



Citizens Research Council of Michigan



Regional Approaches to Economic Development

February 2007

Report 345

CELEBRATING 90 YEARS OF INDEPENDENT, NONPARTISAN
PUBLIC POLICY RESEARCH IN MICHIGAN

Board of Directors

Chairman
Kent J. Vana

Vice Chairman
Eugene A. Gargaro, Jr.

Treasurer
Jeffrey D. Bergeron

Jeffrey D. Bergeron
Ernst & Young LLP
J. Edward Berry
General Motors Corporation
Beth Chappell
Detroit Economic Club
James G. Davidson
Pfizer Inc.
Terence M. Donnelly
Dickinson Wright PLLC
Randall W. Eberts
W. E. Upjohn Institute
David O. Egner
Hudson-Webber Foundation
Joshua D. Eichenhorn
LaSalle Bank

W. Frank Fountain
DaimlerChrysler Corporation
Eugene A. Gargaro, Jr.
Masco Corporation
Ingrid A. Gregg
Earhart Foundation
Frank M. Hennessey
Hennessey Capital LLC
Marybeth S. Howe
National City Bank of Michigan
Nick A. Khouri
DTE Energy Company
Daniel T. Lis
Kelly Services, Inc.
Michael H. Michalak
Comerica Incorporated

Aleksandra A. Miziolek
Dykema
Irving Rose
Edward Rose & Sons
Jerry E. Rush
ArvinMeritor, Inc.
Andy Trestrail
Compuware Corporation
Kent J. Vana
Varnum, Riddering, Schmidt
& Howlett LLP
Amanda Van Dusen
Miller, Canfield, Paddock
and Stone PLC
Jeffrey K. Willemain
Deloitte.

Advisory Director

Louis Betanzos

Board of Trustees

Chairman
Patrick J. Ledwidge

Vice Chairman
Mark A. Murray

Terence E. Adderley
Kelly Services, Inc.
Judith I. Bailey
Jeffrey D. Bergeron
Ernst & Young LLP
Rebecca M. Blank
University of Michigan
Beth Chappell
Detroit Economic Club
Mary Sue Coleman
University of Michigan
Keith E. Crain
Crain Communications Inc
George H. Cress
United Bank & Trust -
Washtenaw
Tarik Daoud
AI Long Ford
Stephen R. D'Arcy
PricewaterhouseCoopers LLP
James N. De Boer, Jr.
Varnum, Riddering, Schmidt
& Howlett LLP
David O. Egner
Hudson-Webber Foundation
David L. Eisler
Ferris State University
John A. Fallon III
Eastern Michigan University
Gerald D. Fitzgerald
Oakwood Healthcare Inc.

W. Frank Fountain
DaimlerChrysler Corporation
David G. Frey
Frey Foundation
Mark Gaffney
Michigan State AFL-CIO
Eugene A. Gargaro, Jr.
Masco Corporation
Ralph J. Gerson
Guardian Industries Corporation
Eric R. Gilbertson
Saginaw Valley State University
Roderick D. Gillum
General Motors Corporation
Allan D. Gilmour
Ford Motor Company, Retired.
Alfred R. Glancy III
Unico Investment Company
Thomas J. Haas
Grand Valley State University
Frank M. Hennessey
Hennessey Capital LLC
Todd W. Herrick
Tecumseh Products Company
Paul C. Hillegonds
DTE Energy Company
David L. Hunke
Detroit Free Press
Dorothy A. Johnson
Ahlburg Company
F. Martin Johnson
JSJ Corporation

Elliot Joseph
St. John Health
Daniel J. Kelly
Deloitte. Retired.
David B. Kennedy
Earhart Foundation
Patrick J. Ledwidge
Dickinson Wright PLLC
Edward C. Levy, Jr.
Edw. C. Levy Co.
Sam Logan
Michigan Chronicle
Alphonse S. Lucarelli
William L. Matthews
Plante & Moran PLLC
Kenneth J. Matzick
Beaumont Hospitals
Paul W. McCracken
University of Michigan
Glenn D. Mroz
Michigan Technological University
Mark A. Murray
Meijer Inc.
Donald R. Parfet
Apjohn Group LLC
Phillip H. Power
The Center for Michigan
Keith Pretty
Northwood University
Michael Rao
Central Michigan University

Douglas B. Roberts
IPPSR- Michigan State University
Irving Rose
Edward Rose & Sons
Gary D. Russi
Oakland University
Nancy M. Schlichting
Henry Ford Health System
Lloyd A. Semple
Dykema
David C. Sharp
The Flint Journal
Lou Anna K. Simon
Michigan State University
S. Martin Taylor
Amanda Van Dusen
Miller, Canfield, Paddock and
Stone PLC
Kent J. Vana
Varnum, Riddering, Schmidt &
Howlett LLP
Brian C. Walker
Herman Miller, Inc.
Gail L. Warden
Henry Ford Health System
Jeffrey K. Willemain
Deloitte.
Leslie E. Wong
Northern Michigan University
Betty J. Youngblood
Lake Superior State University



Regional Approaches to Economic Development

February 2007

Report 345

This CRC Report was made possible by a grant from the Detroit Renaissance Foundation.

CITIZENS RESEARCH COUNCIL OF MICHIGAN

MAIN OFFICE 38777 West Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

LANSING OFFICE 124 West Allegan, Suite 1502 • Lansing, MI 48933 • 517-485-9444 • Fax 517-485-0423

CRCMICH.ORG

Contents

	<u>Page</u>
Introduction.....	1
Part 1: The Challenge of Economic Development	3
Summary	3
The Challenge in Michigan	3
Creative Destruction and Economic Development	5
Measuring Success	6
The Importance of Regions in Economic Development	9
Conclusion	11
Part 2: The Organizational Structure of Economic Development in Michigan	13
Summary	13
Economic Development Structures	13
Public Sector Involvement	14
Private Sector Economic Development Organizations	19
Conclusion	23
Part 3: Survey of Regional Economic Development Organizations	25
Summary	25
Survey Results	26
Conclusion	41
Part 4: The Search for the Silver Bullet	43
Summary	43
Economic Development Strategies	43
Conclusion	53
Attachment A	56

Tables

	<u>Page</u>
Table 1-1: 2005 Per Capita Personal Income for Michigan MSAs	10
Table 2-1: Michigan Metropolitan Planning Organizations (MPOs)	18
Table 3-1: Responding Regional Economic Development Organizations	26
Table 3-2: Organizational Types by Geographic Region	26
Table 3-3: Urban/Rural Characteristics	27
Table 3-4: Definition of the Region Served	27
Table 3-5: Identified Regional Economic Strengths	29
Table 3-6: Identified Regional Economic Problems	30
Table 3-7: Shared Regional Vision and Plan (By Location)	31
Table 3-8: Shared Regional Vision and Plan (By Type of Organization)	31
Table 3-9: Sources of Operating Revenues, by Type of Organization	32
Table 3-10: Funding for Responding Michigan Regional Economic Development Organizations	33
Table 3-11: Growth in the Past Five Years	34
Table 3-12: Average Number of Board Members from Various Sectors	34
Table 3-13: Common Functions and Services Provided (By Type of Organization)	36
Table 3-14: Common Functions and Services Provided (By Location)	37
Table 3-15: Less Common Functions and Services Provided	38
Table 3-16: Quality of Partnerships between Regional Economic Development Organizations and Other Entities	38
Table 3-17: Performance Indicators: Totals	39
Table 3-18: Averages of Responses from Organizations that Reported Selected Performance Indicators	40
Table 4-1: Tax Foundation Index: Michigan Business Tax Climate	44
Table 4-2: Tax Foundation's 2007 State Business Tax Climate Index: Selected States	45
Table 4-3: Ten States with Lowest Business Tax Burdens According to "Benchmarking for Success: A Comparison of State Business Taxes"	46

REGIONAL APPROACHES TO ECONOMIC DEVELOPMENT

Introduction

Economic restructuring may be the most critical challenge now facing Michigan. Existing and proposed public policies, including changes in tax structure, tax rates, environmental regulations, investment in infrastructure, the publicly funded social safety net, education funding and standards, and a variety of other issues, are judged by the perceived impact of those policies on economic development. And across the state, hundreds of public and private organizations are focused on meeting this challenge: on business attraction, retention, and growth; on the changes required for increasing prosperity and enhancing the tax base; and on finding new competitive niches in globalizing markets.

In May of 2001, Citizens Research Council published a *Survey of Economic Development Programs in Michigan* (Report No. 334), which updated and expanded the 1997 *Selected Michigan Economic Development Programs*. This series builds on those previous reports in an effort to contribute to the search for a more effective approach to the critical issues of economic growth and job creation. Implicit in our approach is an understanding that economies are regional, that private site location and expansion decisions are

strongly influenced by labor markets and conditions that are regional, and that governmental units that find effective ways to cooperate on a regional basis will be more successful than those that do not.

The first of this four-part series will review various definitions of, and metrics for, economic development and will explain why regions are an appropriate basis for economic development efforts. The second installment will focus on the many types of regional economic development organizational structures in an effort to explore how regional players coalesce around economic development goals and to identify best practices which may be applicable in Michigan. The third component will explore the results of a nationwide survey of regional economic development organizations in order to determine the roles and effectiveness of various kinds of regional economic development entities. The final installment will describe many of the sometimes contradictory theoretical and programmatic approaches to economic development. Analysis of best practices and survey results has resulted in the specific policy recommendations contained in this report.

Regional Approaches to Economic Development

PART 1

THE CHALLENGE OF ECONOMIC DEVELOPMENT

Summary

States and local units of government have long engaged in economic development activities, but economic activity is defined by labor markets, not political boundaries. While real estate and labor markets, money markets, transportation systems, and natural resource elements are regional, fragmented local governments have their own revenue systems, land use regulations, and capital improvement programs. Further, the existing public sector economic development structure incorporates perverse incentives: individual jurisdictions are likely to overinvest in attracting businesses that produce high tax revenues to the jurisdiction, but low labor market and fiscal benefits to the region, and to underinvest in businesses that produce environmental and congestion challenges for the jurisdiction, but high levels of labor market and fiscal benefits for the region.

The extraordinary economic challenges facing our state, and the ad hoc nature of regional economic development in Michigan, beg for better structure, organization, and reporting on regional bases. Because various businesses and entrepreneurs seek different combinations of resources, Michigan's leaders should consider the North Carolina model, which was

designed to enable regions to compete effectively for new investment and to devise effective economic development strategies based on regional opportunities and advantages. Regional economic development organizations could help define and market their regions' unique natural resources, history and culture, business and union environment, industry clusters, and infrastructure.

The state's role in economic development could be expanded to include defining logical regional boundaries that respect and build on existing regional initiatives, initiating public-private partnerships tasked with developing (or mediating) and implementing regionally relevant economic development strategies that are consistent with state plans, and insuring that appropriate data are made available to guide the continuous improvement of factually based regional economic development efforts. The State could also facilitate the sharing of information and best practices among regional partnerships and consider applicable regional strategies when planning state infrastructure investments, economic incentive programs, and branding and marketing programs.

The Challenge in Michigan

According to Fred Smith, Chairman of the Board of the Fed Ex Corporation, the world market is undergoing four major changes: continued emergence of high-value, high-tech products; globalization; adoption of fast cycle logistics; and the use of the Internet to sell goods without regard to place or time.¹ Michigan's business, political, and educational leaders are struggling to find a way to negotiate these changes and insure a prosperous and sustainable future that incorporates the productivity growth and global realities that have so shaken the status quo. However, economists at the Research Seminar in Quantitative Economics at the University of Michigan foresee continuing job losses through 2008, and no significant recovery even after that point.²

While Michigan has a wealth of assets including outstanding universities, bountiful natural resources, internationally competitive businesses, and talented and hard working residents, it is the American automobile industry that has shaped the economy and the expectations of this state for the past 100 years. Michigan's employment location quotient for "automobile, light truck, and parts manufacturing" is 7.88, meaning that this state's share of employment in that industry segment is 7.88 times the national average.³ In the face of a glut of global production capacity, however, the metro Detroit-based auto companies continue to suffer loss of market share and reductions in new vehicle prices, and to cuts in production in order to reduce bloated inventories. In

July of 2006, for the first time, Toyota Motor Company sold more vehicles in the U.S than did Ford Motor Company and Honda Motor Company sold more vehicles than the Chrysler Group. According to Sean McAlinden of the Center for Automotive Research, fewer than half of all vehicles sold in the U.S. will be made by Detroit's Big Three by 2009, and by 2011, foreign manufacturers will build more cars in the U.S. than will American manufacturers.⁴

Even after losing 217,900 manufacturing jobs (24.3 percent) between 2000 and 2005 in domestic automotive and auto supply companies, furniture manufacturers, and other goods-producing businesses, Michigan remains heavily dependent on manufacturing. After 16,300 manufacturing jobs disappeared between 2000 and 2005, 18.8 percent of all jobs in metropolitan Grand Rapids were still manufacturing jobs in 2005. Metropolitan Flint lost 29.5 percent of its manufacturing jobs in the first half of the decade, but in 2005, 14.0 percent of jobs in metro Flint were still manufacturing jobs. Metro Detroit lost 26.6 percent of its manufacturing jobs, but in 2005, 13.9 percent of jobs in metro Detroit were still in manufacturing. Metro Ann Arbor lost 28.1 percent of its manufacturing jobs in those five years and in 2005 was at the national average of 10.7 percent of jobs in the manufacturing sector.⁵

While the state's traditional industries and unions are in the process of adapting to globalization, productivity improvements, and volatile gasoline prices, the growth in knowledge-based jobs has lagged the rest of the nation: between 1995 and 2005, the metro Detroit area lost 87,799 manufacturing jobs and gained 31,500 advanced services jobs; metro Flint lost 26,500 manufacturing jobs and gained 3,700 advanced

services jobs.⁶ Crucially, the percentage of adults who have completed at least a bachelor's degree lags the nation (24.7 percent in Michigan compared to 27.2 percent in the U.S.) and is only 12.1 percent in the City of Detroit.⁷ The state unemployment rate, at 7.1 percent in December of 2006, continues to exceed the national average of 4.5 percent.⁸

Growth in Michigan's gross state product (GSP) has lagged the national average for the past three years. In 2004, Michigan was the only state with a negative growth rate, placing it dead last among the states. In 2005, Louisiana was the only state with a negative growth rate and Michigan ranked 49th of the 50 states in the percent change in GSP.

