Looking Around the Corner: The Future of Economic Development

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Yvonne Sparks: Welcome to the Federal Reserve’s Economic Development podcast series. I’m Yvonne Sparks with the Federal Reserve Bank of St. Louis.

Economic development is an ever-changing field, and the strongest local economies are often those that are nimble and responsive to changing conditions, even before they occur. How do local economic development strategies need to evolve to address demographic changes in our population, technological innovation, and increasing global competitiveness? The International Economic Development Council’s (IEDC) recent report, "Looking Around the Corner: The Future of Economic Development," focuses on the macro trends and projections that have bearing on economic development approaches of tomorrow.

We’re speaking today to Dan Gundersen, a former senior commerce official under four U.S. governors, and Rick Weddle, president and CEO of Metro Orlando Economic Development Commission. Both were part of the IEDC task force responsible for the report. Welcome, Dan and Rick.

Dan, let's begin by having you provide some context about the IEDC report. Can you summarize for us the impetus for the report and the methodology? And as a follow-up, why is it so critical for the economic development field to be forward looking?

Dan Gundersen: We have a think tank, called the Economic Development Research Partners, and it helps to focus our research efforts on some of the most critical issues that face economic development. In the past couple years, we've produced some reports that we believe have helped influence the national debate.

In this report, what we're doing is we're looking at the really big-picture trends and issues facing the economic development profession in the next 10 to 15 years. And it's important to remember that this field of economic development was formed in the mid-20th century pretty much from technical roots—financing public projects and making corporate real estate deals happen—and later economic developers became the go-to marketing agents to promote doing business in their communities.

But those roles have expanded as economic developers are expected to be not just technical and transactional experts, but the leaders and generalists as well. We need to be champions and change agents in our communities for all kinds of economic inputs—workforce and infrastructure, commercializing products out of universities.

So this report takes us to that 30,000-foot level, it looks at world indicators and trends, and it asks, “What do they mean to those of us that do economic development?” If we’re expected to be the people in our communities who make sure that businesses thrive so that jobs are created and regions prosper, then what do we need to be aware of, what’s going on that could positively or negatively impact our communities, and how do we respond?

Sparks: So what are the key themes and findings of the report based on the research and that context that you just provided?

Gundersen: Our research team concluded that there are four themes in particular that seem to drive all others. They are demographics, climate change, shifting global roles, and technology expansion. Obviously, these four are by no means exhaustive. There are so many factors that will impact economic development on a global scale in the next 10 to 15 years. We know when it comes to the future, no one can have absolute certainty, but no doubt these four are going to make a big difference.

Demographics has to do with immigration, generational shifts, and the role of women in the workplace. In every country of the world we see major changes taking place in these areas with profound economic implications. Climate change, we’ve heard a lot about climate change lately and that's the second area that the economic development community needs to pay attention to. It's long been the case that environmental conditions can have major economic consequences.

Three, shifting global roles. We note that now half of the world’s population lives in cities and this urbanization rate is going to continue to climb, and as it does so too will the ranks of the middle class. Now, why would an economic developer need to know this? For one thing, those growing world markets need goods, and we want to make sure that our companies are positioned to export our products to them. And lastly, technology expansion, the major source of this expansion is information.

Sparks: Returning to that theme of demographic shifts, clearly those demographics are the underpinning of economic development strategies. What are some of the key demographic projections for the next decade that were cited in the report, and how do the national trends, especially in the U.S., affect local economic development approaches?

Gundersen: People are the most precious of resources in any company and economy, and I think we’ve got to keep that in mind because it really influences what’s going to happen in the U.S.

First, it's true in the U.S., but also in Western societies and populations, the workforces are becoming more diverse, and this is a good thing, but only if we see it clearly for the opportunity that it presents. For instance, in America about 13 percent of the population is foreign born. With immigration, we can estimate that those numbers will increase roughly 40 percent by 2050. This is good economically. Immigrants start businesses at nearly twice the rate of...
the native-born population. Those new businesses form the backbone of our local economies. And what's interesting is that today's immigrants fall at the extreme ends of the education spectrum. They're either highly educated or have little to no education, but we need both of those to make our workforce work and to be competitive.

The next factor involves generational shifts. And here in the States, we've heard a lot about the baby boomers leaving the workforce and the ways in which millennials are more independent, technologically savvy. But if you go around the globe, you see the same things happening, and you can predict where the labor shortages are going to occur and where these generational shifts are going to happen.

