Changing Times Call for Changing Strategies

By Mary Branham [1]
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When business leaders get together to talk in Oregon, people listen.

More than 1,200 people, including many state policymakers, in fact, are hearing that message. That’s because the business leaders gather in January to lay out their wants and needs.

“If we see a consensus on something we think can make a difference, we try to call that out,” said Duncan Wyse, president of the Oregon Business Council, which holds the leadership summit attended by policymakers, business and community leaders.

The Oregon group is among many private groups across the country getting more involved in state economic development efforts.

“This is becoming more common, ... the switch from having a state agency to a public-private partnership” for economic development, said Laura Stein, vice president for administration at the Iowa Innovation Corporation, which works with a state authority to woo business to the state.

The state agency still plays a role, of course. Take North Carolina, which is redesigning its economic development strategy, placing the sales and marketing function in the hands of a private entity, according to state Commerce Secretary John Skvarla. His agency evaluates the proposals from the Economic Development Partnership.

“It truly is a public-private partnership that is designed to give the recruiting function speed and mobility, quite candidly, free of bureaucratic constraints that government tends to offer,” he said.

The National Governors Association—in a 2013 report, “Redesigning State Economic Development Agencies”—found three foundational strategies greatly increase the effectiveness of economic development agencies, among them: engage and sustain the private sector involvement. The other strategies from the NGA Center for Best Practices: creating mechanisms to create collaboration and instituting a quantitative evaluation system.

Changing times—with global competition, innovation and entrepreneurs driving development—call for changing strategies in the states, the NGA report said. In the past, strategies often favored recruiting a big catch—a large business or industry to move into the state.

In Massachusetts, state officials target different sectors of the economy through a distributed network of quasi-governmental economic development agencies, according to Pat Larkin, director of the Innovation Institute at MassTech. Her sector is focused on innovative products and ideas.
“It’s a partnership with industry, trying to be responsive to industry needs in a modern economy that moves at warp speed,” Larkin said.

But newer firms account for most new jobs, according to the NGA report, and the big tax incentives states used to give put them in direct competition with each other with no guarantee, and often no evidence, of success.

Some states are restructuring or moving away from the traditional tax incentive packages. Michigan, for instance, is moving to more cash incentives, where businesses get the assistance upfront for infrastructure or worker training, according to Steve Arwood, CEO for the Michigan Economic Development Corporation.

“It is more of a project-based approach, using funds to extend a sewer, fix a road, help with upfront job training costs,” Arwood said.

But states need to ensure they are getting enough bang for those bucks, said Robert Zahradnik, project director for economic development at the Pew Charitable Trusts, who has been studying state evaluations of such incentives. Between 2012 and 2014, 10 states and the District of Columbia passed laws to require regular evaluation of incentives.

“When it comes to this type of policy, the stakes are high,” Zahradnik said. “Policymakers spend billions of dollars each year on tax incentives. Clearly, they don’t want to miss opportunities to spark economic growth that could lead to more jobs and higher earnings and bright prospects for the Americans they serve, but at the same time, policymakers need to consider tradeoffs.

“A dollar spent on a tax incentive is one they can’t spend on other investments to grow their economy, like education and infrastructure.”