What Should the Federal Government Be Doing About Urban Economic Development?

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State and local government programs that subsidize or assist individual businesses—"economic development programs"—expanded enormously in the 1980s. Today, however, many policy analysts and policymakers are rethinking both the desirability and design of these programs. They are raising the key question for policymakers: to what extent does the Nation need some sort of customized assistance to businesses, supported in part by government, to increase business productivity or reduce poverty?

Since there is a current national political obsession with deficits and avoiding taxes, it is unlikely that the Federal Government will provide much financial support to State and local economic development efforts. Because of this trend, even minor Federal initiatives can seem large to local organizations, and may significantly affect the way local organizations respond. This article focusses on some creative, low-cost initiatives of the Federal Government that over time could significantly increase the capacity of local development organizations to develop integrated strategies for solving their local economy's problems of productivity and poverty.

Eventually, these local economic development efforts may significantly improve the performance of the national economy. Many of the key inputs into better business productivity—a more skilled workforce, stronger interfirm cooperation, better business information—must be delivered at the local level, in a strong metropolitan economy.

To provide some background, I first assess current developments in State and local economic development programs before discussing how the Federal Government could play a constructive role.

Description of State and Local Economic Development Programs

After describing the different types of State and local economic development programs, I consider their economic rationale and the recent trends in the programs.

Description of Programs

Economic development can be defined as the process by which wealth is created in a national, State, or local economy. So defined, economic development is affected by anything government does. But "economic development programs" are usually more narrowly defined as government-sponsored programs that assist individual businesses. Some of these programs are run by government agencies; others are run by private or quasi-private organizations but subsidized by the government. Examples of such programs include those that provide information to firms about sites, regulations, or available services; grant special business tax subsidies, or offer grants or loans to individual businesses; improve infrastructure for an individual business; and provide services of various types to help firms modernize, export, or upgrade their workforce.

What distinguishes these economic development programs is that they provide businesses with assistance customized to the needs of individual firms. Of course, businesses are also assisted by more general government policies—such as the overall tax structure, the level and quality of public services, and standard government regulations—that affect an area's "business climate." But these general government policies assist large numbers of firms in similar ways rather than assist each firm individually.

This article focusses its attention on "customized business assistance" programs, which are economic development programs, narrowly defined. It is arguable that general government policies have more important effects on economic development, but customized business assistance programs are more politically controversial. Conservatives traditionally view such programs as unwarranted government interference with the market, whereas liberals often view such programs as government giveaways to the rich.

Among customized business assistance programs, it is useful to distinguish between *attraction policies*, which are primarily aimed at affecting the location decisions of new branch plants, and *nonattraction policies*, which are aimed at affecting a wide variety of decisions (startup, expansion or contraction, closing, modernization, exporting, and so on), of potential new startup firms and small, medium-sized, and other existing firms (see Table 1). The goals and methods of attraction policies are clear: Get the new plant to locate in a certain area by offering special services and subsidies. Attraction policies offer enormous political benefits. A huge amount of media attention is given to the location of a large, new branch plant, and assisting the new plant allows politicians to claim credit for the location decision. The goals of nonattraction policies are more diverse and harder to measure: modernization, improvement in business productivity and product quality, increases in exporting, better management, and so on. Nonattraction policies' methods are harder to explain, involving provision of a variety of services. Moreover, nonattraction policies usually are not associated with large visible "successes" that can be dramatized in the media.

Possible Economic Rationales for Customized Programs

Customized business assistance programs are usually aimed at one of two sometimes conflicting goals: increasing business productivity or increasing business demand for labor. Although more jobs and more productive jobs are "good," government intervention to increase their number is only justified, from the perspective of most economists, if there is reason to think that private markets will not provide enough jobs or sufficiently productive jobs on their own.

A number of possible “market failures” might impede private markets from efficiently providing enough jobs or sufficiently productive jobs, and thereby might provide room for customized business programs to improve economic efficiency. Private financial markets may fail to fund worthwhile business projects because of government regulation, inadequate secondary markets or insurance markets, or projected time horizons that are too short. Research and job training may be underfunded by firms because one firm’s research or training provides external benefits for other firms. Private markets may fail to provide sufficient information to small and medium-sized businesses because of difficulties in assessing the quality of information. Land assembly problems—that is, problems in buying land from many separate buyers—may impede private business development. Finally, and perhaps most important, because of involuntary unemployment and underemployment, new jobs provide significant benefits to workers who obtain them: The wage paid will greatly exceed the value of their time. In addition, getting an unemployed person into a job may have spillover benefits for others, by reducing crime, strengthening families, and providing role models.[1]

Involuntary unemployment and underemployment also provide equity grounds for government intervention in private markets. Even if the dollar benefits from intervention were less than the dollar costs, society might judge government intervention to be beneficial if it reduced unemployment or raised wages for disadvantaged persons or members of minority groups.

These market failures do not prove that customized government assistance to businesses will solve these problems or that it is needed to solve them. Government may be inefficient in helping to provide information, financing, research, and training or in facilitating land redevelopment. The new or better jobs resulting from economic development programs may not go to disadvantaged persons. Furthermore, government intervention need not involve customized assistance to businesses. For most of these market failures, one could imagine some general regulatory reform or subsidy that might correct the problem. For example, the external benefits of research or training might be enhanced by tax subsidies for the research or training. The benefits of reducing involuntary unemployment or underemployment might be aided by subsidies for hiring the disadvantaged. The benefits and costs of government-sponsored, customized assistance to businesses must be compared with the option of doing nothing and the option of more general policies.

Recent Trends in State and Local Economic Development Programs

The big trend in economic development programs during the 1980s was the move by many States and localities into “nonattraction programs” that tried to help small and medium-sized businesses increase their productivity or employment. This trend occurred in part because State and local governments realized the limitations of an attraction strategy focussed on just one type of business decision—the new branch plant location decision of large corporations. The move to nonattraction policies was particularly important for many Northern and Midwestern States and large cities that were not favored by large corporations for new manufacturing branch plants. A 1991 survey by the National Council for Urban Economic Development (CUED) of economic development in 35 metropolitan areas found that marketing and promotional activities were a smaller proportion of economic development budgets in larger metropolitan areas and in the Northeast and Midwest as compared with smaller metropolitan areas in the South.

