ECONOMIC DEVELOPMENT STRATEGY SUMMIT

STATE AND LOCAL ECONOMIC DEVELOPMENT STRATEGY SUMMIT

LEE W. MUNNICH, JR., PROJECT DIRECTOR

STATE AND LOCAL POLICY PROGRAM
HUBERT H. HUMPHREY

THIS REPORT WAS PREPARED UNDER AN AWARD FROM THE U.S. DEPARTMENT OF COMMERCE
The State and Local Economic Development Strategy Summit was held at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis on December 4 and 5, 1992. The day and a half session brought together 115 economic development leaders, legislators, academic and policy researchers, and business representatives from twenty-six states and one Canadian province. This report contains the proceedings of the summit, and was produced with a National Technical Assistance grant from the Economic Development Administration of the U.S. Department of Commerce.

A number of people and organizations deserve special thanks for their contributions to the summit and to the preparation of this report. The project was a collaboration between the Humphrey Institute and the National Conference of State Legislatures.

Lee Munnich, senior fellow and director of the Humphrey Institute's State and Local Policy Program, conceived the idea for the summit and provided overall leadership in organizing the conference and preparing this report. Munnich moderated the session on evaluating economic development programs.

Robert Kudrle, associate dean for research and professor at the Humphrey Institute, collaborated with Munnich in designing and organizing the summit, and arranged the financial support from the institute's Freeman Center for International Economic Policy. Kudrle organized and moderated the panel on the global economy.

Dan Pilcher, program director for economic development with the National Conference of State Legislatures (NCSL), provided guidance and ideas on the topics and speakers, and arranged the formal sponsorship and promotion of the summit by the NCSL. Pilcher moderated the roundtable and audience discussion on where we go from here.

Humphrey Institute faculty and fellows who helped in developing and conducting the
Conference planning and administrative support were provided by Marit Enerson, community program specialist with the State and Local Policy Program, and Lori Graven and Jean Martin of the University of Minnesota's Professional Development and Conference Services. Enerson and Jodie Kaden, principal secretary, transcribed the proceedings from audiotape and conducted the initial edit with the assistance of presenters.

We would like to give special thanks to Anita Duckor of Northern States Power Company for NSP's financial contribution to producing an executive summary of the summit, which was available within two weeks of the event. Susan Koch, a telecommunications and economic development consultant who had just moved to the Twin Cities from Indiana, produced the summary, which is included as the executive summary of this report. We would also like to thank Bob de la Vega of Norwest Bank for the pre-summit reception for speakers and participants. The reception was funded by Norwest and hosted by de la Vega.

Elsa Larson edited the final text and managed the design, production and printing of this report. Cover and layout design are by Larson and Juli Bratvold, photos are by Walter Griffin, and printing is by the University of Minnesota Printing Services.

Finally, we would like to thank all of the speakers whose presentations are included in this report and all of the participants who contributed to the success of the summit.
 ROUND TABLE DISCUSSION: WHERE DO WE GO FROM HERE?
Moderator: Dan Pilcher, National Conference of State Legislatures
Francis E. Lauricella, Louisiana State Senate
Robert de la Vega, Norwest Corporation
Christina A. Gilchrist, Alexandria Area Economic Development
Kathryn Keeley, Corporation for Enterprise Development
Susan Koch, Telecommunications and Economic Development Consultant
James H. Maloney, Connecticut State Senate

QUALITY CHECK AND WRAP-UP
Graham Toft

SPEAKERS WHO'S WHO
The “zero-sum-game” argument suggests that economic development efforts do not contribute to the overall growth or well-being of a region or nation, but rather just move firms or jobs from one geographical area to another. The extreme version of this argument is that economic development efforts are a negative-sum game, both because they cost money to create and administer, and because they misallocate resources.

The source of this problem is that many economic development programs are not rational responses to demonstrated market failures; instead, they are justified rhetorically on the basis of job creation. Examples of the types of market failures that should drive program development include inadequate distribution of business information, failure of capital markets to address the needs of some business segments, and inadequate attention to “externalities” like the social costs of pollution or poverty.

great deal of disagreement about whether our current markets are working, especially for capital and for business information.

This issue raises basic value questions as well. Many of our urban cores and rural communities are non-competitive. Should we let them die, which would let the market operate, but would create much medium-term hardship, or should we step in to bolster them? Is it acceptable to assume that our citizens are just a human resource that we can expect to migrate as smoothly as other production inputs? In any case, we know that it takes a careful analysis to determine that a market is failing, and few economic development programs are predicated on such analyses.

In addition to the need for such preprogram analyses, most discussants agreed that formative and postprogram evaluation is essential to recognizing which kinds of programs are most likely to be positive-sum, not zero-sum. Claims are often made about the jobs and indirect dollars generated by this or that incentive package, with almost no careful analysis of the actual jobs created, the quality and longevity of those jobs, the likelihood that similar jobs would have been created without the intervention, and the opportunity costs foregone by investing in the incentive package.

While it is theoretically essential to do preprogram analyses of market failure and postprogram evaluations of effects, speakers acknowledged the practical and political reality that leaders are often called upon to do something without the benefit of such analyses. Speakers disagreed on what the something should be, however. Should we attempt to programs that focus directly on addressing local market failures and on improving productivity within existing firms. A focus on infrastructure (education, public works, transportation, telecommunication, et cetera) is also well-advised, because such investments provide benefits for all players rather than distorting the market by providing direct payments to private firms.

Economic development programs should also include “payback” plans so that they do not become one-way handouts to certain firms. Options can range from requirements that assisted firms match the amounts contributed by government for modernization or training, to “clawback” provisions that require firms to give back aid or loans if their job creation promises are not realized, to an emphasis on loans rather than tax breaks or grants.

---

**CAN STATES BE EFFECTIVE PLAYERS IN THE INTERNATIONAL ARENA?**

**Moderator:** Robert Kudrle
**Humphrey Institute**

**Participants:**
- John Kline
  **Georgetown University**
- Carol Conway
  **Southern Growth Policies Board**
- William Nothdurft
  **Nothdurft Associates**

Kline explained that states got involved in international programs as their local firms became more involved in international trade (in the 1970s), and a foreign direct investments in local communities grew (in the 1980s). States currently spend an average of $2 million per year on trade promotion, rivaling the total spent by the federal government. In foreign direct investment promotion, states and localities are the only player—the federal government is not involved. In addition to international business promotion and foreign investment promotion, states’ policies on procurement and sectorial ownership restrictions should also be considered as part of their international economic policies.

How are states positioned to deal with the international marketplace in the 1990s? Not very well, the speakers seemed to agree. The following problems were raised by the speakers and members of the audience:

---

1. Most of our nation’s firms do not understand their role in the international economy. Many of those who are not currently exporting do not see the international marketplace as relevant to their operations, and some current
manufacturing operation in Indianapolis, qualify for an Indiana-sponsored trade mission to Japan?

12. States are not prepared to deal with the proliferation of regional trade agreements. They are not preparing plans on how to promote themselves to all the new trading blocs, and many do not know how to organize themselves into regional or multistate entities. They are also not reviewing their own policies—for example, labor laws, policies on plant shutdowns, product liability restrictions, and environmental regulations—to see how they will fit within the regional trade agreements being negotiated.

13. Federal and state international programs are not integrated, which creates gaps and overlaps in service provision and confuses potential users.

14. Our state economic development agencies are not involved in designing or negotiating U.S. policies on nontariff trade barriers, yet some of these policies will directly affect those agencies' activities. The GATT will be addressing states' subsidies to private firms, technical standards setting, and trade performance requirements. Other nations are pushing for reforms that would eliminate some of the tools that states now use in their economic development efforts. There are inadequate mechanisms for providing a state perspective to the U.S. Trade Representative.

15. The relationship between states and the federal government in negotiating international agreements is unclear. It is obvious that our federalist system will be strained as the full implications of To respond to these problems, participants suggested the following:

- Privatize international assistance services as much as possible.
- Require firms to pay for the assistance they receive.
- Concentrate on small and medium-sized firms' local delivery systems. Tailor assistance to the needs of each client. States should consider targeting particular sectors or geographic regions.
- Base international assistance programs on firms' prior completion of a strategic plan. Focus on business development first, then on international activities.
- Keep detailed records on assisted firms and the impacts of assistance efforts. Develop measures to evaluate those impacts that are directly linked to program goals.
- Spend public funds on development of service delivery systems rather than on direct subsidies to firms; for example, providing an electronic bulletin board that lists inquiries from international firms rather than giving a local firm money to attend an international trade show.
- Work to get locally-based support industries—banks, utilities, and trade associations—to become active in promoting or providing export assistance.
- Adopt a goal of increasing trade, not just increasing exports. The larger the flow of goods, the more likely it is that information will be shared and exporting opportunities will grow.

HOW CAN STATES BE EFFECTIVE IN THE UNCERTAIN ENVIRONMENT OF REGIONAL ECONOMIC TRANSFORMATION?

MOTERATOR: RAGUI ASSAAD
HUMPHERY INSTITUTE

PARTICIPANTS:
ANN MARKUSEN
RUTGERS UNIVERSITY

JERRY NAGEL
RED RIVER TRADE CORRIDOR, INC.

“Regions” includes substate and multistate areas that have banded together into a single economic entity. Occasionally, these cut across national boundaries as well. Regions have become more pronounced in economic development activities in recent years as traditional entities—cities, states, and nations—have sought new forms of comparative advantage to deal with the worldwide recession and the integration of the world economy.

The Red River Trade Corridor, for example, includes Minnesota, North Dakota, and Manitoba in an alliance that supports communication within the region and promotes the region internationally. The RRTC puts together educational materials (in NAFTPA, for example), organizes players within the region on particular economic development issues, helps set up

Participants agreed that the trend toward regional organizations would continue. Nagel also pointed out that the creation of multinational regions seemed to contribute to the subsequent formation of supranational regions as well. The formation of the European Economic Community, for example, seems to have spawned smaller regional organizations that address members’ particular concerns.

An important aspect of regional organizations is their ability to overcome political and cultural barriers and encourage multicultural solutions to common problems. By building understanding among people who have heretofore seen themselves with little in common, regional organizations pave the way for economic sharing as well. To achieve this goal, these organizations must take a long-term view, investing in understanding in order to achieve a future payoff. Mutual advantage is the motivation for regional alliances.

While the role of regional organizations is still being determined, it is likely that, in the short term, they will operate in cooperation with traditional economic entities. States or counties, for example, will still be the implementation mechanisms for regional plans; the regional bodies will make suggestions about direction and help facilitate cooperation. Negotiating the relationships between traditional entities and these new regional bodies will be very challenging.

To take advantage of the potential benefits of regional organizations, states (or nations) will have to get comfortable with the idea of looking for new types of commonality and mutual advantages.
Session participants provided several suggestions for economic development administrators interested in evaluation:

- Consider both in-depth evaluations of particular programs and ongoing performance monitoring. The former is good for understanding how and why a program is working, and for evaluating its long-term merit. The latter is more useful for managers because it provides timely feedback on performance, but it does not provide data to explain why the program is or is not working.

- Establish performance criteria that reflect the goals of the program and that are possible to operationalize (translate into a measurable activity).

- Use unemployment insurance databases for tracking, but they are not always reliable. They are also very difficult to access, technical assistance, and technology transfer programs.

- Follow through on results. When an evaluation is completed, make sure that managers respond with changes.

- Support evaluation with resources. As budgets go down, evaluation is likely to be the first thing to go.

- Consider using an outside group to conduct evaluations; perceived objectivity is important. Require that the evaluating group make recommendations as part of the project.

**WHAT ARE THIRD WAVE ECONOMIC DEVELOPMENT STRATEGIES AND WILL THEY WORK?**

**Moderator:** Candace Campbell
Humphrey Institute

**Participants:**

- Robert Friedman
Corporation for Enterprise Development

- Robert Atkinson
Congressional Office of Technology Assessment

- Janet Jones
Oregon Economic Development Department

- Graham Toft
Indiana Economic Development Council, Inc.

Experts have pointed out several shortcomings of first and second wave strategies. Economic development theorists have communities, including training, capital access, technical assistance, and technology transfer programs.

The third wave is not a panacea for economic developers' problems. With it focus on how things get done rather than what gets done, it leaves practitioners in the unenviable position of having to make things up as they go along. It is still unclear what programs could emerge from this general framework. Its focus cooperation is foreign to many private business executives who are used to competing with their neighbors, not helping them. Its industry-driven nature requires that economic developers shed their assumptions that they know what's best for businesses. At the same time, businesses have to get more actively involved in planning and implementing their own futures without reliance on direct handouts from government.

Third wave thinking has also been criticized by theorists for its simplistic characterization of the three waves. These critics argue that the waves are not as discernible in history as they have been painted. By using the wave metaphor, the theory suggests that the strategies of the first two waves are now inappropriate, when they are not. Business attraction and competitive capacity building are still sensible strategies in some cases. Furthermore, while bottom-up strategies sound attractive, there is not good evidence that the top-down tendencies of government agencies and other potential providers
strong connections to other nations' markets. Can we tap those to help our export efforts?

- We need to integrate our political and economic development messages, and balance our concern between the two.

- We have a president who understands the economic situation we are in.

- Other nations are setting up effective international organizations. Our organizations, such as the Foreign Service, have not figured out an appropriate role for themselves for the 1990s. We need to fix this soon.

- We need to address the political nature of the economic development process. Rather than just taking it as a given, we should look for ways to restructure our economic development organizations to channel the political nature of our work in positive directions. We should inform, and get more input from, citizens when making economic decisions.

- We have not discussed the notion of "sustainable development." It is no longer acceptable or realistic to leave the long-term health of our communities or our environment out of our economic development discussions.

- We need to get a diverse mixture of people making economic development policy and theory; our programs will fail, otherwise.

- Our economic development programs need two focuses: manufacturing and modernization, on the one hand, and our nation's poorest people and communities, on the other. The poorest regions can't use business attraction alone.

- We need to learn more about organizational design. We should explore organization theory and practice to figure out how to renovate our economic development institutions.

- President Clinton should include social scientists (sociologists and psychologists, not just economists) in his strategy teams. These should be "front-line" practitioners, not theorists. It's too easy for economists to think of our citizens in terms of "human resources" and "labor migration" instead of thinking ecologically about human history, culture, and individual/family experience. As a result, economists develop organizations and programs that don't work.

- President Clinton's plans should focus on effective use of infrastructure, not just on building infrastructure. A high-speed data network, for example, will not help a rural community that is not yet even making good use of PCs and modems. Infrastructure budgets should be split between "building" funds and "effective usage" funds.

- The biggest benefit of the conference was that it helped sharpen the questions that economic developers and state officials should be asking when designing their programs.

- The theoretical approaches described in the sessions are not reconcilable. We need to make choices between business attraction, capacity-building, and other strategies. There is not enough money to try everything.

- "Steering" versus "rowing": the federal government should not be rowing economic development programs. The states should do the rowing because they can't use business attraction.

- Regular people are not involved in state economic development plans. Planners tend to create such plans among themselves, and do little to publicize the process and invite input.

- The federal government should not attempt to "row" or "steer" our state economic development programs. Just give states the money and leave them alone.

- Economic development is about storytelling: developing a compelling narrative to describe circumstances and opportunities. When developing economic development programs, we should think about the story we are trying to tell, and whether it is enabling and empowering to our audience.

- Economic policymakers must take a multicultural perspective, and include women and people of color in their decision-making processes. Eligibility requirements for funding should include the stipulation that funded programs show evidence of having included all dimensions of the community in the planning process.

- Question: How can we combine social and economic policy? It's hard enough to keep track of other economic development agencies' activities, without trying to make links with welfare, education, health and human services, etc.

Answers: Look for guidance from some microenterprise support programs that have addressed the total needs of their clients, combining economic and other dimensions of our nation's problems, we need evaluation criteria that reflect multiple goals. As long as we simply count "firms served" or "jobs created," there will be no incentive for economic development programs to think about the whole system in which their clients operate.

- The business community can sometimes be indifferent to governmental decision-making processes about economic development. They live outside the taxation committee's door, but rarely show up at the economic development committee's hearings. We need to find ways to bring them into these decisions. Utilities and large local firms seem to be an exception to this.

- We have to focus on both product and process. Our vision should include elements of the process by which we will reach our goals.

- We have spent two days discussing all of the things that militate against our having effective economic development programs. We shouldn't take these to mean that we should just sit back and do nothing.

- The Clinton administration, when formulating their economic development vision, should open up ways for states, regions, and localities to articulate their own visions within the overall vision.
local economic development strategy and goals. As important as its financial programs are, EDA can help to "steer the national ship" by supporting state and local economic development planning and setting up the standards and mechanisms for evaluating economic development efforts.

ECONOMIC INFORMATION The federal agencies responsible for collecting and disseminating economic information—the Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics—often seem to treat state and local economic data as an afterthought, and have cut back on the collection and timely distribution of this data in response to budget pressures. This data is extremely important, however, in setting goals and monitoring the progress of state and local economic development efforts.

INTERNATIONAL TRADE Federal agencies involved in international trade should work closely with states and regional alliances in defining their joint goals and how they can work together in improving U.S. global competitiveness.

SCIENCE AND TECHNOLOGY Several states have begun defining their own science and technology policies. The federal government has taken preliminary but not decisive steps in this direction through the formation of the National Institute on Science and Technology and the activities of the National Science Foundation. This is an area where strong presidential leadership and advocacy could make a difference. Increasing the mission orientation of federal research and development along with sufficient resources to make a difference is important.