Economic restructuring has affected relative income levels: in 1999, Michigan median household income was \$40,260, above the U.S. average of \$39,009. In 2005, our state median household income was \$46,039, slightly below the national average of \$46,242. In 2005, larger cities with the highest percentage of poverty were Cleveland with 32.4 percent, and Detroit with 31.4 percent; the estimates for Cleveland and Detroit were not statistically significantly different from each other.⁹

Our state lost 22,515 people aged 18 to 24 between 2000 and 2005, ranking 49th in retaining young adults. The U.S. Census Bureau estimates that the City of Detroit's population declined from 951,270 on April 1, 2000 to 886,671 on July 1, 2005—an average loss of more than 1,000 residents each month over that period. And, according to United Van Lines, Michigan exceeded all other states in the proportion of residents departing: 66.0 percent of shipments were outbound in 2006.¹⁰

Regional Approaches to Economic Development

Creative Destruction and Economic Development

The influential 20th Century economist Joseph Schumpeter introduced the idea of creative destruction—the destruction and replacement of old ways of doing things and the redeployment of assets to a new combination of production—as the basis of economic development.¹¹ Various definitions of economic development emphasize different aspects of this process. The Economic Development Administration of the U.S. Department of Commerce refers to programs designed to enhance the factors of production—land, labor, capital, and technology.¹² University of Michigan's George Fulton and Donald Grimes substitute “entrepreneurship” for technology in their definition of the factors of production.¹³ Deborah L. Wince-Smith, President of the Council on Competitiveness, talks about innovation as the ability to transform ideas and knowledge into new products, processes, or services.¹⁴

While strategies and tactics may vary, the goal of economic development is to increase prosperity. Indeed, the International Economic Development Council (IEDC) defines economic development by its goal: “a program, group of policies, or activity that seeks to improve the economic well-being and quality of life for a community, by creating and/or retaining jobs that facilitate growth and provide a stable tax base.”¹⁵ Similarly, Robert Breault defines the goal of economic development as “to increase the standard of living and enhance opportunities for advancement by increasing per capita real wages, creating quality jobs, fostering enterprise, and improving the quality of life.”¹⁶ The Council on Competitiveness agrees that prosperity is the fundamental goal of all economic development.¹⁷

Some economists make a distinction between economic development and economic growth. Economic development can be defined as a qualitative change in the structure of the economy, including innovations in institutions, behavior and technology, while economic growth is a quantitative change in the scale of the economy in terms of investment, output, consumption, and income.¹⁸ The goal of economic growth is to get bigger, while the goal of economic development is to get better in terms of income, opportunities, and quality of life.¹⁹

Although once defined almost exclusively in terms of business recruitment (“smokestack chasing”), the term “economic development” now encompasses a broad range of activities that relate to business creation, retention, expansion, and attraction, and that increasingly focus on entrepreneurship and innovation. The following activities are included under the broad umbrella of economic development:

Strategic planning: Developing a strategy or plan for economic development, setting development goals (jobs attracted or retained, increased payroll, new businesses attracted, number and value of business expansions, etc.); Developing tax policy to attract or retain business.

Promoting the development of new products and services: Investment in basic and applied research and development; Building an “innovation platform”; Facilitating technology transfer, especially from university or government research labs, and developing commercialization opportunities.

Business Attraction: Conducting general and targeted marketing and attraction campaigns; Identifying business prospects and conducting outreach to non-resident businesses; Representing the locale at conferences, recruiting trips and trade missions; Reducing businesses’ search costs by providing information; Promoting specific sites, whether buildings or vacant land; Assisting with site selection; Developing relationships with national and international site selectors and relocation consultants; Creating targeted public investments in land and infrastructure.

Business Retention: Identifying and resolving problems affecting business; Visiting existing businesses to share information, facilitate expansion, and assist in removal of operational barriers.

Workforce Development: Managing workforce development programs; Providing information on the training needs of businesses and industries; Providing access to workforce training and recruitment resources; Advocating for increasing

funding and standards for K-12, community colleges, and universities.

Support Services and Technical Assistance: Administering business support services including lower cost insurance, facilitating the sharing of best practices, and providing networking opportunities; Managing a revolving loan fund; Assisting businesses with financial and strategic planning; Managing a business incubator; Identifying and providing data and information on the locale, including available buildings and sites; demographic, wage, and labor market data; taxes; major employers; city, county, and state incentive programs; traffic counts; retail sales data; economic indicators and trends; zoning information; key contacts in business and local government; Assisting with navigating through local government requirements.

Advocacy: Promoting a better business climate, including tax policy, infrastructure investments, regulations, workforce training, public education; Promoting quality of life issues including worker housing, public transportation, downtown redevelopment, clean and safe initiatives, sports and entertainment.

Programs to build on Michigan's strengths in higher education, autos and transportation, advanced manufacturing, energy, medical and life sciences, natural resources including fresh water, agriculture, and tourism are being implemented, but there are disagreements on the appropriate role of government and on the most effective way to structure economic development efforts.

Measuring Success

The complexity of determining the effectiveness of economic development efforts is exacerbated by the fact that success by one definition could be judged failure by a different definition; increased investment in one of the factors of production may result in a reduced need for other factors, such as labor. Business owners may emphasize increasing wealth through lower taxes and less burdensome regulations, access to new customers, and improved processes that increase productivity and competitiveness and eliminate jobs. Union representatives may define economic development as increasing the number of jobs, wages and benefits. Advocates for central cities may promote concentrating development within growth boundaries, while suburban leaders may define "sprawl" as economic development. Local elected officials may focus on increasing tax base or redeveloping distressed areas. Community leaders might focus on reducing poverty and improving consumer welfare. Minorities may focus on reducing perceived inequality by imposing contract and employment requirements (set-asides) for members of their group. Environmentalists may concentrate on environmental sustainability and reducing the deleterious impact of industrial processes on the environment.

Depending on political perspective, economic development programs may be seen as corporate welfare, industrial policy, necessary competitive strategy, governmental preferences for individual companies that disadvantage competitor companies, essential investments in physical and human capital, or as undesirable interference in the free market. While elected officials focus on attracting economic development, residents may resist those efforts because, as Alex Iams and Pearl Kaplan found, improperly managed growth and development can negatively affect a community's quality of life, leading to automobile congestion, pollution, pedestrian-hostile neighborhoods, and sprawl.²⁰

The way the economic development challenge is defined dictates the definition of success and the appropriate metrics to measure effectiveness. The challenge may be to attract new economic activity, to meet expected demand, to revitalize an area, to shift costs, or to expand resource capacity.²¹ The particular measurements collected and used must be appropriate to the goals and programs that are adopted. While jobs and income are widely shared measures, other typical measures include investment and output such as gross state product.²² The

Regional Approaches to Economic Development

International Economic Development Council, in the August, 2006 report "Economic Development and Smart Growth,"²³ uses economic indicators that include the following:

- Population
- Number of households
- Jobs created
- At-place employment
- Median household income
- Per capita income
- Median home price
- New residential units
- Street level commercial vacancy rates
- Office vacancy rate
- New construction
- Industrial vacancy rate
- Net gain in business starts, relocations, and expansions
- Rehabilitated space
- Median property value
- Assessed value
- Private investment
- Public investment
- Private-public investment ratio
- Property tax revenue

In "Measuring Regional Innovation," the Council on Competitiveness suggests a process for measuring regional innovation inputs and outputs that includes comparative data analysis, a business survey, and community leadership interviews. Among the input metrics proposed for evaluating the regional innovation environment are the following:

Human Capital

- Quality of K-12: Standardized test scores
- SAT and ACT scores
- High school graduation rates
- Quality of community colleges
- Quality of colleges and universities
- College and university endowments
- Educational attainment
- Occupational structure of the labor force:
 - proportion of managers, engineers, scientists, and technicians
- Availability of workers with skills required by regional businesses

Research and Development Institutions

- Research and development spending at universities
- Research and development spending at companies

Financial Capital

- Venture capital investment
- Number of venture capital firms and angel groups

Industrial Base

- Specialization by traded cluster
- Patents in traded clusters

Physical Infrastructure

- Transportation infrastructure
- Communications infrastructure

Legal and Regulatory Environment

- Tax burden
- Cost of doing business

Quality of Life

- Inflow and outflow of residents
- Cost of living

While no published sources of data exists to compare regional networks and culture, the Council on Competitiveness proposes that information on those aspects of the region can be obtained through survey questions and interviews.

According to the Council on Competitiveness,²⁴ economic development output metrics include the following:

- Number of patents
- University technology transfers
- New firm starts
- Gross regional product per employee
- Small business innovation research grants
- Small business technology transfer grants
- Job growth
- Unemployment rate
- Average wage
- Per capita income
- Median household income
- Income growth by ethnicity
- Poverty rate

Number of gazelles*
Number of firms that appear on *Inc* magazine's annual list of the fastest growing privately held companies

*Companies with annual sales revenue growth of at least 20% for at least four years.

"Dashboard Indicators for the Northeast Ohio Economy" is a data-driven analysis that identifies statistical correlations between economic growth in jobs, output, worker productivity, and per capita income, and 40 variables that constitute the following indicators:

- Skilled workforce
- Legacy of place
- Business dynamics
- Income equality
- Urban assimilation
- Location amenities
- Racial inclusion
- Urbanization/metro structure

Of these factors, a skilled workforce is most strongly correlated with growth in per capita income, productivity, and output. "Legacy of place" is most correlated with negative growth in employment; regions with high legacy of place costs face significant economic challenges.²⁵

Other measures of economic development efforts that might be proposed are the following:

Improvements in Social Conditions

- Proportion of jobs that pay a self-sufficiency wage
- Income equality
- Life expectancy
- Access to health care
- Ethnic diversity
- Racial inclusion
- Literacy rate
- Food stamp recipients
- Measures of luxury items: automobiles per family, televisions per household, etc.

Improvements in Environmental Conditions

- Clean air
- Clean water

Some of the metrics on the list immediately above may be the outcomes of successful economic development strategies, some reflect value systems, and others are more appropriate to measure community development programs. Because it is often very difficult to determine direct causal effects of economic development efforts on major measures such as population and improvements in social or environmental conditions, more precise measures are preferred. To be useful as an indicator of program effectiveness, data for a metric must be related directly or indirectly to the program being measured; be quantitative, not subjective; be collected and reported from an authoritative source; be reported at sufficiently frequent intervals and on a sufficiently appropriate geographic area to track the impact of programs. Metrics also need to be placed in context, to determine progress over time and in comparison to the state experience and the experience of comparable regions.

A European system for measuring the knowledge economy is based on data judged on seven dimensions: relevance/serviceability; accuracy/reliability; credibility/integrity; timeliness; accessibility; interpretability/clarity; and coherence/consistency. Analyses may either be based on key indicators or on composite indicators in which several indicators are aggregated into a single index. Gross domestic product (GDP) and the consumer price index (CPI) are both composite indicators.²⁶

Most economic development organizations report a very limited number and variety of measures, primarily the number of businesses and jobs that have been retained or attracted and new capital investment. These common metrics may be the only way to compare success across organizations. While some organizations evaluate their performance using more complex benchmarking analyses, these are less useful in comparing success across many organizations. Indeed, national and international factors beyond the control or influence of any economic development organization may well determine the number of firms and jobs that remain in, or relocate to, a region, challenging even the most common measures to reflect the effectiveness of an economic development program or organization.

Regional Approaches to Economic Development

The Importance of Regions in Economic Development

States and individual units of government have long engaged in economic development activities, but economic activity is defined by the labor market, not political boundaries. According to the W.E. Upjohn Institute for Employment Research, states are not single economic units, but rather collections of different economic regions. Those economic regions are labor markets where each type of labor has a uniform wage and uniform availability, and it is the cost and availability of different types of labor that determines the attractiveness of the region for different kinds of businesses and for different kinds of households. The attractiveness of the region for different types of businesses and households heavily influences the economic future of the region.²⁷

According to the Council on Competitiveness, “Even as technology, capital, and knowledge diffuse internationally, the levers of national prosperity are, in fact, becoming more localized. As talented people and new ideas become the most critical drivers of economic growth, regional economic conditions have assumed greater importance. Regions that can attract talented residents and support the development of highly innovative firms will support great prosperity.”²⁸ The region is where companies, workers, universities and other research institutions, and government interact most directly, and this proximity and a variety of assets support innovation and productivity. While connectivity is increasing thanks to the Internet, face-to-face interaction and networks still matter. Further, regions are the environment in which firms can access and influence the development of specialized infrastructure.

Because regions vary in their strengths and weaknesses, the application and efficacy of economic development activities vary. The economist Mancur Olson described a process of regional decline that is a result of what he called “institutional sclerosis,” in which places that prosper greatly in one era find it difficult or impossible to adopt new organizational and cultural patterns, no matter how beneficial they may be. Innovation and growth therefore shift to new places.²⁹

Royce Hanson, in an analysis in *The Regionalist Papers*, notes “the major forces which constrain or stimulate development are regional in their operation—real estate and labor markets, money markets, transportation systems, natural resource elements—while most of the instruments of managing development are intensely local—revenue systems, land use regulations, capital improvement programs.”³⁰

In an analysis of local economic development policies, Timothy J. Bartik agrees that local economic development policies should be coordinated or organized on a labor market area. He notes that, on their own, individual jurisdictions will overinvest in attracting businesses that produce high tax revenues to the jurisdiction, but low labor market and fiscal benefits to the region, and will underinvest in businesses that produce environmental and congestion challenges for the jurisdiction, but high levels of labor market and fiscal benefits for the region.³¹

North Carolina has embraced the concept of regionalism and has implemented a comprehensive economic development plan based on the organization of every county into one of seven regional partnerships. These regional partnerships are designed to “enable regions to compete effectively for new investment and to devise effective economic development strategies based on regional opportunities and advantages.” Regional partnerships provide a single point of contact for businesses wishing to locate or expand in the region; connect businesses with community based officials, private sector allies, and state government leaders; work with state, local, and allied economic development organizations; provide financial assistance to counties; participate in specific projects, marketing programs, and efforts to help economic development professionals access the best in technology and training; coordinate the development of strategic development plans; and facilitate cooperation within regions.³² This regional economic development strategy is one component supporting growth: between 1990 and 2000, Durham, Charlotte, and Raleigh saw population growth of more than 30 percent, and Winston-Salem and Greensboro grew by more than 20 percent.³³

In spite of the example provided by North Carolina, in spite of their economic interdependence, and in spite of the fact that regions are more likely to have a wide variety of attributes that would increase the effectiveness of economic development efforts, political subdivisions within a region may find that cooperating in economic development efforts is complicated by the political fragmentation within the region. Jerry Paytas found that increasing government fragmentation reduces long-term competitiveness.³⁴ Myron Orfield provides a measure of the political fragmentation in the 25 largest metropolitan regions: metro Detroit, with 10 counties and 335 total local governments, ranks tenth in the number of local governments per 100,000 residents, with 6.2.³⁵

This level of fragmentation, combined with Michigan's strongly defended tradition of local control, presents challenges to the development and implementation of any regional effort that involves the public sector. According to David Osborne and Ted Gaebler, the United States has outgrown its local government structure. While the building blocks of the economy are regional, few regions have integrated governments. Nor are counties able to fill this role, because

economic regions have outgrown county boundaries as well.³⁶

It may be instructive to look at how regions in Michigan are performing relative to the national average. The most recent U.S. Bureau of Economic Analysis reports of per capita personal income for each of the 361 metropolitan statistical areas in the United States is for 2005.

Two of the 14 Michigan MSAs had per capita personal income that exceeded the \$36,048 average for all metropolitan areas in the U.S. None had 2004-2005 per capita personal income growth that approached the metro area national average of 4.0. The only MSAs with percentage growth rates lower than Flint's were hurricane devastated Lake Charles, Louisiana and New Orleans, Louisiana. The Monroe MSA was also in the bottom ten of 361 MSAs in the percentage change in per capita personal income between 2004 and 2005. Only the Grand Rapids MSA had a per capita personal income growth rate that exceeded the national inflation rate of 2.9 percent; the Holland-Grand Haven and Jackson PCPI growth rates equaled the national inflation rate.

