

APPENDIX 10

BASICS OF ECONOMIC DEVELOPMENT

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INTRODUCTION

Economic development is something everyone who has ever sought public office or served in public office seems to advocate. Almost every community wants it. States, including Mississippi, budget millions for it. Countless articles are written about it. Nevertheless, it seems that the concept is sometimes difficult to explain and has a mystique surrounding it.

The purpose of this section is to examine the fundamentals of economic development in general and how they relate to state and local economic development in Mississippi. The form of economic development organizations and the role of the economic developer will also be discussed.

WHAT IS ECONOMIC DEVELOPMENT?

The term “economic development” was hardly used before World War II, although the concept has been around for centuries.⁷⁹⁴ Even though everyone wants it, and even though everyone seems to know what it means, the term “economic development” is still in search of a standard definition. Here, for example, are several current definitions:

“a . . . process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services.”⁷⁹⁵

“. . . a process that leads the creation of jobs and viable communities. The process is initiated when a specific enterprise development opportunity seeks a location that can satisfy a set of critical selection criteria.”⁷⁹⁶

“. . . the growth process of developing and maintaining suitable economic, social and political environments, in which balance may be realized, increasing the wealth of the community.”⁷⁹⁷

“. . . a sustainable process of creating economic opportunity for all citizens,

⁷⁹⁴H. W. Arndt, *The History of an Idea*, (University of Chicago Press, 1989), p.69.

⁷⁹⁵*Economic Development Today: A Report to the Profession*, by American Economic Development Council (Washington D.C., 1984). (Note: AEDC was later merged with the Council for Urban Economic Development (CUED) to form the International Economic Development Council (IEDC).)

⁷⁹⁶Location/Site Selection. Available <http://www.sitelocationassistance.com/cnep.htm>

⁷⁹⁷Economic Developers Association of Alberta, Canada. Available <http://www.edaalberta.com/Aboutusfiles/DefinitionOfEconDevelop.htm>

stimulating business investment, and diversifying the public revenue.⁷⁹⁸

“ . . . an increase in real income per head.⁷⁹⁹

“ . . . a program, a group of policies, and/or activity that seeks to improve the economic well-being and quality of life for a community. Ideally, it will create and retain jobs and provide a stable tax base.”⁸⁰⁰

For purposes of this discussion, and because it is the definition offered in the basic course for Mississippi economic developers, the following definition will be used:

*Economic development is the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services.*⁸⁰¹

In the past, economic development primarily meant recruiting new industry to the community. As the activity has become more professional and diversified, it now includes efforts to assist existing businesses in their expansion efforts and, if necessary, finding ways to keep businesses from leaving the community. Economic development is often considered to be a marketing activity.

Community development, on the other hand, is an internal community activity that is, in a sense, preparation for economic development. While economic development is primarily concerned with jobs, community development is concerned with a myriad of development activities such as schools, transportation, government and infrastructure. Some would consider economic development primarily an external effort while community development is mostly an internal activity. In any sense, they each complement each other.

In communities with well-established, successful economic and community development programs there will be organizational capacity development, community development, business development, and workforce development. Organizational capacity development refers to the ability of groups and organizations to work together to meet the economic development needs of the community. Capacity development is about partnering to develop strategies, raise funds, and work in a more efficient manner than if the organizations did things by themselves. Community development is about putting the pieces together to improve the community. Investments might include, but not be limited to, infrastructure, downtown areas, gateways, business parks, speculative buildings and/or public/private partnership opportunities. Business development involves programs that encourage business growth and investment such as business attraction, retention and expansion, tourism, and start-up and emerging businesses. Workforce

⁷⁹⁸Georgia Economic Developers Association. Available <http://www.geda.org/misc/definition>

⁷⁹⁹Gerald M. Meier, ed. and James E. Rauch ed., *Leading Issues in Economic Development*, 7th Ed. (Oxford University Press, 2000).

⁸⁰⁰*Lane County, Oregon Manual*, Section 4.105.

⁸⁰¹Ron Swager, *New South Economic Development Course* (University of Southern Mississippi).

development is concerned with partnerships between businesses, education and government that build the skills of the local workforce.

BRIEF HISTORY OF ECONOMIC DEVELOPMENT IN MISSISSIPPI

The current economic development climate in Mississippi began with the Balance Agriculture With Industry (BAWI) program passed by the legislature in 1936.⁸⁰² Governor Hugh White, former Mayor of Columbia, had been instrumental in recruiting a Chicago manufacturing company to the local community. Under what became known as the Columbia Plan, a Chicago garment manufacturer was recruited to Columbia with the promise that the land and building for the plant would be donated. In spite of much initial pessimism, the effort was a success, with 700 workers employed. Subsequently, retail sales increased 26 percent in Columbia as the state as a whole showed a 32 percent decline. In the mid-1930's only Michigan surpassed Mississippi in the percentage increase in manufacturing. By 1965, industrial employment exceeded manufacturing employment for the first time in Mississippi's history.

The name used by the state agency primarily responsible for statewide economic development reflects the change in the nature of economic development over the years. It has been designated as the Agricultural and Industrial Board, then the Department of Economic Development, Mississippi Department of Economic and Community Development, and Mississippi Development Authority.

THE SITE SELECTION PROCESS

The odds of a community landing a big economic development project are small.⁸⁰³ In recent years there have been approximately 2,500 major projects per year that create primary jobs. That sounds like a lot of opportunity until one considers that there are some 25,000 economic development organizations in the United States. Therefore, the overall odds of success for each organization are 1 in 10.

