



TARGETING REGIONAL ECONOMIC DEVELOPMENT

A JOINT INITIATIVE OF THE REGIONAL RURAL DEVELOPMENT CENTERS

<http://nercrd/psu.edu/TRED/index.html>

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What is TRED?

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TRED is:

- An economic development strategy
- A process (strategic planning)
- Content (data analysis and interpretation)

Targeted Regional Economic Development (TRED) is a means to an end with the end being the implementation of a viable set of economic growth and development strategies. By combining the process of targeting analysis with the contents of the analysis, powerful insights into the regional economy can be gained. We suggest that the TRED exercise can be as much an educational tool as it is the foundation of a technical report delivered to community leaders.

Targeted Regional Economic Development is composed of multiple parts including a detailed and methodical analysis of the regional economy, set within a process that allows community leaders and concerned citizens to influence the direction of the analysis. Through the process of undertaking a TRED analysis a better understanding of the regional economy will be gained along with insights into specific economic growth and development strategies. We will see that well-crafted targeting analysis can help focus energies not only on which industries to recruit but also, and more importantly, on existing businesses and the promotion of new businesses through entrepreneurship and small business development.

As we will see there are numerous approaches to TRED analysis ranging from the simplistic to the complex. Simplistic analysis may include examining indicators of industrial strength such as Location Quotients, shift-share and market threshold. Even such simplistic measures can provide valuable initial insights. More complex and rigorous methods of analysis can range from measures of regional imports and exports in the spirit of import substitution to statistical analysis of the probability of a certain type of industry being present in a region. It is important to keep in mind that the analytics, no matter how simplistic or complex, are not an end product but a means to an end. That end is a better and more sophisticated understanding

of the regional economy and the adoption of a set of focused strategies that moves the regional economy forward.

The approach that we propose is based on the argument that the TRED analysis is a means to undertaking a strategic planning process. There is a growing recognition across communities and public agencies in the value of strategic planning. Some states have statutory requirements that communities develop and have in place comprehensive plans. For most of these plans economic development is a central focus. In other states economic development practitioners have embraced strategic planning as vital to their community-based efforts. Unfortunately, for too many communities that undertake a Targeted Regional Economic Development analysis the strategic planning process is lost to the economic analysis. Too often a community will hire a consultant who analyzes the data and presents a technical report to the practitioners and community leaders. Due to the lack of local ownership of the analysis coupled with the complexity of the analysis these technical reports are more likely to collect dust than to inform local decisions. By using TRED as a focal point of an economic growth and development strategic planning process, sustainable change can occur within the community.

Targeted Regional Economic Development, however, should not be viewed as a panacea for community and regional economic growth and development difficulties. TRED analysis is relatively focused on identifying industries or economic sectors that might be most appropriate for the region. TRED is not aimed at addressing community-wide issues such as poverty or affordable housing. While such issues may come to the forefront through the strategic planning process that we outline, TRED analysis addresses a much narrower question. In addition, some economists dismiss industrial targeting strategies as wasteful and ineffective “central planning”. In this view local officials and concerned citizens are charged with “picking winners” and because of the complexity of the economy any such effort is doomed to failure. These economists maintain that the “markets know best” and that the best the community can do is to create a viable business climate, broadly defined, and get out of the way.

To a certain extent we agree with these economists, but only within a certain context. When a community hires a consultant who delivers a tome of a report and the community then spends limited resources on recruitment efforts, these “market” economists may be right. If, on the other hand, the community uses TRED as a specific approach to strategic planning, then we believe the “market” economist overstate their case. We argue that by approaching TRED as suggested here, local decision makers and concerned citizens will come to appreciate the complexities and nuances of industrial targeting and put in place reasonable expectations and strategies.

In the end, the process and analysis we offer here will help local officials better understand that not all communities can become the next “biotech silicon valley” or a tourism mecca. A thoughtful analysis cast within a reasonable strategic planning process can help communities better understand what is and what is not reasonable. Can mistakes be made and strategies misdirected? Of course, but can the community position itself so as to learn from these mistakes? If we take the approach of the “market” economists and simply sit back and let the markets dictate the community’s future, subtle but important opportunities will be missed.

Why now:

- Wealth of data/too much information
- Devolution of federal responsibility/need for local capacity
- Response to economic recession/Stimulus funds

We believe the TRED program outlined here is particularly timely for a number of reasons. First, for the past few decades public responsibilities have devolved slowly but steadily to the lowest levels of government. In the area of economic growth and development communities have come to appreciate the vital role that they play in affecting economic change. As local leaders and concerned citizens become more comfortable with this role in economic growth and development they are asking increasingly complex questions. Many communities have moved away from the “shoot anything that flies and claim anything that lands” mentality of more traditional industrial targeting. Community leaders have found that blind industrial recruitment does not work in the long-term. By asking more complex questions about the local economy a “teachable moment” is created where community economic development practitioners can move the community forward by both expanding and focusing the thinking of local officials and concerned citizens.