The unemployed and underemployed, providing effective retraining for displaced workers, and exploring new approaches to managing the school-to-work transition—for example, through a national youth apprenticeship program.

Market-Driven Approach
An effective economic development strategy requires the continuous involvement of businesses that make investments and create jobs and wealth. Likewise, citizens who make up the labor force must be regularly consulted in the development and execution of programs directed toward improving workers' skills and employability. A market-driven or customer-oriented approach is critical for a successful economic development strategy.

Regional Economic Alliances
One of the most exciting trends in economic development is the formation of regional economic organizations that cross state and, sometimes, international boundaries. These alliances are not based on bureaucratic boundaries, but on natural economic geography, and are formed as a result of the mutual economic interests of the citizens in the areas involved. An example is the Red River Trade Corridor, Inc., which includes Minnesota, North Dakota, and Manitoba in an alliance that supports communication within the region and promotes the region internationally. The federal government should encourage these cross-boundary economic alliances.

Evaluating Economic Development
"Third Wave" Economic Development Strategies
Third wave strategies focus on how economic development services are delivered. They attempt to leverage state resources by emphasizing facilitation rather than direct provision of services; in other words, a wholesaling rather than a retailing function. While there is still much debate over whether these strategies will work, states should be encouraged to experiment with new approaches. The federal government could play a valuable role in providing support for state and local experiments, monitoring and assessing the effectiveness of these efforts, and perhaps adopting some of these approaches as part of a federal strategy.
EVALUATING ECONOMIC DEVELOPMENT PROGRAMS: IS ANYBODY DOING IT?
Moderator: Lee W. Munnich, Jr., Senior Fellow and Director, State and Local Policy Program, Humphrey Institute
  • Harry Hatry, Principal Research Associate and Director, State and Local Government Research Program, The Urban Institute
  • Abigail McKenzie, Director, Information, Analysis and Evaluation, Minnesota Department of Trade and Economic Development
  • Brandon Roberts, Brandon Roberts + Associates
  • Beth Stella, Associate Scientist, Institute for Public Policy and Business Research, The University of Kansas

4:45 ADJOURN

SATURDAY, DECEMBER 5

7:30 a.m. CONTINENTAL BREAKFAST

8:15 THIRD WAVE ECONOMIC DEVELOPMENT STRATEGIES: WHAT ARE THEY? WILL THEY WORK?
Moderator: Candace Campbell, Research Fellow, Humphrey Institute
  • Robert E. Friedman, Chairman of the Board, Corporation for Enterprise Development
  • Robert D. Atkinson, Senior Analyst, Industry, Technology and Employment Program, Congressional Office of Technology Assessment
  • Janet Jones, Key Industries Development Manager, Oregon Economic Development Department
  • Graham Toft, President, Indiana Economic Development Council, Inc.

10:15 BREAK

10:30 ROUNDTABLE DISCUSSION: WHERE DO WE GO FROM HERE?
Moderator: Dan Pilcher, Program Director for Economic Development, National Conference of State Legislatures
  • Francis E. Lauricella, State Senator, Louisiana State Senate
  • Robert de la Vega, Director, Government Relations Research, Norwest Corporation
  • Christina A. Gilchrist, Executive Director, Alexandria Area Economic Development
  • Kathryn Keeley, Corporation for Enterprise Development
  • Susan Krueh, Telecommunications and Business Development, Corporation for Enterprise Development
Thank you for the time and effort you give to this conference. The purpose of this summit is to bring together state and local leaders from around the country to examine the state of the art, if you will, in state and local economic development policy. Second is to debate and discuss the important questions related to this policy. Third, to explore new directions for state and local government in economic development.

We also hope that this summit will offer some guidance to the incoming Clinton administration for federal economic policy. I should alert you to the fact that the output, the piece of paper you end up with by tomorrow noon, will be sent to the transition team and they will be including it in their discussions of their future economic development policy.

As you know, the Clinton transition team on December 14-15—which I think is the end of next week—is convening one hundred economists, policy leaders and citizens of Little Rock to help shape his national economic policy. While we had no way of knowing this national economic summit would occur at the time that Lee Munnich, Bob Kudle, and Dan Pilcher began planning this state and local economic summit earlier this year, it is not purely coincidence that we should also be convening one hundred leaders on state and local economic development.

promoting economic development has occurred. This activity includes programs to promote targeted industries considered important to local economies, efforts to promote exports and attract foreign investment, and aggressive marketing by state and local governments, including financial incentives to attract or retain businesses.

We have heard a little about that sort of thing right here in Minnesota. In fact, the number and types of economic development programs that have emerged in the last fifteen years are difficult to comprehend and classify, even for those whose job it is to understand those things. What we have experienced, really, is a large number of social experiences; something very much, if you will, in the American tradition.

The great strength of our form of democracy is that it allows—I would say even encourages—such experimentation. Over time, what is successful is eventually winnowed and adopted more generally, and the failures drop by the wayside. That's how we make public choices and eventually progress in this country.

The purpose of our conference today and tomorrow is to engage in that winnowing process. If by chance any of you have come looking for easy answers or simple solutions, you may well go away disillusioned by tomorrow noon. If you came hoping to find justification for existing economic development programs, you may even be troubled by what you hear. If, on the other hand, you came with an open mind in the spirit of
Norwest Bank, who sponsored the reception last evening; Anita Duckor and others are here representing Northern States Power, who is contributing to the preparation of the summary of the summit to be written by Susan Koch. Susan is the person taking copious notes. Finally, I want to thank the Northwest Area Foundation, which provided the initial funding for the State and Local Policy Program. The central focus of the State and Local Policy Program is economic and community development in the Upper Midwest region. It is this focus and the work of the program staff that led us to organize this summit.

Now having thanked these people, I have an apology to make. There is one change in today's agenda. David Harrison, who was scheduled to speak this afternoon on regional economic transformation, has unfortunately contracted the Washington State version of the flu. I understand he has lost his voice, which, if you know David, is a serious illness indeed. Fortunately, Jerry Nagel, who is director of the Red River Trade Corridor, has agreed to stand in for David in this afternoon's session. It turns out that Jerry has served on several panels with David Harrison and claims he is able to give David's presentation. He does say that he refuses to tell David's jokes, so you're going to miss that part of it. Of course, Jerry will provide his own insights and perspective as well, and he has quite a number.

One final comment, please complete the evaluation sheet in your packet before you leave tomorrow afternoon. We really do take these evaluations seriously and use them continually to improve our programs and how we deliver them.

You're in for a challenging and mind stretching experience today and tomorrow. We hope each of you leaves here with new knowledge and new perspectives that will help you be more effective as you seek to promote community and economic development in your local community. With that, I'm going to turn the program over to Tom Luce.

Thank you and you all have a good day.
targeted to economically depressed regions, they can produce social gains for the nation as a whole. The third counterargument I want to make is that, to the extent to which these programs do have some zero-sum-game features, we don't need to just sit around and accept that or take the alternative of just outlawing these programs. We can get the federal government to make some creative interventions that can encourage reform of these programs; in particular, encourage the programs to focus more, either on enhancing productivity or on encouraging the development of economically depressed areas.

Let me elaborate on each of these three counterarguments. In the first one, as I said, not all of these economic programs are just tax subsidies. A lot of them try to provide various types of services. Those services in general can be seen as trying to raise private productivity or competitiveness or whatever you want to call it, if you define that broadly. Now, let me at least mention some of the programs I'm thinking of—I'm sure you are familiar with many of them.

First of all, I am thinking of programs targeted at existing businesses, usually small and medium-sized businesses, that try to provide them with information on some more intensive assistance with training and modernization and exporting. In some cases, programs work with management to develop better business plans and marketing plans. That's one area. The second type of program I'm thinking of that might enhance productivity is one that helps businesses in developing research on new technology. The third area is programs that assist business in training their work force. The fourth area of
broad sense as being able to produce something more valuable with less effort. The argument for each of them, from my point of view as an economist, is that private markets on their own may not adequately pursue all the avenues by which we can increase the productivity competitiveness of our business sector. Economists use the buzz word "market failures," but some of the market failures you might think of as imperfect information.

Businesses don't always know what the benefits of some of these services are. They don't necessarily know how to evaluate a potential vendor of these services. In other words, you could argue that maybe these sorts of services should be provided by private consultants. But if you don't even know what your problem is, it is somewhat difficult to tell whether or not a given consultant, who is offering some service, is offering something valuable to you and your productivity, or something just valuable to them in terms of their products. That is one type of market failure.

Another type of market failure is that many of these types of services help increase productivity in ways that have spillovers for other businesses. Knowing there could be spillover benefits for others, private decision makers might not necessarily pursue them. As an example, you might think of training your workers. It could be that when a business looks at negative. In the case of technology development, if I invest in technology, other firms may learn from my experience and there may be a benefit to the economy that I don't consider in deciding whether to make that investment.

Finally, financial markets in many cases are very imperfect and may still provide inadequate financing, even if the expected benefits of some service might exceed the expected cost. For example, you might, if you thought you had a great idea for a product or a service, try going into a bank and saying, I have a great idea but I really need several months of training in how to start my own business and how to do a business plan, and whatever; will you please finance this with a loan? Usually you wouldn't get a very favorable reaction to that from most banks.

The criteria for whether or not these programs really make the whole nation wealthier is: do the benefits to the businesses and the overall economy in increased productivity, exceed in dollar value the cost of providing these services? If they do, then, in fact, the economic pie is bigger.

One confusion is that it might look as if there is a zero-sum game going on because, if a given state or city does, in service or a different variety of food, it's more desirable for consumers. They are going to, in part, steal customers away from other businesses. We can't call this a zero-sum game because, in fact, there are more customers and more resource going to restaurants that are providing more interesting food, or higher quality food at a better price, whatever. That is part of the normal workings of a competitive economy. The same thing is true if a state is providing services. If they are valuable to businesses, and the enhances productivity and resources flow to that state, that's simply the operation of a market economy reallocation of resources to more productive uses.

The weak point in the first counterargument is that it is unproven. You can prove, at present, that these types of economic development services work by providing benefits in the form of enhanced productivity and enhanced competitiveness that exceed the cost of providing the services. We definitely need better information on whether these programs are working. I was very pleased to see that this particular summit will include a session on how to evaluate economic development programs. I think that's one of the key missing links in ending the effectiveness of these programs.

The second counterargument to the zero-sum-game argument is that even if we think of financial subsidies, you can argue that they produce national benefit. If they redistribute economic activity to economically depressed areas, I'm not arguing that these financial subsidies increase private sector productivity; they don't. I think that if we redistribute economic activity to economically
development programs are most aggressively pursued by areas that are high in unemployment or economically depressed in some other sense. I still believe that. There are a lot of anecdotes. As the governor of Oregon used to say, "Please visit Oregon, but don't stay." They weren't interested in growth in Oregon then. I don't know if Oregon has the same attitude today, given the problems with the logging industry.

I have an example in my own state of Michigan. I live in Kalamazoo. Right south of Kalamazoo is a very large suburb called Portage. Portage has a high property tax base. It has most of the operations of the Upjohn company and has most of the shopping malls that do well, therefore, there is a very high property tax base per capita. Portage has cut back the length of its property tax abatements from twelve years to six years. They are currently debating eliminating property tax abatements altogether.

The city of Kalamazoo has no interest in this; they will never eliminate property abatements, and if they could extend them from twelve years in term to twenty or thirty years, they would. The reason is that economically, Kalamazoo has some tough problems. There's high unemployment and high poverty.

Portage, on the other hand, has more growth than it can handle. They have very different attitudes toward growth. On the other hand, there have not been many real systematic studies of this. There are people who disagree on whether or not economic development is really most vigorously pursued by economically distressed areas.

property tax rates greater than 4 percent, but it still doesn't have very good public services in many respects.

I'm not arguing that this system benefits Detroit. I think allowing within that system some flexibility—for example, although Detroit has to have a high property tax rate because of a low property tax base, maybe they can have some flexibility to do some things on the margin to target some firms, some industries, some small business, and whatever—that kind of flexibility does benefit Detroit. I don't think saying to Detroit, "Well gee, we are going to try to help you out. You can't pursue economic development anymore." I don't see how that helps them.

The third counterargument is that even if there are zero-sum game aspects to some of the competition in state and local governments going on now. I think if we have the right federal intervention so we can minimize those zero-sum games and maximize the national benefits. We can reform these programs without wiping them out. The type of reforms I would list would have two goals. One, the federal government should be trying to encourage economic development programs to focus on enhancing productivity. Two, the federal government should be thinking about how to encourage the economic development of distressed areas.

There are a millionways you can think of how to pursue this, and let me mention three initiatives that the Clinton administration might want to consider. First, it's already been clear in a lot of the documents in the Clinton campaign that they are very interested in pursuing new technology development and business creative ideas on how to solve these problems and the program will be more flexible and adapted to local circumstances, local industries, and local firms than they will be if it is run in a top down from Washington.

As a second initiative, I think the federal government has to play the lead role in promoting and requiring the evaluation of these economic development programs. There is not a strong incentive for state and local officials to provide for objective evaluations of your programs. Why would you want an objective evaluation of your program? It makes no sense, from a political standpoint, you don't want it. It is beneficial for a nation as a whole. Others can learn what works and what doesn't.

Only with federal leadership in both requiring and financing evaluations will we really learn something about which of these type of services work, what type of design works, and that type of thing. I think there is some indication that the Clinton administration might be interested in evaluation. You have to admit, an evaluation isn't exactly the thing a presidential candidate runs on and says, "Gee, I'm going to evaluate programs better." It doesn't exactly grab the evening news headline. It is consistent with what Bill Clinton talked about in terms of accountability in government programs in which recipients of aid from the government will be expected to do something in return.

One of Clinton's advisors is David Osborne, who has written about economic development and, more recently, about governmental reform. He wrote a book called Reinvigorating Government. Basically he talked a lot My final point in what the federal government might do—and I hope it happens in the Clinton administration—that we are going to have to reform our current system of federalism. We have a federal government that with the defici does not have the resources to deal with many of our domestic problems. It real doesn't have the public trust to deal with those problems either. On the other hand, we have state and local governments whose management capabilities have increased enormously over the past twenty to thirty years. In many cases, when you look at city governments, they just don't have the revenue to deal with the problems.

A recent book I'd recommend to you is Rivaling the American Dream by Alice Rivlin, who is former director of the Congressional Budget Office and might be director of OMB under Clinton. This book basically advocates that most federal domestic responsibility—with some exceptions such as health care, should stay with the federal government—that most domestic responsibilities should be turned over to state and local governments, including economic development policy. In addition, she would also turn over some revenue; and in the process of doing that, she would try to redistribute some revenue from rich areas to poor areas.

A particular scheme she talks about is having a national sales tax distributed to state governments on a per capita basis. You can quarrel with that type of scheme—about what the formula is, how you raise revenue, how you redistribute whatever—the point I would make is that if you did have a system that did something like that in general—raised revenue and redistributed a kind of
prohibits states from interfering with interstate commerce. States are not allowed to tax goods from other states. I propose that states shouldn’t be allowed to use subsidies—negative taxes—to influence interstate commerce either.

In theory, economists have pointed out that governments can enhance the performance of an economy if there exists some type of market failure. Tim touched on this in his remarks. Advocates of state and local economic development policies, however, have not clearly identified these failures. What do I mean by a market failure? Economists identify three types of goods that can result in market failure. One is a good that can’t be exclusively consumed. These are known as public goods. National defense is an example. Once a national defense system is created, we can’t exclude individuals in our economy from its benefits. Left on its own, the market has a hard time pricing such goods and, generally, would produce too little.

A second type of market failure develops when there are goods produced that have side effects. These side effects, like air or noise pollution, are what economists call externalities. Governments should intervene because, if they don’t, the market produces too much of such goods. In the case of education or research, where the side effects are positive, private market produces too little. Government should intervene because the market produces too few of such goods.

The third type of market failure occurs when there is monopoly or some degree of noncompetitive behavior. Here the government needs to intervene to newspaper makes my point. The governor of Minnesota just announced a new economic development fund, $35 million; he plans to use to invest in private companies. The governor stated that he wants such a policy because it creates jobs. I argue that these policies don’t create jobs, they just relocate them.

Tim is one of the few proponents of economic development policies who attempts to defend them based on market failures. While I am sympathetic with some of his points, I remain unconvinced.

According to Tim, the private market fails to provide our economy with enough business information and productivity-enhancing research. But Tim, as he admits, provides no evidence to support this assertion. I suspect there is none. The public spends substantial funds on educational institutions. How do we know that our educational institutions are producing less research than is economically optimal? Moreover, how do we know that too little information is coming out of consortiums of businesses that get together and pool their resources? In other words, how do we know the market is failing?

If there isn’t enough productivity-enhancing research, then there should be documented. Even if Tim is correct on this issue, I doubt the government can correct the problem. We have very sophisticated capital markets in this country that allocate resources based on price signals. I believe there is considerable evidence to suggest that governments cannot do this better than capital markets and that government efforts are often wasteful.

Programs can be used to correct this diversity. To argue for such a policy implicitly assumes something is wrong with the market.

Normally, when different areas of the economy perform differently, prices and wages adjust. Ten years ago in Detroit, for example, when it was first going through its problems, wage rates fell dramatically. At the same time, they were going up in Houston and Dallas due to the success in their oil industry. As a result, a lot of workers left Detroit and went to the high producing industries. Surely we want our workers to be moving to areas where they are the most productive. It’s not the depressed areas, but rather the unemployed workers we need to help.