*Table 1-1
2005 Per Capita Personal Income for Michigan MSAs*

<u>MSA</u>	<u>Per Capita Personal Income</u>	<u>% Change 2004 -2005</u>	<u>PCPI Rank in the U.S.</u>
Ann Arbor	\$40,228	2.7%	23
Detroit-Warren-Livonia	37,694	2.8	39
Grand Rapids-Wyoming	31,546	3.3	142
Kalamazoo-Portage	30,394	14	172
Monroe	30,384	0.2	173
Lansing-East Lansing	30,345	2.5	174
Holland-Grand Haven	30,278	2.9	176
Niles-Benton Harbor	29,114	14	203
Battle Creek	28,281	2.2	233
Bay City	28,206	1.9	237
Flint	27,847	-0.9	252
Jackson	27,518	2.9	272
Saginaw-Saginaw Township North	26,667	0.5	298
Muskegon-Norton Shores	25,764	2.2	319

Source: U. S. Bureau of Economic Analysis, Metropolitan Area Personal Income

Regional Approaches to Economic Development

Recommendations

Nearly 20 years ago, John Kenneth Galbraith predicted that the younger, more adaptable, more aggressive competitors in newly industrialized countries (he identified Japan, Korea, Singapore, Brazil, and India) would challenge the older, more rigid, ensconced bureaucratic, and sometimes senile and sclerotic, industries of their older competitors.³⁷ Now, we find that information, transportation, and manufacturing technology, combined with global trade, have created a new economy in which the forces of creative destruction have been exacerbated. The churning that appears to be characteristic of this new world is a dramatic change from the relatively stable manufacturing base that has been the foundation of Michigan's political, economic, and social structure for most of the past century.

Policies and structures that respond to the new realities and that facilitate successful repositioning from the old industrial model to the new dynamic are evolving. While it is clear that preserving the old model is untenable, Michigan residents, businesses, and governments are struggling to transition to the new competitive requirements of higher education and skills, technological innovation, e-commerce, open trade, organizational flexibility, increased product and service diversity, and relentless competition. One promising approach that is emerging in Michigan and across the nation is the realignment of economic development efforts on a regional basis.

Regions are the logical basis for economic development. The extraordinary economic challenges facing our state, and the ad hoc nature of regional economic development in Michigan, begs for better structure, organization, and reporting on regional bases. Michigan's leaders should consider a model developed by North Carolina, where all counties are organized into seven regional partnerships for economic development. Because various businesses and entrepreneurs seek different combinations of

resources, it may be beneficial to allow the richly diverse regions that compose this state to emphasize their different qualities. Regional organizations could help define and market their regions' unique natural resources, history and culture, business and union environment, industry clusters, and infrastructure.

The state's role in economic development could be expanded to include defining logical regional boundaries that respect and build on existing regional initiatives, initiating public-private partnerships tasked with developing (or mediating) and implementing regionally relevant economic development strategies that are consistent with state plans, and insuring that appropriate data is made available to guide the continuous improvement of factually based regional economic development efforts. The State could also facilitate the sharing of information and best practices among regional partnerships and consider applicable regional strategies when planning state infrastructure investments, economic incentive programs, and branding and marketing programs.

The adoption of strategic economic development goals for the state and for regions within the state would enable a critical assessment of the resources and action steps needed to accomplish those goals. Publication of semiannual reports on the economic progress of the state and regions would enable an assessment of the effectiveness of economic development strategies undertaken by public and private entities. At a minimum, reports should include information on trends in population, educational attainment, per capita and household income, number of jobs, unemployment rates, and changes in the numbers and types of businesses. The data disclosed in these reports could be compared to benchmarks in the state and regional strategic plans to enable programmatic adjustments designed to increase the effectiveness of action plans.

- ¹ Fred Smith. Speech to the National Conference of State Legislatures, reported in the August 15, 2006 Michigan Report, Gongwer News Service.
- ² RSQE Forecasts at www.umich.edu/-rsqe.
- ³ George Fulton and Donald Grimes. "Michigan's Industrial Structure and Competitive Advantage: How Did We Get into This Pickle and Where Do We Go from Here?" University of Michigan, 2006.
- ⁴ Sharon Terlep. "Analysts: Big 3 Will Fall Further," The Detroit News, October 26, 2006.
- ⁵ Howard Wial and Alec Friedhoff. "Bearing the Brunt: Manufacturing Job Loss in the Great Lakes Region, 1995-2005," The Brookings Institution, 2006.
- ⁶ Howard Wial and Alec Friedhoff. "Bearing the Brunt: Manufacturing Job Loss in the Great Lakes Region, 1995-2005," The Brookings Institution, 2006.
- ⁷ U.S. Census Bureau. "Selected Social Characteristics: Michigan" from the 2005 American Community Survey, 2006.
- ⁸ MI Fast Facts at www.milmi.org/.
- ⁹ U.S. Census Bureau. "Income, Earnings, and Poverty Data from the 2005 American Community Survey," 2006.
- ¹⁰ United Van Lines at www.unitedvanlines.com/mover/united-newsroom/press-releases/2007/2006-united-migration-study-04-07.htm
- ¹¹ "Joseph Alois Schumpeter," The Concise Encyclopedia of Economics, at www.econlib.org/library/Enc/bios/Schumpeter.html.
- ¹² Economic Development Administration website: www.eda.gov/Research/EcoDev.xml.
- ¹³ Fulton and Grimes. "Michigan's Industrial Structure and Competitive Advantage," The University of Michigan, 2006.
- ¹⁴ The Council on Competitiveness, "Measuring Regional Innovation: A Guidebook for Conducting Regional Innovation Assessments," prepared for the U.S. Department of Commerce, Economic Development Administration, 2005, available at www.compete.org/pdf/126956_12-15.pdf.
- ¹⁵ International Economic Development Council website at www.iedconline.org/?p=FAQs.
- ¹⁶ Photonics Tech Briefs, "The Evolution of Structured Clusters" series, at www.ptbmagazine.com/July00/ptb700.clusters2.html.
- ¹⁷ Council on Competitiveness. "Measuring Regional Innovation: A Guidebook for Conducting Regional Innovation Assessments," 2005, available at www.compete.org/pdf/126956_12-15.pdf.
- ¹⁸ Peter Bearse and Roger Vaughan quoted on the EDA website: www.eda.gov/Research/EcoDev.xml.
- ¹⁹ Edward W. Hill. "The Fundamentals of Regional Economic Development," 2002, available at urban.csuohio.edu/distinguishedscholar/hillspeech.pdf.
- ²⁰ Alex Iams and Pearl Kaplan, "Economic Development and Smart Growth," available on the International Economic Development Council website at www.iedconline.org/Downloads/Smart_Growth.pdf.
- ²¹ Glen Weisbrod. "Economic Impact Analysis—Using the Right Tools" Presentation at CUED Annual Conference, 1998.
- ²² National Conference of State Legislatures at www.ncsl.org/programs/econ/topics.htm.
- ²³ Alex Iams and Pearl Kaplan, "Economic Development and Smart Growth," available on the International Economic Development Council website at www.iedconline.org/Downloads/Smart_Growth.pdf.
- ²⁴ Council on Competitiveness. "Measuring Regional Innovation" 2005, at www.compete.org/pdf/126956_12-15.pdf.
- ²⁵ W.E. Upjohn Institute for Employment Research and Kleinhenz & Associates. "NEO Dashboard Indicators," Fund for Our Economic Future, 2006.
- ²⁶ Michaela Saisana. "Knowledge Economy Indicators: State-of-the-Art Report on Composite Indicators for the Knowledge-based Economy," European Commission, 2005, at kei.publicstatistics.net.
- ²⁷ The W.E. Upjohn Institute for Employment Research, "The Competitiveness of Michigan Metropolitan Areas."
- ²⁸ Council on Competitiveness at www.compete.org/nri/.
- ²⁹ Mancur Olson, *The Rise and Decline of Nations*, 1982.
- ³⁰ Kent Mathewson, ed. *The Regionalist Papers*, Metropolitan Fund, Inc., 1978, pg. 185.
- ³¹ Timothy J. Bartik. "Local Economic Development Policies," The W. E. Upjohn Institute for Employment Research, 2003, pg. 39.
- ³² North Carolina Economic Development Information System at cmedis.commerce.state.nc.us/region/.
- ³³ Center on Urban and Metropolitan Policy. "City Growth and the 2000 Census: Which Places Grew, and Why," 2001.
- ³⁴ Jerry Paytas. "Does Governance Matter? The Dynamics of Metropolitan Governance and Competitiveness," Carnegie Mellon Center for Economic Development, 2001.
- ³⁵ Myron Orfield. *American Metropolitanities: The New Suburban Reality*, Brookings Institution Press, 2002, pg. 132.
- ³⁶ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, The Penguin Group, 1993, pg. 246.
- ³⁷ John Kenneth Galbraith. 1987, *Economics in Perspective*, Houghton Mifflin Company, Boston, pg. 294.

Regional Approaches to Economic Development

PART 2

THE ORGANIZATIONAL STRUCTURE OF ECONOMIC DEVELOPMENT IN MICHIGAN

Summary

In our economic system, the private sector is the basis of sustainable economic development, while government has the important role of creating an environment in which economic development can occur.

Michigan has adopted a robust array of economic development tools. While state departments including the Labor and Economic Growth, Environmental Quality, Treasury, Transportation, and others, affect economic development, the Michigan Economic Development Corporation (MEDC) is especially important. General purpose local governments at all levels are also active in economic development. In addition to counties and cities, the Michigan Economic Developers Association includes members who represent 15 different townships and four villages. Local units of government work together in structures that include municipal planning organizations and councils of government, which may engage in economic development programs.

In some regions, private sector leadership has created private, non-profit organizations tasked with improving the business environment and with retaining and attracting business to the region. These private enterprises are intended to bring a more entrepreneurial approach to

the role of economic development, and to be less constrained by political factors including political boundaries. Especially in regions where local governments have difficulty cooperating in regional initiatives, the private sector may be better able to plan and execute regional strategies.

The economic development entities that operate in multiple jurisdictions in various areas in Michigan have different structures, types of members, and roles, but could serve as the nucleus around which more broadly representative regional organizations with more comprehensive goals could be developed. Because economic development is a complex process that reflects and responds to a variety of factors, consideration should be given to insuring that the boards of regional economic development partnerships include all of the constituent groups. Regional, non-profit, public-private partnerships that include business leaders, elected officials, workforce development experts, representatives of K-12 and higher education, and foundations could develop regional strategic plans, marshal resources, focus on building regional identity, develop and market the assets and opportunities of the region, and continuously refine operations based on applicable economic indices.

Economic Development Structures

Structured efforts to increase general prosperity are undertaken by both the public and the private sectors, and a number of organizational structures have been developed or appropriated to plan and implement economic development programs. This installment of a four-part report on regional approaches to economic development explores the various kinds of economic development service delivery systems.

The Neoclassical school of economics teaches that government intervention, through the action of bureaucracies and regulation, distorts private investment and prices. Those who advocate for less (or no) gov-

ernment intervention, more (or exclusive) leadership by the private sector, and freer and more competitive markets, believe in the superior ability of the private sector to most efficiently allocate resources as the basis for economic development. The belief that a free market system is the best way to allocate resources is based on the mechanism of the marketplace as the best expression of people's desires, and of their willingness and ability to pay for what they want. This implies that the free market is generally the most appropriate mechanism for facilitating development. Therefore, under this assumption, government should leave to the private sector those activities the private

sector can carry out effectively.¹ Political scientist David Osterfeld proposes the complete separation of government and the economy as the most effective way to promote growth.² Such advocates believe that innovation and initiative are more likely to come from the private sector and that the entrepreneur should be unfettered in managing the efficient allocation of resources within a free market, using profit and loss to correct decisions.

A different position is expressed by the federal Economic Development Administration: “By using its resources and powers to reduce the risks and costs which could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector.”³ (While federal government responsibilities in areas including, but not limited to, trade policy, environmen-

tal standards, health care, fiscal and monetary policy are critical to economic development, they are not part of this analysis.) State and local governments clearly influence economic development through tax and regulatory policy, public education, investment in public infrastructure, and a variety of public structures and programs designed to promote economic development. Regardless of any ideological argument against government involvement in economic development, in the real world, localities, states, and nations compete for economic activity using all of the tools at their disposal. A critical issue is therefore the appropriate, relative, and interrelated roles of government, non-profits, and the for-profit sector, each of which has its own power base, roles, responsibilities, values, skills, and organizational resources, in promoting economic development.

Public Sector Involvement

In our economic system, the private sector is the basis of sustainable economic development, while government has an important and inescapable role in creating an environment in which economic development can occur and a keen competitive interest in affecting where it occurs.

Whether directed to supporting mature industries or attracting start-ups, most state, regional, and local approaches to economic development focus on improving one or more of the previously mentioned factors of production: land, labor, capital, or that critical fourth factor, which has been defined as technology, knowledge, entrepreneurship, or innovation. In each of these, the most and least effective public and private roles can be debated, but there are important economic development issues affecting each of the factors of productive capacity that are solely under governmental control. These factors can create a business friendly environment that supports microenterprises, small and medium sized businesses, large-scale national enterprises, and huge multinational firms, or that favors one or more kinds of business at the expense of others. Leaving aside the important issue of whether government should subsidize individual businesses, it is clear that state and local government play a crucial role in establishing the business climate

through provision of public goods like police protection and public infrastructure, the enforcement of laws and regulations, and the provision of incentives. While tax policy gets most of the attention, government services and regulations play a crucial role in economic development. Following are some of the specific areas in which government affects the business environment:

- Land—zoning; protection of property rights; use of eminent domain; remediation standards; building regulations and permits; property taxes and abatements; infrastructure investments including roads, water and sewers.
- Labor—publicly funded education and workforce development; minimum wage laws; payroll and personal income taxes; unemployment benefits; workers compensation; right to work laws; measures to insure an adequate supply of affordable housing; pension system guarantees; health care structures and programs; incentives for personal savings accounts; worker safety regulations.
- Capital—tax incentives; tax increment financing; grants for worker training, research and development, façade improvements, and other needs; busi-

Regional Approaches to Economic Development

ness tax rates and structure; business fees and regulations; loans and loan guarantees; bankruptcy rules.

- Technology/Knowledge/Entrepreneurship/Innovation—public support for K-12, community colleges, and universities; patent protection; contract enforcement; tax policy; regulations and permits; laws and funding pertaining to specific kinds of research.

Government actions to insure stability and security, and decisions on issues including tax policy, regulation, infrastructure, education, welfare, and health care are crucial to the business climate, and therefore to economic development. Poor infrastructure, burdensome regulations, contract enforcement difficulties, prohibitions on politically sensitive research, crime and corruption can stifle private investment. For a variety of reasons—fiscal, political, cultural—governmental units vary in their responsiveness to business needs and influence. It can be argued, however, that government would naturally be more responsive to mature industries with many employees and well developed lobbying practices, than to small, new, innovative businesses. In addition, local conditions differ. For example, while most communities do not own large amounts of surplus property, Detroit, Wayne County, and Genesee County are significant land owners as a result of high rates of property tax foreclosures and are therefore key players in efforts to assemble land for redevelopment.

