and Gottlied (2008, NBER)

"Bottom-up"? Yes, driven by local/regional efforts that reflect the unique situation and desires (objectives) of the community.

Are we entering a **4th wave** of economic growth and development strategy thinking?

Jobs!

Jobs!

Jobs!

Even John Oliver is in on the debate.....

Are we entering a **4th wave** of economic growth and development strategy thinking?

Former Nogales mayor is first to announce 2022 bid for Arizona governor
Arizona Republic, March 16, 2021

Those basics, according to López: quality education and job training, access to comprehensive health care and "jobs, jobs, jobs."

Sadiq Khan launches campaign for second term as Mayor of London
Associated Press, March 22, 2021

Mayor of London Sadiq Khan launches his campaign for a second term at Ebony Horse Club in Brixton. Mr Khan promised all young people a mentor and said his priority would be "jobs, jobs, jobs".

Trudeau's all about 'jobs, jobs, jobs.'
National Post, March 3, 2021

But that's all behind us now, and it is a good thing to see that SNC is back receiving government contracts. It's all about "jobs, jobs, jobs," remember?

Why do politicians keep going back to "smokestack chasing"?

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JACKSON, MISSISSIPPI

Milwaukee Brewers: build us a new stadium or we are leaving Wisconsin.

Analysis: Foxconn considers another plant in Midwest, but at what cost?

Jon Swartz USA TODAY

Published 2:38 p.m. ET Aug. 8, 2017 | Updated 3:30 p.m. ET Aug. 8, 2017

Are we entering a **4th wave** of economic growth and development strategy thinking?

Institutional Location Theory: Large firms have outsized leverage.

Does Molotch's Growth Machine Theory come into play here?

Peter Eisenger:

- "The Rise of the Entrepreneurial State" (1988)
- "The Demise of the Entrepreneurial State" (1995?)

At the state/federal level policy makers have very high discount rates, but at the local levels people are making investments with an eye toward their children.

Are we entering a **4th wave** of economic growth and development strategy thinking?

Make investments that will make your community as attractive to this person as much as possible: "[f]ind an area that you want to live, then start your business." (p160).

Are we entering a **4th wave** of economic growth and development strategy thinking?

Good schools, not to feed the labor market but to be attractive to families with children.

Public safety, do I feel safe walking my dog at midnight.

Parks, recreation, libraries.

Community fairs, festivals (art in the park, farmers markets, music on the square).

Viable local business organizations, including professional development opportunities for local businesses.

Are we entering a **4th wave** of economic growth and development strategy thinking?

Free public wi-fi.

Active volunteer organizations.

Early childhood education.

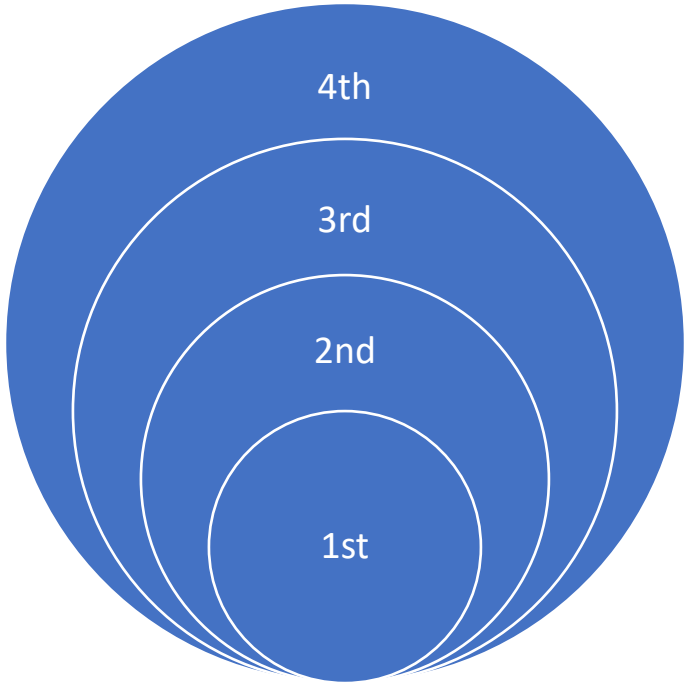
Create networking opportunities for small business owners and those interested in starting a business.

Be open and receptive to newcomers to the community.

Do the strategies that flow from these different “waves” of thinking replace those that came before?

No, rather reorientation of our thinking and refocusing types of strategies considered.

One could think in terms of broadening our approaches.



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