I have argued that before governments intervene in the market, they at least need to identify market failures. Once they do, they should also be convinced that the failure can be fixed.

Tim raises the point that we need to do a better job of assessing economic development policies. I agree, but we should not rely on the conventional way these programs are evaluated because the evaluation is often flawed.

The evaluation the governor’s office in South Dakota made of its REDI fund is a good example. The fund was established in 1987 when South Dakota enacted a temporary sales tax and raised roughly $40 million. Since 1987, that $40 million has been used to subsidize new and expanding businesses in South Dakota.

The governor’s report says the REDI fund created jobs because many of the private hands? This money would either have been invested in new or expand companies or spent on consumer goods. But this also creates jobs.

So it’s not all clear that if you take $4 million out of an economy and let the government recycle it, the outcome is any better. In fact, I would argue that the outcome could possibly be worse because you end up subsidizing companies that probably wouldn’t be profitable on their own.

The evaluation of the Northwest Airlines loans is another evaluation that was flawed. A year ago the state of Minnesota announced a financial package for Northwest Airline. It was roughly $800 million; $400 million was to be an operating loan and $400 million was to build a maintenance facility in Duluth and Hibbing. The state would benefit by getting fifteen hundred new jobs in an economically depressed area. The new jobs were the basis for the positive evaluation released by the state.

A closer look at the economics of this initiative raises serious doubts about the evaluation. Northwest Airlines admitted that this wasn’t their first choice for maintenance facilities. That was no surprise. You don’t build a maintenance facility up in a cold climate. You don’t divide it up between two cities. If you...
causal role for international business development activity was not established by anyone.

As part of an Urban Institute study a couple of years later, we attempted to discuss international business development evaluation as part of a general system of evaluation improvement for the state of Minnesota. I think everybody who was involved with that project agrees that there is still a very long way to go. One of the things I am looking forward to from this session is an update of what appears to be most successful in terms of international business development across the country.

We will begin with John Kline. His remarks will be followed by those of Carol Conway, and Bill Nothdurft will speak third.

It is a real pleasure to be able to introduce John Kline to this group. It is quite possible that he needs no introduction to many of you. John wrote the first major work on the subject of the role of the states in international economic policy. At least, it is the major and most respected early work on this subject and is an excellent account of the many ways that the states affect the national economy.

State Department's Advisory Committee on International Business. John's remarks are designed to put the entire discussion into context, and I think we couldn't have a better person for that assignment.

Our second speaker this morning is Carol Conway. She comes to us as an expert on state development policies generally, although her focus for the last seven years at the Southern Growth Policies Board, where she serves as deputy director, has been mainly on the international aspect of this question. A major accomplishment of her work there has been the development of a state international policy network of fifteen hundred opinion leaders who work on state responsibilities in international trade, investment, and education. Carol edits a monthly newsletter on that subject and she has written extensively on international business development issues. Just as we couldn't have a better choice than John Kline to put these policies into context, Carol is unequaled in her knowledge of what is going on right now in state economic development activities with respect to international business. I'm hoping she can tell us what's working and what isn't. Despite the fact that both the federal government and the state governments in the United States now pay much more attention to
to have him with us to put some of our international business activities into a comparative international context. Bill's latest book is called Going Global: How Europe Helps Small Firms Export. He explores in that book, and will talk with us today, about how the states can learn from the experience of various European governments and other organizations as they assist small and medium-sized companies become internationally competitive. His views about the relevance of the European experience are particularly persuasive because he knows so much about state economic development policies more generally. We are delighted to have him here.

Without further introduction, I'm going to ask all three speakers to speak for about fifteen minutes. We will then give them a chance to ask questions or clarify points among each other before we open it up to general discussions. So John, welcome, and please begin.

JOHN KLINE

DEPUTY DIRECTOR
LANDEGGER PROGRAM IN
INTERNATIONAL BUSINESS DIPLOMACY
SCHOOL OF FOREIGN SERVICE
GEORGETOWN UNIVERSITY

Thank you very much. As you have already been told, my job as lead off speaker is to try to set a macro context for what is happening. I will try to do this in two ways. First, I will quickly review where we came from, because to understand where we are now, or where we are going in the future, we do need to have background, at least briefly.

than the 1960s. We can identify the causal involvement of the states directly with the growing interdependence of the global economy. It was, in fact, the increased importance for the United States of international trade, particularly exports, that first led to state involvement. The major increase in terms of trade importance occurred primarily over the 1970s; the increased importance of foreign direct investment occurred primarily over the 1980s. The result of these two trends was that states gained direct interest and involvement in the international economy.

It was not that the states initially wanted to move outward into foreign affairs. They did not try to usurp national authority or activities in the international arena. They did not, as some people in Washington like to accuse them, want to have at least fifty secretaries of state. The states were not reaching outward as much as the international economy was reaching inward. Global economic changes affected the welfare of the citizens within the local jurisdictions. There was a recognition that national borders were permeable in ways that we had not imagined when the United States was the postwar's dominant economic power. National borders could no longer protect individual jurisdictions from bearing costs that the international economy was imposing on this country.

Benefits from involvement in the international economy are often widely dispersed. Costs are borne in a more localized fashion. The international economy, as it penetrated our borders, overlapped legitimate traditional state government powers in business promotion, in taxation, in regulation of
suggest what I see as three major changes going on in the international context that will affect the role and effectiveness of state programs.

First we must look at the GATT agreement. The last round of GATT trade negotiations began to incorporate agreements on nontariff barriers. What are nontariff barriers? They are basically anything governments want to define them to be. Many areas can reach into state government practices. In the last round of GATT talks, government procurement was addressed, but state practices were exempted. It is very unlikely that state practices will be fully exempted in the current negotiations.

The new GATT agreement will address public procurement policies. It will address subsidies, perhaps including subsidies that may affect state trade or investment promotion activities. Conceivably, states might have to justify to an international body the purpose and polices used for regional development programs.

Technical standards will also be addressed. There will have to be some agreement as to whether technical standards adopted in the states might constitute trade discrimination, acting as a nontariff barrier against foreign companies exporting to the states. States may find their technical standards brought into some type of multilateral trade forum.

Breaking into entirely new areas, trade negotiators are attempting to develop some kind of pact on trade in services. This subject, which affects banking, the insurance industry—which the states fully regulate now—and many of the professions, may force states to adjust their regulations accordingly.

Already this year, the GATT took an action that directly addressed whether state regulations—not U.S. national, but state regulations—were discriminatory in terms of the distribution of wine, beer, and liquor. The GATT panel ruled that certain states did have discriminatory regulations that needed to be changed. The GATT cannot take action to alter directly state government policies, but it can sanction foreign trade retaliation against the United States because of state regulations. If you look at what may come out of the GATT negotiations and all its various codes, the impact—direct or indirect—is going to affect state activities.

What does this activity in GATT mean? It means that state governments really need to look at not just their programmatic role on trade and investment, but at a policy role as well. The states should become more directly involved in international negotiations of trade and investment policies that will determine the parameters for state programs. A number of state organizations are now recommending a more institutionalized state government role in such negotiations, but this is a relatively new concept in the United States. We may find ourselves looking abroad to some of the other federal systems, to the Canadians and Germans in particular, for ideas and advice as to how to go about this reform in an effective manner.

Without doubt, however, the GATT trade negotiations and how they evolve are going to affect the international programs of state governments.

A second area of change is the proliferation of trade agreements, including the development of regional trade areas. The North American Free regionally—rather than unilaterally within and by the United States itself. The United States and its states' economies are being integrated further into an interdependent world economic system.

The NAFTA will break ground in two new areas of particular importance to state government policies and activities. Negotiations have added the environment, which was not covered in the earlier Free Trade Agreement with Canada. NAFTA also will address labor issues, probably including worker dislocation and how that should be handled. Labor relations has traditionally not been a subject for negotiation in international trade accords.

If we look around the globe more broadly, what we see beyond NAFTA, and even beyond the European Community, is the formation of potential trade blocs elsewhere in Asia and in Latin America. We do not know yet whether these are going to be exclusionary blocs that turn outwardly restrictive. Such a development would affect how states promote themselves to the external economy. For example, it would negatively affect the function of those forty or so state trade offices that exist in Tokyo, and the equal number that have been set up in Europe. If trade blocs turn exclusionary, they are not going to be productive business partners anymore. Therefore, state governments have a stake in being involved in regional trade policy issues and how they will affect international trade and investment flows.

The third and final change factor that I will cite is investment. I am calling attention to investment as a

but investment does. Investment has grown internationally from around $500 billion in 1980 to $2 trillion in 1992. Investment location decisions structure both current and future trade.

The figures are hard to pin down, but the best estimates are that roughly one-third of U.S. exports and imports are traded on an intrafirm basis, i.e., within the same corporation between its various affiliates. An increasing amount of trade is thereby structured by where investment occurs. Trade and investment are not separate concepts; they are interrelated and state governments should consider how this fact may affect their trade and investment activities.

Beyond just the increase in international investment, we also have a vast expansion in what are called intercorporate strategic alliances—ISA—very often pursued on a transnational basis. Using ISAs, corporations work with other, often even with very large rival firms, in a way that mixes the product and mixes the identity of the corporation. For example, is Honda in Marysville, Ohio, a U.S. firm, or not? We
partnerships and to nurture a coordinated local service delivery system, raise public awareness, and make sure that equity concerns are met.

Let me briefly run through some of the specifics of how the states got there and what they are doing. John pointed out several so I won’t say too much. The states have been involved in foreign direct investment for a long time. The federal government dropped all their spending on economic development: the same time that state economies were being restructured. All the states ran looking for new job creation strategies. Export promotion was just one of a whole handful of strategies. The states have been in this business now for about ten or fifteen years, depending upon where you are.

What has been the result so far? What are they doing right now? The average state is spending $2 million on state trade promotion—that adds to roughly thirty cents per capita. They have eleven staff people in the home office and six people stationed overseas. It appears from preliminary results that 1992 is the first year that funding is beginning to dip. In the state promotion budget, you see the funds coming down just a bit. All the time in the past ten years, it’s been up, up, up.

I might note also that the foreign overseas offices are extremely expensive. Of the states’ international promotion budgets, overseas offices account for about 40 to 50 percent of the budget. The quality of these numbers is terrible, but they are the best we have. Through self-reporting, there is very little comparable data between states, and that doesn’t take into account the enormous budgeted, not because they are bad, but the Congress and Commerce won’t go for it. By the way, that equals the amount that the fifty states spend all together. So you have $100 million from all the states and $100 million from the U.S. Foreign Commercial Service.

Just to give you an example of the limited capabilities of the Foreign Commercial Service, I went to Thailand and Jakarta recently. I faxed a message to Jakarta to confirm an appointment with an FCS officer. He didn’t have authority to fax me back to let me know that it was okay for me to come because it was the end of the fiscal year and they had run out of money. He didn’t have $6 to send me a fax. Also, in visiting the Jakarta Foreign Commercial Service, I practically had to go through a body search to get through the embassy gates. I needed to tell you how embarrassing that is for a Thai or Indonesian businessperson to have to go through that. In fact, sometimes a Foreign Commercial Service officer has had to go and pull them out of line and say it’s okay, they are with me. That is not conducive to business development.

At the same place, they had a little tiny corner about as big as this table for their library, and then somebody in the embassy told me that at the Japanese Foreign Commercial Service, the equivalent library was three stories high. This is just pathetic. That’s the Foreign Commercial Service.

At the same time, we are also spending tremendous amounts of money on agricultural export promotion. You have agriculture accounting for 10 percent of United States exports, but they get about 70 percent of export subsidies. I don’t whole export promotion strategy. To their credit, they are trying to reinvent an export promotion strategy for the United States but one might argue whether it’s appropriate for AID to be reinventing the export promotion game.

The federal government created the Trade Promotion Coordinating Committee—TPCC—in 1990. It has eighteen agency heads, and that doesn’t even include all the federal agencies in export promotion. It is chaired by the secretary of commerce, but there is no staff, no legal standing; everybody hates each other; there are turf wars. The big accomplishment so far is their publication of a directory of services. All those agencies—the eighteen plus the five others who aren’t even on the TPCC—have very weak linkages back to state and local governments.

Right now there are a number of trade reorganizations floating about town and none of them take into account that the state and local systems are at least on a par with the whole federal system, and there is no linkage there. I will get into some recommendations for Mr. Clinton later. He’s on my board, by the way. He’s good. He was our chairman in 1986 and he was really excellent.

Getting to some earlier questions, why do we need federal government involvement? I say there are plenty of failures here. There are some exporter failures. Maybe Bill Notthdurft will get into some of those attitudinal problems. Even our current exporters are coasting on the exchange rate that gives a huge discount to products overseas. We have an extraordinarily small export base, which makes me nervous just from a national economic security point of view.

Carol Conway
questions. They would also be an advocate for kindergarten through college international education as well as for the media, so the media will be able to report a bit more about how the global economy affects them. They would also be responsible for putting together a coordinated service delivery system, one that is linked into all the other competitiveness strategies. I have sat in a number of meetings where the technology folks are saying, "let's start an export promotion program," and two doors down they've already got one in the state. You need to bring these together.

I also see the states working more in cooperation with each other. Now this one—Minnesota—is farther down the road, I think. I think the Pacific NorthWest Economic Region is one example where that seems to be working pretty well. To me it will happen only after they have gone further towards privatizing these trade delivery services. Then the nonprofits that are a step back from the political problems can go in together. They can contract with each other to open an overseas office or do a trade mission.

It is a little bit easier to step away from a political scene, to be able to form those permanent partnerships. Otherwise you are going to be subject to a new governor and a new legislature who are saying, "why are we sending $5,000 off to Montana?" If you have a private sector board that has consistently been involved, and the community's involved—assuming they are doing program evaluation—there is no question it shows it is working. There is no political question as to why we are sending these monies out-of-state.

sometimes their cattle would wander around and they had these little things to take care of. So the legislators got together, literally over a few beers, and decided to create some sort of regional border partnership. It was just a social organization more than anything.

About a year later the Montana trade staff said, "enough is enough; we're tired of all this competition from other providers of trade promotion services." They got the secretary of commerce to convene a two-day conference to sort it out. Everybody came because they were afraid if they didn't, they might get pushed out somehow. So far motivated people to show up. At the end of the two-day conference they came up with a general sense of how they all might work together in a coordinated service delivery system. They sent around some drafts in the months that followed and came up with something.

One of their recommendations was to create this international affairs coordinator who is part of the governor's staff. His name is Pat Owen. Pat serves at the pleasure of the commerce secretary, not the governor's. They did that because they thought it might help just a little bit to be insulated just a little bit in the transitions from governor to governor. Pat is responsible. He has no staff and he says he doesn't want one because his job is not to override all these people but to help bring people together. He produces a newsletter in cooperation with their local university. It connects all the players, including all the international players, on a quarterly basis with information about what each other is doing, etc.

I haven't checked with him is, but it's a small state so it is logical that he might be able to carry that off. Again, it is going to vary from state to state what functions an international affairs coordinator might assume.

Hawaii is another example. They have an office of international affairs and a cabinet member—a member of the governor's cabinet—a full-fledged member who is just called a director, but he heads the office of ten people, and they have a budget of about $650,000. Of course, Hawaii, surrounded by water, is very internationally oriented. They have been extremely professional in the way they have approached education, culture, the whole range of issues. Hawaii, as you may recall, had this terrible problem a couple of years ago with high emotions over Japanese investment. They really resented Japanese investment in Hawaii. The precursor to this office did a survey and made some recommendations about having at least a consistent state policy toward foreign investment. They've been extremely active and have a high profile.

One have a lot of these model programs already profiled. They are really short. This is just one copy of the newsletter. If you haven't seen these newsletters or want to get on my mailing list or if you'd like back copies, give me your business card and scribble on the back what you are interested in—either back copies and/or future copies.

There are almost too many program profiles. Arizona has a wonderful program of industrial clusters and one element of those industrial clusters is to look at the impact of NAFTA. I hope the panel on reinforcing government might hold up Arizona as a potential model for

starting up yourself, be grateful, because these other poor guys have had to slog out, and you will be able to learn from their mistakes. Do some strategic planning up front and name an agency or entity to serve as follow-up. You need some continuity, somebody to help develop the strategic planning process.

Indiana is a good example. They took a whole year to come up with an international strategic plan. It was wonderful. They had four committees who worked at infrastructure, trade services, schools and basic education, and the international aspects of all of those. Foundations and private sectors chipped in. I don't think the state of Indiana paid a single penny for this. It has done wonders for them and a foundation has committed follow-up funding to make sure things go through as planned.

Concentrate on developing a business intelligence network because the data is key. This will become an even more critical need. As more nonprofit and local entities take on activities, the states are going to lose control, awareness of, and their ability to track what is happening to their state, much less to what extent they are influencing the economic impact in the state.

Develop a good business tracking system. That will be important for all your competitiveness strategies. Also, work on developing new measures. What do you want? Be really specific.

Somebody had suggested at one conference I went to that any firm that is making over $25 million in sales ought to be exporting 20 percent of their product...
help companies, particularly small and medium-sized, benefit from the opportunities that those trade policy negotiations present to the American economy.

The amount of money we spend at the federal level on trade promotion actually declined between 1987 and 1990, even as we were saying that we must be globally competitive and the federal government was acknowledging what growth we had was largely from export development.