In the 1990s tight government budgets and a lack of demonstrated impact for many economic development programs have forced State and local policymakers to reexamine the role that should be played by the programs. At least three trends are currently apparent in State and local economic development policy: (1) *budget cutbacks*; (2) *renewed and larger attraction programs*; and (3) *reforms in nonattraction programs toward what have been called "Third Wave" economic development programs.*[2]

Cutbacks. Some State and local governments made significant cutbacks in their economic development budgets in the early 1990s. According to the 1992 *State Economic Development Expenditure Survey* of the National Association of State Development Agencies (NASDA), economic development agency spending per State dropped from $32.5 million in fiscal year 1990 to $25.1 million in fiscal year 1992 (NASDA, 1992). State trade development office budgets declined 7 percent in nominal terms from 1990 to 1992 (Clearinghouse on State International Policies, 1993, p. 2). State spending on customized job training programs declined from $325 million in fiscal year 1991 to $268 million in fiscal year 1992, before increasing to $340 million in fiscal year 1993 (Steve Duscha Advisories, 1993). According to the 1991 CUED survey of 35 metropolitan areas, "several of those interviewed indicated that their 1992 budgets would decrease from 1991, and some (like the city of New York) indicated dramatic decreases" (p. 19).

As this comment on New York City indicates, economic development budget cutbacks have been particularly severe in a few geographic areas, including Illinois, Michigan, and New York. In Illinois, State spending for the Department of Commerce and Community Affairs (DCCA) was cut from $415 million in 1990 to $243 million in 1992 (NASDA, 1990, 1992). In Michigan, Governor John Engler, a Republican, eliminated a large number of the economic development programs instituted by Governor James Blanchard, a Democrat, including the Michigan Modernization Service, most State grants for customized industrial training, and State support for local economic development organizations.

Revived Attraction Efforts. Other State and local governments have decided to refocus their economic development efforts on the proven economic development practice of "smokestack chasing" or attraction. Kentucky appears to have initiated a wave of subsidy wars in 1988 with a program providing 6-percent wage subsidies (two-thirds funded by the State, one-third by local governments) for new industries locating in counties with high unemployment. The program is financed through forgiveness of the normal payroll taxes collected from the company and is administered as a discretionary program. Both Ohio and Oklahoma have recently initiated their own wage subsidy programs, and Kentucky has expanded its program.

In addition, a number of States have created large special subsidy bids for specific new projects, particularly those for auto branch plants and airline facilities. Accounts in the press have indicated subsidies of more than $300 million by Alabama in 1993 for a new Mercedes plant, and Indiana reportedly promised $400 million to help United Airlines locate 6,000 jobs in the State. The media do not distinguish between grants paid immediately, tax abatements awarded over a 20-year period, and State loans or loan guarantees. It is clear that some State subsidies for specific projects are large. For example, Art Rolnick, an economist at the Minneapolis Federal Reserve, has argued that Minnesota's 1991 bid for a Northwest Airlines facility providing 2,000 jobs should be viewed as costing the State at least $75 million annually, based on the differential between the interest rate the State charged Northwest and the prevailing private market interest rate on the airline's bonds.

The Third Wave. Some economic development activists are promoting an approach to running nonattraction programs that has been called "The Third Wave." This approach is meant to be contrasted with so-called First Wave economic development programs emphasizing attraction of new branch plants, and “Second Wave” programs emphasizing government provision of free services to new, small businesses. The Third Wave concept encourages economic development by providing a variety of services to new firms, as well as to small and medium-sized existing firms, through private or quasi-private organizations, ideally operating in a competitive market for the services. Government would help develop these new markets for business services and might provide some subsidy, but at less than 100 percent of the cost of these services. The rationale for this approach is that private or quasi-private organizations can provide economic development services more effectively and cheaply than can the government. A modest government economic development budget might leverage sufficient private resources to significantly affect the local economy.

The Third Wave approach has been promoted most aggressively by the Corporation for Enterprise Development (CfED), an economic development “think tank.” If the Third Wave approach sounds like David Osborne’s *Reinventing Government* (Osborne and Gaebler, 1992), the recent book on how government can be made more efficient by adopting private market principles, it is no accident. Osborne has been previously associated with CfED and has celebrated CfED’s contributions to State and local economic development in his book *Laboratories of Democracy* (1988). CfED also has some ties with the moderate neoliberal faction of the Democratic Party. For example, Doug Ross, current Assistant Secretary of Labor for Training in the Clinton administration, was previously president of CfED, and also has been active with the Democratic Leadership Council, an aggressively “moderate” faction of the Democratic party.

Third Wave advocates frequently cite successful European examples. European trade associations reportedly provide economic development services to member firms that are integrated, helping with any problem that impedes the firm’s competitiveness. These service programs charge client fees but also receive some government subsidy, and are provided on a much larger scale than is typical in the United States (Nothdurft, 1992).

Because the Third Wave approach is more of a direction (more efficient, semiprivatized government services) than an explicit program, it is difficult to say how fast the approach is spreading in the United States. In times of budget stringency, there has certainly been much more interest in charging fees for economic development services. A number of States and localities are using quasi-private economic development organizations to deliver economic development services or even to handle overall economic development policy.

Another example of a Third Wave strategy is the promotion of “flexible industrial networks.” These networks of local firms may share information on ways of improving productivity, cooperate on research and development or marketing projects, make a joint bid on a contract, or work with community colleges to set up better training programs. Such networks usually bring together firms that have common problems and interests but do not compete for the same customers. Among the many States and local areas promoting networks are Oregon and the Northern Economic Initiatives Corporation on Michigan’s Upper Peninsula. Oregon is offering training to private network brokers who will help set up networks and is providing small startup grants for networks. The Northern Economic Initiatives Corporation has helped form the Furniture Manufacturers Network, helping the furniture makers save money by shipping their products together, sharing the cost of a consultant on production methods, and advising one another on ways to improve competitiveness. CfED claims that as of 1991, 1,500 small firms were involved in 50 industrial networks throughout the United States (Friedman, 1991, quoted in Shapira et al., 1992).

Some initiatives apply Third Wave principles to government business financing programs. Instead of direct government loans or loan guarantees, Michigan's Capital Access Program, begun in 1988, provides subsidies for bank lending to small businesses that are of moderate risk. Under the program, the bank and the small business borrower each pay from 1.5 to 3.5 percent of the loan value into a loan loss reserve fund and the payments are matched by a State subsidy payment to the fund. Each bank's reserve fund is available only to cover losses it may suffer under the program, and any losses above the reserve fund are the bank's responsibility. The bank will not make normal low-risk loans under the program because of the fees involved and will not make excessively risky loans because of the bank's exposure if its reserve fund is exhausted.

At this point in the 1990s, which of these three economic development trends—cutbacks, revived attraction programs, or Third Wave reforms—is dominant? The data are too poor to permit a definitive answer. My judgment is that none of the three trends is currently dominant—a judgment shared by other observers of State and local economic development (Eisinger, 1993, p. 18).

