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Economic Development Issues

by

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## ECONOMIC DEVELOPMENT ISSUES

Norman Walzer <sup>1/</sup>

Community economic development is a major concern for residents and local officials in rural areas as population and economic stagnation continues. Local economic development practices have undergone several waves since the second world war. Initially, attention was paid almost exclusively to attracting large manufacturing plants to drive the local economy. Smoke-stack chasing efforts, including tax and expenditure incentives, were adopted by many small and medium size communities in rural areas. A growing realization that the number of large manufacturing firms was insufficient for meeting local economic development needs caused policy-makers to turn attention to small business already in the community with potential for expanding operations. The "grow your own" philosophy became popular as local officials worked with local entrepreneurs and firms to start new businesses or expand existing ones.

While a large proportion of new jobs occur within small companies, policy-makers have come to realize that small companies have a high risk of failure and it takes a large number of these small businesses to create many jobs in the community. Thus, a "third wave" of economic development policies was created to include strengthening the competitiveness of small businesses, increasing the skills of local labor markets, and promoting the competitive environment of regions. Flexible manufacturing networks (FMNs), tailored educational programs, and school-business partnerships are examples of these activities.

This *Community Economics Newsletter* reports results from the Illinois Rural Life Panel, created in 1989 to gather information on views and attitudes of residents in 76 nonmetro counties in Illinois. The Panel contains approximately 2,000 residents who are surveyed annually about policies and issues facing rural Illinois.

### Residents' Attitudes Toward Economic Development

Overall, residents strongly support local economic development efforts and seem to have a reasonable perspective on programs that might work; 95 percent reported that the focus should be on expanding existing industries. When Panelists were asked whether economic development efforts should focus on manufacturing, retail, or services, 74 percent reported manufacturing. This will be difficult, given the limitations that rural areas face in transportation deficiencies and fiscal problems experienced by schools.

Residents also are concerned about attracting high technology industries; 81 percent supported this approach. Not always realized, however, is that many high-tech jobs are relatively low-paying or may require specialized knowledge not provided in local schools.

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The importance assigned to manufacturing may suggest that more education may be needed about the potential for rural areas to attract manufacturing companies. Manufacturing employment moved from large urban areas in search of lower wages in rural areas. Next, companies moved from the higher wage North to lower wages in the South. Now jobs are leaving the U.S. for even lower wages overseas. It is very shortsighted, indeed, for rural communities to compete on the basis of wages.

While residents are concerned about expanding industries, they do not overwhelmingly favor tax incentives, as 61 percent reported favoring this economic development incentive. The role of incentives in affecting location decisions, while having been studied for a long time, is not clear. Some recent evidence suggests that tax effort and spending policies may be more important than formerly thought.

### *Assistance for Economic Development*

Given the interest in assisting small businesses to promote local economic development, panelists were asked whether local governments are adequately supporting new small businesses at present. On average, 46 percent responded that local governments are not doing enough and only 35 percent reported sufficient assistance from local governments.

Rural residents, however do not think that local governments should be the only source of funds for economic development. Statewide, 79 percent reported that state governments should assist and 64 percent reported that Federal government should be directly involved. This compares with 62 percent who reported that voluntary contributions from other sectors should be used as well.

Panelists also are concerned about whether rural areas, in general, provide a good opportunity for business to develop. On average, 47 percent responded that business opportunities are below average and only 17 percent reported opportunities as above average. Panelists also are somewhat pessimistic about opportunities in their community. One-half reported that development opportunities in their community were below average and 16 percent reported their community as above average in opportunities.

### *Conclusions*

Given the concern about rural economic development, a feeling that local governments are not doing enough to promote small businesses, and a general view that rural areas offer too few opportunities, what types of policies are likely most effective? Studies of successful projects in small communities reveal several common characteristics. First, residents and policy-makers have a clear vision of what they are trying to accomplish or have a project (or projects) clearly in mind. Second, there is strong local leadership, although it may come from several sectors within the community. Third, local leaders have tapped into external resources as needed. Fourth, there is broad-based community support for the projects and there is follow-through on the economic development plan.

Perhaps the most important factor in successful economic development in rural areas is that communities understand that local initiatives are necessary for successful development to occur. The Federal and state governments cannot solve local issues. Rather, local leaders and residents must build a reasonable strategy and implement it.

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