The truth of the matter is that the United States, among its major trading partners, is a very distant last on export promotion spending. Germany, whose exports have been running roughly neck and neck with ours for many years from an economy a fraction the size of ours, does virtually all of its export promotion through private organizations and so forth. Even so, their federal government expenditures are four times that of ours for trade promotion.

The states, as Carol has pointed out, have tried to fill this sort of yawning gap between need and availability. The truth of the matter is that most state programs are paltry. I would suggest most state resources for international trade are so misapplied that they really cannot make a dent and can’t put us in the same position of competitiveness as overseas competitors.

Indeed, the federal government’s most visible export promotion program in the last eighteen months or so has been something that you may have heard of, called the national export initiative, which I am here to tell you, ladies and gentlemen, is nothing more than a close will, the Europeans on the other side of the negotiating table and GATT, is that the Europeans, both at the public sector and, especially, in the private sector level, are actually trying to do something to help small and medium-sized businesses overcome those barriers, from the wide array of programs that I have looked at in six countries—Italy, France, Germany, Great Britain, Denmark, and Sweden.

I have sort of tried to pull out ten basic lessons on how to go about creating a high yield export promotion program, not simply a high visibility one. The book is called Going Global. It is available from the Brookings Institution. I’m not going to try to summarize it in five to ten minutes; what I am going to do is run very quickly through the ten basic lessons and try to sort of combine them so that we don’t go too long and we have some more time for questions.

Lessons one and two are very closely related and they are about strategic thinking. I went over to Europe with my colleague Bob Friedman. I was fairly confident I knew what the barriers were to small-firm and medium-sized-firm exporting, and I’m here to tell you that I was almost entirely wrong.

The number one barrier to small-firm exporting is not barriers out in the marketplace; it’s barriers inside the company. The second lesson is that export development is part of company development. It’s a process; it’s not an event. A single export, a single shipment, does not an exporter make.

As a consequence of this understanding of the behavior of small and medium-sized businesses, the Europeans have spent an awful lot of time and energy—

Lessons three and four I call the triage lessons. They are as follows. Lesson three is that export assistance should be provided only to firms that are export ready. Lesson four is that for firms that are nearly export willing, provide only training, but a very specific kind of training, which I will get to in a minute.

One of the things that Bob and I concluded is that nobody pays attention here to the export obvious. The reason is that, a) the Europeans have now the same kind of budgetary constraints that we have, and b) before those constraints set in, they threw a lot of public and private money at small and medium-sized firms, only to conclude that if a firm isn’t ready to take advantage of the opportunities of trade assistance, the chances are they won't succeed. Even more important, the chances are you will put the company itself at financial and management risk and very possibly lose the company, not just the potential export market.

The training that has made it possible for the export willing but not yet ready is not motivational training. General seminars are generally available here in the U.S., either sponsored by states or chambers of commerce or the departments of commerce, or some combination of them sometimes. At universities, it’s much more company specific.

The best example is any of the export-manager-for-hire programs that are provided by the Scandinavian countries. If you have a small firm with a product or line of products that might be exportable, but are so small that you have no way of developing the market or even gaining the expertise on how to

Those of us who learned in high school history that the Scandinavian countries were a welfare state have a lot to learn from them. Let me tell you, they are the most ruthless capitalist people I have run into. They make companies pay for help, a subject we will get to in a minute.

Lessons five and six fall in the category of real services. It’s a revolutionary notion, providing real services to companies. It is a revolution that swept through Europe and hasn’t even hit the shore yet, here in the United States. There are genuine external market barriers to small-firm exporting, but there are surmountable.

Barriers fall into three categories: access to export marketing, information—real information, and live trade leads—assistance in getting connections with real potential partners. There are barriers to export exploration—real exploration, not wandering around on a trade mission, but actually spending some time in a city and going back to it repeatedly and having some help in covering or, at least, insuring the cost of doing that.

Finally, barriers to market penetration. Companies need real services, real technical assistance on the transactional issues associated with actually penetrating a market. Many of those forms of assistance are simply not available here in the United States.

Lesson six, under the real services category, is that the most effective assistance is customized to meet the needs of individual firms; firms with a specific product and a specific potential market elsewhere in the world. One of the things that struck us is that many of
separate export market development and export assistance from those other items. Very few states have any way of integrating those three items, and they are a triad for creating competitiveness.

The question was raised a while back, how can a state or region make a difference in national trade development? And I would suggest to you, with a buck and a quarter in your pocket, you can’t make a difference in trade development at the state or the local level. I argue that it is very hard to criticize the private sector for not doing public sector work when we have an economy designed specifically for the private sector not to do public sector work. The salient question is, how can you change the system of incentives and rewards on the private side to make it interesting and profitable for the private sector to pick up some of these opportunities?

There is a natural and very powerful constituency for approaching the market development and competitiveness issues in the manner that I just outlined. This constituency is composed of three kinds of organizations that exist in every state economy and often at the local level as well. I will call this the triad for the next economy. The first is financial institutions; not just banks, but other kinds of financial institutions, including even insurance companies. The second is telecommunications companies. The third is electrical utilities.

What do these organizations have in common apart from the fact that they are very, very big? What they have in common is that they can only grow if new firms are being born everyday, and if those firms grow and successfully compete internationally. They can only commerce and trade associations, they and they alone can benefit financially from achieving the very public purpose that we are here to talk about.

There are some telecommunications companies that are actively involved in economic development. There are a number of electrical utilities who are mostly involved in economic development in terms of recruitment and buying large advertisements in area development magazines, which is not exactly what I had in mind, but they are involved. EEI—the Edison Electric Institute—is even more involved.

My point is really a very simple one. That is, you ain't got any money; you got a huge task in front of you; you gotta pick somebody else's pocket. It might as well be a pocket that, a) has some resources in it now, and b) can get more resources in it by the success of the enterprise.

Let me just conclude with a simple point, back on export trade development. Export trade development is not magic. It does not happen by exhortation. The barriers aren't lack of enthusiasm. It happens one deal at a time; it promises an enormous amount of growth. It also promises an enormous amount of risk, and unless and until we develop a public and private sector infrastructure for trade development, one we don't have, and we are the only major industrial nation that does not, we are going to continue to lose jobs, continue to lose market share, and continue to be the export underachiever.

Thank you.
innovative and important work at a time when there has been very little support at the top.

I personally suffered from this indifference to local economic development in Washington. My proposal to study military base closing in the United States, encouraged by the Office of Economic Adjustment in the Pentagon, had been sitting on the desk of the research group in the Economic Development Administration for a year when the director of the program called me up and said, "I'm really sorry to tell you this, but the under secretary just came down and took all my research money for a trade mission to Argentina." At the time I was shocked.

Is it really that corrupt? Is it that bad? The good news is that things are going to be different in Washington now. How different we don't know. It depends a lot on what people out there in the trenches think should be done, and what kind of message you want to send to Washington about what kind of economic development policy we should have in this country. I hope that in your closing session there will be a discussion of what should be done with the EDA and other Department of Commerce programs that have languished for the last decade. We should think boldly because it is a new era, and you have a new administration coming in that is willing to listen.

Before I talk about what I think the state planning issues and economic development planning issues will be in the future, both state and regional, I would like to talk just a little about the environment we are in.

Regional economic growth rates take per capita incomes first. Since the 1890s, we have experienced a marked convergence in per capita income differentials in the United States by region. In the 1980s, they began to diverge again. The Pacific and New England regions, which have always been really high, actually increased their levels. The Midwest is the only region that kept going right down toward the median, which is where it is today. Some of the southern regions, particularly the East South Central region, which had been fast approaching the national norm and was around 90 percent, began in the 1980s to diverge again as well.

The same thing happened with employment growth rates. In the 1980s, we experienced quite divergent job growth and associated population growth rates, widely divergent net migration rates, for a large chunk of the country. As you can imagine, the Midwest was the big loser, and the Pacific region, the intermountain West, and the Southeast were big gainers. New England did relatively well compared to its Middle Atlantic and east north central neighbors, for reasons, again, which I will suggest in a moment.

That was more or less for the 1980s. But below these regional disparities lie even greater contrasts in city and subregion growth. At the metropolitan level, employment growth rates range to plus 100 percent or more for 1970 to 1990. These differential growth rates have intermountain West and the South, an area which we have dubbed the 'gunbelt,' which had basically been growing at the same rate as the rest of the country and shared many of the same problems up until the 1980s.

Continued past retirement migration of people from the North and Northeast toward Arizona, California, and Florida was also a big factor. Continued foreign immigration to specific destinations in the country disproportionate to the South and West is another factor, as is the attraction of lower-cost production sites in some southern and intermountain states, which continues to manufacturing capacity from the older industrial belt.

Well, that is a real quick and fairly schematic overview of the causes of recent growth differentials. The important thing to note at this juncture is that the challenge confronted by economic development planning at the state and local level is very specific to each region and city. Just think about the industrial Midwest. It is still struggling with losses in industries like auto, steel, machine tools, industrial equipment farm equipment, et cetera. In the Southeast, they face setbacks in industries and, to some extent, chemical and tobacco industries. In the gunbelt, new problems have developed since 1989, where outlays started to go down rapidly, between 10 and 15 percent. You might notice that defense cuts accrued in tandem with the recession of the early 1990s, and I think they are not related.

We have to think hard about our environment and make decisions about what to do with economic development planning. The problem, I think, is that the current environment, we have to dwindle of two problems, and then have to separate them out. One is that we are in a period of worldwide recession and slow growth. Both Japan and Germany had negative GNP growth rates in recent quarters. Whole continents Africa and Latin America slipped backward rapidly in the last decade. Demand that was once there for American machinery and equipment is for the improvement of farms, build factories and reproduce consumer goods industries, places like Brazil, just haven't been there anymore. If we have a Europe that has been growing slowly and overall is in trouble, to mention eastern Europe and Russia where there is much less effective demand.

We have world integration going on: the same time. That is a unique circumstance. In the Great Depression the thirties, world recession slowed down world integration, but that does seem to be happening now.

Local economic developers have tried to figure out if it is because there is world recession that we are in trouble or because of world integration, the act. shifting of activity from one place to another as commodities penetrate for markets and capital flows freely. Of course, that shifting is associated both with corporate migration in general and...
be truly worried. There is a follow-the-herd instinct operating here where everybody wants to get in on the same thing without thinking hard about the appropriateness of a particular technology or industry for their situation.

Even education is not necessarily the case that Americans are undereducated. Many of our college graduates are having a hard time finding jobs, and are living with their parents well into their twenties. For high school graduates not going on to college, it is even worse. I'm not saying education is not important and that we couldn't do better, but it is not the fundamental problem it is often made out to be.

This leads me to the third strategy, which I call the vision thing. In a depressed and increasingly integrated world, we need each locality, each state, to think about its comparative advantage in a very concrete way and to try to do something quite unique to develop market niches and develop a strategic plan about what the region is going to look like in the future. This is the vision thing, really a form of strategic planning. It is an approach that says, let's take stock of the skills and potential here and develop one or more strategic industrial targets as organizing principles for our economy.

The whole point is to do something you are good at and something that you have a chance to be good at that nobody else is, or where, at least, your competitors will be few. The vision thing strategy works on both the demand and supply fronts, developing a more comprehensive industrial development strategy.

I am going to briefly refer here to four other states in the country. That was because steel was closely related to autos. The governor set up a new auto and steel division in the Michigan Department of Commerce, and that department did quite a bit of work to help reshape entire facilities in the state. The McLoth Steel buyout, the Rouge Steel revamping, which is part of the big Ford complex, and various other facility-oriented industries helped jobs and made plants more competitive.

Michigan also did a lot of work to upgrade their supplier sector. They set up the Michigan modernization service, a pioneering effort to help suppliers learn new technologies and market to new customers, including Japanese transplants.

The second example is Chicago's effort to revitalize its regional steel industry in the mid-1980s. Chicago faced severe cuts in steel-making activity. US Steel decided to renege on its promise to build a new rail mill, which has gotten millions of state and local financial commitments.

The Chicago effort included an assessment of the regionwide steel complex, including steel-using and steel service centers, as well as the big steel mills. They concluded they had become and would remain the nation's largest steel-making center. They proposed creating new capital funds, a job authority, a steel technology center, and planned manufacturing districts that would protect existing metal-working facilities from real estate encroachment along certain corridors in the city.

Many of these things were implemented, while others didn't come to pass because of the early 1980s. Again, their challenge was to slow the tide, create new industries out of their facilities and talents, and to do better than just having big new corporate headquarters in downtown Pittsburgh.

They came up with the notion of a Steel Valley Authority, modeled on the Tennessee Valley Authority, which was subscribed to by eleven of the municipalities, including the city of Pittsburgh. They raised economic development funds from the utilities in the Pittsburgh area, and they acted as an agency of first resort for workers and communities with small and large steel plants, indeed, for almost any industrial plant closing. They have kept a number of plants from closing, and have been major actors in the push for a magnetic levitation train from Pittsburgh out to the airport, linked to local development and construction of the train cars, followed by sales to larger national and international markets.

My final example is the CalStart Project, which developed in response to the downturn in the defense industry in Los Angeles. The county put together a task force on the aerospace industry, which came out with two major new initiatives. One is a plan for a mass transit line from Irvine up to the city of Los Angeles area to be built by people laid off from the aerospace industry working in former defense production facilities.

Even more interesting is their electric car initiative, where the idea is to tackle the air pollution problem in southern California by encouraging nonfuel vehicles, to provide the bare bones for a new industry. In this case, they are making a big push.
The Red River Trade Corridor is a collaborative rural economic development effort between Minnesota, North Dakota, and Manitoba, Canada. It has two specific purposes. One is to serve as a high visibility point of reference for communications within the region. Why? The fact is that Minnesota, North Dakota, and Manitoba all have separate internal systems of communication. They all have their own bar associations, economic development associations, bankers' associations, organizations. These groups do not communicate well with each other. You think maybe that sounds reasonable across the U.S.—Canada border, however, it is not any better between Minnesota and North Dakota.

I think if you go around the country, communications across state boundaries are not very functional. For example, two summers ago the Manitoba Bar Association had its annual meeting in Breezy Point, Minnesota, yet there weren't any Minnesota lawyers there to hear what Manitoba lawyers are talking about.

So we function as this high visibility point of reference. We get a lot of calls day in and day out from people looking for information regarding commerce across the border between the two states and the province. To improve communications, we do a lot of educational programs. We also do a lot of sector networking. We work to get members of specific sectors together in environments that they are comfortable with.

For example, bankers are generally informal in their systems of communications, so we put them together in a hotel lobby with coffee and pastries and a receptionist and let them go from there. They come back because they feel good about it.

The second major program component of the Trade Corridor is promoting the region as a whole, internationally. We believe the region as a whole has the potential to have a significant international presence. Our international activities are done in a very targeted manner. We are not running around all over the place trying to see if someone raises their hand and talks to us. We are selecting very specifically where our international marketing activities take place. We target regions where we not only share economic characteristics, but also environmental or ecological, cultural, or historical interests. In other words, we target areas where we believe we have something in common with the people we want to trade with.

All of this is governed by a nine-member board of directors made up of business and community leaders from Minnesota, North Dakota, and Manitoba. The structure of the board and organization, the program goals that we have, came both from the research in economic trends and from direct conversations and meetings with people in the region. The result is that the region owns the organization. The people that live and work in the Trade Corridor—the businesspeople, bankers, attorneys, manufacturers, transportation providers, elected officials, educators—all designed what we are. They feel very strongly that they own what we are and the direction that we are headed, and we feel really good about that.

The Trade Corridor's name comes from the fact that along the U.S.—Canada border it is possible to travel from one state to another without going through a customs checkpoint.
to bring a type of agricultural machinery from Minnesota to Brittany to enhance their competitiveness.

Regions, including the Trade Corridor, are also looking to establish very complete relationships. International relationships should not just purely be export, import, or technology transfer activities. Programs to exchange university professors and graduate students, economic developers, community officials, and businesspeople should be a part of an international relationship.

Additionally, cultural exchange can play an important role in strengthening economic exchange. For example, not only does the Trade Corridor have the businesspeople and economic developers working on international business links, we also have cultural activities going back and forth between regions as much as possible. We see international relationships as a long-term investment. We believe, for example, that if you have a group of high school students come over and spend a month in our region, some day they will be business leaders in their own country. They will have had a positive experience here and will remember that. That memory may lead to a business opportunity.

I would characterize the typical American perspective as one of doing deals, while the Europeans build relationships. In fact, the average European businessperson comes to the U.S. four times as often to visit clients as a U.S. businessperson goes to Europe to visit theirs.

Interestingly, one of the things that we are not doing as North American regions is participation in the world’s business community. The Assembly of European Regions has established permanent missions in eastern Europe and Latin America. Why? Because they want to carry their model of economic development and democracy into eastern Europe and into Latin America so that as those developing nations emerge in the global economy, there will be stronger economic, cultural, historical, and political relationships already established. We as North American states and provinces should also be reaching out in developing nations to carry our model of entrepreneurship there. Right now the Europeans are beating our socks off.

What do we have to look forward to in all of this? As the world shifts away from political organizations such as NATO and towards economic organizations, I think what we are going to find over the next several years is that these emerging new structures will be in a state of flux and it will take time for us to understand clearly what they are. After all, the European Community has been forty years in the making, and it is still in the making. Remember just last June, Denmark voted not to be a part of the EC. There is going to be a dynamic to those economic organizations for a while.

