



Economic Development Reference Guide

What is Economic Development?

No single definition incorporates all of the different strands of economic development. Typically economic development can be described in terms of objectives. These are most commonly described as the creation of jobs and wealth, and the improvement of quality of life. Economic development can also be described as a process that influences growth and restructuring of an economy to enhance the economic well being of a community. In the broadest sense, economic development encompasses three major areas:

- Policies that government undertakes to meet broad economic objectives including inflation control, high employment, and sustainable growth.
- Policies and programs to provide services including building highways, managing parks, and providing medical access to the disadvantaged.
- Policies and programs explicitly directed at improving the business climate through specific efforts, business finance, marketing, neighborhood development, business retention and expansion, technology transfer, real estate development and others.

The main goal of economic development is improving the economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life. As there is no single definition for economic development, there is no single strategy, policy, or program for achieving successful economic development. Communities differ in their geographic and political strengths and weaknesses. Each community, therefore, will have a unique set of challenges for economic development.

Business Climate

Business climate indicates how states state, regional and local policies, relationships and local communities support business development. Ultimately, a good business climate allows businesses to conduct their affairs with minimal interference while accessing quality high inputs and customers at low costs. While no business climate is perfect for every kind of company, certain attributes of the regional or local economy allow investors to find fewer risks and higher returns when compared to other places.

Key factors used in the measure of business climate include:

- Business and income tax levels
- Workforce availability
- Energy costs
- Market size
- Quality of services
- Cost of living
- Quality of life
- Environmental regulation
- Permitting, licensing, and various reporting regulations
- Real estate costs and availability
- Infrastructure
- Access to financing and capital
- Incentive

Trends in Business Climate

Businesses relocate or expand in places with business climates favorable to their industry. States and localities targeting specific sectors fine-tune their regulations, policies and other site location factors to create a business climate favorable to a specific industry or group of industries. Key trends include:

- The pervasive need for an available skilled workforce has spurred workforce development initiatives, with a particular emphasis on training in new technologies.
- De-regulation of utilities has allowed businesses to purchase lower cost energy.
- Localities now offer incentives, such as tax breaks, to businesses that are expanding locally not just those that are relocating to the area for the first time.
- Income tax is kept as low as possible because many skilled workers demand high net pay and prefer working and living where they have maximum purchasing power.
- Local governments create [one-stop centers](#) to streamline the process for obtaining business permits when beginning or expanding operations.
- Public and private sector investment initiatives in telecommunications infrastructure ensure that high speed, high bandwidth communications are available for business.
- To encourage the growth of e-commerce, the Internet Tax Freedom Act signed in 1998 imposed a three-year moratorium on new state and local taxes for online transactions and sales.
- Localities focus resources on improving arts, culture and other the quality of life factors to attract and retain skilled workers that businesses seek.
- Development of affordable housing attracts and retain key workers who may other wise be priced out of the local housing market in a growing economy.

Business Retention and Expansion

Healthy communities have strong, healthy businesses. As competition among communities for increasingly footloose businesses heats up, business retention programs have become the most popular economic development efforts of communities nation-wide. While retention programs emerged in response to business defections and the negative impacts those defections have on the local economy, they have increased in importance as communities recognized that real job growth over time comes from local business expansion. Surveys of U.S. economic development organizations rank it as the number one economic development activity.

Business retention programs assist small businesses to prevent their relocation and to help them survive in difficult times. Retention programs typically involve partnerships among public and private organizations that assess the assets and opportunities of individual companies through periodic surveys, interviews, and visitations. The purpose is to establish relationships between community businesses and economic developers to strengthen existing companies, establish early warning systems to flag at-risk businesses that require assistance, and ensure that public programs meet local business needs. Business retention initiatives usually include a mechanism for linking expanding businesses with public programs designed to mitigate growing pains and regulatory issues.