Lessons Learned From the Experience With State and Local Economic Development Programs

What lessons have been learned from State and local economic development programs? What do these lessons imply for policy? In an ideal world, one would have detailed information from high-quality evaluations about exactly which types of customized business assistance programs are most effective, and why. Although such detailed knowledge is unavailable, some useful things *have* been learned about local economic development and economic development programs.

Lesson 1: Labor demand matters. An underlying premise of State and local economic development programs is that increasing the number and quality of jobs in a local economy will help the unemployed and the disadvantaged. Several studies, which I have reviewed earlier (Bartik, 1991, 1993), indicates that a stronger local labor market has significant benefits for the unemployed and the disadvantaged.

Lesson 2: Tax subsidies can help, but may be relatively expensive per job created. There are relatively few direct studies of State and local tax subsidies for specific firms, but there are many studies on the way the general level of State and local business taxes affects business activity in an area (reviewed in Bartik, 1991, 1992). It is reasonable to assume that an economic development tax subsidy has approximately the same effect on a firm's location decisions as a general business tax reduction with the same dollar value. Under that assumption, one can use the general business tax studies to estimate the cost effectiveness of economic development tax subsidies. These studies suggest that to create one job, tax subsidies equivalent in value to an annual cash payment between $2,000 and $11,000 will be needed, with the variation in amount caused by the wide range of results in the research literature. This calculation assumes that the tax subsidy does not result in any reduction in public services to business. Annual costs of $11,000 per job created are likely to seem excessive to a State or locality unless it suffers from high unemployment.

Lesson 3: Economic development services to small and medium-sized businesses can work. Some independent evaluations suggest that economic development services to small and medium-sized businesses can increase productivity or business activity. Several studies suggest the potential effectiveness of services that help these businesses with their technology and other business practices. A recent evaluation of Ohio's Edison Technology Center program indicates that more than one-third of these centers' business clients said that assistance from a center had led to increases in sales, profits, market share, or employment (Mt. Auburn Associates et al., 1992). An evaluation of Pennsylvania's Industrial Resources Center program found that 22 percent of the program's business clients reported increased revenues resulting from a center's services, while 45 percent reported cost reductions (KPMG Peat Marwick, 1993). An evaluation of Oregon's Small Business Development Center program found that 24 percent of the program's business clients reported that the program had a great impact on their profits (Public Policy Associates and Brandon Roberts & Associates, 1992).

One study found strong evidence of positive effects from a customized industrial training program. Holzer et al. (1993) compared manufacturing firms that received grants for modernization-related training from the State of Michigan to firms that applied for such grants but were turned down because they applied too late in the fiscal year. The grants significantly increased training expenditures in the assisted firms as compared with the unassisted firms, showing that the grants were not substituted for private training efforts. Product scrappage rates—the percentage of substandard products that must be thrown away or reworked—showed a significantly larger drop in the assisted firms than in the unassisted firms. The drop in product scrappage rates was large enough to imply that the dollar benefits from the training exceeded its costs.

Finally, preliminary results from the U.S. Department of Labor's experiment with self-employment training for unemployment insurance (UI) recipients suggests that such training programs can affect business startups (Benus, Johnson, and Wood, 1993). The program provided self-employment training and a lump-sum payment of remaining UI benefits if the trainee achieved defined goals indicating readiness to start a business. Treatment and control groups were randomly chosen from among the relatively small percentage (about 5 percent) of UI recipients interested in entrepreneurship. The preliminary results indicate that 52 percent of the treatment group started their own businesses as compared with 27 percent of the control group.

While these evaluations do *not* demonstrate that business service programs would pass a cost-benefit test, they do indicate that such programs can be effective in reaching their goals. The evaluations suggest that it is worthwhile to continue experimenting with such services to business.

Lesson 4: Accurate evaluations of economic development programs are feasible. Surveys of business clients of economic development programs provide fairly convincing evidence that this is true. Response rates are reasonably high, the questions appear neutrally phrased and straightforward and are asked by an independent group, and respondents often have the option of remaining anonymous. Under these circumstances, it is difficult to see why there would be a strong tendency for respondents to misrepresent their evaluation of the assistance they received. Indepth followup with focus groups or interviews is often consistent with the survey evidence (Public Policy Associates and Brandon Roberts & Associates, 1992).[3]

Furthermore, as indicated by the studies by Holzer et al. (1993) and Benus, Johnson, and Wood (1993), in some cases one can compare the performance of assisted firms with unassisted firms similar in background characteristics. Many economic development funds are awarded on a first-come, first-served basis to eligible firms, as was true of the training program studied by Holzer and his colleagues. One would expect to find frequently, as they did, that assisted firms and unassisted applicant firms were quite similar in all observable characteristics before the assistance.

Lesson 5: It makes sense to reform economic development programs in the general direction of Third Wave programs—that is, towards more modest subsidies for quasi-private economic development service providers. More modest subsidies help deal with the problem of scale: how, with even a reasonably sized economic development budget, can one assist enough small and medium-sized firms to make a difference to the economy? I estimate that State and local economic development programs probably cost no more than $15 billion annually, including tax expenditures.[4] This economic development spending is small relative to the size of the private economy, the private manufacturing economy, or the government's education and training spending. Even if the amount of economic development spending is doubled, some leveraging of private resources is essential for these economic development programs to have a significant economic impact.

In addition, collecting program revenue from fees helps keep the program focussed on the needs of its business clients. Collecting fees is also more equitable than providing free services to businesses with taxpayer's money. There are social benefits from helping businesses improve their productivity and increase their employment, but are they great enough to justify completely free services?

Use of quasi-private service providers makes an economic development program more attractive to potential business clients. As a technology extension agent in one State put it, "If I showed up with a business card saying I'm from the state and I'm here to help you, I'd get tossed out on my ear" (*New York Times*, February 16, 1993).

One danger in Third Wave reliance on quasi-private service providers is that the providers may pursue their own goals rather than the economic development goals that justify a public subsidy for the services. But under First Wave or Second Wave approaches, public agencies, too, may end up pursuing "private" goals. For example, a 1990 critique of the "Build Illinois" program, a Second Wave program of government grants and loans to small businesses, charged that "a call from a legislator . . . can move a loan to the top of the pile." As a result, according to the report, "In Illinois, economic development is the newest form of pork" (Ylisela and Conn, 1990). Another example indicates, according to Mitch Horowitz, formerly director of State and local programs for the Corporation for Enterprise Development, that "when technology programs have attempted to work within university settings, they typically have been captured by the university basic research culture and fall far short of their economic development objectives" (Horowitz, 1993).