In North America, we will need to address such issues as environmental protection, labor mobility, national versus private health care systems, and agricultural policy. These discussions will not always go smoothly and we need to recognize that we are going to be in this kind of dynamic. The bottom line is that states, provinces, local governments, and regional groups like the Red River Trade Corridor, are going to have to function, really, by common sense with.

Beyond the nation state at a supranational organization, we think that implementation or microeconomic decisions are going to be made at a level where they are most efficient to make them.

This is happening in Europe right now. As the EC makes a policy about environmental protection, for example, responsibility to implement it is happening at the regional level. This is because broad multinational policies cannot be written to address the wide variety of local environmental circumstances.

Thus, standard policies may exist, but how a river basin or tundra region or mountainous region responds will be different. A key difference between Europe and here, at present, is that the European Community is providing resources to local authorities to help them respond.

Adding all of these economic trends, including all of this new economic rhetoric that we hear, and what you get is the stage that states, provinces, local governments, and voluntary regional organizations must function within, and assume greater responsibilities within, for the next several years. It may be an oxymoron, but it is almost like we have to have dynamic stability for a while.

Minnesota government needs to understand that parts of the state will need to be marketed to one area of the world, and other parts, somewhere else, and that these efforts will need to be done in collaboration with other states and provinces as regions are marketed as ecologic and economic units. In other words, there really is not one Minnesota from an economic perspective.

This also means that more senior governments are going to have to let go of hierarchy. As voluntary regions emerge to address economic or environmental or other issues, senior governments will have to let them work.

I will close by saying that this analysis is based upon what we see for ourselves as the Red River Trade Corridor region. Some of it may transfer to other regions, some of it may not. You may challenge a lot of it and think that it is all real or not, but it is what we as a region and as an organization are committed to.

We feel you have to make a commitment. So we did our analysis, we set out strategic initiatives and now we
EVALUATING ECONOMIC DEVELOPMENT PROGRAMS: IS ANYBODY DOING IT?
I was undaunted in this. We had a change in commissioner and I was helped, fortunately, by a legislator who, as chair of an appropriations committee, asked all of the division heads in our department what they were doing to evaluate their programs. As the division heads shuffled around and tried to give the committee some sort of response, they got the message that maybe we had better do something about evaluation in the future. That led to a project you are going to hear about today from Harry Hatry, with The Urban Institute, and Abby McKenzie. I think this is an excellent model, although they'll explain to you that it is not exactly evaluation in the terms that many of you might think; rather, it is more related to performance monitoring and quality improvements.

Let me introduce our speakers. The first one will be Harry Hatry. He has been a principle research associate of the State and Local Government Research Program at The Urban Institute since 1970. My first job in government was with the city of Minneapolis as a budget analyst. I was responsible for developing the planning/programming budgeting system—PPBS. I read a lot about PPBS that was written by Harry Hatry, but I never met him. In the late-eighties, when we got involved in this project, I thought he must be an old man in his seventies or eighties, which, obviously, he is not.

Harry Hatry is one of those people who persist, and eventually people will come to him because they recognize what he has done. He was with the Minnesota Department of Commerce, and in charge of the state's quality council. I want to talk about one of the things he wrote: "How to improve the quality of government." He has also written about the benefits of state economic development and the importance of economic development. He is a very knowledgeable person.

Our second speaker is a person that I worked for six years. Some people might know that I am very involved in the quality movement in Minnesota. I have been on the Quality Council and I was an examiner for the Minnesota Quality Award, which is like the Malcolm Baldrige Award. I believe in an inverted pyramid where the manager actually works for the employees and I try to practice that. Abby actually recruited me for the job of assistant commissioner, who was to be her boss. She convinced the commissioner to hire me, so I felt as if I was hired by her for the position, even though it was the commissioner who I reported to. That relationship was very positive in terms of a lot of things that we did in the department.

Let me tell you a little bit about Abby. She has been director of research as well as the information computing staff of the Minnesota Department of Trade and Economic Development since 1990, and for six years prior to that, supervised the department's economic analysis unit.

Our third speaker will be Brandon Roberts, who heads Brancion Roberts and Associates, a Baltimore-based consulting firm. He specializes in economic and community development strategies and assessments. His firm works primarily with state governments in the area of economic development, technology transfer, international trade, human investment, and regional and rural development. Prior to starting his firm, Brandon served as deputy director of the Council of State Community Development Agencies where he worked with state economic development departments throughout the country. I assumed that not a lot of evaluation was going on. Actually, Brandon said there is a lot more than I was aware of. He is going to talk about some of the studies he has been involved in, as well as others that he knows about.

Our final speaker is Beth Sella. Beth is an associate scientist for the Institute for Public Policy and Research at the University of Kansas. The institute is a research unit whose purpose is to undertake basic and applied science research in the areas of business, public policy, and economics. Beth Sella's recent areas of research include an assessment of ten Midwestern states' economic development strategic plans and planning processes, and the development of a comprehensive model of technology transfer and higher education-private sector liaison for Kansas. Her focus will go somewhat beyond evaluation. She will talk about this ten-state strategy study. We felt this was appropriate even though it is not totally about evaluation. The study is brand new; she doesn't even have copies to give you yet, but she will share this information with you today.
times, reporters have found this discrepancy and embarrassed the government agency by reporting that the actual achievement of employment was considerably less than the projections promised by the state or local agency. A way to protect against this is to use state unemployment insurance data to check, at least roughly, changes in actual employment over time for the companies that have been assisted. There are difficulties, which I will get into later.

The third problem for evaluations are the related issues of secondary effects and side effects. How much indirect employment and sales occur following the added employment and sales of assisted businesses? These are additional benefits to economic development programs that indicators need to examine. There are also side effect problems. Does an industry create more pollution? Does it add travel congestion alike? Are there other consequences of the activity that have caused important problems or yielded extra benefits?

The fourth problem is one raised by Tim Bartik. In past evaluations of economic development programs, there have been few, if any, random-assignment experiments. The main purpose of in-depth program evaluations is to attempt to separate out other plausible explanations that might have caused the outcomes to be the way they are, such as changes in economic conditions.

Random-assignment experiments are a much more powerful evaluation approach. In this approach, a procedure or program assistance is applied to a randomly selected group of businesses and not to others. The later comparisons of resulting outcome indicators, such as public assistance to businesses that have not. Unfortunately, in economic development, many other factors can explain such differences. For example, there may be enormous difference in motivation by those businesses that seek help from state export promotion programs than those that do not. So these natural comparison group evaluations can be quite dubious.

The fifth problem in economic development evaluations is that many economic development agencies have poor record keeping. Agency data on their customers is often very sketchy.

There are basically two primary types of data collection procedures. First is to use the state unemployment insurance database. It can be used to track employment changes over time for individual companies. This procedure has difficulties. In a recent study that the state of Maryland did to see to what extent they were successful in finding companies in the database that they had previously assisted, they found about 50 percent. In addition, they determined that another 10 percent had gone out of business. Maryland felt many of the gaps were due to poor record keeping within the economic development agency itself, such as recording variations and changes in company names and addresses. They felt that with better record keeping, the find rates in the unemployment insurance database would be much higher.

Second, surveys can ask business customers what has happened to their outcomes since they received services. For example, did they add export sales, and about how much? These surveys, however, are not a good device for obtaining precise information on size of employment or sales, but they can provide rough ranges of employment and sales information.

Finally, you can use surveys to ask clients their perceptions of the extent to which the services received contributed to the improved outcomes they report. Perceptions of the contribution of the public agency are not ideal information, but they do provide fairly good clues as to the helpfulness and contribution of the agency.

Let me give you a few examples from Maryland. Its Department of Employment and Economic Development—DEED—had worked with The Urban Institute in parallel with Minnesota in 1988-89 to develop a regular performance measurement system. Three types of programs have been seeking regular feedback from clients: export promotion, tourism, and financial assistance programs.

The international export division recently completed a mail survey of its clients. They asked their clients to rate each individual activity of the international division, such as newsletters, seminars, workshops, export counseling, introductions to visiting buyers, catalog shows, trade shows, trade missions, etc. They asked for ratings on each of these activities, providing the division’s managers with feedback on their activities. The survey asked for a rating of 1-5.

The Maryland questionnaire asks questions about the degree to which the agency’s assistance had on respondents’ travel relating to Maryland. For example, it asked whether the assistance influenced their decision of stay in Maryland and the number of places visited.

The third Maryland example comes from its financial assistance programs. Maryland has financial assistance programs for small businesses and for larger businesses. DHRD has used a separate survey for each. DHRD asks assisted businesses about a number of issues relating to the services respondents received, such as the timeliness, quality, effectiveness, what happened afterwards in terms of sales and employment, and also, what the businesses believe they would have done if they had not received the financial help. The analysts reported response rates from about 75 percent the larger businesses and about 60 percent of the smaller businesses.

Questionnaires were sent not only to those who received loans or grants, but to any business that had applied. A large portion of nonrespondents were from people who received the application. The analyses were miffed by that and...
when the program is doing well and where it is not. Third, train the managers. A big problem today is that managers are not used to using outcome information. They have seldom had it. They don’t use it much. Provide training on how to use it. For example, encourage managers, after each outcome report, to meet with all their staff in, what I call, “How are we doing?” sessions. Ask the staff to discuss the findings, where they are doing well, where not well, and why. Seek ideas from the staff as to how the program might be improved, ask them to develop an action plan, and then, in later time periods, assess whether outcomes improved.

Finally, get both legislators and upper level management to think and address issues in terms of outcomes. Probably nothing is more important than their asking regular questions at reviews, staff meetings, seminars, whatever, about program outcomes and service quality.

Let me just close with a story. Jim Jones—I have to give him a pseudonym—went to his doctor recently after a comprehensive checkup. His doctor told him to sit down. His doctor said, “Jim, I have some bad news for you. I’ve examined the hundred comparison-group evaluation studies on your disease, I have looked at the twenty random-assignment experimental designs on your disease, and they are all in agreement that you only have six weeks to live.” Jim gasped, paused for a minute, and said, “But doctor, that’s not much time. It would take me six months just to pay you.” The doctor looked at him and said, “Okay, you have six months to live.”

What’s the point? The point is that:

I am going to talk today about the Department of Trade and Economic Development’s experience with performance monitoring and implementing performance monitoring. I’ll try not to cover too much of the same ground that Harry did.

We began performance monitoring in 1987. It really grew out of the department’s strategic organization plan, with a desire to seek customer feedback and measure the outcomes of our program. Fortuitously, The Urban Institute approached us about that same time asking us to participate in a pilot project to establish performance monitoring systems in state development programs. Lee was farsighted enough to jump at the chance.

Five years have passed since then and performance monitoring has proved the test of time. It has become, I think, an essential in the Department of Trade and Economic Development. Several of our programs are on their third round of evaluation, many of our programs are on their second round of evaluation now, and some are actually beginning evaluation for the first time.

At this point, the Small Business Development Centers—that’s the twenty-four centers around the state that provide technical assistance to small businesses—haven’t seen the results from the third round. Our business financing programs have instituted their first round and will have completed that in a matter of months.

I am going to talk today about what we measure and how we do it in our performance monitoring system, and then I’m going to talk a lot about what we’ve learned as we have done that, the glitches and growing pains we have gone through over this five-year period. Harry alluded to the customer profile information. For analysts, this is the interesting part of an evaluation. But we do collect significant customer profile information, industry geography, the size of the business, and so forth. Interestingly, it has been one of the most informative and valuable aspects of performance monitoring studies.

We try to ask if we are reaching the customers our programs intend to reach and if we are serving certain kinds of customers better than others. In fact, we found that in not all cases are we reaching the customers we thought we were. An example of this is the MTO—Minnesota Trade Office’s—international trade program. All of our programs have strong directives to serve the entire state, particularly Greater Minnesota. Through our client information, we found that only about 20 percent of the clients of the MTO were outside the metropolitan area, even though 35 to 40 percent of the businesses were outside the Twin Cities metropolitan area. As a result of that experience, the MTO has instituted very strong programs to deliver its service to Greater Minnesota and identify businesses who could benefit from their services.

A big problem today is that managers are not used to using outcome information. They have seldom had it. They don’t use it much. Provide training on how to use it. For example, encourage managers, after each outcome report, to meet with all their staff in, what I call, “How are we doing?” sessions. Ask the staff to discuss the findings, where they are doing well, where not well, and why. Seek ideas from the staff as to how the program might be improved, ask them to develop an action plan, and then, in later time periods, assess whether outcomes improved.

Finally, get both legislators and upper level management to think and address issues in terms of outcomes. Probably nothing is more important than their asking regular questions at reviews, staff meetings, seminars, whatever, about program outcomes and service quality.

Let me just close with a story. Jim Jones—I have to give him a pseudonym—went to his doctor recently after a comprehensive checkup. His doctor told him to sit down. His doctor said, “Jim, I have some bad news for you. I’ve examined the hundred comparison-group evaluation studies on your disease, I have looked at the twenty random-assignment experimental designs on your disease, and they are all in agreement that you only have six weeks to live.” Jim gasped, paused for a minute, and said, “But doctor, that’s not much time. It would take me six months just to pay you.” The doctor looked at him and said, “Okay, you have six months to live.”
As we have become more comfortable with performance monitoring as a tool, the managers have very much given up that role, and the managers and the executive team all act as a group and see the results typically at the same time now. But that was an important piece as we were initiating performance monitoring for the first time in a lot of these programs.

The second lesson that Harry spent time on was the record keeping part of it. We have made great strides in developing and maintaining client databases, but it is still a challenge we face every performance monitoring session to make sure those all get updated and are accurate and so forth.

I never thought I’d say this, but there is one issue that I have to disagree with Harry on, and that is the timing issue. Harry says performance reports should be done quarterly. We have found that quarterly is way too much for our own resources in terms of getting them done, and also in terms of the department’s planning and budgeting cycle. We think it’s better conducted on a yearly basis, maybe even a two-year basis. We have never evaluated programs more than once a year. Sometimes it is every two years, depending on the size of the evaluation.

The other thing about timing is that some of our outcomes take quite a little time to achieve. I think the theory in exporting is that it takes at least two years after a business decides to export, to actually export. I know in business location decisions, the cycle is typically a year to two years, so we need to think hard about the timing—when we serve the clients, and when we expect the

can’t claim a tremendously successful experience. There are a lot of reasons for this. I think one of them is that the managers are more inclined to use the good news to sell their programs rather than the bad news to improve their processes. I think there are a number of organizational institutional reasons for that. Harry identified one of them when he said we aren’t making resource allocation decisions yet based on those outcomes, and when we do, managers will be more inclined to respond to them.

We do have one really super example of using the performance monitoring results in following through and actually changing programs. That is through our Small Business Development Centers. The Small Business Development Centers now use the results of their performance monitoring to allocate federal discretionary funding so that program centers that have higher outcome and higher satisfaction ratings get more federal discretionary money. It also has been used in awarding contracts to SBDC consultants. The SBDCs are taking this information and using it in the best way possible, and we are really proud of that.

The final thing I am going to talk about is allocation of resources to performance monitoring. Harry says it doesn’t take much money. But it takes a lot for an organization to really divert money from direct delivery of services, which is what these organizations are empowered to do. Basically an administrative act, it does take resources to do it.

In 1990, our department allocated funding for a position to do performance monitoring. With the budget cuts of this year, that position was eliminated, and

There is a happy ending to this story because we are going to test one of David Osborne’s theories, and we are going to offer it on a fee-for-service basis. We have within the department our first two customers who are actually going to pay us to do performance monitoring in the next year.

Enough about performance monitoring. I’ll end.

BRANDON ROBERTS

BRANDON ROBERTS + ASSOCIATES

For my presentation on ad hoc economic evaluations, I want to emphasize that I am speaking from practical experience, having been involved in conducting economic development evaluations, and having managed some when I worked at the U.S. Economic Development Administration (EDA). What I will be saying is based on my experience with these evaluations and not so much from an academic perspective. This is just basically what I have learned over the last ten years from being involved.

When I think about how you describe this or what economic development evaluation is, it reminds me of a story about my grandfather and his dog. As my grandfather was getting older, he started having a lot of mishaps. One afternoon he went for a walk in the woods and got lost. It started to turn dark and next thing he noticed was his dog by his side, pulling on his pants and leading him back to his house. A couple days later, he was working out in the garden and a

weeks, and that dog has been right by your side in every event." My granddad said, "Yeah. You know, I have been thinking about getting rid of that dog. Is nothing but bad luck."

The point of that story is that, with economic development evaluations, people have very different perceptions on the purpose of the evaluation, different perceptions on how to do them, and different perceptions of the outcomes and the results. The outcome can get quite controversial. It often can become a very heated type of thing in terms of critiquing, and sometimes criticizing, the work of others. It is a very serious business, particularly when you are going in on a one-time situation and coming from the outside look at a program and try to judge its performance.

I mentioned earlier that I would provide you a very thumbnail sketch of some background on economic development evaluations. My own experience is that there are economic development evaluations taking place. I have been involved in four such evaluations just this year in three different states. My experience at EDA has shown that if you are really looking to pull information and understand methodologies, look at the way people have conducted evaluations.

A good place to start is the Economic Development Administration. You can look back to the 1960s, when EDA was first getting started, and they were very good in terms of commissioning evaluations to follow up on their programs as they put them into place. You can find stacks of evaluations that can give you different
techniques, and we need someone to determine that these old techniques perhaps aren't doing what we thought they were so we can use those resources for something else. I think these are two of the reasons for motivations for the type of evaluations that are taking place at the state level.