The traditional goals of public sector economic development have been to increase the tax base and to eliminate blight, poverty, and unemployment. Increasingly, the way the public sector seeks to achieve these goals is through enhancing the innovation platform and encouraging entrepreneurship.

The State Role in Economic Development All states seek to create a favorable business environment, but the effectiveness of those efforts is affected by special interest groups, preferences and biases arising from the state's unique history, competing incentives, limited empirical evidence and analytic capacity to judge net benefits, political agendas, and other factors.

Because the competition for new and expanded businesses is fierce, all states have extensive economic development programs that include assistance to firms in finding sites; development of new research and de-

velopment “smart parks”; extensive information programs for prospective firms about the state's business amenities; targeted job training programs; various forms of business finance; tax relief incentives including enterprise zones and tax abatements; investment in updated infrastructure including broadband communications enhancements; and the marketing of the state's products. At least 40 states have created biotechnology initiatives, and 16 fund those programs with revenues from the tobacco settlement.⁴ Most states fund technology led economic development strategies, many of which include industry-university research partnership programs.⁵

The common wisdom is that Michigan has a robust array of economic development tools available to the state and to local governments. These tools include Renaissance and enterprise zones, a variety of grants and subsidies, tax abatements, loans, tax increment financing authorities, employment and training programs. (Please refer to the Citizens Research Council report “Survey of Economic Development Programs in Michigan,” to be updated in 2007, for a complete listing of programs) Many of these programs are narrowly targeted to achieve a specific purpose, such as the redevelopment of obsolete or historic buildings, or provision of tax breaks for tool and die shops, while others have a much broader aim. Additionally, tax rate reductions legislated in the economic expansion of the 1990s, and still being implemented, were promoted as economic development incentives and further state tax cuts are proposed on the same basis. Yet as the number of economic development programs has grown, and the total state and local tax burden has fallen from above the U.S. average to below average, the economy—tightly bound to the domestic auto industry—has descended from above to below average.

In Michigan, the appropriate role of government in economic development continues to be redefined. The emphasis on state tax policy remains, as do efforts to protect the domestic automobile and supplier companies, but there is increasing focus on encouraging entrepreneurship and supporting technology development to diversify the economy.

While tax incentives have a long history, more direct state investment in private companies presents problems and challenges, which states including Michigan have met in a number of ways. In the 2002 general

election, Section 19 of Article IX of the Michigan Constitution was amended to remove a prohibition against ownership of stock by permanent and endowment funds of the state. A challenge to the 21st Century Jobs Fund led to a Michigan Attorney General opinion⁶ noting that the three permanent funds listed in the constitutional amendment provide direction on the definition of a permanent fund: a defined, specific purpose for the fund; investment and reinvestment of monies allowed only for the purposes of the fund; and restriction of the funds allocated to the fund, ensuring that those monies do not lapse to the general fund. The amendment and interpretation allow the state to invest in private companies in ways that were previously prohibited.

The Venture Michigan Fund and the previously described 21st Century Jobs Fund are examples of the state's emphasis on supporting the creation and growth of new business and encouraging technology development and commercialization, and increasing capital investment and commercial lending activity. The Michigan Economic Development Corporation (MEDC) and the Michigan Venture Capital Association led the formation of the \$200 million Venture Michigan Fund to increase resources available to venture capital funds that invest in early stage businesses. The fund uses capital raised from outside investors who are guaranteed a negotiated rate of return backed by state-issued tax vouchers that can be used to pay single business or income tax liabilities.

The state's formal economic development structure has evolved to respond to political and economic pressures. While a number of state departments including the Labor and Economic Growth, Environmental Quality, Treasury, Transportation, and others, impact economic development, the Michigan Economic Development Corporation (MEDC) is especially important. A 1999 cooperative agreement between the state and several local communities created the MEDC, which identifies itself as the single point of contact for businesses inquiring about the availability of incentives and location services in Michigan.

The function of MEDC is to develop an environment that is conducive to business growth, to create opportunities to entice other economic development to occur, and to market Michigan as a great place to do business. Account managers at the MEDC provide di-

rect assistance to businesses, including acting as a pro-business liaison to state departments and promoting a fair and uniform business climate. The agency provides a variety of special programs, including workplace safety consultation and education, market expansion and international trade assistance, job training, labor market information, government contracting advice, and strategic planning and technology consulting, as well as information on financing, sites, each county, taxes and fees. The corporation is supported by the state's general fund, payments from three Indian casinos (currently being litigated), and earned fees. MEDC houses Travel Michigan, which promotes Michigan as a tourist destination.

MEDC employees provide staff support for the Michigan Strategic Fund (MSF), which serves as the state's lead economic development finance agency. The MSF board is authorized to make grants, loans, and investments of MSF funds to assist both for-profit and non-profit organizations. Functions include the approval of industrial development revenue bonds, Renaissance Zone designations, and Community Development Block Grant applications, as well as administration of the 21st Century Jobs Fund's private equity, venture capital, and loan enhancement programs.

Recent state legislation that may affect the state context of economic development includes acts that raise the minimum wage and place prohibitions on stem cell research. In 2006, Michigan became one of 29 states that have adopted state minimum wages that are higher than the federal minimum wage of \$5.15. The \$6.95 Michigan minimum wage will increase to \$7.15 on July 1, 2007 and to \$7.40 on July 1, 2008.⁷ While a number of states have passed legislation specifically authorizing, and in some cases funding, research on live or cloned embryos, Michigan prohibits such research.⁸

The Role of Local Governments and EDCs In Michigan, general purpose local governments at all levels of are active in economic development. County economic development departments are prominent, and many cities have their own economic development departments. In addition to counties and cities, the Michigan Economic Developers Association (MEDA) includes members who represent 15 different townships and four villages.⁹ Strong local control, the absence of mechanisms to share commercial and industrial property taxes, mistrust of county or regional

Regional Approaches to Economic Development

efforts, and local competition contribute to the creation and maintenance of myriad economic development agencies and efforts. Members of the MEDA represent 227 different public and private organizations that are engaged in economic development in Michigan.

In addition to county, city, village, and township departments of economic development, the State of Michigan has enabled a variety of other local public economic development structures including economic development corporations, downtown development authorities, business improvement districts, local development finance authorities, tax increment finance districts, and brownfield authorities. These entities provide a variety of specialized and targeted products and services including tax exempt revenue bonds, tax abatements, tax credits, and other incentives. The CRC report, "Survey of Economic Development Programs in Michigan," provides a full explanation of these programs. Of particular importance, Michigan PA 338 of 1974, the Economic Development Corporations Act, authorized the establishment of municipal and county economic development corporations to assist private developers with industrial development projects. These corporations are under the direction of a board of directors appointed by the chief executive officer of the local unit (the chairman of the county board in general law counties) with the advice and consent of the legislative body. An economic development corporation created under PA 338 may receive funding from its authorizing municipality and must submit proposed project plans to the local governing body. EDCs may issue tax exempt revenue bonds to fund industrial, commercial, and housing projects. These bonds are an obligation of the business that is being assisted, not the municipality or the EDC. However, a number of Michigan EDCs have ceased functioning as a result of federal restrictions placed on the issuance of revenue bonds.

MPOs and COGs Local units of government are encouraged to work together in structures that include municipal planning organizations and councils of government. Federal efforts to encourage metropolitan planning and cooperation by delivering federal aid through regional organizations began in the 1930s. Section 701 of the Housing Act of 1954 provided fed-

eral grants to metropolitan planning agencies to promote cooperation in addressing regional problems, thereby prompting the formation of regional planning organizations. The Federal Aid Highway Act of 1962, which made federal highway aid to areas of over 50,000 population dependent on a continuing, comprehensive, and cooperative planning process, resulted in the formation of metropolitan planning organizations (MPOs) for all urbanized areas of over 50,000 population. The importance of MPOs has increased and decreased with various federal administrations.¹⁰

The Housing and Urban Development Act of 1965 authorized comprehensive planning grants for mass transit planning to be made to organizations composed of public officials that represent the political jurisdictions within the region, creating the impetus for the formation of councils of government (COGs); these councils are often also metropolitan planning organizations. The Demonstration Cities and Metropolitan Development Act of 1966 required that all applications for federal grants for the planning and construction of housing, roads, and other facilities to be submitted to a regional planning agency for review and comments to insure they were coordinated and consistent with areawide plans. The 1973 Highway Act dedicated a portion of the Highway Trust Fund to support metropolitan planning agencies, which had to include the principal elected officials in the region.

Although federal funding for regional efforts was reduced in the 1980s, the Intermodal Surface Transportation Efficiency Act (ISTEA) increased that funding and provided expanded authority to MPOs to select transportation projects and mandates for new planning initiatives in their regions. MPOs were required to consider economic, environmental, and social goals in their plans.¹¹ Subsequent federal programs including Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) continue to provide funding that supports these planning organizations in their role as regional transportation planning agencies.

Additional programs administered by MPOs and COGs reflect the priorities and needs of the regions those voluntary associations of local governments represent. According to Myron Orfield, a number of MPOs have

CRC Report

responded to challenges caused by political fragmentation by taking on a range of other functions, including local and regional economic development initiatives.¹²

If economic development is a local priority supported by the elected officials who dominate MPO and COG boards, economic development programs may evolve naturally from the federal and state funded activities performed by MPOs and COGs: metropolitan planning, transportation and infrastructure planning, air and water quality issues. Councils may provide technical advice to smaller member governments on planning and zoning, or technical assistance to local businesses on international trade and export issues. Some COGs are active in workforce development and geographic information services (GIS). In areas of rapid growth, issues surrounding land use are luring some MPOs and COGs into economic development to promote dense urban development. Some of these organizations are providing grants for higher density development from

their federal transportation allocations. MPOs and COGs work closely with economic development organizations in their regions to insure infrastructure and transportation plans support regional strategies.¹³

The Federal Transit Administration of the Federal Highway Administration of the U.S. Department of Transportation lists 12 metropolitan planning organizations in Michigan.

The largest MPO in the state is the Southeast Michigan Council of Governments (SEMCOG), which defines its mission as follows: "SEMCOG solves regional problems by working together with member local governments to improve the quality of life in Southeast Michigan." SEMCOG is the regional planning organization for seven counties in the areas of transportation, environment, community and economic development, land use, and education. This agency also advocates for changes in state and federal policies,

*Table 2-1
Michigan Metropolitan Planning Organizations (MPOs)*

<u>MPO</u>	<u>Major City</u>	<u>Area in Sq. Miles</u>	<u>Population</u>	<u>Designation Year</u>
Battle Creek Area Transportation Study	Battle Creek	169	91,498	1974
Bay City Area Transportation Study	Bay City	168	87,322	1974
Genesee County Metropolitan Planning Commission	Flint	648	436,141	1963
Grand Valley Metropolitan Council	Grand Rapids	1,014	650,183	1990
Kalamazoo Area Transportation Study	Kalamazoo	579	238,603	1979
Macatawa Area Coordinating Council	Holland	212	112,467	1991
Region 2 Planning Commission	Jackson	723	158,422	1968
Saginaw Metropolitan Area Transportation Study	Saginaw	259	159,102	1965
Southeast Michigan COG	Detroit	4,608	4,833,493	1974
Tri-County Regional Planning Commission	Lansing	1,712	447,728	1973
Twin Cities Area Transportation Study	Benton Harbor	315	121,280	1974
Western Michigan Shoreline Regional Development Commission	Muskegon	657	220,196	1973

Source: U.S. Department of Transportation at www.planning.dot.gov/mpos1.asp.

Regional Approaches to Economic Development

provides data about Southeast Michigan, assists local governments in planning, facilitates cooperation among local governments and state and federal agencies. Funding for SEMCOG is provided by federal and state grants, contracts, and membership fees.¹⁴

Public-Private Partnerships The importance to businesses of improving the economic vitality of their operating areas, the essential role of government and the legal, financial, and practical limitations on government participation in economic development, have led to the creation of quasi-governmental entities—public-private partnerships—focused on regional economic development. These hybrid structures include business people on the boards of directors of organizations that function as, or in concert with, economic development departments. Either the public or the private sector may provide the funding, project management skills, personnel, and technology used in these organizations.¹⁵

Public-private partnerships have a long history in the U.S. As explained in [Public-Private Partnerships: Improving Urban Life](#), public-private partnerships often begin as partnerships between business leaders who come together in the belief that extraordinary action is needed to address a particular civic need; that it is no longer sufficient for business to display good citizenship by merely paying taxes, providing jobs, and sometimes engaging in philanthropic behavior. This collaboration leads to a more formal stage of partnership in which the private, nonprofit, and public sectors

actively engage in shared projects and programs designed to marshal resources and share risks for the benefit of the community.¹⁶

Public-private partnerships have the potential to blend the strengths of both the public and private sectors to improve economic development activities and to mediate jurisdictional issues among political units and interest groups. Donald Haider provides a definition focused on a sustained and collaborative effort of at least one public and at least one private institution, in which each of the participants shares in the planning of projects and programs designed to meet a collective need, and each contributes resources. Basic characteristics of successful partnerships include equality, shared risks, and mutual benefits.¹⁷

According to the International Economic Development Council, the goals of non-profit, public-private partnerships encompass the following:

- Undertaking economic development efforts
- Promoting sustainable business
- Improving workforce development
- Diversifying the economic base of a region
- Improving the quality of life

The major advantages of public-private partnerships are that local businesses have a strong voice, there is immediate access to the highest levels of local government, and there is greater flexibility to conduct economic development activities.¹⁸

Private Sector Economic Development Organizations

In some regions, private sector leadership has created private, non-profit organizations tasked with improving the business environment and with retaining and attracting business to the region. These private enterprises, which are among the 14 million non-profit organizations of all kinds registered with the IRS, are intended to bring a more entrepreneurial approach to the role of economic development, and to be less constrained by political factors including political boundaries. Private sector board members and staff may be better able to evaluate the business climate, to assess risks and rewards, and to focus on transaction costs. The private sector may be better able to understand and address the time-sensitive needs of

business, competition, and innovation; may be better able to abandon unsuccessful or obsolete programs; and may be better able to provide flexibility, customer responsiveness, and extensive customization of products or services. Especially in regions where local governments have difficulty cooperating in regional initiatives, the private sector may be better able to plan and execute regional strategies. Private sector initiatives have developed strategic plans for economic development; created investment funds; redeveloped downtowns; provided retraining and social services; developed parks and public spaces; operated beautification and “safe and clean” projects; championed legislation, public school reform, mass transit, and sup-

port for cultural institutions; rallied broad support for projects; supported or opposed mayors and taxes; and directed the support of foundations to support specific projects and programs.

Because private sector economic development may be viewed as being more concerned with productivity and income growth than with reducing income inequality, there are those who believe that privatization of economic development leads to exploitation of the poor and defenseless, and neglect of the most challenging and needy areas.