Lesson 6: A strong local influence over the management and design of economic development policies is desirable. The pace and scope of economic development is determined by the characteristics of the local area, by which I mean the metropolitan area. Key business inputs such as labor and land are provided within a metropolitan area, and each local economy differs as to which business inputs most need improvement. For example, one metropolitan area might have a greater need for more skilled workers, whereas another area might most need additional good industrial sites. Local economic development needs will differ depending on the industries in which an area specializes. The quality of local institutions involved with economic development will also vary. In one metropolitan area, the community college may run the best training program while in another area the use of other training providers may be more effective. Improving the quality of local inputs provided to business requires the development of personal relationships among key staff people in various local institutions. Interaction may evolve between a researcher at a university and researchers at local industries, between business personnel managers and those responsible for training and education at local institutions, between local government health and environmental officials and plant managers, or between the head of an economic development organization and the president of the community college. The development of these relationships can be instrumental in improving the quality of services to business and the coordination of these services. Such personal relationships cannot be planned at the State or Federal level.

Because an economic development strategy can only be implemented by using local inputs, institutions, and networks of relationships, there should be strong local involvement in the creation of that strategy. Individuals tend to be more enthusiastic about implementing a strategy that they helped create. Moreover, only local groups will be able to modify that strategy quickly when locale-specific problems develop.

In many States, local economic development officials believe that State economic development efforts are insensitive to local needs, particularly those of large cities. At the time of my 1986 case study of Tennessee's economic development, economic development officials in Nashville felt that the State's near-total focus on attracting new manufacturing branch plants was not always relevant to Nashville's efforts to develop stronger service export industries (Bartik, 1988). In Michigan, many local economic development officials did not feel involved with the design and operation of the Michigan Modernization Service, which often seemed to swoop down into local areas from Ann Arbor with the "answer" that every firm needed to adopt new technology tomorrow.

There is some evidence that locally provided economic development services are more effective than services provided from a central, statewide office. For example, a 1992 evaluation of small business services in Oregon found that the 19 locally run small business development centers were much more highly rated by business clients than the State's other small business service programs, which delivered services through a single State office (Public Policy Associates and Brandon Roberts & Associates, 1992).

The importance of local decisionmaking and service delivery does not mean that every local government should run its own economic development program, with no coordination among them. It is a metropolitan area that is properly viewed as a functioning local economy, not the individual jurisdictions within it. The quality of the labor supply depends on the entire metropolitan labor market, not just the residents of one small jurisdiction. The interfirm relationships and links between public and private institutions critical to economic development are likely to occur throughout the metropolitan area and are not restricted to the boundaries of one jurisdiction. There may be a conviction that a particular local government needs to have its own economic development program in order to assert its special interests. For example, a central city may believe that having its own economic development program is essential for ensuring that economic development programs address the needs of economically disadvantaged city residents. An individual jurisdiction's economic development programs should, however, be well coordinated with similar programs in the metropolitan area.

Lesson 7: Although local economic development organizations do not usually embrace sophisticated industrial policies of "picking winners," the more innovative among them increasingly pursue "pragmatic industrial policies" that focus attention on key industry clusters. Their programs devote time to working with the industries in which the metropolitan area specializes. Economic development requires an understanding of the strengths and weaknesses of the area's economy from the perspective of these key industries. In some cases, working with the key local industries can lead to changes in policy when dealing with weaknesses in the local economy. For example, conversations with a key local industry might evoke some changes in local training and education programs. This focus on key local industries might also lead to the formation of industrial networks that could foster interfirm collaboration. For example, various types of firms may exchange information on the use of new technology and training to improve productivity and quality control.

Local economic development organizations are also increasingly likely to target their recruitment efforts on industries in which their area has a comparative advantage. With limited funds for economic development advertising and recruiting trips, the objective of targeting is to focus attention on firms that the area might have a probability of attracting.

There are hard, objective data showing that focussing attention on key industries, either in working with existing industries or in recruitment, is the most effective local economic development strategy. The assumptions behind this strategy seem sensible; an economic development organization has an enormous scarcity of resources and, perhaps most importantly, a great scarcity of staff time. In dealing with existing firms, it makes sense to focus that limited staff time on groups of related firms whose problems might be dealt with by one type of policy or program, and whose success is important to the overall local economy. In industrial recruitment, it seems foolish to spend much money and time initiating contacts with firms that are highly unlikely to choose a particular metropolitan area for a business location.

These pragmatic industrial policies certainly do not resemble the "industrial policies" that have been denounced by some economists as mistaken government attempts to pick the firms and industries that will be "winners" and subsidize them. An economic development organization would almost always try to help any firm seeking a new plant site in the area, even if the firm was not in a targeted industry. Economic development programs that provide services to local firms rarely turn down requests. The issue is not so much which to subsidize as how best to use precious staff time for initiatives.

Pragmatic local industrial policies are not greatly influenced by the specifics of economic theories of agglomeration economies, urbanization economies, regional industrial clusters, or strategic trade policy. Local economic developers are aware that there is a trend toward the view that local economic clusters are in some way important. While some of the economic developers are familiar with the writings of Michael Porter (1990) or Jane Jacobs (1969, 1984), most are simply trying to determine pragmatically the changes that can strengthen their particular local economic clusters in their own particular context. That the details of economic theories of clusters lack influence is not surprising, because there is no grand consensus among economists as to exactly which factors make a local industrial cluster successful. The important empirical research of Henderson (1988) and Glaeser et al. (1992) on agglomeration economies does not at this time have many specific policy implications for actions local economic developers should take. Many economists would probably agree that the elements of a cluster's success are likely to be quite specific to the nature of the cluster and the metropolitan area.

Lesson 8: There have been some promising experiments in the use of economic development subsidies to encourage employers to hire disadvantaged persons, but most economic development officials will not initiate such policies on their own. The customized business assistance provided by economic development programs is usually designed to encourage businesses to improve productivity or expand employment. But in a few cases, such business assistance has been tied to the hiring of disadvantaged persons by the companies. The Portland (Oregon) Economic Development Commission requires assisted firms to use disadvantaged persons referred through JobNet, a consortium of the area's public training programs, as a first source for interviews for new hires (CUED, 1993, p. 96).[5] In the early 1980s, the Minnesota Employment and Economic Development (MEED) program spent up to $50 million annually to provide $4-per-hour wage subsidies (administered by local job training providers) to employers who hired unemployed persons, particularly those on public assistance. MEED gave priority to subsidizing small business employers who were part of Minnesota's export base. The on-the-job training component of the Job Training Partnership Act (JTPA) program, which provides 50-percent wage subsidies to private employers who hire and train JTPA-eligible individuals, may be viewed as an "economic development" program in that the subsidies may alter business behavior.