I'd like to just briefly talk about what I think are the four basic kinds of concepts or types of evaluations that I have encountered with respect to economic development evaluations. The first one is determining program appropriateness. Is the program an appropriate tool for accomplishing the desired mission?

In the 1980s, there were a lot of new ideas, a lot of new movements, in the field of economic development. Often, economic development programs were put in place because of some state learning that another state was doing this, and so they rushed to do the same thing. The idea kind of built across the country. The result is that you often find times where an economic development program was not necessarily derived from a strategy, from a very specific analysis of the economy, or from the clear understanding of the needs and opportunities. So often there is a misfit between the tool and the mission, or what they are trying to accomplish—in essence, a misdiagnosis of the event—and a tool has been put in place just to deal with the perception of a problem. You often have to make that determination.

The second type of evaluation is determining program efficiency. Is the program operating in a way that optimizes resources in the production of program outputs and outcomes? I think no outcomes, no real impacts to measure with respect to the program, but the state wanted to know if they were operating and moving down the path in a way that will likely lead to impacts. Were they working well with their customers? Did they think we were providing the types of services that we said we would provide? So they hired us to come in and answer those questions.

Another component is determining program effectiveness. Is the program producing outcomes that lead to desired impacts? There is a lot of emphasis these days on the economic development field being market driven. I think that is a very important concept. It has public programs which are different from the private sector. Cigarette folks put a commercial on TV or the newspaper, and they convince you to buy cigarettes by showing that if you smoke these cigarettes, you are going to end up with a beautiful man or woman and your life is going to be wonderful. The only proof, or the outcome—the impact that they care about—is that you buy their cigarette. They don't have to worry about whether you end up with that beautiful woman or beautiful man the next day. They don't care.

For an economic development program, or for public programs, you do care about that next impact. It's not enough that you have actually gone out and made a loan to a business and the business has taken your money—it's what that business did with that money. Did they actually hire someone you wanted to hire? Did they do something? The level of proof, the burden in terms of the public purpose, is much greater than what was represented in our private market approaches.

An effective approach to fulfilling a mission? This can take a lot of different levels. I worked on an evaluation last year for the U.S. Economic Development Department looking at their public works program; probably the umpteenth evaluation that they have commissioned over the last twenty-five years on their public works program. All they really wanted to know was if their investment in an industrial park was a better value than investing in water and sewer, in a port, or a convention center. They wanted those basic questions to measure some value of one investment versus another investment.

That is a very simplistic representation of determining program value. It is more along the lines of what really does not happen in the field of economic development, and that is a cost-benefit analysis. It's the type of thing that often you need to build in front; it is very difficult to do at the back end of something.

Those are the four concept components of evaluation that I encounter in terms of doing state economic development evaluations. What I'd like to do is briefly give you background on an evaluation I just completed for the state of Oregon on their small business assistance programs. We were commissioned to evaluate several aspects of their small business assistance system in Oregon. They asked us to determine whether the business assistance needs of the private sector were being addressed in the most effective way and whether the services and the impact were actually contributing to the states' economic goals.

What it really boiled down to was that it was a project that had to be done in four months. We used a variety of tools to conduct the evaluation. We conducted business surveys of private businesses in the state. We surveyed over five hundred businesses on both their needs and the use of these services. We had a stratified sample of groups—users and nonusers, urban and rural, traded sector firms and nontraded sector firms. We conducted focus groups across the state consisting of owners of businesses, business providers, and local officials. We had them sitting in a room together talking about how they access these services or whether they did. We did program reviews of each of the individual programs, and then we conducted a series of over one hundred telephone interviews with key officials around the state to get their impressions of how the system as a whole worked. We conducted telephone surveys. People who were surveyed were identified by some of the programs and our random sample came from the PS-202 data.

In terms of identifying what business needs are in the state, we asked businesses a set of questions focusing on issues like government regulations, workforce, marketing, capital management, administration, and technologies. We then asked them if any of these things affect the ability of their business to operate profitably on the set of activities. Sixty percent of the businesses identified regulations as being a key problem to them operating effectively, while the least responded with technology. Then we asked them what they do about them. Do they go out and try to get outside assistance to help with that? If they sought some assistance, did they actually use it? A lot of businesses...
business start-ups. Much worse then, were the small business survival rates and small business expansion rates. In a sense, it was like maybe there ought to be other measures, other objectives you are looking for in terms of what you do with your small business assistance activities.

Finally, another key issue, as I referred to before, is that evaluations generally subject someone or some group to close scrutiny for the first time. That can be a very painful process both for the group being scrutinized as well as for the scrutinizers because you are talking about programs and people in terms of operating those programs, and it becomes a very sticky type situation.

In conclusion, I have five suggestions for those of you who might be considering undertaking an evaluation. First, specify the evaluation’s purpose and be clear who the client is. If you are hiring someone from the outside, be sure they know who to report to, who is in charge of the evaluation. Be very clear about what you want evaluated, how it is to be used, and how it is going to be conducted.

For the small business evaluation in Oregon, we had an excellent client. It was a difficult project in the sense that it was six different programs—within a sense, different missions, different providers. And the client provided excellent guidance all the way along, basically forcing us to answer questions, being very specific about what we were doing so that we made sure we were treating each group fairly and not comparing apples to oranges. It is very important for the client to take a very active role, to cooperate in that sense.

provide us information as to what had happened in those industrial parks. We decided to pick some randomly and verify the information that we had gotten. Of course, the field people have an interest in having their projects look good; they are their projects. They are the ones that put them in the ground. We had one industrial park that had just phenomenal success. It was a big acreage. It was fully occupied and had a wonderful amount of jobs that were created. We looked closely, and it turns out that what was located on that industrial park was a prison and each of the prisoners had been counted as an employee. So you see, you can get creative in terms of how you report results.

Another point that I will emphasize again is, agree to the measures and criteria up front. Really think hard about that in terms of what you want to be evaluated, what are the measures that you are using for the evaluation and the criteria for making judgments, because those are the things that are going to be questioned, that ultimately need to be clearly scrutinized in terms of the credibility of the evaluation.

Require the evaluators to propose recommendations. Make them take a stand and defend it. You have invested too much time and attention in scrutiny to just have someone come in and say the program did this or the program did that. Force people to really think about how it could be done better, whether it should be done in this way, and propose recommendations for change. It doesn’t mean you have to utilize those recommendations, but at least you have a basis for trying to direct what you want to do.

before." Evaluations get a lot of attention. They get attention from the press, the people who run the programs, manage the programs at the local and state level. So it is something to be taken very seriously. And if you are considering doing it, it is well worth putting the time and effort in, in the beginning, to design it so that you get what you want.

Thank you.

BETH STELLA

ASSOCIATE SCIENTIST
INSTITUTE FOR PUBLIC POLICY AND
BUSINESS RESEARCH
THE UNIVERSITY OF KANSAS

The previous speakers were focused upon the need to evaluate programs and how to do that. I am going to shift a little bit. Program evaluation could feed into the evaluation of a state’s overall economic development strategic plan. If a plan is gathering dust on a shelf, then maybe evaluation isn’t the issue for the moment. But if you have a functioning strategic plan for the state and a guiding economic development policy, then it should be evaluated and updated on some sort of regular basis.

I am going to discuss two issues: first, how strategic plans are evaluated in some states, and second, what challenges face states when they develop and implement strategic plans. The study we just completed, summarized and assessed the economic development strategic plans and planning processes of ten Midwestern states as they existed in 1992.

Ten states agreed to participate in this study: Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Nebraska, Ohio, Oklahoma, and Tennessee. Each state strategic plan and supporting document were summarized, and each state was visited to interview officials to determine the current status of each plan and planning process. One of the many topics covered during the course of our interviews was how states monitored evaluated their strategic plans. We focused upon two issues relating to evaluation: first, did the strategic plan identify measurable outcomes and who monitored those outcomes, second, a routine process for revisiting or updating the plan?

Not many states identified measurable outcomes for evaluating their strategic plans. Oklahoma and Minnesota were the only states which included benchmarks to evaluate progress towards goals identified in the strategic plan. Each goal in Oklahoma’s 1988 plan was accompanied by measurable outcomes. On a yearly basis, the Oklahoma Department of Commerce compiled data showing progress towards each goal and prepared an update of the plan, which was reviewed by Oklahoma Futures, the state’s planning and oversight board. Oklahoma Futures reviewed the data both economic and program impact. Those data and related analyses were then included in a report as required by legislation.

In 1992, Minnesota was in the process of developing a new economic development strategic plan. The Department of Trade and Economic Development had an economic blueprint which identified goals. The department
• involving and engaging the private sector
• maintaining funding
• partisan politics

Meaningful evaluation of economic development programs would assist states in meeting these challenges. States were aware of the need to measure program outcomes to demonstrate that economic development strategies and programs perform in ways that benefit the state's economy. If evaluation shows the programs are beneficial, then it should be easier to build consensus and bipartisan support to maintain funding for those programs.

Since our study covered many issues in addition to evaluation, I would like to briefly summarize some of the key findings regarding the substance of the states' strategic plans. The primary focus of seven of the ten states was business attraction. Three states—Illinois, Kansas, and Ohio—focused on business retention and expansion, and two—Indiana and Minnesota—focused equally on attraction, retention, and expansion. Several states have indicated that they were beginning to look more at retention and expansion, so this was beginning to get more attention.

The process states use to develop their strategies was also analyzed. Three major areas were examined: who participated in the process, how the plan evolved, and how continuity and durability were built into the process.

We found that the executive branch led the planning process in all states but Kansas, where the legislative branch led. The private sector was involved in nine of the states, but the degree of economic development plans and strategies and created instability that worked against maintaining the long-term focus and commitment needed for implementation.

Issues sighted as helpful in implementing and maintaining a long-term strategic plan were strong private/public partnerships addressing economic development issues, with the governor and legislative leaders participating; a strong interconnected institutional base for economic development activity, such as standing economic development legislative committees, private/public strategic planning organizations, and statutes authorizing the economic development planning process; bipartisan legislative leadership support and involvement; data information analysis used to build consensus and to guide formation and revision of the plan; synchronizing the strategic planning cycle with the political cycle; and a customer-driven approach where the customer-defined needs and programs were designed and modified to meet those needs.

To conclude, the assessment of ten states' economic development strategic plans and planning processes reveals a great variety in approaches, varying degrees of reflection during the planning process, diverse organizational arrangements, and varying degrees of participation, cooperation, and support.
Robert Friedman

Chairman of the Board
Corporation for Enterprise Development

Graham Toft described third wave as "a club of" militants, misfits and missionaries." This is not exactly the way I see it, but I can't totally disagree. I think I am gender than a militant, and I don't throw smallpox infested blankets into crowds. I must say I feel in good company here today. I really am grateful for my fellow misfits like Kathy Keely, my guru and colleague, and for people like Dan Pilcher, Carol Conway, Bill Nothdurft, and also the critics, who have disciplined our thinking and expanded the inquiry.

At one level, third wave was simply an attempt to ask, where ought we to be going if we were to zero-base budget economic development or at least critically examine what we have been doing? I think the critiques that Brandon Roberts, Graham Toft, Rob Atkinson, and others have made on third wave have added enormously to the field.

ten years, to build their economies, ranging from seed capital to education reform. We sat back and asked if this really added up. Frankly, when we looked at states, such as Ohio and New York, that had virtually all the programs, we saw very little impact. The whole was no greater than the sum of its parts and often a great deal less. On the other hand, when we looked at the Mississippi or the Montanas of this country, we realized that if it is going to take 107 programs to get there, then they don't have a chance.

We asked ourselves if we really believe in the advice that we have been giving states and communities over the last ten years. We reaffirmed that we continue to believe that the strength of state economies and community economies comes "bottom up," from the people living within those states, and that it is appropriate to build those capacities. There were, however, four severe limitations apparent in virtually every program:

- The quality of what was delivered was at least uneven.
- The programs were fragmented and piecemeal.
- There was very little information about whether they work or the extent to which they worked at all.
- Finally, and in many ways most troubling to us, the scale and the speed of their effect was simply not of the scale of the challenges or opportunities facing economic development policies that were of the magnitude of the challenge and opportunity we faced. Could we imagine transforming policies? We looked around and thought we saw strategies that began to have the kind of impact we were looking for—development finance innovations like Michigan's Strategic Fund. I think there is nothing we say about third wave economic development strategies today that Pete Hansen, the architect of that program, didn't envision fifteen years ago.

In that sense, we found third wave. We didn't create it. We noticed it. Unfortunately, we named it, deliberately giving it an empty name because we didn't fully know what we were searching for. But as I would describe it today, not necessarily as even my colleagues at CFED would describe it, third wave policies have four essential elements and five characteristics. The four elements of third wave economic development strategies are demand, supply, information, and investment.

Demand. We think demand is probably the most crucial move we need to empower the beneficiaries of development to act on their own behalf. The only way for people to move out of poverty is for the people themselves, mired in poverty, to craft their paths through, to have the assets to give effect to their vision, to learn while they are doing it. Unless businesspeople awa...
world, which have allowed unparalleled home ownership rates, education rates, investment rates. In Korea, you have enormous informal networks for marketing for development

We believe in energizing clusters of firms as development strategies, in part because they cut through some of the old myths: big versus small; no, big and small. The real thing we need to focus on, I think, is entrepreneurship; combining resources in new ways to add value. While manufacturing has certain strengths, the manufacturing/service division seems to me increasingly an odd line. Is IBM a manufacturing firm or service firm? Is the entertainment industry a manufacturing industry or a service industry?

Finally, recruitment and indigenous development go together. I would say the old trade-offs and antagonisms of economic development have given way to a new set of reciprocities. It is not equity versus growth. It is equity through growth. It is growth through equity, through inclusion. Unless we fish in all parts of the pond, unless we exploit the diversity of this country, I think we have no chance to be competitive. The problem with our approach to dealing with poverty is not that we have rewarded indolence, but that we have penalized effort; that we have not developed an investment system and, instead, stood with a maintenance system. Environment versus jobs, labor versus management— I think they’re being replaced by a new set of reciprocities.

I will close with this next point. Graham has said that third wave governance is an unnatural act, that we underestimate the

seems to me we are in crisis. Our general practice is simply nowhere near their general practice. We have a matter of years and not decades to close that gap.

There is a larger percentage of our population poor today than before the war on poverty reached its peak. All the trends are that it is only getting worse. People understand that and are losing faith because of it. I think a lot of the disaffection comes from seeing that the solutions aren’t really the magnitude of the problem. It is not clear to me at all that we can pull this off, but I think that we can’t afford not to ask these questions.

Graham criticizes us, quite rightly, for being fuzzy, and third wave as being a moving target. It is because we don’t understand all the techniques that we need—the new budgeting systems, the new personnel systems, the new democracy—that we need to create. It seems to me it is the right set of questions to be pursuing now more than ever, now more than when we began. I believe it is the right quest. And, as a missionary, I would ask your help in pursuing that quest.

Thank you.

ROBERT D. ATKINSON

SENIOR ANALYST
INDUSTRY, TECHNOLOGY AND EMPLOYMENT PROGRAM
CONGRESSIONAL OFFICE OF TECHNOLOGY ASSESSMENT

Good morning. I had intended to

I want to quickly describe the first two waves. The first wave started in the 1930s with Mississippi’s Balance Agriculture With Industry program to attract branch manufacturing plants from the northern states to Mississippi. For the first wave, the central problem was one of economically lagging regions around the country. These regions sought to attract branch manufacturing plants of large corporations as a way to improve economic performance. How did they try to do that? By developing an aggressive marketing plan and providing a variety of subsidies and incentives.

The mode of intervention was, as an economic development official from North Carolina referred to it, the “buffalo hunt.” Basically, economic developers went outside the state, roped a corporation, and dragged them back. Who did this? State departments of commerce were the principal players. In addition, the federal government was quite active and funded a lot of these efforts.

For example, when Wichita, Kansas, lost thousands of jobs when a Boeing plant laid off defense workers in the 1970s, thirty-five federal economic development experts flew out there the week after the layoffs, crafted an economic development plan, and then gave the city $50 million to implement it. Finally, the measure of success was how many firms were attracted (see Table 1).

The second wave evolved—depending on what part of the country we are talking about—in the mid-1970s to early 1980s. The second wave emerged in part because of the changing nature of economic problems facing regions. Sectorally-based structural change and depressed economic

The major policy target of the first wave branch plants, were declining in number and importance. As a result, the second wave focused inward on helping new businesses start up and existing businesses expand. How were they going to do that? Largely by creating separate programs for particular business needs. For example, many places recognized that business growth and expansion was dependent on capital at that in many instances, capital gaps existed in the market.

The response was often to create separate business finance programs. Places might start a seed capital program or a loan program for business expansion, and an industrial bond program. Second wave economic developers realized that improving management is important, so they created separate management assistance programs. Similarly, exports are important, so they create an export program and, similarly, down the line: various needs are identified, individual programs are put in place to serve those needs.

What was the organization of these programs? Often they were run out of separate governmental departments of commerce, but sometimes by separate quasi-public organizations set up for that purpose. Massachusetts is a leader here, having established a large number of quasi-public economic development organizations.

The federal government’s role was dramatically reduced during this period. Finally, the measure of success now changed to the number of jobs created. More sophisticated programs might measure the number of new and retain
enough for economic developers to figure out; for business, it’s virtually impossible.