CEO Organizations Beginning in the first part of the 20th Century, business-CEO-led civic organizations were formed in a number of U.S. cities to focus on city and regional issues and to facilitate consensus among the corporate leadership on the best use of corporate resources to support development projects, public policy, candidates or officeholders, or other civic initiatives. In recent years, these organizations have been seriously affected by factors including economic restructuring, reorganization, suburbanization, deregulation, mergers and acquisitions resulting in the movement of corporate headquarters, the relative increase in the service economy at the expense of manufacturing, and demographic changes. These factors, and the replacement of home town entrepreneurs by managers who expect to rotate through many regions in their careers, and who may not have the decision-making authority of their predecessors, have changed the nature of civic engagement by these corporate elites. As a result, CEO organizations across the country are expanding their membership to include CEOs of universities, health systems, foundations, and business service partnerships and are shifting their attention to regional economic development.¹⁹

Detroit Renaissance, the CEO organization in southeast Michigan, was established as a 501(c)(3) organization in 1970. Like other CEO organizations, the board of directors is composed almost exclusively of chief executive officers of major corporations and no surrogates are allowed at board meetings. Thus the board has the capacity to commit major resources of member companies to civic projects identified by the CEO organization.

Initially focused on the physical rebuilding of downtown Detroit, in 1979 Detroit Renaissance created a

special events department that managed events including the International Freedom Festival, Montreaux Detroit Jazz Festival, and Detroit Grand Prix. In the 1990s, events were transferred to other agencies and the organization focused on the economic and physical redevelopment of Detroit and on public policy that affected Detroit and the region. Most recently, Detroit Renaissance has expanded its private sector board of directors to include university presidents and narrowed its focus to economic development: accelerating the redevelopment of Detroit and transforming the economy of the four-county region. The 2006 work plan approved by the board includes a benchmarking study designed to identify high potential growth opportunities, creation of an economic development agenda, adoption of a public policy agenda and scorecards, formation of multiple partnerships, and organizational development.²⁰

Chambers of Commerce Chambers of commerce, which are non-profit corporations organized as 501(c)(6) business associations, exist at the local, regional, state, and national levels. These voluntary membership organizations are created to promote trade and commerce, to advocate for the interests of members, and to provide member services. Especially in regions that also have CEO organizations, chambers may tend to focus more on the needs and interests of small and mid-sized businesses. Chamber activities may include networking opportunities for members, forums for legislative issues and government concerns, representing business interests to government, marketing and image campaigns, and a variety of member services. Issues of concern to chamber members may include education, workforce development, recruitment and retention of skilled workers, workforce housing and transportation, health care, business costs, increasing suppliers, increasing markets, tax policy, business regulations, business expansion and financing, business services, and quality of life. Chamber efforts in these areas and other efforts to improve the environment for business members may also increase the attractiveness of a place to potential businesses, and lead a chamber directly to assume other tasks associated with economic development. As a consequence, chambers are often actively involved in economic development, working with site selection professionals and providing data about the business climate.

Regional Approaches to Economic Development

The U.S. Chamber of Commerce includes in its priorities for 2006 a number of issues that are part of many economic development programs: education and workforce development, energy and the environment, government contracting, health care, international trade and investment, labor policy, regulatory affairs, small businesses, taxes, technology, travel and tourism, and worldwide sourcing.²¹

The Michigan Chamber of Commerce actively represents business interests in legislative and political issues, as well as providing member services. Its mission statement is "To advance human progress through an economic, political, and social system based on individual freedom, incentive, opportunity and responsibility."²²

Two Michigan regional chambers exemplify the involvement of these types of organizations in economic development.

Detroit Regional Chamber The Detroit Regional Chamber (DRC) represents over 22,000 for-profit businesses and non-profit organizations, as well as smaller chambers, in ten counties in southeast Michigan. In 1998, DRC initiated the Detroit Regional Economic Partnership, which has as its mission "to develop new business for the Detroit Region and its companies through marketing its opportunities and providing relevant information, contacts and assistance to regional, national and international prospects." The Partnership's business retention and attraction activities include marketing the region at trades shows, calling missions, and through an e-newsletter; providing a single point of contact for prospective firms; providing business development teams to work with prospects; and engaging the research, business assistance, and other resources of the DRC to support its outreach, attraction, and support activities. Between 1998 and 2006, the Detroit Regional Economic Partnership helped 310 companies either locate or expand in the region, creating 7,988 new jobs and \$1.4 billion in investments.²³

Traverse Bay Area Chamber The Traverse Bay Area Chamber of Commerce defines its mission as serving its members and community by providing services that promote the economy and protect the environment. In addition to a range of activities designed to provide

member services and promote business attraction, expansion, and retention, the Traverse Bay Area Chamber coordinates a weekly radio program featuring entrepreneurs. This project, conceived by the Chamber's Small Business Council as a way to embrace, support, and educate entrepreneurs, features Chamber members who have founded successful companies and who are willing to share the story behind the start-up of that business. The program is seen as a way to share the wisdom of successful entrepreneurs and celebrate the strength of entrepreneurship in the region.

The Traverse Bay Economic Development Corporation is a separate 501(c)(3) that serves as the economic development division of the Chamber, focuses on business attraction and expansion, and assists communities with projects that increase jobs and expand the tax base. The Traverse City Area Chamber also fostered the New Designs for Growth project, which is now facilitated through the COG and promotes the application of smart growth principles to commercial and residential development in the fast growing region.

Other Private Sector Membership Organizations In many locations, private sector leaders have formed economic development-focused membership organizations that are neither chambers of commerce nor CEO organizations. These may be organized under 501(c)(6), 501(c)(4), or 501(c)(3) of the Internal Revenue Code. Often initially formed around a particular development project, some of these organizations have grown into full service regional economic development organizations. Corporate members provide dues or "investments" that support both strategic and opportunistic economic development activities. Paid professional staff manages programs for business attraction, expansion, and retention. As with chambers and CEO organizations, this collective corporate strategy and action can be sustained independently of political cycles.

In 1985, The Right Place separated from the Grand Rapids Chamber to focus exclusively on business retention and attraction. "The mission of The Right Place, Inc. is to promote economic growth in the areas of quality employment, productivity and technology in Greater Grand Rapids by developing jobs through leading business expansion, retention and attraction efforts." The 2004-2008 strategic plan includes five

goals: lead business retention, expansion, and attraction; identify and develop emerging growth opportunities; strengthen manufacturing leadership and innovation; lead urban redevelopment vital to business retention and attraction; and lead regional initiatives in economic development.²⁴ The board of directors includes business and community leaders, but no elected officials.

Trends in Private Sector Economic Development Organizations Over the past several years, the structural relationships of chambers of commerce, CEO organizations, and other private sector economic development organizations have evolved in different directions. Some consolidations have taken place. The Houston Chamber of Commerce, Economic Development Council, and World Trade Council merged in 1989 to form the Greater Houston Partnership. In the 1990s, realignments resulted in The Allegheny Conference (a CEO organization) governing a merged organization that includes the old Pennsylvania Economy League-Western Division (public policy research), the Greater Pittsburgh Chamber of Commerce, and the Pittsburgh Regional Alliance (public-private partnership). The CEO members of Greater Philadelphia First became the CEO Council for Growth, a standing committee of the Greater Philadelphia Chamber of Commerce, in 2003. The Greater Cleveland Partnership was created from the merger of the CEO Cleveland Tomorrow, the Greater Cleveland Growth Association, and the Greater Cleveland Roundtable (social justice).²⁵

Foundations No discussion of the important role of private sector organizations in economic development can be complete without recognizing the leadership and support provided by foundations. According to the National Center for Charitable Statistics, foundations gave over \$30 billion in 2003. Education received 24.5 percent of the funds given, while human services received 25.6 percent of the grants.²⁶

The potential of foundations to improve the competitiveness of both place and people extends far beyond traditional quality of life issues approaches. Foundations can initiate critical, but potentially politically risky, analyses of regional economic strengths and weaknesses; insure the development and implementation of a common vision of the future; challenge

dysfunctional cultural patterns; and pressure competitive groups to work cooperatively. Foundations can provide strategic, focused, and persistent support for key elements of economic development, including a regional plan, downtown revitalization, economic community development, economic advancement, and quality of life. K-12 and higher education are a particularly important intersection for foundation funding and economic development efforts. Foundations, which function as brokers, capacity builders, and connectors, can also support the development of ideas that are then available when a real or perceived crisis creates an opportunity for change.

Some foundations overtly target resources on economic development. The Ewing Marion Kauffman Foundation in Kansas City is the largest foundation dedicated to advancing entrepreneurial success. This foundation bases its targeting on the premise that entrepreneurship is essential for economic growth, and economic growth is essential to human welfare. Funding supports research on entrepreneurship, university programs that promote entrepreneurship, laboratory research commercialization, and minority and urban entrepreneurship programs.²⁷

The Fund for Our Economic Future was launched in 2004 to transform the regional economy in Northeast Ohio. Eighty donors, including private, community, and corporate foundations, entered into a structured collaboration to address economic challenges such as business retention and expansion, entrepreneurship, and technology innovation. In Phase 1, the fund deployed over \$35 million in grants to high impact economic development initiatives, as well as convening key participants and measuring economic progress; fundraising for Phase 2 has begun. Decisions are made by the Funders' Committee, which is composed of all entities that have donated \$100,000 or more to the fund. One paid staff member works with part-time staff loaned by several participating entities.²⁸

For-profit Economic Development Business has at least as much to gain from economic development as does government: new suppliers, better workforce, improved technology, and new customers. Perhaps the purest examples of self-interested, private sector economic development efforts are provided by utility companies that conduct business attraction and reten-

Regional Approaches to Economic Development

tion activities in the areas they serve. AT&T Michigan, Consumers Energy, DTE Energy, and Indiana Michigan Power are among the members of the Michigan Economic Developers Association.²⁹ Another category of

private sector economic development activity includes consultants who assist public and non-profit organizations to plan and implement strategies and programs.

Recommendations

Governmental, non-profit, and for-profit organizations all play important roles in economic development. Because these organizations may have different, and possibly conflicting, goals and definitions of success (enhanced tax base, increased profits, job growth, productivity increases, etc.) and because overall resources are limited, some mechanism is required to develop, mediate, coordinate, implement, and evaluate economic development strategies that have broad regional ownership.

Currently there are economic development entities that operate in multiple jurisdictions in various areas in Michigan. These organizations have different structures, types of members, and roles, but could serve as the nucleus around which more broadly representative regional organizations with more comprehensive goals could be developed. Because economic development is a complex process that reflects and responds to a variety of factors, consideration should be given to insuring that the board of the regional economic development partnerships include all of the constituent groups. Regional, non-profit, public-private partnerships that include business leaders,

elected officials, workforce development experts, representatives of K-12 and higher education, and foundations could develop regional strategic plans, marshal resources, focus on building regional identity, develop and market the assets and opportunities of the region, and continuously refine operations based on applicable economic indices. These regional organizations could facilitate communication among local government planning boards, chambers of commerce, councils of governments, workforce development and educational organizations, and other entities concerned with economic development; produce or contract for a regional forecast; champion regionally beneficial development; assist in directing particular kinds of economic development to areas within the region where that kind of development is desired; and advise local governments on ways to become more attractive to business. The proposed structure would insure that the needs and concerns of all of the key economic players were considered in regional programs and goals. This could result in more realistic plans with broader ownership, as well as focusing resources on shared goals.

- ¹ Roger E. Hamlin, "Public-Private Partnerships for Inner-City Redevelopment," Urban Policy Choices for Michigan Leaders, edited by Dozier W. Thornton and Carol S. Weissert, Michigan State University Press, 2002, pg. 186.
- ² David Osterfeld, Prosperity Versus Planning: How Government Stifles Economic Growth, Cato Institute, 1992.
- ³ Economic Development Administration, www.eda.gov/Research/EcoDev.xml.
- ⁴ Roger Hamlin. "Public –Private Partnerships for Inner-City Redevelopment," Urban Policy Choices for Michigan Leaders, edited by Dozier W. Thornton and Carol S. Weissert, Michigan State University Press, 2002, pgs. 204 -205.
- ⁵ Rob Atkinson. Presentation to the Association of University Research Parks, www.ppionline.org.
- ⁶ Attorney General Opinion No. 7195.
- ⁷ National Conference of State Legislatures at www.ncsl.org/programs/employ/stateminimumwages2006.htm.
- ⁸ National Conference of State Legislatures at www.ncsl.org/programs/health/genetics/embfet.htm.
- ⁹ Michigan Economic Developers Association. Membership Directory, 2006.
- ¹⁰ Mark Solof. "History of Metropolitan Planning Organizations," North Jersey Transportation Planning Authority, Inc., 1998.
- ¹¹ Mark Solof. "History of Metropolitan Planning Organizations," North Jersey Transportation Planning Authority, Inc. 1998.
- ¹² Myron Orfield. American Metro Politics: The New Suburban Reality, Brookings Institution Press, 2002, pg. 139.
- ¹³ Jocelyn Richgels. "State Associations of Regional Councils of Government & Regional Development Organizations: Insights into Organizational Structures, Governance Models and Strategic Initiatives," National Association of Development Organizations, 2005.
- ¹⁴ Southeast Michigan Council of Governments at www.semco.org/AboutUs/Overview/index.htm.
- ¹⁵ Lael Brainard, editor. Transforming the Development Landscape: The Role of the Private Sector, Brookings Institutions Press, 2006, pg. 22.
- ¹⁶ Perry Davis. "Why Partnerships? Why Now?" Public-Private Partnerships: Improving Urban Life, The Academy of Political Science, 1986.
- ¹⁷ Donald Haider. "Chicago's New Opportunities" in Public-Private Partnerships: Improving Urban Life, edited by Perry Davis, The Academy of Political Science, 1986.
- ¹⁸ International Economic Development Council at www.iedconline.org/index.php?p=Guide_Partnerships.
- ¹⁹ Royce Hanson et al. "Corporate Citizenship and Urban Problem Solving: The Changing Civic Role of Business Leaders in American Cities," George Washington Institute of Public Policy, 2006.
- ²⁰ Detroit Renaissance at detroitrenaissance.com.
- ²¹ U.S. Chamber of Commerce at www.uschamber.com.
- ²² Michigan Chamber of Commerce at www.michamber.com.
- ²³ Detroit Regional Chamber at www.detroitchamber.com/business_development/index.asp?cid=44 and Detroiter Magazine, Special Edition, A Year in Review 2005-2006, Volume 97, Number 5, Detroit Regional Chamber.
- ²⁴ The Right Place, Inc., "Strategic Plan 2004 -2008."
- ²⁵ Royce Hanson et al, "Corporate Citizenship and Urban Problem Solving: The Changing Civic Role of Business Leaders in American Cities," The George Washington Institute of Public Policy, 2006.
- ²⁶ National Center for Charitable Statistics. "NCCS Quick Facts," 2006, available at nccsdataweb.urban.org/NCCS/files/quickFacts.htm.
- ²⁷ Interview with Carl Schramm. "The Entrepreneurial Imperative," Philanthropy Magazine, September 25, 2006.
- ²⁸ Fund for Our Economic Future at www.futurefundneo.org.
- ²⁹ Michigan Economic Developers Association, Membership Directory, 2006.

Regional Approaches to Economic Development

PART 3

SURVEY OF REGIONAL ECONOMIC DEVELOPMENT ORGANIZATIONS

Summary

Citizens Research Council of Michigan analyzed 50 responses to a nationwide survey of regional economic development organizations. Nearly all of the responding organizations, which also included chambers of commerce, other types of membership organizations, and councils of government (COGs), reported that both local government agencies and other organizations are engaged in economic development in the same service area, indicating significant layering of efforts in most regions. Nearly all regional economic development organizations reported that they coordinate strategic approaches to regional economic development, create economic development plans, conduct research and report data, among other functions. Many of the organizations that responded to the survey had responsibilities in addition to economic development, but the success of these organizations in attracting businesses and jobs appears to reflect the number of full-time staff devoted entirely to economic development.