Trends in Business Retention and Expansion

BRE is the one of the main priorities of state and local development professionals. Local businesses have strong community ties, reducing the risk of leaving and BRE programs are often less expensive than business attraction, yielding more jobs on average.

- Low-interest loans, available to businesses purchasing land, refurbishing buildings, and new equipment.
- Bond programs are created to help lower the cost of borrowing for a business; the interest on a bond is much lower than on traditional bank loans.
- Increased use of zoning to encourage and discourage desirable and undesirable business expansion and retention
- Low-cost training provided for the workforce of businesses and industries, allowing them to remain competitive, this is usually provided locally through a variety of counties or state programs.
- [Tax credits](#) for businesses encouraging business retention and expansion.

- [Business cluster](#) group strategies are increasingly used to assist BRE. Sharing concerns such as infrastructure, zoning and quality of life enables a more powerful voice to be heard, influencing business climate improvement.
- One-stop permitting centers enable businesses to begin or expand operations quickly.
- Ensuring business finance availability is an important part of BRE. Many cities now work on identifying and promoting financial incentives often through one stop services linking companies to services in the key areas of:
 - Finance
 - Incentives
 - Taxes
 - Real estate
 - Workforce issues
 - Regulations
 - Technology
- A recent trend in BRE has been further expansion of Planned Manufacturing Districts (PMDs) which create tiered zoning reserving the core of an area for manufacturing and creates a buffer area for commercial use, separating residential properties from the heavy manufacturing area. This allows for heavy industry and upscale residential property to coexist, reducing sprawl.

Business Recruitment and Attraction

Business attraction and recruitment was once considered the main approach to economic development. Because of the high costs of economic development marketing, attraction is often the most expensive approach to economic development. The attraction of new businesses into an economy may quickly increase the tax base, jobs and the diversity of the local economy. Business attraction is the most publicized and visible economic development tool because it creates many jobs at one time and because of the use of incentives and marketing.

Targets of attraction efforts include advanced manufacturers, high technology firms, retail and service sector employers, corporate headquarters, sports teams and entertainment venues.

Business attraction programs use marketing to promote an area's, favorable [business climate](#), and other location factors important to specific businesses.

Trends in Business Recruitment and Attraction

- [Site selection](#) is the process by which businesses seeking to invest a large amount of resources seek out a new location for their facilities
- A 1999 survey of corporate executives with site selection responsibilities cites that the Internet's importance as a tool increased two-fold from 1996.
- Financial incentives almost always influence the site selection process for medium and large sized businesses.
- Communities seeking to target their spending on attraction use cluster analysis to focus their marketing and recruitment efforts to specific kinds of businesses.
- [Workforce development](#) incentives have become an important business attraction tool.
- [Quality of life](#) attracts businesses and workers because a business wants most of its workers to move with it.

Economic Development Marketing

Communities market to achieve multiple economic development objectives including:

- Attraction, retention, and expansion of businesses
- Attraction and retention of residents and tourists
- Improvement of the community's image locally, nationally, and internationally
- Promotion of policies and programs

Communities can market the community as a whole, individual properties or sites, particular neighborhoods or specific programs or policies. From an economic development point of view, one major business relocation can revitalize an economy by creating jobs, spinning off ancillary businesses, and changing the image of the community as a business-friendly area. Alternatively, when businesses leave the area, they eliminate jobs and have negative economic consequences on other businesses in the area that had relied on their patronage. In the current environment where businesses and labor are increasingly footloose, communities spend a lot of effort marketing their community and their available sites for economic benefit.

Many organizations contribute to a community's marketing activities – state and local governments, chambers of commerce, utility companies, regional organizations, community development corporations, property developers, hospitals, universities, and hotel, convention and tourist bureaus. The degree to which these organizations coordinate their activities around a common vision is a critical determinant of marketing success.