Finally, few programs provide what Bill Nothdurft calls “real services,” such as help solving technical problems, training their work force, or identifying export markets. Instead, many provide only general information or assistance. Moreover, when we do provide services or other assistance, state and local governments often ask for little in return. We don’t premise assistance on the notion that we expect industry to change behavior and increase competitiveness. In Europe, for example, assistance is contingent upon the firm changing its behavior; for example, developing a strategic plan for exporting or making a commitment to export.

To respond to these and other problems of the first two waves, the notion of the third wave has been developed. I think there are two separate components or visions of the third wave. I think both are important. The first could be called the “market-driven” model. Essentially, much of what Bob was talking about could be categorized as this—a reduced role for government, wholesaling of services where government would try to stimulate the market to do a better job of serving public needs. That might be through vouchers, leveraging private funds, getting banks together to form an equity capital program for the inner city, and other similar efforts. However, I think much that we lack money, but rather that we don’t spend it on the right activities. Look at how much money states and localities spend on industrial recruitment.

Minnesota recently agreed to give Northwest Airlines $700 million to stay in the state. Indiana spent $300 million to attract a United Airlines facility. Even worse, we are subsidizing foreign companies that have already decided to locate in the United States. States and cities have given foreign auto companies over $1 billion in the last fifteen years; much more than we have given the Big Three. What is going on here? We are subsidizing foreign auto companies that have already decided to locate in the United States. Often they even chose a location before subsidies were offered. For example, it appears that BMW had decided on South Carolina before the subsidies were offered, but then discussed locating elsewhere so the state would come up with $135 million.

Finally, increased federal funds will help address the scale problem. The federal government will probably play a larger role in economic development than it did in the 1980s. There are likely to be increased federal initiatives that will pass money down to the local and state level for economic development. The recent DOD authorization bill contained two new programs. One created a national manufacturing extension program that in part provides approximately $100 million in grants to state and local extension programs. Another is the Regional Technology Alliance program, which provides approximately $100 million to set up technology alliances where there are a cluster of firms in the same technology, to do things such as create industrial networks, provide real services to firms, and establish links with universities.

In addition to promoting market-driven third wave initiatives, I suggest that we need to also support what I describe as a “customer-driven” industrial services model. Such a model would differ from the first two waves along several important dimensions.

First, I would argue that the major economic development problem is related to declining economic competitiveness. It is disturbing to hear economic development officials around the nation say, in so many words, I know there is wealth out there; it’s just.
these are going to be nonprofit, privately run companies. I think the key point here is going back to this governance system. We need to move away from a government governance system to a joint industry-labor government governance system. These programs won't work if they are governed by government. Industry won't buy into them. They won't see it as their own. They won't trust them until we bring industry into a joint governance system, and that is a very difficult thing to do.

Fifth, provide most needed services in one organization. This is a notion of an integrated package or, at minimum, coordination of the various service deliverers you have in your area and get them working together closely.

Sixth, organize assistance around either regions or sectors. I don't think we do nearly enough around sectors. Most areas of the country have sectoral agglomerations or clusters of industries that may enable cooperation across state lines. Using a sectoral focus you can identify industry-specific needs and provide services that are really going to make a difference.

Seventh, make services contingent upon the firm moving in certain directions.

Finally, measure success by increases in competitiveness, such as sales.

Thank you.

JANET JONES
KEY INDUSTRIES DEVELOPMENT

pleasure to be here as a practitioner of third wave strategies. We really appreciate the opportunity to learn from others and welcome the opportunity to share ideas. I'm going to talk a little bit about our industry development strategies in Oregon and some of the lessons that we are learning as we go through this process.

Oregon is very fortunate, first of all, to have a strong foundation for trying this approach. We have a visionary strategic plan, which is like a business plan for the state. Our governor places a very high priority on economic development. We have a supportive and innovative legislative committee that shops for new ideas and then funds them. We have lottery funds in Oregon dedicated to economic development that was passed by the voters in 1995 as one way to help pull Oregon out of the recession that occurred in the 1980s. Finally, we have industry sectors that welcome the opportunity for partnership with government and this is a partnership that is evolving and a trust that we try to earn.

In 1989, Oregon developed a strategic plan. It's focused on a long-term vision for competitiveness, and what it did is, it looked at what Oregon needed to do to be competitive in the global economy in the future. With that in mind, it set out three broad goals for what Oregon needed to accomplish. The first was to have a superior world-class work force. The second was to have a quality of life second to none, and that includes quality jobs. The third was to create an international frame of mind and to have a state in which Oregonians are known for being innovatively skilled at building.

role in assisting critical industries—to help the industries help themselves be more competitive. Our focus is on creating a positive business climate for all business sectors to grow and thrive.

The key industries are those that are considered crucial to the vitality and competitiveness and diversity of our economy. What they have in common is that they offer well-paying jobs, they are internationally competitive, and, generally, environmentally compatible. There are thirteen of them: aerospace, agriculture, biotechnology, environmental services, film and video, fisheries, forest products, high technology, metals, plastics, professional services, software, and tourism. As you can tell, that's a pretty broad group. It includes both the large mature industries that we have in our state, like metals, forest products, and agriculture, as well as the new emerging industries, which we refer to as the sunrise industries: biotechnology, software, and environmental services.

The Key Industries Program was created to help implement the strategic plan. We were told when the strategic plan was completed, “Figure out what needs to be done and then go do it.” Work directly with industry leaders to make the strategic plan happen so that this will be one plan that does not stay on the shelf.” The Key Industries Program is devoted to helping key industries grow in Oregon and compete in world markets. It's a focus on existing companies. It's not a recruitment program, but I think recruitment and industry competitiveness are interrelated.

as one way to seize an opportunity to import new business, and in particular talked about Oregon's flexible new initiative and said these strategic alliances encourage firms to solve problems as a part of larger entities with great leverage. This is one example that, frankly, surprised us; that an industry development program focused on existing companies is seen as a recruitment tool.

The long-term issue that we focused is not creating new jobs and income, helping companies improve their bottom line. Building onto the commitment: the Key Industries Program received a significant boost from the 1991 legislature when it passed a comprehensive key industries bill. That is $1.8 million—which is a lot when you asked for $100 million and you get $1.8 million, so we were very happy—to build our program over two years. As part of that bill, they declare the state's commitment to helping key industries improve their long-term competitiveness.

A companion bill that's been mentioned created an industry-led Wood Products Competitiveness Corporation. That group received $2.25 million over two years for the secondary wood products industry. This legislation created a board of seven manufacturers from around the state that is charged with developing the secondary wood products industry and increasing its competitiveness. What both of these bills and the wood products have in common is really provides a menu of opportunities. It is a menu that grows and evolves.

I think this is very important, and it's a model for the whole state.

...
By working with groups of firms, there can be a more significant impact on the economy as well.

I mentioned the strong foundation that we have in Oregon to do this. One I didn't mention, that we are really excited about, is that we have a business magazine in our state that has become our partner in making this happen. It's called Oregon Business Magazine, and they have actually reorganized and relaunched their magazine to focus on key industries. There are eighty thousand companies in Oregon with a payroll. How do you reach eighty thousand companies? The short answer is that you don't. This magazine reaches twenty thousand of them, so it's a good start.

Each month, in a partnership with Oregon Business Magazine, we hold a CEO Roundtable and we invite industry leaders from around the state in all different industry sectors, large companies and small, to come and talk about the competitive challenges in their industry and what their industry needs to be able to grow in Oregon and compete in world markets. We also invite about fifty CEOs. We usually have between fifty and seventy people attending these, and we strive for real diversity within the industry. That includes a lot of searching to find small firms, firms that are headed by women and minorities who often do not have an opportunity to take advantage of state programs for economic development.

These roundtables are then transcribed. We write it up with a profile that's featured in the center of their magazine. This one happens to be on the software industry. The handouts that I had include this series will continue through March of 1993, so we are winding down to the conclusion of that. One of the challenges is to figure out what to do next. After you hold these roundtables, you get a great grip on the problem, and companies identify what they need to be more competitive. There needs to be follow-through to deal with those issues and suggestions from industry. Included in the profiles is a section that we call "roundtable proposals." This is our checklist for what needs to happen. And while the state and the government may not do this, we do see our role as being a catalyst and a facilitator to help the industry accomplish those objectives.

Our next focus beyond these roundtables on individual industries will probably be more infrequent, but intensive, summit-type meetings that will focus on particular issues and bring multiple industries together. The first one we're looking at is on benchmarks. The state has set benchmarks for the strategic plan, but what we haven't done is look at it in partnership with industry. We want to ask them, "What should be the benchmarks for your industry?" and do it as a partnership. We'll also be planning a summit on quality; perhaps others on world trade and on financing. The idea is to focus on specific, hands-on, problem-solving issues of interest to multiple industries.

The third aspect of our program is the flexible networks, which we do consider to be a very promising experiment. Our goal is to make network and cooperation a way of doing business in Oregon and to introduce network strategies, identify potential, and to organize real networks that build global competitiveness of key completed, in September, a training course for forty network brokers who are working with businesses to help them organize networks.

To give you an example of where we are in this, we funded six pilot networks in June and we are continuing to develop networks. We have about ten underway and all together now we have about eighty companies participating in networks. They are very diverse. They are not just on manufacturing. We have one that's called Furniture Oregon International that brought together one wood products company, a lighting design company that does Nike Town and all of the Nike stores—an award winning company. We also have a metals producer that formerly did sand and gravel screens—they were never in the furniture industry—and a group of architects and furniture designers. Their concept is to come together and to design and produce a whole new line of furniture. They want to become the "Northern Italy" in Oregon for furniture design.

Another one that's a bit unusual is an alliance between the tourism and the agricultural industries called The Oregon Wine County Connection. This network wants to lure international visitors who come to Portland to tour rural Oregon's wine country. We have probably one hundred wineries around Oregon, and the plan is to organize the wineries, the automobile association, and the Portland Oregon Visitors Association to work directly with companies to produce tour packages for visitors.

The third one that I will just mention quickly is in the film and video industry. We are a player in a global marketplace, and encourage companies to see cooperation as a smarter way to compete and to look at their place in world marketplace. And by helping industries help themselves, the state catalyst for industry leadership in increasing competitiveness.

GRAHAM TOFT
President
Indiana Economic Development Council, Inc.

My comments relate to a handout you have right at the back—they put me the back I guess for a reason, hoping I would fall off the end I think. It's called Making Waves and it's a shorter version of an article that will appear in the Entrepreneurial Economy. The Corporation for Enterprise Development is using that next edition as a debate the third wave and there will be three articles in that plus a commentary from CPBD. So we're looking forward to that article should be coming out and Bob's article will be in that, I believe.

My main problem with the third wave is it's not a wave and it's not third. Bob talks about the physics of waves and I correct in the sense that waves actually don't move forward at all, merely the particles move up and down, if you know your physics, I wonder whether we're just moving things around and maybe getting some strategies out of context by doing that, I'd like to pay
The fact is that the northern firms in the first wave found that their cost of doing business was so high that they wanted to find other places in which they could remain competitive. So they moved south because of lower labor costs, because of lower land costs, and so forth. The little eco-devos down there, all independent operators in a free market, are saying, "how can we get a piece of the pie?" We need to tell them something. We need to get the information out. We need to market what we've got. What's wrong with that? Those that did a good job of marketing were able to attract various firms.

The second wave, we had a lot of interest in the high-tech fever corridors. We wanted to grow entrepreneurial businesses. We wanted to grow science and technology parks, like Route 128 and so forth, so we introduced programs that would reduce costs, again. Different programs, technology, finance. What's wrong with that? All of these programs have tried to reduce costs because the cost of doing business is the most fundamental factor that influences location decisions. The problem that we have is, we are still skirting one of the most important factors. Unless we have a theory about the costs of doing business and how to correct for those costs and how to develop programs that give us a rate of return—if we're going to invest in government—that give us a rate of return on our investment, then we're just talking about very esoteric ideas that don't make any sense.

The two speakers yesterday morning were very disappointing to me because they talked about zero-sum game, but has helped us with that. It's not so much land costs. But there are other costs: health care costs, training costs, tort liability costs. Costs, yes, of not forming partnerships, with antitrust law and so forth; they're the kinds of costs that are still getting in the way. But the fact is, we still have to look at those in a very creative way in our theory of urban economics and spatial geography if we're in this business. Agglomeration economies are absolutely critical. But to do an agglomeration economy you can have an anchor and you can attract an anchor.

We've done a good job with Subaru—Isuzu in Indiana, paying $80 million to cultivate an anchor of a network of firms, more mid-size firms, to feed into that plan. Not as good as it may have been if we had done it with some other external investment, maybe American investment rather than Japanese.

Take, for example, our United Airlines. It does sound as if Northwest Airlines is not as good a deal as what many would hope. Take our effort with United Airlines recently as an example of how you can use attraction well. First, we weren't even in the running. We weren't even in the areas that United was interested in. We didn't even receive an RFP.

Our port authority, Indianapolis Port Authority, heard about this secondhand and called United and said, "We want to make a bid on this," and United said, "You're not even in our zone." And our airport authority, because they are good planners, because they have twenty years behind them of planning and preparing for economic development, and at least three different strategies on the airport—either maintenance, manufacturing, or air cargo—they had different alternatives, they had made different bids in the past.

great opportunity for expanding our technical education system because we're putting a lot of investment into training of maintenance personnel. It is a great opportunity to bring three universities together in a training institute. So it's building a synergy that there's a whole sense of energy building around this project. What's wrong with that? Isn't that as much "new wave," a new way of doing things or is it just the old way and doing it better? Enough said about the third wave's bias toward overlooking, if you like, attraction.

Item three. Third wave is an unnatur theory of government. The third wave says that we must empower. And this is true. It makes a lot of sense. How we do we empower? Part of the third wave argues that we should establish wholesale-retail operations. The state becomes a wholesaler and you have these retailers out there. Who are the retailers? The retailers become another mini-bureaucracy—a group of people out there who have their little institutional bias.

We've done this very well in Indiana. We have what we call LEDOs, Local Economic Development Organization. We have about one hundred of these Indiana and we've helped them grow. We believe that we should help them grow in the eighties. We had a LEDO grant and they receive a grant from the state and they have the match and all that. These LEDOs are, in fact, our eco-dev and they want to survive at all costs.

So now we're in the problem that we think we've helped these LEDOs form and now we want to help REDOs form...
infrastructure, education, law and order, and let the free market work. I think that's what Art was arguing yesterday morning. The second path is, if you've got certain assets in place, there's nothing wrong with aggressively attracting investments with incentives, subsidies, and so forth, if you start to look for the cost revenue return. There's nothing wrong with that if it's cost revenue from your point of view. Since we're in a competitive market, there would seem to be nothing wrong with an attraction strategy.

What we need then, is a framework or a way of thinking that will help us reason through when and how to use these various paths to growth. We need a far better methodology for evaluating economic development strategy, as to choosing among these various waves. We can't do them all. What I would hope is that we come to some eclectic reasoning, and I would also hope that we do away with waves.

Thank you.
A lot of these problems started when jobs moved to the Sunbelt, and then the Sunbelt moved to the Far West, and now we are being impacted by things that have happened before us in other parts of the country. I am pleased to know that we are moving forward with the rest of you.

It does appear that maybe this effort is twofold. Maybe the technicians ought to get together and bring the thoughts together. As we serve in the legislature, we are really jugglers. We have five or ten balls in the air at all times. We're worried about finances, environment, economic development, human resources, and education. Not many of us get to devote all of our time as many of you here are. Our pressure comes from constituents; that may be different than the pressures you are asked to bear. Maybe we ought to divide this thing into two forums. You all try to get the technical thing together as best you can, and the national society, for those of us as legislators, can deliver it to us maybe in a better fashion.

We hear economic development and we talk about competitiveness. It is almost like a football game. You are against an opponent. As I listen here, we are fighting against one another. What are we developing for the national good to advance our country nationally? I'm not sure. I would ask that Mr. Clinton try to give us some direction to where it's not Ford fighting Chrysler, GM, BMW, and Toyota and others in that arena.

Clinton and our Congress has to address is, if we are going to play on a level playing field, we have to decide in this international competition whether our rules serve the international market in the best way. We are limited by what our industries can do.

Governmentally, we have some strong restraints on competition, on the monopolistic movements that had to be curtailed in the past. We have some strong rules against our financial institutions being involved with our businesses, yet we look at Germany and Japan, whether real or number one competition is international. They are not playing under the same rules. Should we try to get ourselves on a level playing field? I think it is important that if we are going to play this international game, we have to be prepared to play the game under the somewhat similar rules the others are playing.

Again, I am pleased to be here, pleased to learn a lot, take some back home, and I think we will be better off with my attendance here today. I know you all have at our national association a bunch of balls in the air also. When you have your national conference, you have fifty different forums trying to address all the different matters. I hope we can try to focus better so that we can all pick out our positions. Are we playing on the offensive team, the defensive team, the special team? Or maybe we are a coach, maybe we are a trainer, maybe we are a PR guy, maybe we are an announcer. But we are all on the same team, so let's pull together.
One of the things we don’t discuss very well in these settings is the situation that elected officials find themselves in when faced with an issue of expansion by a major employer—the slide that was put up here that showed a lot of the incentives that were given. New York is throwing money at the financial service firms because it is impossible politically for the political leadership to let all those businesses go across the river. They have to do something about that.

To talk about those kinds of activities we need to develop our understanding about the politics, and maybe that is not a discussion for Congress. It may be for other people. We need to look at that. So keep it in mind and understand that that is a separate discussion in whether your export program works well, your retention program works well, or you are helping small businesses in the community.