In general, contributors and board members of chambers and other membership organizations represent for-profit companies and those of COGs represent member governments. Organizations that are 501(c)(3) non-profits appear, on average, to have boards that are relatively more balanced among government, for-profit companies, and non-profit organizations. Although 31 respondents noted the

workforce as one of their region's primary strengths, and 12 respondents noted the lack of a skilled workforce or the need to train the workforce as one of their region's primary problems, the people who train the workforce and the people who represent the workforce are conspicuously absent from the boards of organizations engaged in regional economic development.

The small and non-randomized sample of regional economic development organizations in this survey argues for caution in interpretation of data, but it is clear that there is wide recognition that regions are appropriate bases for economic development efforts, that regions have been defined by a number of methods which may or may not reflect the best strategic approach to economic development, and that various structures are being employed to engage in regional economic development. Each type of regional economic development organization has a particular perspective that reflects its constituents and influences its goals and programs.

Michigan has an opportunity to institutionalize and systematize regional approaches across this state to maximize regional advantages and address regional challenges. Because Michigan is such a diverse state, empowering regional organizations could provide new insight and energy in economic development.

CRC Report

Survey Results

In September 2006, Citizens Research Council of Michigan initiated a nationwide survey of 120 regional economic development organizations. The survey recipients were selected from a variety of sources including membership lists of Michigan and international economic development associations. The organizations that received surveys identified themselves as having a regional focus (not representing one city,

county, or state) and engaging in business attraction and related activities. Usable responses were received from 50 organizations, although not every respondent answered every question. Organizations represent a variety of organizational structures and diverse geographical regions in the United States. A copy of the survey is included in this report as Attachment A.

*Table 3-1
Responding Regional Economic Development Organizations*

<u>Region</u>	<u>Number of Organizations</u>	<u>Type of Structure</u>	<u>Number of Organizations</u>
Michigan	7	501 (c)(6), Not a Chamber	20
Midwest, excl MI	15	501 (c)(3)	12
West	11	Chambers of Commerce	11
Southeast	9	Councils of Government	5
Northeast	8	501 (c)(4)*	2

*501 (c)(4) social welfare organizations are non-profits that promote the common good and general welfare of the community. They differ from 501 (c)(3) non-profits in their greater latitude to engage in non-exempt business activities and more relaxed lobbying restrictions.

The sample includes two 501 (c)(4) organizations, the CEO-led Bay Area Council (San Francisco, CA) and the public-private St. Cloud Area Economic Development Partnership (St. Cloud, MN). For purposes of this

analysis, they have been included with membership organizations that are not chambers of commerce. Organizations of various structures are distributed geographically as follows:

*Table 3-2
Organizational Types by Geographic Region*

	<u>Chambers of Commerce</u>	<u>501(c)(6), but Not Chambers*</u>	<u>501(c)(3)</u>	<u>Councils of Government</u>
Michigan	2	1	2	2
Midwest excl. MI	7	5	3	-
Northeast	-	5	2	1
Southeast	1	5	2	1
West	1	6	3	1

*Includes two 501 (c)(4) organizations

Regional Approaches to Economic Development

The regions served by responding economic development organizations represent varying degrees of urbanization: 11 respondents include cities of over 500,000 residents (2 Michigan respondents, the Southeast Michigan Council of Governments and the Detroit Regional Economic Partnership, include the city of Detroit in their service area) and 12 respondents serve regions with fewer than 50,000 residents.

While the sample size is small, some national, regional and organizational trends and tendencies can be identified. It is hoped that this information can be used to inform the discussion of economic development strategies in Michigan.

*Table 3-3
Urban/Rural Characteristics*

	<u>Urban</u>	<u>Large City</u>	<u>Suburban</u>	<u>Mid-sized City</u>	<u>Small City</u>	<u>Rural</u>
Michigan	2	-	1	2	1	1
All Other	9	8	3	7	5	11
Total	11	8	4	9	6	12

Urban: Regions in which a city of at least 500,000 residents is located

Large City: Regions in which a city of 300,000 to 499,999 residents is located

Suburban: Regions within 30 miles of a large or urban city

Mid-sized City: Regions in which a city of 100,000 to 299,999 residents is located

Small City: Regions in which a city of 50,000 to 99,999 residents is located

Rural Area: Regions which have populations under 49,999.

The Regions Respondents were asked to define the geographic region served by their organization. Nine of the 50 responding organizations (none from Michigan) reported that their service area encompasses parts of 2 or more states, and of these 9, 2 (Select

Greater Philadelphia, and the Panhandle Regional Economic Development Coalition, Inc. headquartered in Guymon, OK.) indicated that their service area extended over parts of 3 states.

*Table 3-4
Definition of the Region Served*

	<u>Number of Organizations</u>
Parts of two or more states	9
Multiple counties in a single state	27
Multiple sub-county level governments	14

The Lewiston-Auburn Economic Growth Council (Lewiston, ME) reported that it encompassed only 2 sub-county units of government. In contrast, the Southeast Michigan Council of Governments includes 150 sub-county level units of government and 7 counties. For Michigan respondents, the average number of local governments reported in service areas is 49 and the range is 7 to 150. The average number of counties in Michigan service areas is 5 and the range is 2 to 7. For all 50 respondents, the average number of local governments in service areas is 28 and the range is two to 150. For all respondents, the average number of counties in service areas is 7 and the range is one to 16.

The method used to determine the service area varied by organizational type. The boundaries of councils of government are generally determined by the voluntary agreement of member communities. The service area of the Mid Columbia Economic Development District (The Dalles, OR) is based on the federal Economic Development Administration designation, and the state defined the Southeastern Regional Planning and Economic Development District (Taunton, MA).

Eight chambers of commerce, including the Green Bay Area Chamber of Commerce, indicated that their economic development service area boundaries were determined by their boards of directors, and two reflect the MSA (though the MSA definition informed board decisions in two others). The Jacksonville Regional Chamber of Commerce service area grew from an agreement between two counties to market as one unit, which other counties subsequently petitioned to join.

The service areas of 501(c)(6) membership organizations that are not chambers of commerce were defined by a variety of means. The South Bay Economic Development Partnership, Inc. (Torrance, CA) and the Regional Growth Partnership (New Haven, CT) are coterminous with their COGs. The Greater Houston Partnership uses the MSA definition. Other areas are defined by agreements among local governments; actions of founders, interested parties, or boards of directors; agreements between local governments and boards of directors; or state designations. Similarly, organizations that are 501(c)(3) non-profits reported a variety of means of defining the service area: agreements among local governments; agreements or con-

tracts between local governments and the board; state designations; board actions. The Gateway Cities Partnership (Paramount, CA) service area was defined in a study conducted by McGraw Hill at the behest of the Office of Economic Adjustment as a result of base and defense industry related factory closings. The Charlotte Regional Partnership represents 12 counties in North Carolina that were assigned to the region by the state general assembly and 4 counties in South Carolina that participate on a voluntary basis as part of the Charlotte region.

Of the 50 respondents, 14 reported that local governments within their regions had their own economic development departments and there were no other regional organizations focused on economic development. Six organizations reported there were overlapping regional organizations, but no local government agencies in their service area. Twenty-seven respondents (four in Michigan) indicated that there are both local government agencies and other organizations engaged in regional economic development in the same service area, indicating significant layering of efforts in most regions. Some of the overlapping economic development organizations are industry focused or focused on regions with boundaries encompassed within, or overlapping, the boundaries of the reporting organizations. Only 3 of the respondent regional organizations reported neither local government agencies nor other regional organizations doing economic development in their service areas: Priority One in Cedar Rapids, IA; Kenai Peninsula Economic Development District in Kenai, AK; and Galesburg Regional Economic Development Association in Galesburg, IL.

Nearly all respondents reported cooperative working arrangements with other economic development organizations, often citing established structures such as steering committees and economic development advisory boards, or processes including monthly economic development forum meetings and serving on each others' committees. Select Greater Philadelphia reported formal memorandums of understanding with public economic development organizations. Some regional organizations reported that they focused on national and international, or very high profile, or industrial, manufacturing, and distribution center attraction efforts, while local departments focused more on

Regional Approaches to Economic Development

retail. The Greater Phoenix Economic Council focuses on international and national attraction while the regional chamber concentrates on retention. The Bay Area Council engages in specific projects such as bidding for the Olympic Games or bidding for the headquarters of the California stem cell research institute. Councils of government were more likely to provide technical assistance, including data collection and analysis, issues analysis, and legislative monitoring, to other economic development entities.

Strengths Regional economic development organizations were asked to identify the top three economic strengths of their regions (this was an open response item with no listed strengths from which to pick). The most frequently identified strength was a skilled and

productive workforce (31 of the 50 respondents; the Greater Washington Initiative noted that 46 percent of the workforce has a BA), followed by an existing industrial and/or business base (19 responses, concentrated in the Midwest), and proximity to markets (17). A few assets were qualified, such as the Economic Development Authority of Western Nevada's low cost of doing business *as compared to California*. All regions listed at least three strengths: Greater New Orleans listed ports, oil and gas industry, higher education, and health care. While four of the seven Michigan respondents reported some variation of "cooperative and business friendly government," no Michigan respondent claimed that this state has low business costs.

*Table 3-5
Identified Regional Economic Strengths*

<u>Strength</u>	<u>Total</u>	<u>Michigan</u>	<u>Mid- West</u>	<u>North- East</u>	<u>South- East</u>	<u>West</u>
Skilled/Productive Workforce	31	5	9	5	4	8
Industrial/Business Base	19	6	5	1	4	3
Location/Proximity to Markets	17	1	6	5	2	3
Knowledge/Education Assets	11	2	4	1	1	3
Business Climate	9	4	1	-	1	3
Business Costs	8	-	3	-	3	2
Quality of Life	8	-	1	3	1	3
Transportation Infrastructure	8	1	2	1	4	-
Cost of Living	4	1	1	1	1	-
Innovation, R & D, Technology	4	1	-	2	-	1
Other Infrastructure	4	-	2	1	1	-
Cooperative Spirit	3	1	2	-	-	-
Size/Diversity of Economy	3	-	2	1	-	-
Healthcare	3	-	2	-	1	-
Population/Job Growth	3	-	-	-	2	1
Natural Resources	3	1	-	-	1	1

Recent economic development literature focuses intensely on technology, innovation, and entrepreneurship, but only seven of the 50 respondents included the terms “innovation,” “research and development,” or “technology,” usually as adjectives (research universities, tech parks, or high technology business climate and labor force), only once as a noun (innovation). The Allegheny Conference on Community Development noted their innovation and research and development strength; the Greater Washington Initiative included their knowledge economy workforce; and the Bay Area Council listed their leading edge clusters of innovation industries and world class research institutions. Neither entrepreneurship nor an entrepreneurial environment were mentioned as strengths, possibly because surveyed organizations are more focused on attracting established businesses than on growing new businesses.

Problems The survey also asked respondents to identify the top three problems related to economic development in their region (this was also an open response item). Some of the problems listed are very familiar to Michigianians: the Green Bay Area Chamber of Commerce noted “downturn in manufacturing, loss of large employers, loss of local ownership, and retaining talent.” The Youngstown Warren Regional Chamber in Youngstown, OH lamented their union reputation and rust belt identity. Every one of the Michigan respondents referred to the decline of manufacturing as a major challenge. Image was also reported to be problem in Michigan, the Midwest, and Southeast. Some of the problems listed, such as low unemployment and managing rapid growth, are conditions to which other regions aspire. Anti-growth sentiment was listed by organizations serving Denver, CO and Columbia, MO.

Table 3-6
Identified Regional Economic Problems

<u>Problem</u>	<u>Total</u>	<u>Michigan</u>	<u>Mid- West</u>	<u>North- East</u>	<u>South- East</u>	<u>West</u>
Industrial Decline or Restructuring	14	7	3	-	2	2
Lack Skilled Workforce or Need To Retrain Workforce	12	1	3	1	2	5
Lack Transportation Infrastructure	12	-	4	3	2	3
Image	9	3	3	-	3	-
Educational Attainment or Outcomes	7	1	-	2	1	3
Infrastructure Investment	7	1	2	2	2	-
Loss of Population or Talent	7	2	4	1	-	-
Limited Land or Buildings	6	-	2	2	1	1
Business Costs	5	-	-	4	-	1
High Taxes or Tax Structure	5	-	2	3	-	-
Lack Affordable Housing	5	-	-	2	1	2
Lack of Regional Plan/Strategy	4	-	-	1	1	2
Union Attitude/Perception, High Wages	3	2	1	-	-	-
Tight Labor Market	3	-	-	1	1	1
Un or Underemployment, Low Wages	3	-	1	-	1	1
Government Policies	2	-	1	-	-	1
Fragmented Government	2	-	1	1	-	-
Cost of Real Estate	2	-	1	-	-	1
Lack of Diversity/Segregation	3	1	1	-	-	1
Lack of Business Incentives	3	-	2	-	-	1
Growth Issues	3	-	1	-	1	1
Rural Conditions	3	-	1	-	2	-
Availability/Cost of Healthcare	2	-	2	-	-	-
Lack of Venture Capital	2	1	1	-	-	-
Anti-Growth Sentiment	2	-	1	-	-	1
Lack of Funds	2	-	1	-	1	-
High Cost of Living	1	-	-	-	-	1
Seasonal Economy	1	-	-	-	-	1

Regional Approaches to Economic Development

No Michigan respondent indicated that transportation infrastructure was a problem, although it is reported to be a challenge in other parts of the country: traffic by the Greater Washington Initiative; lack of viable air service by the Regional Economic Development, Inc. in Columbia, MO; lack of a north-south interstate by the Economic Development Coalition of Southwest Indiana; no deep water port by the Greater Omaha Chamber of Commerce. The lack of appropriately skilled workers or need for retraining was also noted as a problem in other areas of the country (particularly in the West), though only one Michigan organization cited that issue. The state's loss of young people was noted by two Michigan respondents. Union attitude and high wages were also noted by two Michigan respondents. No responding Michigan regional economic development organization reported high taxes

or other negative government policies, or lack of a regional plan, as a problem.

Thirty-seven of 50 respondents indicated that their regions had a shared vision and plan for economic development. The Metro Denver Economic Development Corporation reported that in 2003 a community process identified six strategic goals for sustainable economic growth, chose nine employment clusters that were critical to success, and set about developing the physical and human infrastructure necessary to accomplish that vision. The Economic Development Authority of Western Nevada reported that Angelou Economics just completed a six county study to better identify target industries and what needs to be done to attract those industries.

*Table 3-7
Shared Regional Vision and Plan (By Location)*

	<i>Have a Shared Plan</i>	<i>Plan in Process</i>	<i>No Plan</i>
Michigan	4	1	2
Midwest excl MI	9	4	2
Northeast	5	1	2
Southeast	6	2	1
West	7	1	3

Chambers of commerce were most likely to report that their regions have a shared vision and plan, while 501(c)(3) non-profits were least likely to report that

their regions have a shared vision and plan. The Greater Omaha Chamber of Commerce developed a five-year plan that has been adopted across the region.