Customized business assistance for hiring the disadvantaged may be more effective than a general subsidy open to every employer who hires a disadvantaged person. Making all employers and all disadvantaged persons automatically eligible for subsidies can cause problems because of the stigma involved. In one experiment, welfare recipients who were told to inform potential employers that hiring them might result in tax or wage subsidies were significantly *less* likely to get the job than welfare recipients who did not advertise their disadvantaged status (Burtless, 1985). A likely explanation is that some employers held the view that a welfare recipient would be a less productive employee.

Customized business assistance programs can overcome the possibility of stigma by screening both disadvantaged clients and prospective employers. Disadvantaged persons can be screened to increase the perceived capabilities of the applicant pool. Programs can also reassure firms by developing a reputation for candidness about the strengths and weaknesses of the disadvantaged persons. In addition, programs can screen firms before scheduling disadvantaged persons for an interview to make sure that a particular firm would be willing to hire the disadvantaged. If the subsidy is high enough, it is possible that firms may create additional jobs for disadvantaged persons. Given the perceived stigma, it seems likely that the effectiveness of subsidy programs for hiring the disadvantaged will be heavily dependent on program design and the quality of program management.

There has been little evaluation of the effectiveness of customized subsidy programs for hiring the disadvantaged in changing business behavior. The recent interim report on the experimental evaluation of JTPA suggests that on-the-job training is successful in increasing adult clients' earnings (Bloom et al., 1993), but the evaluation does not consider whether the program causes an overall change in business hiring and training procedures. In Minnesota's MEED program, 55 percent of assisted businesses claimed in surveys that they would not have expanded without the MEED wage subsidies (Rode, 1988). In the Youth Entitlement Demonstration of the late 1970s, under which disadvantaged youths in selected cities were guaranteed part-time and summer jobs if they stayed in school, private employer participation varied greatly with the wage subsidy. Eighteen percent of the employers were willing to create a job slot for a disadvantaged youth when offered a 100-percent wage subsidy, 10 percent when offered a 75-percent wage subsidy, and 5 percent when offered a 50-percent wage subsidy (Ball et al., 1981).

Programs linking economic development with training and hiring the disadvantaged are unusual. The mindset of most economic developers is that they play a key role as advocates for improving the local business climate. It is apparent that most businesses are not particularly interested in hiring the disadvantaged and do not want to be pressured to do so. Hence most economic developers are unlikely to initiate or encourage such policies.

The negative reaction by economic developers to the idea of imposing hiring requirements on subsidized firms may be legitimate, since such requirements may worsen the local business climate. There is a natural tension between attempts to encourage business growth and development and attempts to ensure that growth and development serve the social goal of helping the disadvantaged. Although there are some interesting local experiments, it is not yet known whether it is possible to create programs that are *successful* in simultaneously targeting both these goals. It might be argued that the goals should instead be dealt with by separate programs—economic development programs focussed on helping business, and social welfare or training programs focussed on the disadvantaged.

The Federal Role in State and Local Economic Development Programs

Before discussing alternative Federal policies toward State and local economic development, I briefly review current Federal policy in this area.

Current Federal Policy

In the Reagan and Bush administrations, the absence of Federal leadership in economic development programs contributed to greater State and local activism in this area.

The Federal Government has continued to furnish some money for economic development. The Economic Development Administration and the U.S. Department of Housing and Urban Development's (HUD's) Community Development Block Grant program have provided funds that State or local governments can use for various economic development purposes. The Small Business Administration has supplied funding to encourage the creation of Small Business Development Centers (SBDCs). Some technology development efforts have proceeded through DARPA (Defense Advanced Research Projects Agency), the Sematech consortium, and the National Science Foundation's Engineering Research Centers. Also, some technology extension service efforts were initiated via a renamed and reoriented National Institute of Standards and Technology (NIST). But these economic development efforts occurred largely through isolated congressional actions and do not amount to a Federal economic development strategy.

Even without Federal leadership, specific Federal categorical programs have sometimes influenced State and local economic development policies. Federal funding for economic development has been modest in comparison with either the Federal budget or the number of firms that might use economic development assistance. But Federal funds for some programs loom large relative to State and local spending for similar programs. For example, SBDC funding from the Small Business Administration has encouraged States and local areas to pursue a particular model of economic development that focusses on basic, general business assistance for very small businesses or startup companies. NIST funding for Manufacturing Technology Centers has encouraged an expansion of the technology extension approach.

Currently the Clinton administration and Congress are moving toward a modest expansion of the Federal Government's economic development efforts in at least four areas:

- A significant expansion in the number of Manufacturing Technology Centers supported by NIST; the latest version of the legislation calls for expanding the number of centers from 7 to 100.
- Additional large, advanced technology research projects funded through the Commerce Department's Advanced Technology program, DARPA, and NIST.
- Modest capital funds for high technology companies through the Commerce Department, and perhaps modest funds for "community development banks" that might engage in economic development lending.

- The enterprise zone legislation that has already been enacted by Congress. (See Helen F. Ladd's article in this issue for a discussion of enterprise zones.)

Except for enterprise zones, most of these Clinton administration economic development initiatives have not passed Congress. But congressional action along these general lines seems likely. Together the four initiatives involve only a few billion dollars of Federal spending, modest in comparison with the Federal budget, but large in comparison with State and local economic development programs. Thus, these new Federal initiatives may have important effects on State and local economic development programs, although much depends on exactly how they are administered.

The key Federal policy issue is: Given the relatively small amounts of Federal money likely to be available for economic development, how can the Federal Government be most effective in promoting national goals? Are the proposed initiatives the best use of limited Federal funds? What principles should guide Federal policymakers in administering these new economic development initiatives and older Federal economic development programs?

Alternative Federal Policy Roles

It is time to analyze the merits of alternative, but not necessarily mutually exclusive, Federal policy roles in economic development programs. Even if one believes that governments should provide customized assistance to businesses to increase productivity or jobs, it is not clear that the Federal Government should become involved. From the perspective of an economist, Federal Government intervention is clearly justified only if there is a strong national interest that will not be adequately addressed by State and local government efforts. Federal Government intervention will be needed if the actions of one State or local government cause strong external benefits or costs for other States. Federal Government intervention will also be needed to encourage greater attention to the needs of the poor. State and local taxation of the upper or middle classes or businesses to help the poor will have a limited effect because both people and businesses can move from one area to another. And finally Federal intervention may be needed if the Federal Government has a comparative advantage over State and local governments in providing a service—for example, if significant economies of scale are involved.