The odds change depending on location. Seventy-five percent of those projects will locate in urban areas. Now the odds change to 3 in 40 for an urban area and 1 in 40 for a rural area. Stated another way, in an urban area a new primary jobs facility will be located in the vicinity every 13 years. In a rural area, it will occur every 40 years. Ninety percent of the projects will employ less than 100 employees. Thus the odds of a major employer (more than 100 employees) locating in a particular urban area are 3 in 400, or every 133 years, and 1 in 400, or every 400 years, in a rural area.

A community can increase its odds by doing several things. It can do research and planning on its workforce, market area and strategic advantages so that it can target companies and expanding industries likely to match the community's characteristics. For example, a community in south Mississippi is going to have an easier time recruiting a lumber mill than a snowmobile manufacturer. It has nearby forests; it does not have nearby snowmobile buyers. It can also construct appropriate speculative buildings on good sites. It is very important to an expanding

⁸⁰²Mike Bunn and Clay Williams, "Capitals and Capitols: The Places and spaces of Mississippi's Seat of Government," in *Mississippi History Now*, (Mississippi Historical Society, 2003).

⁸⁰³Phil Hardwick, "Is Mississippi Beating the Odds on Economic Development?," *Mississippi Business Journal* vol.20, no.13.

company to be able to get up and running as quickly as possible. An available building shortens the start-up time.

Next, it can have financing programs in place available to the company. Relocating companies do not place much stock in a community that tells them that it will change laws to make the deal work. The laws should have already been changed and the financing incentives already in place. The community must also market itself. It cannot expect the world to seek it out. A community that does not market itself and prospect for new companies is likely to get just what it asks for — nothing.

Community attitude must be business-friendly and welcome new industry. As someone who did site selection work for several years, this writer can personally testify that a company will not go into a community that does not want it to be there. Successful communities realize that they must overcome local turf battles, racial problems and inept government if they are to compete in today's environment.

It is also important to know what companies that are expanding are looking for. A recent survey⁸⁰⁴ of corporate executives by *Area Development* magazine listed the following as the top ten selection factors:

- availability of skilled labor,
- labor costs,
- tax exemptions,
- state & local incentives,
- highway accessibility,
- corporate tax rate,
- proximity to major markets,
- occupancy or construction costs,
- energy availability and costs, and
- environmental regulations.

STRUCTURE OF AN ECONOMIC DEVELOPMENT ORGANIZATION

Size of the local community will be the major factor in determining the type of economic development organization it might have. In small, rural areas the economic development organization might be a committee of another organization. In more populated areas, it might be a county organization set up as an authority under the umbrella of county or city government. The three major considerations regarding structure of the organization are legal entity, organizational type and funding.

The legal entity should be tied to the overall strategy of the organization. For example, if the organization's mission is primarily industrial recruitment and maintenance of industrial parks then it might want to be a unit of government, such as an authority. Some organizations prefer to set up as a Section 501-C-3 or C-6, nonprofit organization. Therefore, it is best to determine the organization's mission first, and then consult with legal counsel about the appropriate legal structure.

The organization type refers to the structure of the organization itself. The boards of directors in public economic development organizations are usually appointed by elected officials. In public/private organizations, the board is made up of some public or publicly appointed

⁸⁰⁴“17th Annual Corporate Survey,” *Area Development* (December, 2002).

members and some members from private industry. Some boards are all private. Some boards are set up so that there are ex-officio positions. Again, the organization type should relate to the mission. One trend in economic development is a regional organization that combines the function of the chamber of commerce, tourism, community development and industrial recruiting into a single entity. There are also ad hoc and specially created economic development structures. For example, when a major automobile manufacturer built a plant in Alabama, a group of east-central Mississippi economic developers formed an ad hoc task force to market the region to suppliers to the facility. In the Jackson metropolitan area, several public and private organizations formed an “alliance” to recruit industry to the region.

Funding is a major factor in the success of the organization. Many public organizations are funded by designated millage or special tax. Private economic development organizations rely on membership dues, grants, loans and capital campaigns.

CHARACTERISTIC OF A SUCCESSFUL ECONOMIC DEVELOPER

While it is most desirable to hire a full-time professional economic developer, it might not be possible at the local level. The elected official just might be the de facto economic developer. Successful economic development requires a generalist with the following knowledge and special skills:

- negotiation;
- marketing/sales;
- real estate development;
- zoning and building permit requirements;
- public speaking;
- research public and private company histories;
- finance and tax incentives;
- ability to analyze competing communities;
- ability to organize and mobilize task forces;
- laws regarding tax, workers compensation, environmental, etc.;
- government and legislative process; and
- organization skills.

Most of all, a good economic developer is a good facilitator. To facilitate means to make things easier. Therefore, the economic developer is someone who makes it easier for businesses to expand or move into the community. The economic developer should be the clearinghouse for information about the community.

ECONOMIC DEVELOPMENT INCENTIVES

Mississippi, like most states, offers a variety of incentives to spur economic development. These incentives range from special financing programs to tax credits. As economic development has become so competitive, incentives need to be flexible and therefore change often. For information on current statewide incentives, contact the Mississippi Development Authority.

Local officials would also benefit by reviewing Section 57-1-1 et seq. of the *Code* pertaining to the authority of local government to provide economic development incentives.

Likewise, the federal government has a variety of grants and loan programs available. Members of Congress from Mississippi now have staff personnel assigned to economic development matters.

ESSENTIAL ECONOMIC DEVELOPMENT QUESTIONS FOR LOCAL OFFICIALS_

Does the local economic development agency have a written strategic plan?

What is the community's economic development strategy?

Who handles economic development in the community?

Have local elected officials prepare for a visit by a site selection consultant?

Does the community have a constantly updated website?

What role do elected officials play in economic development?

How is economic development success measured?

Has the local economic development program been evaluated by an outside source?