*Table 3-8
Shared Regional Vision and Plan (By Type of Organization)*

	<i>Have a Shared Plan</i>	<i>Plan in Process</i>	<i>No Plan</i>
Chambers of Commerce	8	1	2
Membership Organizations	14	4	4
501(c)(3) Non-profits	6	3	3
COGs	3	1	1

The Organizations Three fourths of the responding chambers of commerce, membership organizations, and 501(c)(3) organizations indicated that between 76 and 100 percent of their activities were devoted to economic development, but 4 of 5 councils of government reported that less than 25 percent of their activities were devoted to economic development. Four of 7 responding Michigan organizations reported that 50 percent or less of their activities are devoted to economic development; 3 reported that 76 to 100 percent of their activities are dedicated to economic development.

There is significant variance in the length of time these types of organizations have been engaged in economic development activities. Councils of government reported the longest involvement, an average of 32 years. Membership organizations that are not chambers of commerce reported an average of 23 years; chambers reported an average of 22 years; and 501(c)(3) organizations reported an average of 16 years. Responding organizations in the Southeast have been

engaged in regional economic development for the longest average period of time, 28 years. Those regional economic development organizations in Michigan and the Midwest have been engaged, on average, for the briefest period: 18 years (the range for responding Michigan organizations is 5 to 38 years). Four organizations reported they have been engaged in regional economic development for longer than 50 years: the Allegheny Conference (60 years); Bay Area Council (60 years); Greater Kansas City Chamber (119 years); and Greater Houston Partnership (150 years, their charter was signed by David Burnett, the then-president of the Republic of Texas).

The average annual operating budget of the 50 responding organizations was \$2.7 million; the range was \$98,000 to \$12 million. COGs reported average annual operating budgets of \$3.8 million, 83 percent of which came from government sources. Regional chambers reported average annual operating budgets of \$3.4 million, 74 percent of which came from private sector members.

*Table 3-9
Sources of Operating Revenues, by Type of Organization*

	<u>Average Operating Budget</u>	<u>Government Sources</u>	<u>Private Sector Members</u>	<u>Earned Income or Fees</u>	<u>Foundations</u>	<u>Other Sources</u>
Chambers of Commerce	\$3.4m	12%	74%	12%	2%	-
501(c)(6)	1.9	35	49	9	6	1%
501(c)(3)	3.0	41	26	11	17	5
COGs	3.8	83	-	7	1	9

Regional Approaches to Economic Development

Responding organizations from Michigan reported operating budgets that range from \$1 million to \$12 million, with an average of \$3.2 million. Revenue sources for regional economic development organizations are more reflective of the type of organization than of the geographic location of the organizations, but in Michi-

gan, five of the seven receive at least 50 percent of their operating revenue from government (federal, state, or local) sources; only the Holland Area Chamber of Commerce receives no revenue from government sources.

*Table 3-10
Funding Sources for Responding Michigan
Regional Economic Development Organizations*

	<i>Range</i>
Government Sources	0- 100%
Private sector members or investors	0- 75
Service fees or earned income	0- 50
Foundation grants	0- 9
Other	0- 10

While the largest average annual operating budget is found in responding Michigan organizations; the smallest is in Western organizations (\$1.5 million), where proportionately less funding is provided by government (30 percent on average) and more funding is derived from earned income and fees (23 percent on average).

All responding councils of government and four other responding organizations employ a dues structure based on population. Eight respondents, including the Allegheny Conference on Community Development, employ a formula based on the size or revenues of the donor. Nine organizations rely on voluntary, contributor-determined contributions. Other bases for support include graduated membership levels, board determined or set minimum levels and negotiated amounts. The Tampa Bay Partnership has adopted four financial contribution levels. The Metro Denver Economic Development Corporation has established a pay-to-play minimum investment of \$10,000 per company. Investors in the Panhandle Regional Economic Development Coalition, Inc. select one of several a contribution levels that earn corresponding levels of voting rights on the board.

Contributors to responding regional economic development organizations are either overwhelmingly private sector or overwhelmingly public sector. Regional chambers of commerce reported an average of 1,106

non-governmental investors (one organization reported 8,000 investors, the second largest reported 1,300, and the third largest 400) and five governmental contributors. Membership organizations that are not chambers reported an average of 201 private investors or contributors and six governmental contributors, and 501(c)(3) non-profits reported an average of 78 private investors or contributors and 11 governmental contributors. Councils of government reported an average of 53 governmental contributors and four non-governmental contributors. On average, Midwestern organizations report the largest number of non-governmental members (774) and Northeastern organizations the fewest (64). In Michigan, four of seven organizations reported a number of governments, but no non-governmental, sources of revenue. One organization reported only private contributors, and two organizations reported both governmental and private supporters.

Thirty-one of the organizations reported that they have increased in size over the past five years; 13 have stayed the same size; and 6 have decreased. In Michigan, 4 of 7 responding regional economic development organizations have not increased in size, even though economic restructuring has created significant challenges in the state. In none of the 4 U.S. regions excluding Michigan did more than half of the responding organizations fail to grow over the past five years.

Table 3-11
Growth in the Past Five Years

	<u>Total Respondents</u>	<u>Increased in Size</u>	<u>Stayed the Same</u>	<u>Decreased in Size</u>
Michigan	7	3	2	2
Midwest excl MI	15	10	5	-
Northeast	8	4	2	2
Southeast	9	6	2	1
West	11	8	2	1

Board of Directors and Staff Although 31 respondents noted the workforce as one of their region's primary strengths, and 12 respondents noted the lack of a skilled workforce or the need to train the workforce as one of their region's primary problems, the people who train the workforce and the people who represent the workforce are conspicuously absent from the boards of organizations engaged in regional economic

development. In general, board members of chambers and other membership organizations represent for-profit companies and board members of COGs represent member governments. Organizations that are 501(c)(3) non-profits appear, on average, to have boards that are relatively more balanced among government, for-profit companies, and non-profit organizations.

Table 3-12
Average Numbers of Board Members from Various Sectors

	<u>Government</u>	<u>For Profit</u>	<u>Non-Profit</u>	<u>College or University</u>	<u>Community College or Workforce Board</u>	<u>Union</u>
Chambers	3.8	25.2	4.6	1.4	0.4	0.2
501(c)(6)	6.6	27.5	3.3	1.7	0.7	0.3
501(c)(3)	9.7	17.2	4.9	1.3	0.7	0.3
COG	30.8	2.2	1.0	0.6	0.2	0.0

A number of organizations reported more than one method of selecting board members. In 21 of the reporting organizations, including the Bay Area Council and the Greater Houston Partnership, all board members are appointed or elected by the board. Ten organizations, including the Greater Washington Initiative and the Tampa Bay Partnership, reported a pay-to-play approach. Six respondents, including the Charlotte Regional Partnership, reported appointment to their boards by member entities. Three organizations, including the Metro Denver Economic Development Corporation, reported designated seats on the board. Nine organizations are like the Economic Develop-

ment Authority of Western Nevada in employing some combination of board election, pay to play, and designated seats.

Thirty-three of the 50 responding organizations reported that their board members are primarily CEOs. These include nine of 11 responding chambers of commerce, 16 of 22 organizations that are non-chamber 501(c)(6) entities, and eight of 12 organizations that are 501(c)(3) entities.

On average, responding organizations have 17 full-time employees. Councils of government on average have

Regional Approaches to Economic Development

28 full-time employees; chambers of commerce have 27; 501(c)(3) organizations have 18; and 501(c)(6) organizations have ten. Chambers of commerce, on average, have the largest number of employees working full time on economic development (10). Organizations in Michigan tend to be larger, with 32 full-time employees on average (6 of them working full time on economic development), while organizations in the West tend to be smaller, with an average of 12 full-time employees (5 of them working full time on economic development).

Organizational Role: Functions, Partnerships, and Performance In Michigan, only 3 of 7 responding organizations indicated that they target specific industries (these included automotive research and development, alternative energy, life sciences, advanced manufacturing, transportation research and development, manufacturing, medical devices, eco (sic) innovation). In the Midwest excluding Michigan, 11 of 15 organizations reported targeting industry clusters (capital-intensive industry, rail-related industry/distribution, engineering and management services, wholesale trade, printing and publishing, machinery, metal and instruments manufacturing, business services, science-based, life sciences, technology, high-wage growth, medical-pharmaceutical, regional office facilities, healthcare technologies, polymers, advanced manufacturing, aerospace, financial services, logistics). In the Northeast, all responding organizations indicated that they targeted a particular kind of development (bioscience, creative, IT, headquarters, life sciences, biotech, chemicals, financial services, marine

science, health care, medical devices, tourism, advanced materials). In the Southeast, six of eight organizations target industry clusters (advanced manufacturing, aviation and aerospace, distribution and logistics, financial and insurance services, life sciences, IT, headquarters, manufacturing, office headquarters, warehouse distribution, logistics, film and television, medical devices, corporate shared services, energy, chemicals, biotech/nanotech, healthcare, automotive, plastics, assembly). Six of 11 organizations in the West indicated that they target particular industries (high wage sectors, life sciences, biotech, software, advanced business services, high tech/advanced manufacturing, trade, aerospace, bio, financial services, energy, software, clean energy, advanced logistics, business and financial services). The North Eastern Strategic Alliance in South Carolina targets automotive and ten responding regions target manufacturing.

In the following table, in which categories reflect organizational structure, an x indicates that more than half of responding regional economic development organizations reported that they provide the indicated functions and services. A bold capital **X** indicates that at least 75 percent of respondents in that category provide those functions and services.

Functions that are common among all types of organizations are coordinating strategic approaches to regional economic development (45 of 49 respondents), creating economic development plans (40 of 48 respondents), and research and reporting of data (38 of 49 respondents).

CRC Report

Table 3-13

Common Functions and Services Provided (By Type of Organization)

	<u>Chambers of Commerce</u>	<u>501(c)(6) But Not Chambers</u>	<u>501(C)(3)</u>	<u>Councils of Government</u>
Business retention	X	X		
Business attraction	X	X	x	
Assistance to business relative to local government requirements and procedures	x	x	x	
Branding, image campaign	x	x	x	
Research, reporting of econ. dev. data	X	X	X	X
Inventory of available sites	x	x	X	
Involvement in quality of life issues				
Affordable housing				X
Mass transit	x	x		X
Education	x	x		
Infrastructure	x	x		X
Member services, such as seminars, health insurance, networking opportunities				X
Advocacy on legislative issues, lobbying	X			x
Creating economic development plans	X	X	x	X
Coordinating strategic approaches to regional economic development	X	X	X	X
Advice to local government to improve competitiveness		x	x	X

Regional Approaches to Economic Development

The same data, organized by geography, is presented below:

*Table 3-14
Common Functions and Services Provided (by Location)*

	<u>Michigan</u>	<u>Midwest Excluding Michigan</u>	<u>North- East</u>	<u>South- East</u>	<u>West</u>
Business retention		X		x	x
Business attraction		X	X	X	x
Assistance to business relative to local government requirements and procedures		x	X		x
Branding, image campaign	x		X	x	
Research, reporting of econ. dev. data	X	X	X	X	x
Inventory of available sites		X		x	
Trade missions				x	
Involvement in quality of life issues					
Affordable housing	x			x	
Mass transit	X		x	x	
Education				x	x
Infrastructure	X		X	x	x
Member services, such as seminars, health insurance, networking opportunities	x			x	
Advocacy on legislative issues, lobbying	X			X	
Creating economic development plans	x	X	X	X	X
Coordinating strategic approaches to regional economic development	X	X	X	X	X
Advice to local government to improve Competitiveness	X		X	x	x

CRC Report

While the mix of responding organizational types dictates the functions reported by geography (Michigan respondents include two chambers, two councils of government, two 501(c)(3) organizations, and one 501(c)(6) organization that is not a chamber), it is of note that less than half of responding Michigan regional economic development organizations engage in business retention, business attraction, assistance to

business relative to local government requirements and procedures, inventory of available sites, trade missions, and education issues.

Fifty percent or less of the responding economic development organizations, whether categorized by organizational structure or by geographic region, provide the following functions and services:

*Table 3-15
Less Common Functions and Services Provided*

	<i><u>Number that Provide This Function or Service</u></i>
Involvement in the quality of life issue of arts and culture	18
Low interest loans, gap financing	13
Workforce training	10
Industrial park	9
Buy, improve, lease, sell real property for economic development purposes	7
Equity investing	5
Venture capital	3
Business incubator	3
Operate a business improvement district	2

The Allegheny Conference on Community Development engages in export development. The Lewiston-Auburn Economic Growth Council organizes business to business trade shows. The Fund for Our Economic Future in Cleveland makes grants to economic development organizations.

Regional economic development organizations were asked to rate the quality of their partnerships with universities, community colleges, workforce development agencies, state economic development agencies, and local government officials on a scale of 1 to 5, with 5 being the best.

*Table 3-16
Quality of Partnerships between
Regional Economic Development Organizations and Other Entities*

	<u>1</u>	<u>2</u>	<u>3</u>	<u>3.5</u>	<u>4</u>	<u>4.5</u>	<u>5</u>	<u>Total</u>
Universities	-	2	10	-	12	1	24	49
Community Colleges	2	1	7	-	9	1	27	47
Workforce Development Agencies	1	4	11	-	11	1	21	49
State Econ. Dev. Agency	1	5	3	-	16	-	23	48
Local Government Officials	-	4	6	1	12	1	24	48

Regional Approaches to Economic Development

With the exception of the Northeast region, more than half of respondents in each U.S. region rated relationships with universities and community colleges at the highest (best) end of the scale. Relationships with workforce development boards were more problematic, with respondents in the Midwest excluding Michigan and in the Northeast indicating a less than excellent relationship. There appear to be issues affecting the relationship of regional economic development organizations and state economic development agencies in the Northeast and to a lesser extent in Michigan and the Midwest, as well as strains in the relationship of regional economic development organizations and local economic development officials in the Midwest excluding Michigan and in the Northeast, and some troubling indicators in the West, where four of 11 organizations rated that relationship at 2.

The effectiveness of regional economic development efforts is difficult to evaluate because effectiveness is measured in a variety of ways. Job creation and retention, and business attraction and retention, are metrics

that are frequently, but not universally, reported by responding regional economic development organizations. Capital investment and benchmarking against strategic plans are also frequently reported performance measures. Other metrics that were reported include number of contacts, policy outcomes, number of articles placed in local and national publications, number and amount of business loans, funding for priority projects, number of completed projects, support for cultural amenities, payroll growth, business incubation successes, infrastructure development, change in population and per capita income, development of partnerships and relationships, and quality and type of jobs created. The Tampa Bay Partnership produces a quarterly economic scorecard. The Greater Washington Initiative mentioned user surveys of research quality and usefulness.

The following table reflects the totals of businesses attracted, jobs attracted, businesses retained, and business problems solved that were reported by responding organizations.

*Table 3-17
Performance Indicators: Totals
(Past 12 Months)*

	<i><u>Businesses Attracted</u></i>	<i><u>Jobs Attracted</u></i>	<i><u>Businesses Retained</u></i>	<i><u>Business Problems Solved</u></i>
Chambers of Commerce	136	41,038*	450	659
501(c)(6), Not Chambers	189	24,875	1,096	3,323
501(c)(3)	58	13,316	52	317
COG -	-	15	48	
Total	383	79,229	1,613	4,347
Michigan	52	3,639	1,070	616
Midwest excl. MI	75	11,492	420	557
Northeast	40	7,464	5	234
Southeast	111	21,432	60	2,063
West	105	35,202*	58	877
Total	383	79,229	1,613	4,347

*The Metro Denver Economic Development Corporation reported attracting 25,000 jobs.