Trends in Economic Development Marketing

- Manufacturing businesses have traditionally been the target of marketing. In recent years, however, communities have included retail, services, and technology firms.
- According to [Development Counsellors International](#) (DCI) 1999 survey of site location professionals, the role of web-based marketing increased two-fold from 1996.
- Domain names such as BestPlace2Live.com help to distinguish State and city economic development sites.
- [Geographical Information Systems](#) (GIS) provide dynamic site selection information including: available properties, demographics, core business analysis.
- Television ads promoting jobs and industry are used to recruit talented workers.
- Marketing career pathways in schools stimulates children to think about targeted careers from an early age.
- Practitioners advertise the [capabilities of the entire region](#) as well as their community. Some cities in California, outside the heart of Silicon Valley, position themselves as a high-tech area by marketing their proximity to Silicon Valley.
- Economic development practitioners target a particular industry in a country/region or all industries in a region through [cluster](#) analysis, sectoral analysis and geographic targeting.
- Marketing is used to create a [community image and identity](#) and to project a high quality of life.
- Public-private partnerships and entities increasing conduct regional marketing.
- Marketing through foreign trade missions and hosting foreign delegations bolster the local economy by improving the region's global stature and by identifying new markets.

Small Business Development/ Technology –Based Business Development/ Entrepreneurship

America's 25 million small businesses employ more than 50 percent of the private work force, generate more than half of the nation's gross domestic product, and are the principal sources of new jobs in the U.S. economy. The importance of small businesses has led to improvements in the environment, within which small businesses operate, with a proactive approach used to assist small business owners.

Since the U.S. Small Business Administration's definition of small business is any business with fewer than 500 employees, small businesses vary widely in size and character. Many small businesses distinguish themselves by being innovative, flexible, and strongly tied to the community. Small businesses often require [economic development finance](#) tools and programs to grow and develop new products. Venture can be important for small businesses with high growth potential.

Trends in Small Business Development

- Community Development Block Grants and tax increment financing are used as a source of funding for local entrepreneurs and small businesses usually on condition that the money will contribute to increasing the size of the business workforce.
- Business incubators foster start-up companies their first few years, a time in which most small businesses die. Small business incubators provide office space, administrative assistance, funding information such as links to venture capital and proactive entrepreneurial mentoring.

- Technology and biotech incubators are in high demand by startup firms because they offer mentoring affordable office space, technology infrastructure and laboratory costs and thus allow the firm to concentrate business and product development.
- Business improvement districts fund activities and improvements, such as streetscaping and stronger law enforcement, which benefit small retail businesses in commercial areas.
- Informal and formal networking helps small businesses learn from each other about how to reach new customers, suppliers and potential workers.
- Small [e-commerce](#) businesses ranging from Web design to online retailers allow entrepreneurs to sell goods and services all day long, all around the world, with minimal investment in bricks-and-mortar storefronts.
- Small businesses rooted in technology may employ fewer than 10 people and yet have budgets in the millions.
- Fee-based small business buyer's consortia make members eligible for bulk discounts on raw materials, such as food products and metals or other inputs like broadband service.

Quality of Life

Quality of Life is the economic well being, life style, and environment that an area offers. Improving the quality of life is the ultimate aim of economic development programs and initiatives. A balance has to be maintained between encouraging the growth of the local economy, while limiting impacts upon the quality of life. In this post-industrial new economy people are increasingly seeking better quality of life, including:

- Well-paid jobs
- Quality education / life-long learning
- Medical facilities
- Quality and affordable housing
- Low pollution and environmental damage
- Public amenities
- Low crime
- Recreation, entertainment, and intellectual stimuli
- Low cost of living / low taxation
- Aesthetic build and natural environment

Trends in Quality of Life

Don Carter of the Urban Design Institute of Pittsburgh reported on young knowledge-workers of the New Economy and their preferences. The report shows that quality of life is now the main consideration in selecting a place to work:

"Young worker lifestyles fit no earlier pattern in history. They are on a 24 hour/7-day-a-week schedule - long, untraditional work hours. They marry late and have fewer children. They like diversity in race, nationality, culture.