Federal Policy Option 1: Attempt to discourage the "zero sum game" aspects of State and local competition for business. It can be argued that, in part, State and local subsidies to business for economic development simply redistribute economic activity from one place to another, with no net national gain. But this competition for business leads to a generally higher level of business subsidies, and lower business taxes, creating a regressive effect on the income distribution. Thus, some sort of Federal intervention might be justifiable on equity grounds.

A key problem with this policy option is that it seems politically and administratively difficult. There would be great political opposition to forbidding all State and local economic development subsidies. It would be administratively difficult for a Federal agency or authority to examine the many thousands of cases where individual businesses received assistance that might be a subsidy and to determine whether there was an unfair subsidy, designed solely to lure a particular firm. Tax laws and spending programs always benefit some firms over others. It is difficult to imagine a policy forbidding States from favoring some types of investments over others with their tax laws, forbidding States from funding the building of access roads to new branch plants when the transportation demand is there, or forbidding State-subsidized community colleges from seeking business clients for their training programs.

A Federal policy might be feasible if it were limited to *discouraging* only *some types* of subsidies for *large, multistate firms opening new branch plants*. Such a restriction makes the policy more politically and administratively feasible by limiting the number of cases that must be addressed and limiting the penalty imposed. For example, Federal policy could reduce State Community Development Block Grant allocations or State industrial development bond authority as a penalty for providing certain types of subsidies that benefit only a particular large firm. Such subsidies would include firm-specific tax abatements and other tax subsidies, as well as subsidies or grants to finance the firm's capital equipment or site acquisition. Training or infrastructure development subsidies might be allowed because they arguably have benefits for society, not just the firm. This more modest Federal intervention might limit some of the more egregious cases of State and local areas bidding for business.

It should be recognized that not all State and local economic development programs are "zero sum" games. Those that increase business productivity, for example, need not be. If a State or local program that assists business results in productivity gains that exceed the program's costs, the result is an increase in national economic efficiency. As a byproduct of that productivity increase, more business activity may occur in that particular area and less in other areas. But such geographic redistribution is efficient, because resources should flow into more productive uses.

Furthermore, assistance to business in economically distressed areas need not be a zero sum game, even if it only redistributes activity from affluent areas to the distressed areas, with no effect on business productivity. The efficiency benefits of more jobs will generally be greater in areas with higher levels of involuntary unemployment. High unemployment areas have a larger proportion of persons in desperate need of a job, whereas in low unemployment areas someone desperate for a job is more likely to have already found one.[6] It is also possible that redistributing jobs from low-unemployment to high unemployment areas will lessen national inflationary pressures and allow a lower national unemployment rate without accelerating inflation (Baily and Tobin, 1977, 1978; Nichols, 1987).

Finally, economic development programs that increase the employment of disadvantaged persons are justifiable on social equity grounds, even if net national economic activity is unchanged. This is a weak argument because few economic development programs currently target the employment of disadvantaged persons.

Federal Policy Option 2: Attempt to explicitly target economic development on distressed areas. As discussed earlier, additional jobs in distressed areas can be argued to be more valuable than additional jobs in prosperous areas. This redistribution of jobs may lessen inflationary pressures. An explicit Federal policy of redistributing economic activity to distressed areas might increase the overall efficiency of the national economy.

Past experience suggests that any deliberate Federal policy of geographic redistribution is politically difficult. Congress wants to spread the benefits of Federal programs to as many congressional districts as possible. In addition, under present Federal budgetary restrictions, it seems unlikely that the Federal Government could devote enough resources to an explicit geographic redistribution program to significantly affect the location of business activity.

Geographic redistribution that occurs indirectly, through programs adopted for other purposes, may be more politically acceptable. For example, the Clinton administration policy of expanding Manufacturing Technology Centers, which will help existing medium-sized manufacturing plants, will probably provide more help to older cities than would some alternative economic development policies, such as the encouragement of foreign investment in new branch plants. Alice Rivlin's recent book suggested devolving some Federal functions to the States, possibly financed by a value-added tax distributed on a per capita basis (Rivlin, 1992). Some mild geographic redistribution to economically distressed areas would occur through this new form of revenue sharing.

Federal Policy Option 3: Directly intervene in helping to provide key economic development inputs in cases in which the Federal Government has a clear comparative advantage over State and local governments. Many economic development inputs, such as training and business information on technology, are best provided locally, while others might be provided in a more efficient manner through Federal intervention.

For example, additional Federal involvement in the provision of information on foreign markets and export opportunities seems sensible. Federal involvement captures economies of scale, as compared with each State doing its own research. The Federal Government already has an extensive infrastructure of embassies, consulates, and State Department offices devoted to understanding foreign countries. As recommended by a recent symposium of trade development professionals, the Federal Government might focus on collecting and analyzing such information, which would then be delivered to individual firms through local organizations (Bremer, 1993).

A second area in which Federal intervention might be helpful is that of economic development finance. Since banks are increasingly becoming national entities and much banking regulation occurs at the Federal level, initiatives to increase bank activity in helping small businesses or encouraging economic and community development would benefit from Federal involvement. A large national bank might be more willing to change its policies if faced with a Federal initiative than if a few of its branches are urged to participate in a State or local business financing initiative. Modest Federal support for initiatives such as the Capital Access Program might do more than numerous separate State initiatives, although this assistance could, of course, be provided by supporting State programs rather than by setting up a new Federal program. Initiatives such as encouragement of a secondary market in small business loans would also be more efficiently carried out at the Federal level than by separate, uncoordinated State programs.

Finally, Federal support for infrastructure improvements is particularly necessary when the national consistency of such infrastructure is an important issue. For example, the much-discussed "information superhighway" is clearly an area where Federal involvement is needed to ensure sure that technical standards are compatible across the country.

Federal Policy Option 4: Encourage State and local economic development programs that increase business productivity, such as technology extension, technology development, and job training programs. This seems to be the main thrust of Clinton administration proposals to increase the number of Manufacturing Technology Centers and to increase Federal support for applied research projects. For technology extension or customized job training programs, only a modest Federal subsidy would seem justified on efficiency grounds. Most of the productivity gains from such efforts are captured by the assisted business and its workers, or at least by the local economy. Because workers and businesses move from State to State, some of the benefits of increased productivity in one area may spill over into other areas. But such spillovers are likely to be only a modest percentage of the overall benefits of increased productivity.