The depth of the most recent economic recession has caught many community leaders and economic development practitioners by surprise. The bursting of the housing bubble and the near collapse of the financial markets has renewed interest in economic growth and development efforts at the local level. With the advent of the significant amount of federal stimulus monies coupled with a new philosophy of federal government involvement there is a keen interest in how communities can better position themselves for economic growth and development. While the federal stimulus funds may be viewed as a short-term reaction to a deep economic recession the new philosophies of the federal government’s role are likely to have longer-term implications. We do not foresee a reversal of the devolution movement but rather a change in local-state-federal relationships. Much of the devolution movement over the past several decades has taken the form of higher levels of government simply stepping away and leaving a void to be filled by lower levels of government. We foresee an extended period of time during which the federal government will step up as a critical partner in assisting local governments in their economic development efforts. This may be through financial resources (such as the stimulus monies) and/or technical support. Given the depth of the recession and the response of the federal government tremendous opportunities exist for communities to take several steps forward and the approaches to TRED outlined here provide viable alternative options.

The advent of the internet has been both a blessing and a curse for economic development practitioners. The rapid flow of information has been revolutionary in how people communicate and gather data. At the same time the flow of information can be overwhelming. The amount of economic data that can be easily accessed through the internet has exploded in recent years and will continue to expand into the foreseeable future. The days of going to the library and hand copying economic and social data are nearly over. With the point and click of a mouse the practitioner can have vast volumes of data at his or her finger-tips. The challenge we face now is information overload: what does the practitioner do with all of this data? Here the process is as important as the content of TRED. Without a systematic process to think about, process and reflect upon the data analysis (i.e., content) the TRED effort will become unsustainable because of data overload. In many community settings the process of conducting the analysis can be just as powerful as the end

product. Teachable moments are created and community leaders and concerned citizens can engage in thoughtful discussions about the strengths and weaknesses of their regional economy and future possibilities.

About clusters:

- New way of thinking about local, rural, regional new economy
- Organizing framework for community/discussion starter
- One way of identifying new economic opportunity
- Building on current and historical economic strengths

One key reason for the renewed interest in targeted regional economic development (TRED) has been the introduction of cluster development principles into regional economic development policy discussions by Harvard business economist Michael Porter. While the ideas underlying the notion of clusters have been around for nearly 100 years, Porter has almost single-handedly spurred the interest in thinking differently about economic development policy. One important outgrowth of this new thinking is the concerted movement away from the approach of “shoot anything that flies, claim anything that lands” to more strategic behavior in identifying the specific types of industry that should be promoted at the local and regional levels.

While there have been many attempts to define what a cluster is and is not there are several overlapping characteristics that define a cluster: interconnected industries, regional concentration, specialized input suppliers, thick labor markets (i.e., abundant supplies of specialized labor), complementary institutions, and entrepreneurial spirit. Popular examples include computers in Silicon Valley, the garment and financial districts in New York City, NASCAR racing teams in North Carolina and Formula One racing teams in England or gaming in Las Vegas. Most clusters, however, tend to be more mundane, such as cheese processing in Wisconsin, chemical manufacturing in Louisiana, or crab fishing off the coast of Alaska.

The key here is that certain regions have what economist call a comparative advantage. Specifically, given a particular community’s resources broadly defined, the community can be more productive at supplying a particular good or service when compared to another. For example, large parts of Illinois have a comparative advantage in crop production over northern New England because of their soils and geography. A key element of clusters and TRED analysis is the identification of what a community’s comparative advantage is, or is not. Once those comparative advantages are identified, appropriate policies can be crafted to build on them.

Much of the work on economic clusters hinges on trying to better understand how comparative advantages are self-reinforcing. In other words, we observe that once a cluster is established, the cluster tends to feed upon itself, growing larger and more robust. A central question that economists worry about is why this self-reinforcing process takes place and whether policies can be crafted to influence the development of clusters. Indeed, although Paul Krugman is best known for his social and economic commentary, his Nobel Prize in Economics was for his work in attempting to answer this question. Unfortunately, clusters are much like art: we know it when we see it.

This latter observation serves as a foundation for “market” economist who argue that attempts to “pick winners” (i.e., the right cluster) is prone to failure because our ability to “out-guess” the markets is very weak. This line of thinking had resulted in what is called the “Washington Consensus” in terms of free international trade. For example, policies such as NAFTA removed barriers for free movements of the markets across North America. As in the case of cluster development, the Washington Consensus held that countries have a comparative advantage in certain industries and should be allowed to specialize in those industries and then trade in international markets. In the simplest terms, the markets know best.

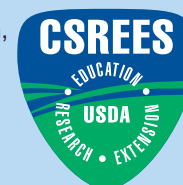
Cluster development and targeted regional economic development (TRED) is more about identifying established industries that with nurturing could develop into thriving clusters. “Market” economists are right if the aim of policy is to form new clusters from whole cloth. By undertaking a TRED analysis we suggest that local industries that are on the verge of forming a vibrant cluster can be identified and nurtured. Here historical strengths can be analyzed with an eye toward the future. Existing clusters that may be threatened or are not viable in the long-term can be identified and discussed. Policies could range from forming public-private partnerships to facilitating communication within and across businesses in the cluster to networking with local institutions of higher education to custom craft research and educational programs to working with small businesses to fill gaps in the local cluster network.

Independently of the free markets debate, the TRED process and analysis can help decision-makers and concerned citizens better understand their local economy. One positive aspect that has come about from the adoption of Porter’s notion of clusters at the local level is that communities function within a larger regional economy. Clusters do not respect the political boundaries of municipalities, counties or even states. Here communities are coming to appreciate the need for cooperation across the region. By promoting clusters in a strategic manner many communities have come to realize that blind industrial recruitment is a misuse of limited resources. By focusing its efforts on targeted clusters the community, or more correctly partnerships of communities, can move forward.

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