They move around among jobs and locations and they'd just as soon rent as buy. Whether it's cappuccino or a movie, they want it when they want it. Many prefer to walk, bike, or roller-blade to work than drive. They like transit and may not even own cars. They want the environment protected and they see the outdoors as an amenity. So they're looking for bike trails and kayaking and rock climbing. They've money to spend. They tend to reject the suburbs in favor of funky city neighborhoods. They're into authenticity. They like old buildings or new buildings that look like old buildings."

- Talented youth, the new key to any truly successful economy, look for high-grade natural environments and places with real urban charm: sociable and walk-able places with restaurants, cafes, bars, night clubs, health clubs, and public spaces.
- High school and university standards are a key consideration for families moving into an area. Relocating or expanding businesses also place a strong emphasis on education standards to encourage existing employees to move, attract new employees, and to take advantage of a well-educated workforce.

- Businesses migrate to areas where the quality of life matches the group of employees that they are trying to attract. Many areas are trying to attain a mix of urban and rural to help foster new economy businesses and workforce. Urban lifestyles cater for young professionals and start-up businesses. Rural/suburban lifestyles cater to a family-orientated workforce.
- Taxation is an important component of quality of life - low taxes enable people to have more disposable income.
- Professionals planning to start a family are moving from California and New York to areas such as Philadelphia, which offer lower costs of living, less pollution, open spaces, and lower crime, while offering employment in similar fields or enabling professionals to begin their own business.
- Open space is an economic necessity for metropolitan areas. Many factors influence the decision of a company or an individual to move into or out of a city, with a major consideration being the city's quality of life. Parks, trails, and aesthetics are critical variables in the quality of life equation. Improving the quality of life through the expansion and enhancement of public open space is a key initiative of many urban areas.
- Urban areas are rapidly improving their transport and technology [infrastructure](#), improving the quality of life the area offers two-fold.

Workforce Development

Workforce development and/or training refers to community efforts to train individuals for specific jobs or industries. Training may cover everything from soft skills (work ethic, attitude, getting to work on time) to basic skills (literacy, numeracy) to specific job skills (carpentry or Web site development). Community workforce efforts may also include job placement assistance, resume writing, interview skills, and retention services such as legal advice and child care, that help people stay in a job once placed there. The goal of workforce training programs is to improve the quality and skill sets of individuals, to place them in jobs, and help businesses find an employee base in line with their needs. A good workforce training program, therefore, serves two customers: individuals and businesses.

Trends in Workforce Development

- By 2010 the number of workers age 45 to 54 will grow more than 30 percent. By 2020 almost 20 percent of the U.S. population will be over 65 years old.
- The Department of Commerce projects a 1.1 percent growth of labor supply and a 2.6 percent growth labor demand in the next 10 years.
- Suburban areas experience approximately 30 percent more high-tech business growth than do cities.
- Both public and private sector initiatives seek to prepare inner city residents for high-tech jobs.
- Former welfare recipients, mature workers, the disabled, dislocated workers, and other low-income individuals provide new talent the labor pool.
- Developing advanced technology manufacturing training meets needs for skilled workers in regions with high-tech industries.
- Formalized business clusters can delineate shared skill needs and standards to alleviate concerns over talent poaching and to develop joint workforce training curricula.
- Small business consortia are now helping small businesses gain access to previously unaffordable training.
- Partnerships pool and leverage a range of [financial, physical, human and intellectual resources](#) and provide a collective voice for workforce development funding.
- Businesses' employee retention efforts focus on accommodating differing needs and lifestyles of workers.
- Cities are establishing programs to retain local university graduates who possess needed skills for high tech firms.
- Tax increment financing funds may be used for job training and related educational programs in some communities.
- Corporate universities offer specialized certifications and diplomas such as Microsoft Certification.
- Integrating the curricula of community colleges and vocational schools provides an educational path for students seeking specialized technical skills.
- Firms seeking new locations are interested in data that shows the level of unionization and employee/management relationships.