



Why You Should Oppose 'Economic Development'

By Michael Cecire : 20 Nov 2007

Economic development seems quite the fashionable occupation in many state and municipal circles these days, and why not? Who can argue with efforts by the government to bring in new business, to facilitate job creation, and bolster the tax base? That's what government is for, right?

But lost amidst the litany of public sector truisms is a glaring disassociation between goals and objectives. Economic development is a term so overused, so vague, and so misunderstood that its employment in public discourse has become the convenient wildcard for government to impose its various, indeterminable designs. Have a hankering for a new waterfront? Issue bonds and call it economic development. Looking to lower unemployment? Wield public funds to subsidize otherwise wary corporations into setting up shop for a little while. But what is it we're really trying to accomplish? It stands to reason that the impulse for myriad economic development programs - implemented for their own sake - might be supplanting long-proven policies of economic growth. In a sense, we're losing sight of the forest for the trees.

Unfortunately, all too often, folks with policy-making responsibility are either foreign or indifferent to the differences between development and growth: whereas development represents the byproduct of economic strength - effective infrastructure, bolstering human capital, and strong employment - growth is the traditionally prescribed, and proven, mechanism for putting dollars in our pockets, allowing the markets to naturally stimulate development. *Id est*, after economic growth may follow expansion, higher tax revenues, increased employment, and more investment. Instead, political interests have attempted to cut out that critical ingredient from the picture and leapfrog onto development, hoping that public monies can be applied to create the veneer of growth, of economic health. And all too often, the result is problematic economic consequences and an over-drafted bank account, resulting in elevated clamor for new taxes, more federal and state aid, and - ironically - more economic development programs.

Such is the case today. Here's a dirty little secret about economic development: across the United States, there is a depressing correlation between the incidence of economic development programs and low levels of economic growth. That's right - statistically, the more economic development programs you have in your state, the more likely it is to be mired in sclerotic annual growth levels. Is this just chance? Maybe, but probably not.

A perfect example of this phenomenon is tiny, proudly anti-tax Delaware. A feisty little state of hardly more than 700,000 people, it wields an impressive Gross State Product of over \$60 billion and grew 3.3% in 2005. Compare this with neighboring Pennsylvania, a state inundated with layers upon layers of economic development authorities (see: Pennsylvania Economic Development Association, Governor's Action Team, Team Pennsylvania Foundation, Delaware River Port Authority, et cetera and et cetera), who registered barely more than half that growth (1.7%) in the same year. And Connecticut, according to the Commonwealth Institute, has invested some \$622 million in public money to business subsidies since 1991 with little in the way of results. The same study shows that the subsidized parties produced *less than half* of the jobs forecasted, costing taxpayers over \$50,000 per job. Jobs aren't a perfect indicator of economic expansion, but it stands to reason that programs meant to create jobs that aren't have little public utility besides keeping some bureaucracy or another on the payroll. These should stand as a sobering lessons to those reactively advocating development programs without thought to providing a genuine structural environment to encourage growth.

Not surprisingly, the most suffocating problem in the low-growth states stems from marginal productivity increases compared to their high growth counterparts in the south and west. Instead of looking to increase productivity - and personal income levels - many cities consistently fail to leverage what mechanisms they have to promote growth and instead jealously protect existing industries and cobble together policies that more resemble scrambling for leftovers to prolong the appearance of economic health. And this happens all while their more competitive neighbors stoke growth, productivity, and sector diversity.

At the end of the day, the key to promoting growth - and actual economic well-being - does not lie in politically motivated development programs so much as making careful investments in the mechanisms that do traditionally encourage and sustain growth: good governance/institutions and stabilization policies.

Sound public policy can make all the difference in promoting growth. Undoubtedly, 'good governance' and 'institutions' are rather pregnant terms, denoting a host of issues and policies. Still, they can be best distilled into governance/burden, human capital, and infrastructure.

Governance refers to what Norman Loayza, Pablo Fajnzylber, and Cesar Calderon refer to as "institutional quality of government." This covers a host of critical issues including corruption, institutional efficiency, and the rule of law. While not necessarily simple to fix, the process of identifying these issues are relatively straightforward and often measurable. Government burden, according to Loayza, et al., refers to the potential drain the government has on private activity. This could be in the form of taxes, regulations, inefficient institutions, and the like. In effect, greater government interference in private sector activities is more likely to retard productivity and thus, economic growth. Loayza, et al. refer to human capital as, more specifically, efficient government investments in education. And infrastructure, again from Loayza, et al., is the efficient investment in public goods and infrastructure. Efficient investment, however, must correspond to strictures on government burdens.

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. In order to make such economic development market driven, sustainable, and publicly beneficial, it's time to bring it off its rhetorical pedestal and reaffirm proven policies of productivity and growth.