To me, mixing the two together and calling it economic development is almost putting too much on the plate. Those big sweepstakes programs or activities are just totally different dimensions. That is all I will say for now. And I don’t know what to say to the Clinton administration.

CHRISTINA A. GILCHRIST

EXECUTIVE DIRECTOR
ALEXANDRIA AREA ECONOMIC DEVELOPMENT

I have been sitting here reflecting on some of these things and have kind of working, and make sure we don’t get those axed.

We need a lot of reorganization. I think it needs to come from local initiatives. There have to be more people who are awarded for innovation. I do a good job at getting money for businesses that don’t really need it. The reason I do that is that’s the current game. Monies are made available for certain types of businesses, and normally, businesses that are quite bankable. But if you don’t get it for them, they are going down the road. That kind of system really needs to change.

I think we need to get more dollars out to start-up businesses, find ways to get into that. I think it is ironic that more women are creating businesses now, but we don’t have the kinds of vehicles in place to really serve their needs. I think we should bring the old HUD briefs back. Many of you who have been in the field for a long time might be aware that, in smaller communities, that was the only link we had to knowing the kinds of federal programs that were out there. It was just a little newsletter, and it just had a paragraph for each kind of program and who to contact. Those kinds of things are really missing in rural areas where they don’t have regional development commissions. They don’t have that link to what is available to them.

I would support telecommunications types of accesses. For instance, in Minnesota we are very fortunate to have a program in place called Minnesota Outreach where we have a modem in our office, we can get on and do vendor searches, literature searches on

are located about two hours from Minneapolis on I-94, so we have a good road system. Our airport has charter service, but it is difficult moving people. We realize we are in a global marketplace and we need to move people rapidly. I would really encourage looking at rapid transit systems so that we can tie our country together more.

Eliminate duplication. One of the things we tried to do in our community when I first started was to put together an organizational coalition of business providers, and now we know what each other is doing. We make better referrals and we have everybody contact the management center at the technical college to find out who can best help them. That could be a SCORE person—a small business development person trying to reduce the risk for start-up businesses. We work on that a lot, putting all phases together.

One of the things I am concerned about that I have heard during this conference is separating the variety of different ways that people do development. I don’t think you can package it like that. I don’t think you can say attraction only, retention only. You have to do whatever works best for that local community and it is usually a mixture of those things.

In our community, what works is, we are doing about 90 percent retention expansion of local businesses. We are looking at a lot of start-ups and how to give them all the tools they need to be successful. When we do recruitment activities to our community, it is because we have something there unique to offer. For instance, I was in a four-hour meeting on Monday looking at GIS—

Another point I wanted to make of an example is the old CETA—Comprehensive Employment Training Act. I lived outside the state for a and when I moved back here I couldn’t find a job. I just had a two-year degree had a hard time finding employment was placed in a city office working; retiring city manager. The social worker was working with me to get a job been designed for me, and I should on that program.

That retiring administrator allowed do most of his work. I became very knowledgeable about city government got in on the planning commission, that led into chamber economic development work. That was almost twenty years ago. I have been in po that have literally created thousands jobs. I would take a look at those programs and make them broad enough upgrading and training would be a part of them.

In closing, I’d like to say we need to look at a broader plan. I heard a lot about the waves—first, second, a third wave. We use all of those components in our economic development initiatives. I would say I further. Look at changing mind sets. Look at youth entrepreneurship. Let’s into K-12 and let them know how exciting it is to start and own business. Get a little more vision out there. Our competition isn’t next door to us, it’s a over the world. We need to enable people to think that way and look at strengths. There are a lot of opportunities out there. With that I would just show something. Let’s make Clinton the cure for the BLUES.
what's going on in eastern Europe. Women business owners are saying, we don't need receptions, we don't need parties, we don't need diplomacy. We need trade and we need you, foreign service. We have these sort of dinosaur structures we are propping up and keeping going that we either need to bulldoze or change so that the United States builds some structure, so that we can catch up to Europe.

SUSAN KOCH
TELECOMMUNICATIONS AND ECONOMIC DEVELOPMENT CONSULTANT

I think the thing I learned most during this conference was about the evaluation aspect of things. I was actually relieved by the evaluation panel, that things are farther along than I suspected they were. The thinking about formative evaluation is pretty sophisticated and I'm glad to hear that there are people who have been working on that for fifteen years. That is something I would also like to try to follow up on and see what is still needed there.

I also came up with several important questions that weren't addressed at the summit. Maybe these are messages for Clinton or maybe they are for all of us. I was really struck by the political nature of the economic development process. We all know that, we all live it, yet it is so funny how we either don't talk about it at all or we do this roll of our eyes, "well, you know those governors," and then we go back to our work as if there is nothing we can do about it. I just don't think we should start testing some of the limits that we assume are in place for political reasons. That is a kind of limit that we could start looking at.

Another thing that was hardily brought up at all is the whole question of sustainable development and what that means. I'm talking sustainable, both in terms of what you do in a community that will last for a long time in that community, and also the ecological questions. That we could try to relegate sustainability to a side issue is inconceivable in today's environment. I just can't understand how we still think that we can't be talking about that as a central part of what we do.

Third, there's the diversity thing. You can't get away from it when you look at this audience. We have to get better at it and not just because we want to be nice. It's because the problems that we have are only going to be solved if we do it in a multicultural way. We are not going to be effective otherwise. It's not that we just want to be nice, white men.

I also had a list of a few things that we might want to think about in terms of saying something to the Clinton administration. I'm not sure I want to send him a telegram telling them what they should be doing.

One thing I would like to see is that we make sure we include social professionals in our economic development strategy teams at all levels. I know we think of economists as social scientists, but as someone with a sociology background, I have never met an economist who is a social scientist. If they can get the people out of the so it was a good thing. However, most social scientists are pegging the whole breakdown of the family, the fact that we've got drugs and gangs, on things that started in the twenties and thirties when we broke down families by moving people to the cities.

Analyses that don't include the human aspects of development are not going to get us very far, and I think that putting people from the United Way on our economic development strategy team, putting people who do door-to-door canvassing on our strategy teams, and people that are in the emergency wards of inner city hospitals on our strategy teams—we would learn an awful lot about what might need to be done there. I know that Clinton is better at that than most, but I think continued pressure might even make that more so.

We should look for organizational designs that would minimize the political problems that constrain economic developers. One way to do that is to get input from regular old people about what you are doing. One way to defuse the political problem with these big megadeals is to make sure that you've got great ways of giving everybody their voice on what you should be doing. This is something Perot made popular. Although I disagree with most of what he did, I think that is one idea of his that would be good for all of us in the future.

Doing local debates, getting input, holding referenda—even if you decide to go against what people recommend—I think is a really good way of defusing some of the political problems that can come up with big deals like that. If you can get the majority of people to agree development, which is what everybody in this room seems to agree on, or maybe the high-tech services. But the other half of our programs really has focus on the least competitive aspect of our society. I'm talking about both people and communities. These are people that, a) are never going to do a business so Graham's strategies aren't going to help them, but b) they are not going to be helped by many third wave strategies, either because they don't avail themselves of help or there is no local capacity to start organizing.

In southern Indiana, when we talk a third wave there are a few people—"Oh great, do third wave." But most people in those communities are go to roll over and die because we have pounded their heads open now just to them to build a sewer system. If we've the process of local empowerment: fifteen to twenty years later things can be great. But right now we've got cities that are dying. We really need to focus on both the short- and long-term at the same time. That also includes a focus economic and social policies at the same time.

In our poorest communities especially, there is no such thing as an economic program. If you're not dealing with welfare, health problems, child abuse, that kind of thing, you're not doing it Those things are really interconnected. Now they are interconnected in ways too, but programs that don't address these issues in our poor communities are just not going to work.

Lastly, I think that a focus on infrastructure is a really good idea. Again, especially in these poor
pursued further. I think we bumped into a couple of very interesting issues that need to be pushed.

The second issue I wanted to talk about is much briefer and I think much more simple—the issue of the steering. I think everyone in the world that we deal in has read Osborne’s book and this issue on steering versus rowing. The question comes up, particularly on the national level, what is the federal government going to do? This obviously gets us to the Clinton administration question. What is their direction? As someone who is active on both the state and local level, we don’t want them to be rowing. We don’t want them rowing because we know the boat a lot better than they do. We know our state economic environment better than they do, and certainly we know our local economic environments dramatically better than they do. We do want some steering and some coordination.

Going back to buffalo hunting, that process is natural until it is regulated. Just like predatory banking is natural until it is regulated, buffalo hunting is natural until it is regulated. I think we need to have the federal government take a look at setting some ground rules. Not so much, “here is what you shall do” but, “here is what you shall not do,” which is, “you shall not waste your money stealing somebody else’s industry so that they can waste their money stealing it back.”

I would suggest to the Clinton administration that this is the direction they should be going. I think it is heartening to say, that is their natural direction. Clinton, from what I have read and heard, is dedicated to the notion of delivery of services closest to the customer, and he knows that means state and local delivery of services rather than national delivery of service. One of the things I would say to them is that they seem to be on the right path, they should pursue it and push over those barriers that get in their way to try to stop them. Don’t let that occur.

DAN PILCHER: Thank you. Let’s now turn to the audience. We have about fifteen minutes for further discussion here.

COMMENT: I’m here as an interested citizen observer. I live in New Hope, Minnesota, and I have been following the Minnesota scene. My husband teaches twelfth grade economics and political science. I don’t know how far along Minnesota’s state economic plan is. I went home and asked my husband if he knew that Minnesota has a state economic plan? He watches and reads widely and he didn’t know, and neither did I. I hope that somebody will address the issue of whose role is it to be voters and interested citizens know and involve them widely. My husband is the department chair, and if somebody would send him something in brief to tell him what is happening and what is going on, he could educate our future citizens. I hope that somebody will do that.

COMMENT: The lady behind me who raised the comment of her husband not knowing something raises the point that when we talk about the politics of economic development—I’m thinking here about the small politics of economic development—it is useful to remember that economic development is, to a very great extent, the art of storytelling. If you don’t believe this, just take a look at the ads in area development magazines, or for that matter, look at the way a business story begins in Business Week. It always begins with a story about a human being.

My point here is, first of all, that the art of good storytelling is the art of good content, not the art of good atmospheres—content matters. The challenge is to create a story about the economy that is both engaging and, in some ways, ennobling as well. A story that people can understand; a story they can feel a part of and that they feel they have a stake in. That is why innovation and ideas matter. It’s why evaluation matters, because you have to constantly update it. It’s also why the story is always a cliff-hanger. It always leaves you hanging because it is a moving target. My suggestion for the Clinton administration is, while you are in the business of thinking of new policies and regulations, think about storytelling, think about, in effect, enlightened jawboning, because administrations and have not seen clear and structured in terms of the that they are thinking about, what role is going to be.

COMMENT BY PATSY TOTOTZINTLE: I would just like to echo and, I guess on a few comments that we made by the women. I mean pour in the support. I come from a corner of realities here. First of all, I am a practitioner in community economic development and trying to combine economic and social policies that we mentioned. I am a person of color. I’m a woman. I need to say that I appreciate the three women who brought up the issue of diversity in inclusiveness because unless we extend the table, I’m sorry, anything you say about will not be valid to me and my communities. I agree with the comments that the Clinton administration need supply the support and the money, would go farther and say I don’t want that money given to localities and government that are not inclusive. Bring everybody around the table to talk about the plans, to develop those plans and implement those plans.

COMMENT BY JEFF SCHNEIDER: My name is Jeff Schneider and I work for the City of Minneapolis in the budget office. Of the things that our city leaders have struggled with is trying to connect economic development efforts, which traditionally are done by one city agency versus job training and social services which are traditionally done by other units of government agencies. What examples have you run across that make promising connections between firms, development and human development?
They have a personal stake in their local community, so they will spend time there. They have this obvious stake in the tax committee, but not in your policy-making committee. Maybe that is where we need to try and figure out how to get the businesses involved in the policy-setting process.

COMMENT BY LEE MUNNICH Graham Toft will give us a wrap-up on the whole thing. One of the great things about working at the Humphrey Institute is working in the spirit and tradition of the person whom this place is named after. Every day I walk by the ceremonial office of Hubert Humphrey and sometimes I feel like he is there. I feel that his spirit is with us and I kind of think he is in this room with us today. To demonstrate that, I took a copy of Hubert H. Humphrey's Wit & Wisdom, which has a number of his quotes. He said a lot. You can go through this and find just about anything. There were a half dozen here that were really great but I am just going to read about three of them to you just to hear what he had to say.

November 10, 1966, he said: When you bring together government and the private sector in partnership and cooperation, you begin to feel the real impact or the real strength of a country—a free country such as ours.

June 15, 1975, he said: In public life, what is true is sometimes not quite as important as what people think is true because it's the attitudes of people and the opinions of people that ultimately make public policy.

March 30, 1967, he said: The business of politics is more than practicality. It is a
ROBERT E. FRIEDMAN

Robert E. Friedman is founder and chairman of the board of the Corporation for Enterprise Development (CFED), a Washington, D.C.-based not-for-profit economic development research, technical assistance, and demonstration organization. For fourteen years, Mr. Friedman and CFED have worked extensively with private and public policymakers in state and local governments, corporations, private foundations, labor unions, and community groups to design and implement innovative and effective economic development strategies.

HARRY HATRY

Harry Hatry has been a principal research associate and director of the State and Local Government Research Program at The Urban Institute in Washington, D.C. since 1970. He has led a number of evaluation projects aimed at developing procedures that can be used to assess the quality and efficiency in the delivery of public services. He has written extensively on the topic of program evaluation of state and local governments. He is the lead author of the report, Monitoring the Outcomes of Economic Development Program (second edition, 1992). He also wrote the report, Practical Program Evaluation for State and Local Governments (second edition, 1981).

JANET JONES

1989 when she was appointed by then-Governor Neil Goldschmidt to head up Policy and Research. Prior to joining OEDD, she spent eight years with Tri-Met, Portland's transit agency.

THOMAS LUCE

Thomas Luce is an assistant professor of planning and public affairs with the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis. Prior to coming to the institute in 1991, he was on the faculty of the Department of Public Administration at Pennsylvania State University. His research focuses on state/local fiscal and economic development issues in U.S. metropolitan areas.

JOHN KLINE

John Kline is deputy director of the Landegger Program in International Business Diplomacy at the Georgetown University School of Foreign Service in Washington, D.C. He teaches courses in international business diplomacy, business-government relations, and international business ethics. Mr. Kline is the author of three books, including Foreign Investment Strategies in Restructuring Economies (1992) and State Government Influence in U.S. International Economic Policy (1983). He is currently a member of the U.S. State Department's Advisory Committee on International Investment.

ANN MARKUSEN

Ann Markusen is director of Regional and Industrial Economics at Rutgers University in New Brunswick, New Jersey, where she is also a professor of urban planning and policy development. She is the author and coauthor of several books on high technology and American economic development, including Dismantling the Cold War Economy (1992) and The Rise of the Gunbelt (1991). She has served as a Brookings public policy fellow and as an advisor to the cities of Chicago, Cleveland, and Pittsburgh; the states of Michigan, California, and Ohio; and the U.S. Office of Technology Assessment.

ROBERT KUDRLE

Robert Kudrle is associate dean for research and professor of public affairs and planning at the Hubert H. Humphrey Institute of Public Affairs and director of the Orville and Jane Freeman Center for International Economic Policy at the University of Minnesota in Minneapolis. He is interested in industrial organization, public policy toward business, international economic policy, and the political economy of social services. He has served as a consultant and expert witness for the Antitrust Division of the U.S. Department of Justice.

ABIGAIL MCKENZIE

Abigail McKenzie has been director of the research and computing staff of the Minnesota Department of Trade and Economic Development in St. Paul since 1990, and for six years prior to that, supervised the department's economic

LEE W. MUNNICH, JR

Lee Munnich has been a senior fellow and the director of the State and Local Policy Program at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis since 1991. The State Local Policy Program focuses on issues of public policy that challenge the economic future of the Upper Midwest. Mr. Munnich has over twenty-five years of experience with state and local government. Prior to coming to the Institute, he served as deputy commissioner of the Minnesota Department of Trade and Economic Development.

JERRY NAGEL

Jerry Nagel is the director of the River Trade Corridor, Inc. in Crookston, Minnesota. He has been active for more than two decades as a professional in issues relating to rural development. He has been the economic development advisor of the governor of North Dakota; he authored several works on the issues of rural development, including a book titled The History of Rural Telephone Cooperatives in North Dakota; and he worked for five years with migrant farm workers. He has also authored the book Aid to the Poor, Am I My Brothers Keeper.

WILLIAM NOTHDURFT

William Notthdurft is a writer and independent public policy consultant.
Graham Toft is president of the Indiana Economic Development Council, Inc. (IEDC) in Indianapolis, Indiana’s think tank on economic development. IEDC has recently completed an extensive exploration of the future of economic development called *Ahead of the Curve*, partially funded by the Joyce Foundation. It is now engaged in Indiana’s third strategic planning cycle. Mr. Toft’s consulting work in economic development strategy includes projects in over forty local areas and five state governments.
STATE AND LOCAL POLICY PROGRAM
Hubert H. Humphrey Institute of Public Affairs
University of Minnesota
301 19th Avenue South
Minneapolis, MN 55455

PHONE: (612) 625-8575
Fax: (612) 626-9833
INTERNET: hmunnich@hhh.umn.edu

This report was prepared under an award from the
U.S. Department of Commerce
Economic Development Administration

EDA

EDA Project No. 99-06-07368

July 1995