The Centrality of Growth

By Michael Cecire • Apr 28th, 2009 • Category: Economic Development, Top Story

A couple years back I made a point of bemoaning the general confusion between economic development and growth. Specifically, the language of 'development' would too often substitute the centrality of growth in creating prosperity and sustainable economic health. While my exhortations were certainly relevant then, it seems that the raging fires of the global economic recession cast the issue into sharp relief.

Here's a bit of what I wrote in 2007:

> Many a municipal or state government's economic policies, which have often amounted to little more than papering over inherent structural and systemic inadequacies, must be retooled to accommodate, rather than supplant, private interests within their communities. Higher per-capita income will improve standards of living, not flagrant subsidy programs. Greater worker productivity will most effectively help generate revenue, not draconian tax policies. Innovation and expansion will help foster a deeper business environment, not protectionism.

With everyone all up in a hoopla about the sprawling unknowns of the economic downturn-recession-depression-apocalypse, the troubling and ironic trend has been to surrender any pretense of thought to growth and concern ourselves with the frenetic business of building plywood sets to mimic economic recovery. Of course, there's some logic in this approach, with public confidence about as robust as a Detroit Lions' defense, Americans need reassurance (apparently trillions of dollars worth of reassurance). But if we follow the exercise of veneer-making to its logical conclusion, we're left with unworthy projects, a heap of unpaid bills, and a series of hyper-entrenched bureaucracies. Excellent.

Instead, I would like to point out that we must focus on *growth*, and not development as it is often understood. With growth comes development, while leapfrogging directly to development causes something some of my friends like to call things like market distortions and negative externalities. It should be implied, but to erase any doubt: these aren't good things.

In the study of economic development and its intersection with growth, the keen observer becomes acquainted with a disturbing association between economic development agencies and *low* levels of growth. Think of two top-heavy states in the country (say, New Jersey and California) and you get two of the most prominent growth-laggards. The inability to distinguish between creating the conditions to facilitate growth - the classical province of public sector investment - and artificially propping up key business interests, with such patronage inevitably allocated according to political associations, is the principal undoing of the public economic development role. As our wise men associated with the Virginia School of Political Economy can tell us, such relationships have a tendency to create a culture of rent-seeking, patronage and political calcification.

Virginia has been famously free of this variety of bureaucratic crush, and has subsequently earned a nation-leading score by the Pew Center on the States. That doesn't earn us complacency as this is exactly the sort of time that sober policies are exchanged for political expediency. With the economy in the dumps and the states eagerly standing in the Uncle Sam bread line, the economic policy distinctions between states may start to erode. As some have observed, the stimulus money being dispersed to the states came with certain costs, such as obligatory government expansions and, in some cases, may force tax hikes to pay for these long-term costs.

A Keynesian demand-side program invariably invests further power at the center, and it's at the center and its dependent nodes where the hat-holders will go to worship - not to the consumer, the taxpayer or the electorate. For years, low-growth states have sought mechanisms, usually political, to balance their comparative disadvantage of high taxes, high bureaucracy with the fiscal roadrunners in the south and west - it seems that this may be their chance.

Of course Virginia is taking the stimulus money, that's just the reality. But with the money coming in the focus must be strategic investments that will stimulate growth and bring Virginia a healthy ROI. This means: 1) simple, business-friendly structural policies; 2) smart and non-superfluous infrastructure to facilitate commerce; and 3) human capital - through vocation-oriented education.

All in all, Virginia would likely be a stirring - and exceptional - example of post-recession growth if the Commonwealth can get out of its own way and avoid the trap of an economic development free-for-all. While I've voiced my desire for Virginia to position itself as the future engine of American economic growth by advocating for some new thinking, Virginia's most immediate concern might be just being able to stick to the basics, which may end up rendering first prize by default. It seems as though the Old Dominion has shackled itself to DC's free lunch, but that doesn't mean that Virginia can't still stay true

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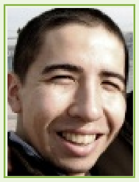
Dominion has shackled itself to DC's free lunch, but that doesn't mean that Virginia can't still stay true to fiscal discipline, sound entrepreneur-friendly policies and invest in the portfolio that never fails - Virginians.



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