In addition to the limited spillovers, there are practical reasons why the Federal Government should not seek to provide technology extension or customized job training services directly to firms, but should instead provide support for local service providers. As mentioned earlier, job training and technology needs differ enormously from one area to another. Furthermore, firms are more likely to rely on private organizations or other firms for information than they are to look to the government, particularly the Federal Government. Turning to local private organizations or industrial networks is likely to be the most effective way of delivering these information services.

For technology development efforts, much more Federal intervention might be justified. New ideas are extremely mobile across geographic areas, and this mobility discourages State and local governments from investing a significant amount in the development of new technology. One could argue that the Federal Government will not make wise choices in deciding which areas of technology development offer the greatest potential, and that the development process may be politicized by Federal Government intervention.

Federal Policy Option 5: Emphasize more and higher quality evaluation of State and local economic development programs, and encourage dissemination of the findings of such evaluations. Federal encouragement of better evaluation is justified because of the national benefit that may result from quality evaluations. A well-done evaluation of an economic development program by one State or area probably has great benefits for other areas. In fact, one could argue that most of the benefit of the evaluation accrues to other areas. Because States and local areas do not take these external benefits into account, they will often underfund evaluations. They may also underfund evaluations for political reasons. Negative evaluations may cause political problems for State and local governments, and voters may not believe the findings of a positive evaluation designed and financed by the governmental unit being evaluated. Rather, voters may prefer some sort of outside influence over the evaluation to guarantee information of higher quality.

Two types of improved evaluation methods are needed. First, an evaluation methodology is needed that is relatively cheap and can be used on an ongoing basis to help State and local economic development programs improve their performance. Surveys of the business clients of economic development programs seem to be the most feasible, inexpensive evaluation approach. Standards need to be developed for posing questions in such surveys and for the administration of surveys to ensure reasonably objective information. Establishing survey standards would allow more accurate comparison of business assistance programs, and of the same business assistance program in different States or local areas. A recent book by Hatry and other Urban Institute researchers addresses pertinent issues involved in designing better survey methodologies for economic development programs (Hatry et al., 1990).

Second, a long-term effort is needed to develop rigorous evaluation methodologies that would accurately estimate the impact of economic development programs on a firm's performance. One could perform such rigorous evaluations by comparing assisted and unassisted firms if one could control for "selection bias," which is the statistical bias that occurs because program participants usually are not randomly chosen from among eligible firms. Controls for selection bias require a much better understanding of what affects the dynamics of a firm's performance—why firms change their sales, exports, productivity, employment, or other key performance indicators. Controlling for selection bias would also require a better understanding of what causes firms to participate in economic development programs. In addition to improving statistical methodologies, economic development officials also need to sharpen their vision of the key benefits of economic development programs. Once that is clear, they need to create better measures of these benefits.

Improved evaluation methodologies should be developed by a cooperative effort involving Federal agencies and State and local economic development officials. Evaluation approaches developed cooperatively are more likely to be relevant to State and local needs and more likely to be accepted as standards. A good beginning might be a conference on economic development evaluation cosponsored by selected professional organizations of State and local economic developers and the relevant Federal agencies that provide funding for economic development purposes such as HUD, the Economic Development Agency, the Small Business Administration, NIST, and the Department of Labor. Ongoing conferences would augment the process of improving evaluation methodology and be beneficial in disseminating the results of the evaluations.

Improving the evaluation of economic development programs is relatively cheap, although not necessarily easy. However, better quality evaluation of these programs would provide strong information and incentives for improving their performance over time.

Federal Policy Option 6: Encourage careful experimentation with new economic development programs that stress employment of the disadvantaged and coordinate with job training programs. Federal encouragement for broader targeting of economic development assistance towards employment of the disadvantaged is justified on equity grounds *if* such approaches are effective. Empirical studies show that local labor demand strongly affects the employment prospects of disadvantaged persons. These empirical findings suggest that targeted economic development policies that focus on increasing labor demand for the disadvantaged may be a useful complement to job training and education programs designed to increase the labor skills of the disadvantaged. It remains unclear whether such targeted labor demand programs are effective. At present there are relatively few such programs and even fewer evaluations.

Little is known, too, about the possible negative effects on an area's business climate of attempting to tie economic development subsidies to the hiring of the disadvantaged. For example, local economic developers often express complaints about the requirement that if Community Development Block Grant funds are used to assist private businesses, 51 percent of the jobs created or saved must be available to low- and moderate income persons. Little is known regarding the extent to which this requirement is effective in achieving its goals, or whether it operates as a disincentive to some business development.

Programs linking economic development assistance with job training for the disadvantaged will not happen automatically. Economic development officials traditionally think in terms of designing policies that match business objectives. Job training, social service, and community development advocates are understandably concerned about their programs being captured to serve narrow business interests.

A federally funded demonstration program in this policy area would be useful. Such a program might be funded cooperatively by some of the agencies concerned with economic development, job training, or poverty issues, such as HUD, the Economic Development Agency, and the Departments of Labor, Health and Human Services, and Education. Evaluations of such demonstrations should consider how the program's effects on the economic fortunes of the disadvantaged, the behavior of business participants, and the overall economic development of the metropolitan area.

Federal Policy Option 7: Relax Federal regulations and program rules that unnecessarily impede State or local economic development efforts. In a time of limited Federal funds, the least the Federal Government can do is not impede creative local economic development strategies. As columnist Neal Peirce, the U.S. Conference of Mayors, and the National Civic League have suggested, the Federal Government needs to consider allowing communities flexibility in combining and using the Federal program dollars flowing into cities to better meet community needs and the social goals of these programs (Peirce, 1993). A well-defined and flexible waiver procedure is needed for program rules for all types of Federal assistance to State and local governments. For such a waiver procedure to allow various Federal programs to be combined, an interagency group is needed that would consider waiver requests. State and local governments are less likely to apply for such waivers if they must make separate requests to each agency involved.

The National Performance Review, chaired by Vice President Al Gore, has recommended new Federal policies that may deal with some of these issues (Gore, 1993). The Performance Review recommended a number of proposals for creating greater Federal flexibility for State and local governments: establishing a cabinet-level Enterprise Board that may issue waivers or consolidate programs; consolidating 55 categorical grants into 6 broad "flexible grants;" allowing localities authority to consolidate small grants; and giving all Federal agencies authority to give States and localities selective waivers from Federal regulations or mandates. These proposals are promising. The issue now is whether Congress will authorize all of the initiatives, and how effectively the proposals can be implemented by Federal agencies.