The other very significant factor that we note is that the role of women is fundamentally changing the nature of business, both here and abroad, and that's a good thing. Last year, about 76 percent of the women aged 25 to 54 were in the workplace. But if you look at the top 10 states for women in the workplace, that rate is about 84 percent. If all states reached the same level, the size of the U.S. economy would increase 3 to 4 percent.

So for the economic developer, these kinds of changes mean that our efforts need to be far more integrated with workforce development initiatives and the education system. We need to harness the power of emerging technologies and pay attention to how high-growth firms do what they do.

Sparks: Let's discuss another theme from the report—this question of changing metrics. What will be some of the new indicators of success for local economies in the future, and how will those be different from current indicators?

Gundersen: If the game is changing, then how do you know if you've won, and this has been a big issue for IEDC. We produced another report on performance metrics. IEDC's report provides 290 different kinds of metrics that economic developers can consider to measure success. Together, they give us a better picture of community wealth.

So, to just give you one example, instead of just jobs created, a community might measure economic gain by counting the number of qualified workers for different kinds of jobs in sectors, or change in per-capita income over time, or earnings by sector. These are the new metrics for economic development organizations today.

Sparks: Rick, given your work with a local economic development organization, how do you foresee these concepts playing out in local economies, and are the strategies and tactics different in urban and rural communities?

Rick Weddle: One time, Yogi Berra said, "The future ain't what it used to be," and I think that frames the context for the economic developer looking into the future.

I think it's important because in the future there will be, as there have been in the past, winners and losers: winning regions, losing regions; winning communities, losing communities. But I believe that the gap between winning regions and losing regions, or communities, will be wider than ever before.

The cost, if you will, of losing in the economic development arena will be both dramatic and severe. And I think that's very important as these communities look at how they can evolve to a better and more competitive posture and deal with these macro issues correctly.

An example of that would be in the area of workforce development. The role that the economic developer will play is going to be dramatically different than it has been in the past. Too often our approaches in the past have been on the supply side of workforce development and not focused strongly enough on the demand side, on what the skill sets required, occupational capabilities it required for these new and emerging jobs will be.

You asked about the differences in rural and urban communities. The trend is that more and more people are going to move to urban areas; that the split between rural and urban will be greater than ever before. I think that may even accelerate for some foreseeable period of time, and that means that the urban and rural wealth disparity may actually increase, too, as talented people in knowledge industries increasingly move to concentrate in urban areas where they think there's a greater market for their skills.

Overall, I think that the skill sets and the requirements for employing tactics may be similar in nature and in application in the rural economy as in the urban economy. It'll still be about determining what your niche is, determining how to find a way to improve the competitive positioning of that smaller community, and working to build on that.

Sparks: I want to refer back to a comment from a 2011 podcast. St. Louis's Denny Coleman [president and CEO of the St. Louis County Economic Council] spoke about the special importance of the economic developer in local communities in job growth and retention, and I believe you began to address that somewhat. Given that important role, how do you anticipate the role of economic development professionals evolving in the next decade, and are there new partner organizations who will be engaged in this work?

Weddle: Indeed, I do believe that the role of the economic developer will change. It not only will change, I think it must change. In the future I think we need to change our approach and image if we're going to be perceived as real players of significance in local and regional development.

A big remaining challenge for economic developers in the future will be to figure out how not to just do the job we were hired to do to meet those short-term performance standards, but to also do the job that should be done. Not just being the supersalesman, but rather being skilled in building consensus and improving collaboration and connecting different organizations and entities to create a higher-value proposition for our community.

We'll have to be better and more thoughtful in our research capabilities. We haven't even begun to touch on the impact of big data and understanding how computational capabilities will make such a huge difference in location theory, and how do we market and package our communities so that they can become successful, and how do we provide the information basis to our leadership so they can understand the nuances of different investments in infrastructure and what the likely return or payoff is in that.

Economic developers will exist if we can continue to evolve and bridge these gaps and play an important role in the future by understanding these trends, and these are not the only trends, there'll be many more trends, but we have to develop a capability to play to and among these different trends and respond accordingly.

Sparks: Can you name some of the partners that you think will be important in making all of these changes happen and helping the profession evolve?

Weddle: I think the universities will continue to play an important role, although the role of education and university delivery will change. Education will evolve into many different ways, from online education to private education. Human capital is ultimately the largest salable resource we have that is unique and special to our regions.
I think our role with our public partners will have to change. We have to find ways to not just work for our public partners, but to help be a value add, in terms of education and knowledge management for our public partners so that communities and regions will make the right kinds of investments over time.

Sparks: Thank you both for speaking with us today. This concludes our podcast. We’ve been speaking with Dan Gundersen and Rick Weddle.

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