

OUTLINE OF TRED BOOK

Working title: "Targeting Regional Economic Development"

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II. 2. Historical Description of Economic Development Policy (Deller)

From Book Perspective

This chapter provides a broad overview of economic development policy ranging from tax incentive programs starting with the Mississippi Balance Agriculture with Industry (BAWI) policies from the Great Depression era and the current competition between the states to the focus on entrepreneurship and business retention and expansion to the current philosophies of collaboration and partnership building within and across communities. This chapter outlines in detail the "waves" of economic development policies at the state and local level.

Abstract for Editor Review

The notion of targeting economic development has a rich and well developed tradition within the academic literature and has been a major emphasis of regional economic development policies. Within the academic literature the foundation for targeting policies can be found in the introduction of space within microeconomics, the location of the firm and the concepts of spatial markets. Given that manufacturing was the driving force behind the economy during this time, much of the work focused on the location decisions of manufacturing. The economic concept that firms pick a location to minimize the costs of production had a direct and important implication on economic development policies. During the Great Depression of the 1930s many state governments became frustrated with the lack of response to the economic crisis and felt the need to respond to local economic stress. The first state level program was the Mississippi Balance Agriculture with Industry (BAWI) which built aggressively on the idea of export base theory (as it was known at the time) and the cost of production. Mississippi promoted itself as a low cost alternative location to manufacturing firms located in the northern states. Advancing the idea of cheap labor, land and tax costs Mississippi was successful in recruiting many northern firms. Perhaps more important to a pure marketing effort, the BAWI introduced the notion of tax incentives aimed at firms that would relocate into Mississippi. The dire economic conditions at the time, coupled with the early success of the BAWI program along with the relatively new theoretical advances in economics, resulted in numerous states adopting similar types of policies. In essence, the foundation for a new "war between the states" was effectively laid.

As outlined in Shaffer, et al. (2006) the progression of state, and local, economic development policies can be described in terms of "waves". The strategy of industry recruitment, or "smoke-stack chasing", embodied in the Mississippi BAWI approach, is often reviewed to as the "first wave". Today three waves of strategy development have been acknowledged and the search for the next or "fourth wave" has become akin to the search for the golden grail in economic development. Beyond tax abatements other first wave strategies include offering low cost sites, low interest loans and training funds to name a few. The second wave of economic development strategies emphasized homegrown economic activity (entrepreneurship, expansion and retention). Activities associated with these types of strategies were increasing investment capital for local firms, development of incubators, technical assistance for local firms, revolving loan funds, and tax increment financing.

Third wave economic development strategies emphasize public-private partnerships. Here the emphasis is on increasing competitiveness. In third wave strategies, government agencies and economic

development organizations worry about creating networks to leverage capital, investing in human resources, and high skill and good paying jobs. Reasons for emphasizing third wave development strategies are that service was fragmented and the customers were expected to integrate. Third wave strategies attempt to integrate different programs for the customer. Other reasons for third wave strategies focus on differentiation instead of an approach whereby *one size fits all* (endemic to first and second wave strategies). Yet other reasons for third wave strategies include issues of scale, in particular the concept of agglomeration economies. The notion of agglomeration economies within a spatial world is at the core of the Porter approach to economic cluster development. Some have suggested that Porter's cluster development is the fourth wave of development, yet others maintain that it is but one dimension of the third wave.

This chapter will further develop these lines of thinking with particular focus on Porter's notion of cluster development. The focus will be on the evolution of policy with the common theme of targeted regional economic development (TRED).