Another important area in which greater Federal flexibility is needed is the regulation of environmental contamination of older industrial sites in central cities. The redevelopment of many of these sites is inhibited by concerns that even small amounts of contamination will require extremely expensive cleanups. Environmental regulators and activists need to be convinced that relaxing environmental regulations on these inner-city sites would actually promote environmental preservation by encouraging the reuse of old sites rather than the development of greenfield (undeveloped) sites. (See Cooney et al., 1992, for some case studies of the problems posed by such sites and possible solutions.)

Conclusion

Given the limited Federal resources available, it is hard to justify a massive Federal investment in economic development efforts, but results from some State and local economic development programs are promising. Some of the programs appear to help improve business productivity, while others have the potential for helping to encourage business to more willingly hire disadvantaged persons. But the evidence, theoretical or empirical, in favor of economic development programs is not strong enough to justify huge amounts of new Federal spending. Moreover, such a Federal spending effort might be quite wasteful if the economic development services were not delivered effectively. The volume of information about desirable economic development program design is expanding slowly. There is a strong concern about wasteful Federal spending in the area of economic development policy because the most effective economic development programs appear to have strong local control that might disappear with substantial Federal spending.

Federal initiatives in economic development should be undertaken in areas in which the Federal Government has a comparative advantage, such as export market research, financial markets, and the "information superhighway." But the most important Federal role in economic development should be that of providing modest support for enhanced State and local economic development efforts. The Clinton administration's economic development policies appear to be headed in this general direction.

This modest Federal support should encourage State and local programs that seek to improve business productivity. If politically feasible, efforts should be made to impose certain Federal funding penalties on some State and local subsidies to branch plants of large corporations. The modest Federal support for productivity-oriented State and local economic development programs should be coupled with extensive efforts at better evaluation of economic development programs and determination of the types of programs that work best. In addition, there should be Federal support for demonstration programs that would explore new links between economic development and job training for the disadvantaged. Over time, and with Federal support for the dissemination of findings, continued evaluation would significantly improve the professional caliber and capacity of local economic development efforts.

The Federal Government should recognize that effective economic development strategies must be primarily locally designed and implemented. Local organizations are in the best position to respond flexibly to the diverse and changing economic needs of a local economy and to coordinate the various resources needed for economic development. Locally designed organizations must encourage the critical personal relationships among key individuals in different firms and local institutions that help make economic development strategies work. The Federal government can provide information and resources to support these local strategies, but should not directly oversee or implement these strategies. Existing Federal program rules and regulations should be waived to provide support for locally designed strategies. Such waivers should be continued or terminated based on whether local areas succeed or fail in reaching agreed-upon goals.

If local economic development efforts are able to improve enough to fulfill their promise, the economic development organizations may be able to increase significantly the productivity and competitiveness of a metropolitan area. This would be done, not by planning the entire local economy, or by having a government office for every imaginable service to businesses, but by helping to coordinate public and private resources to deal with major areas where private markets on their own fail, creating gaps in important services. The productivity and living standard of the United States as a whole depends in part on whether creative policies can be used to strengthen metropolitan economies.

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Notes

1. I discuss market failure rationales for State and local economic development policies in much more detail in Bartik (1990).

2. I was influenced to choose this three-part grouping of recent trends in economic development by a paper by Eisinger (1993) that uses precisely this three-part grouping of trends.

3. Because many of these evaluations were prepared by consulting firms under contract with economic development agencies, the objectivity of the way the data are interpreted could be questioned. There is an incentive for such firms to stress the good and overlook the bad, to please their clients. In some studies, however, this does not seem to be the case. For example, the Mt. Auburn study of the Ohio Edison program was fairly clear in stating that two of the Ohio Edison Centers had not been effective in promoting economic development. The Public Policy Associates study of Oregon's small business programs pointed out a number of problems with many of the programs.

4. State economic development agency spending is about $1.3 billion annually (NASDA, 1992). State technology spending is about $1 billion annually (Horowitz, 1993). There is some overlap between the NASDA spending and technology spending. Surveys of 35 large metropolitan areas estimate annual economic development spending of $400 million (CUED, 1991). These 35 metropolitan areas comprise 45 percent of the U.S. population. If smaller areas have similar rates of per capita spending, total local spending on economic development would be around $1 billion annually. There is some overlap between the NASDA and CUED figures, as some of the State spending supports local spending. Data on tax expenditures for economic development are generally unavailable. In Michigan, a State with a large tax abatement program, the foregone revenue because of property tax abatements is more than $150 million annually, about three times the spending of Michigan's economic development agency. Michigan is probably a high tax expenditure State. By adding State spending from NASDA, technology spending, and local spending from CUED, there is approximately $3 billion in annual State and local spending on economic development. If it is assumed, based on the Michigan figures, that annual tax expenditures are no greater than three times this amount, then the total cost of State and local economic development efforts does not exceed $12 billion annually.

5. In 1991, 512 hires through this program were reported, of which 57 percent were minorities and 83 percent were low- or moderate-income individuals (CUED, 1993, p. 96).

6. In “economese,” unemployed individuals in high unemployment areas are likely to have lower reservation wages—that is, a lower wage at which they would be just indifferent between working and not working. For some empirical evidence of this, see Jones (1989).

Table 1

A typology of common State and local economic development programs

Attraction-oriented economic development policies (Primarily targeted at branch plant recruitment)
Marketing area as branch plant location
Industrial development advertising
Marketing trips to corporate headquarters
Provision of site information to prospects
Financial incentives
Industrial revenue bonds
Property tax abatements
Other tax relief
Provision of land at below-market prices
Direct State loans
Wage subsidies
Nonfinancial incentives to branch plants
Customized industrial training
Expedited provision of site-specific infrastructure
Help with regulatory problems
Nonattraction-oriented economic development policies (Primarily targeted at small or existing businesses)
Capital market programs
Government-financed loan or equity programs
Government support for mostly privately financed loan or equity programs
Information/education for small business
Small business ombudsman/information office
Community college classes in starting a business
Small business development centers
Entrepreneurial training programs
Small business incubators
Technology and research
University centers of excellence in business-related research
Research-oriented industrial parks
Applied research grants to business
Industrial extension services/technology transfer programs
Export assistance and other marketing assistance
Information/training in how to export
Trade missions
Export financing
Government procurement help
Programs to match in-State suppliers with in-State businesses
Extension advice on marketing plans
Workforce development
Training grants, sometimes tied to modernization
Customized training programs delivered via community colleges
On-the-job-training wage subsidies

Note:
This table is adapted from Table 1.1 in Bartik (1991).

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