View from the Top: New Perspectives on Familiar Concepts in Economic Development

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Heidi Kaplan: *Welcome to the Federal Reserve Bank of Atlanta's Economic Development podcast series. I'm Heidi Kaplan with the Federal Reserve Board.*

Local economic development practitioners are faced with the full-time task of increasing jobs and investment in their communities. Globalization and other factors have brought changes in best practices, and the current economic environment makes economic development even more difficult, especially given pressures on government budgets—a critical resource for economic development. Old approaches and conventional wisdom about economic development must be rethought using a revised framework.

Today, I'm speaking with Jeff Finkle, president and CEO of the world's largest economic development membership organization, the International Economic Development Council, or IEDC. Jeff is a recognized leader and international authority on economic development, and contributes his expertise on community revitalization, business development, and job creation to projects nationwide. Jeff has established multilateral partnerships with regional and national economic development organizations around the world, and currently sits on the Consultative Committee of the World Association of Investment Promotion Agencies, or WAIPA. He has advised on economic development in China, Europe, Latin America, and Oceania.

Jeff, thank you for joining me today.

Jeff Finkle: It's great to be with you, Heidi.

Kaplan: *Economic development academic literature has an increased focus on quality jobs. In fact, last year, a report by IEDC identified a dual focus on both quality jobs as well the quantity of jobs, as a best practice for economic development practitioners. Why is it important to look beyond the number of new jobs created and to focus on the quality of those jobs? And how would you define quality jobs?*

Finkle: In this recession, I would indicate that you would have to do both. I would hope that we will get the quantity of jobs that we can then turn our focus once again to quality jobs.

"Quality jobs" has two or three denotations for me personally. One, is it a working wage? —meaning you might be able to afford a home out of the wages; it is a permanent job; and it brings benefits. And, finally, that there is some growth potential—on-the-job-training or ability to train yourself into upward mobility and quality jobs.

Kaplan: *Local economic development organizations often receive significant funding from local and state government, but the economic downturn has created significant budgetary pressures on these governments. Nonetheless, some municipalities and states have chosen to increase funding for economic development organizations. What are some of the arguments for increasing funding for economic development organizations today?*

Finkle: Right now would be a good time for many communities to start spending more on economic development. The business cycle appears to be picking up. Those communities that continued spending during the recession are going to be in a stronger position. But as more companies are making decisions about where to locate, or as some communities with a great deal of resources are trying to get companies to locate into their community, you want to be in a better place to retain what you have, grow more within your community, and be on the receiving end of those companies who are now starting to make location decisions. The communities who wait too long are going to start spending money when we're in a full economic cycle again and will miss out on the growth opportunities that probably are starting to exist at this very time. It is a great time to be investing in economic development

Kaplan: *Regional collaborations among economic development organizations have been highly praised as a way to create and enhance job opportunities for a region, while also maintaining a healthy competition between its members. Yet some partners within these regional collaborations often win a disproportionate share of new jobs. With heightened pressure to create jobs locally in light of high unemployment, should economic development organizations continue to focus on regional job creation and retention efforts?*

Finkle: If you're Newark, Ohio, which is where I am from, it's best to be a part of the Columbus region or central Ohio. They're going to have a much better opportunity for international recognition versus Jinan, China, Johannesburg, South Africa. You can't go it alone as a small city. But then, when it comes within the region, Newark cannot give up its own identity. Local government is financed based on the property tax, the sales tax, and, in some cases, the income tax generated within a particular locality. So regional economic development has a real important role to play, but understanding that local governments still have salaries to pay, equipment to purchase, schools to support—without that investment in each and every locality, unless you get some parity of taxation sharing, it is very important for these specific cities to win as well.

Kaplan: *Economic development has often relied heavily on tax incentives to recruit new companies and jobs to a community, but there is more scrutiny around these incentives as state and local governments look to address their budget shortfalls. What are some innovative alternatives to incentives? And if government agencies continue to rely on incentives, are there strategies to ensure they make sense from a public perspective?*

Finkle: Most communities write a contract that says, "If you do not perform in the way that you said you're going to perform—you said you were going to create a thousand jobs, we're going to give you five million dollars in tax reductions—if you don't produce all of those jobs, we're going to reduce the incentive." That's called a *clawback* or a *rescission*.

Some of the alternatives to incentives—or at least cash incentives or tax breaks—include workforce development. Some states have decided that instead of giving cash incentives, they would prefer to put the incentive into workforce efforts. So that if the company picks up and leaves again, at least they've left behind a trained workforce. That is a big incentive that often costs companies a great deal, and, as a result, you've invested in your people, not necessarily the bottom line of the company.

The new governor of Michigan has, at least for the record, said that he's getting out of the incentive game. He's going to reduce taxes overall and treat all companies equally. In some cases, not giving incentives at all is a strategy. Littleton, Colorado, is focusing all of their efforts into economic gardening. What they're doing is trying to be a home to companies that grow internally in the community and so incentives aren't provided. They are trying to help entrepreneurs grow within the city of Littleton, and they've met with a great deal of success.

And, finally, in that whole notion of not giving incentives, many communities are just saying no, saying that our quality of life is so high that companies probably want to be here anyhow. We believe that just saying no will win many times because those companies still locate to our communities.

Kaplan: *Jeff, one last question for you. Many economies around the world have experienced severe job losses, but some countries are doing well. As president and CEO of an organization that includes many international members, please share how economic development organizations function differently in other countries. Are there successful models of job retention and creation that economic development organizations based in the U.S. can emulate?*

Finkle: The United States learned micro-lending from Bangladesh; we learned about enterprise zones from Great Britain. There have been a number of economic development tools that we have picked up and we've been able to emulate. I am concerned right now, unfortunately, that companies are chasing the least common denominator. It should not come as any great surprise that we have lost most of our jobs to China and India, places like the Philippines, etc.

The question is, will those economies that we are losing jobs to improve? As a result of that improvement, will their wages and benefits rise? And as those wages and benefits rise, will that cause some of these jobs that we've lost to return to the United States? Many companies that have gone to China are losing their intellectual property. As a result of that, they are now reconsidering their heavy investment in China and bringing some of that back. And as we grow out of this recession, we may actually see some companies thinking about returning some of their employment here.

Kaplan: *Thanks, Jeff, for joining us for this podcast.*

Finkle: Heidi, it's great being with you. Thank you very much.

Kaplan: *This concludes our podcast. We've been speaking with Jeff Finkle, president and CEO of the International Economic Development Council.*

For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org*. If you have comments or questions, please e-mail* *podcast@frbatlanta.org**, and thank you for listening.*

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