CRC Report

Although a number of responding organizations did not report these particular metrics, it is of interest to note the averages of these performance indicators for those organizations that did report, by category of organization. Thirty organizations reported attracting a total of 383 businesses to their regions, for an overall average of 13 new businesses per organization. Thirty respondents reported attracting a total of 79,229

new jobs, for an overall average of 2,641 per organization. Twenty-two respondents reported retaining a total of 1,613 businesses, for an overall average of 73 businesses per organization. Thirty-one respondents reported helping 4,347 existing businesses solve a problem, for an overall average of 140 companies helped per respondent.

*Table 3-18
Averages of Responses from
Organizations that Reported Selected Performance Indicators*

	<i>Businesses Attracted</i>	<i>Jobs Attracted</i>	<i>Businesses Retained</i>	<i>Business Problems Solved</i>
Chambers of Commerce	19	5,863*	75	110
501(c)(6), Not Chambers	13	1,658	110	222
501(c)(3)	7	1,665	10	45
COG	-	-	15	16
Michigan	13	910	268	123
Midwest excl. MI	8	1,149	53	62
Northeast	8	1,492	5	59
Southeast	22	4,286	30	516
West	18	5,867*	8	97

*The Metro Denver Economic Development Corporation reported attracting 25,000 jobs. Absent that outlier, the average of jobs attracted by chambers of commerce would be 2,673 and the average for jobs attracted in the West would be 2,040.

Obviously, the effectiveness of reported regional efforts depends on a host of factors: size and mix of types of regional organizations (COGs do not generally engage directly in business attraction); role of regional versus local economic development organizations (some regional organizations focus exclusively on very large deals and leave retention efforts to local agencies); status of existing major industries; business climate including incentive programs; labor market;

availability of educational and other assets; resources available to the economic development organization, etc. In general, the success of regional economic development organizations in attracting businesses and jobs appears to reflect the number of full-time staff devoted entirely to economic development (an average of 10.4 in responding chambers of commerce, 6.5 in 501(c)(3) organizations, 5.7 in 501(c)(6) organizations, and 2.2 in councils of government).

Conclusion

Across the nation, regional organizations of various types have been developed, given various kinds of institutional capacity and incentives, and assigned or assumed the task of economic development. While the small and non-randomized sample of regional economic development organizations reported in this document argues for caution in interpretation of data, it is clear that there is wide recognition that regions are appropriate bases for economic development efforts, that regions have been defined by a number of methods which may or may not reflect the best strategic approach to economic development, and that various structures are being employed to engage in regional economic development.

Regional organizations reported different strengths and weaknesses, reflecting urban and rural economies, different values and aspirations, and different strategic approaches. Regional organizations reported that overlapping of economic development organizational efforts is the norm, and relations with other regional players are generally good, facilitated by frequent, structured contacts. Most regional organizations have increased in size over the past five years.

As public and private leaders struggle to find the right strategies and structures to create both immediate and enduring competitive advantages for our state, Michigan's political and economic development lead-

ers should consider a new approach to economic development. In the first report of this series on economic development, a recommendation was made to consider the organization of all of this diverse state into economic development regions. Regional structures could be established to create or mediate economic development plans that are right for each region, coordinate strategic approaches, assess the efficacy of programs, help define and market a regional identity and regional goals, and perform other functions required to increase the effectiveness of economic development efforts. These regional organizations need not supplant existing organizations, but could coordinate the efforts of participating players to achieve agreed upon goals for the region. Many of the organizations that responded to the survey had responsibilities in addition to economic development, which reduced the amount of resources those organizations could devote to economic development. The creation of regional organizations that focus only on regional economic development could increase the effectiveness of those efforts.

Each of the economic development organizations that responded to the survey has a particular perspective that reflects its constituents and influences its goals and programs. Because Michigan is such a diverse state, empowering regional organizations could provide new insight and energy in economic development.

Regional Approaches to Economic Development

PART 4 THE SEARCH FOR THE SILVER BULLET

Summary

The public debate on this state's economic future is being conducted by well intentioned individuals and organizations advocating particular, often contradictory, economic development strategies: changing tax structures and reducing tax rates, increasing tax rates and public investment, diversifying the economic base, improving education, promoting innovation and productivity growth, fostering entrepreneurship, increasing the availability of venture capital, improving quality of life, or addressing image and marketing challenges. The global economy has diminished the effectiveness of some of these strategies, reducing the ability of U.S. regions to compete on their natural resources, low cost labor, or tax incentives.

In Michigan, declining tax rates have been accompanied by an eroding economy that has proven more responsive to the misfortunes of the domestic automobile industry than to tax policy. The state's major economic development initiative, the ten-year, \$2 billion, 21st Century Jobs Fund, seeks to create and attract high-tech companies and jobs and targets four competitive edge technologies: life sciences; alterna-

tive energy; advanced automotive, manufacturing, and materials; and homeland security and defense. But state programs including MEGA grants have been accused of exacerbating sprawl and urban disinvestment.

While there is no single solution to the dislocations caused by globalization, a more organized and structured regional approach to economic development is needed to enable those regions to emphasize their diverse characteristics, coordinate existing public and private efforts, reflect regional values and resources, and assess the success of varying regional strategies. The state's role in defining regions, initiating regional public-private partnerships that build on existing structures and represent all of the constituent groups, and sharing information and resources is key. Because economic development is based on a region's assets, not on the region's needs, economic development must be directed to improving and defining those assets. In the long term, successful strategies will improve the skills and talent of the workforce and the productive infrastructure of the place.

Economic Development Strategies

Municipalities, counties, regions, states, and nations engage in a variety of economic development strategies. Individuals and organizations may strongly advocate very different strategies: changing tax structures and reducing tax rates, diversifying the economic base, improving education, promoting innovation and productivity growth, fostering entrepreneurship, improving quality of life, or addressing image and marketing challenges. This report, the fourth in a four-part series, explores a number of those economic development strategies.

One school of thought rejects government intervention in economic development altogether because it is believed that intervention distorts private investment decisions and prices, thereby making economies inefficient.¹ Among those who support governmen-

tal programs to promote economic development, there is disagreement about the key foundational components of economic development, and therefore about whether place-based, people-based, technology-based, or combination strategies are more effective in advancing economic development. Regardless of these disagreements, the intense competition for economic development among nations and states, and the dire consequences for those who lose the competition, ensure that Michigan will continue to pursue a variety of economic development policies. Strategies that have been proposed as the basis for economic development efforts in Michigan include the following:

Taxes There is general agreement that business taxes should have a broad base and low rate, be equitable and

simple to calculate and administer, be competitive with surrounding states, and promote economic growth. Some economists, as well as some political and business leaders, believe that lower tax rates inevitably lead to a more prosperous economy, as long as government expenditures are reduced accordingly.² Another approach advocates broadening the business tax base to the service sector, reducing the rate, and eliminating special tax breaks.³ Many experts reflect on the importance of generating sufficient tax revenues to provide the public infrastructure required to attract and sustain businesses. Paul Pryde, Jr. makes the point that taxes often play a key role in the way that labor and capital markets work and that policy makers at all levels of government are under constant pressure to alter the tax structure and rates to achieve policy goals. He makes the further point that a surprising number of these tax changes make no difference.⁴

The difficulties of measuring the business tax climate and its effects are demonstrated by several recent reports.

Tax Foundation Index The Tax Foundation prepares an annual state business tax climate index that purports to compare states' tax systems. While acknowledging that many non-tax factors affect a state's business climate, the Tax Foundation recommends the tax climate index as a means for legislators and businesses to judge the competitive advantage of states. The index is predicated on the position that a good state tax system applies low tax rates to a broad base with few exceptions and preferences. While Michigan's overall business tax ranking on this index is 27th, various components of the

overall rank range from fairly good (the individual income tax is ranked 12th and the sales tax 15th), to abysmal (the state's single business tax ranks 50th).

The Michigan Single Business Tax is a unique value-added tax which was adopted in 1975 and was expected to generate \$1.9 billion in general fund revenues in fiscal 2006. It replaced eight state and local taxes including an income tax on corporations and financial institutions, an annual corporation franchise fee, the business portion of the intangibles tax, the property tax on inventories, and various privilege taxes. Applicable to corporations and unincorporated businesses with gross receipts exceeding \$350,000, the SBT is not strictly comparable to corporate taxes in other states. As a result of legislative approval of initiated legislation, the SBT will be eliminated at the end of calendar 2007. At the time this report was written, no replacement tax had been adopted.

Four of the ten states with the best tax climate according to the Tax Foundation index had 2005 per capita personal income (PCPI) that was lower than Michigan's \$32,735, and five have PCPI lower than the national average of \$34,495. Five of the worst tax climate states have PCPI higher than the national average. The rate of growth in PCPI from 2004 to 2005 exceeded the national average in eight of the best tax climate states and in only two of the worst tax climate states. Over the 1995 to 2005 period, the average annual growth rate in PCPI exceeded the national average of 4.1 percent in seven of the best tax states and in eight of the worst tax states, although the rate increases were stronger in the best tax states.

*Table 4-1
Tax Foundation Index: Michigan Business Tax Climate*

	<u>Rank</u>
Overall	27
Corporate Tax Index	50
Individual Income Tax Index	12
Sales Tax Index	15
Unemployment Insurance Tax Index	41
Property Tax Index	35

Source: Tax Foundation, 2007 State Business Tax Climate Index

Regional Approaches to Economic Development

Table 4-2

Tax Foundation's 2007 State Business Tax Climate Index: Selected States
Per Capita Personal Income

		<u>1995-->2005</u>				
<u>Overall Rank</u>	<u>State</u>	<u>2005 Amount</u>	<u>% of U.S. Average</u>	<u>2004-2005 Growth Rate</u>	<u>Change in Rank*</u>	<u>Average Yr. Growth</u>
NA	United States	\$34,495	NA	4.2%	NA	4.1%
1	Wyoming	\$37,270	108%	6.4%	31-->10	5.9%
2	South Dakota	32,642	95	4.2	37-->26	5.3
3	Alaska	35,433	103	5.0	6-->15	3.3
4	Nevada	35,780	104	5.1	9-->14	3.7
5	Florida	34,099	99	4.7	20-->20	4.2
6	Texas	32,604	95	6.0	32-->27	4.5
7	New Hampshire	37,835	110	3.6	10--> 6	4.3
8	Montana	28,906	84	4.4	47-->41	4.6
9	Delaware	37,084	108	4.5	11-->11	4.3
10	Oregon	32,174	93	4.4	22-->28	3.7
27	Michigan	32,735	95	3.2	17-->24	3.4
41	Minnesota	37,322	108	3.1	14--> 9	4.5
42	Maine	30,808	89	3.0	35-->37	4.3
43	Iowa	31,795	92	2.7	34-->30	4.3
44	Nebraska	32,988	96	3.2	24-->22	4.3
45	California	36,890	107	4.6	13-->12	4.3
46	Vermont	32,731	95	3.9	33-->25	4.5
47	New York	40,072	116	4.2	4--> 5	4.0
48	New Jersey	43,822	127	4.6	2--> 2	4.2
49	Ohio	31,867	92	3.6	21-->29	3.5
50	Rhode Island	35,219	102	3.8	19-->17	4.3

*The District of Columbia is included. Its 2005 per capita personal income of \$56,329 is ranked #1.

Source: State rankings from the Tax Foundation, 2007 State Business Tax Climate Index; Other data from the Bureau of Economic Analysis, Regional Economic Accounts

According to the Bureau of Economic Analysis, the states with the fastest growing, inflation-adjusted gross state product from 2004 to 2005 were Arizona (8.7 percent), Nevada (8.2 percent), Florida (7.8 percent), Idaho (7.5 percent), and Oregon (6.7 percent). Three of the top five (Nevada, Florida, and Oregon) are among the Tax Foundation's best tax climate states. States with the slowest growing gross state product were Louisiana (-1.6 percent), Michigan (0.1 percent), Alaska (0.6 percent), Ohio (1.0 percent), and Indiana (1.1 percent). Alaska is the third best tax climate state, according to the tax foundation, while Ohio ranks 49th. In seven of the ten "best tax climate" states, the 2005 percentage change

in inflation adjusted gross state product increased faster than the national average. In only one of the ten worst tax climate states did the 2005 percentage change in inflation adjusted gross state product increase faster than the national average.

The states with the largest growth in real gross state product were Arizona (8.7 percent) and Nevada (8.2 percent); the states with the lowest were Louisiana (-1.6 percent), Michigan (0.1 percent), and Alaska (0.6 percent). Both Louisiana and Alaska represent unique circumstances that limit their comparability to other states.

Analyses of Michigan State and Local Taxes Interestingly, two recent studies reviewed state and local business taxes in Michigan, agreed that the overall tax burden is now less than the national average, and came to very different conclusions about the policy implications. In “Benchmarking for Success: A Comparison of State Business Taxes,” commissioned by the Michigan House of Representatives, Patrick L. Anderson and Caroline M. Sallee compared Michigan with ten low tax states (only South Dakota is on both this and the Tax Foundation lists of the ten best tax states), estimated the gap in tax burdens between Michigan and a threshold derived from the ten low tax states, and stated that reducing business taxes improves the economic performance of states.

Per capita personal income was lower than the national average, and lower than Michigan, in eight of the ten states identified by this study as having the lowest tax burden. Gross state product grew at a rate exceeding the national average in four of the ten low tax burden states and at a rate equal to the national average in one.

This study concluded that Michigan business taxes as a share of profits are three percent more than those paid by businesses in low tax states and indicated that business taxes would have to decline by \$1.6 billion to \$2 billion to bring Michigan business taxes to a level similar to those in low tax states.⁵

An Upjohn Institute for Employment Research analysis funded in part by the Michigan Economic Development Corporation concluded that the state's recent economic problems are due primarily to an over reliance on the Big Three auto companies, not to the business tax burden or inadequate job skills. This study determined that lowering taxes on new investment without cutting spending and public services could somewhat reduce the disparity between Michigan and national growth rates. Additionally, increasing the proportion of college graduates and other skilled workers could contribute to reducing the disparity between the Michigan and national growth rates, but this is a long term strategy.⁶

According to the “State New Economy Index,” state strategies that rely on being a cheaper place to do busi-

*Table 4-3
Ten States with Lowest Business Tax Burdens According to
“Benchmarking for Success: A Comparison of State Business Taxes”*

	<u>2005 Per Capita Personal Income</u>	<u>Change in Inflation Adjusted Gross State Product, 2004 to 2005</u>	
		<u>Percent</u>	<u>Rank</u>
<i>United States</i>	<i>\$34,495</i>	<i>3.5%</i>	<i>NA</i>
Alabama	29,623	3.1	27
Arkansas	26,641	2.6	31
Colorado	37,459	4.2	17
Georgia	31,191	4.6	13
Missouri	31,299	2.2	33
North Carolina	31,029	3.9	19
Oklahoma	29,908	2.9	29
South Dakota	32,642	3.5	24
Tennessee	30,952	1.6	41
Virginia	37,552	5.6	7
<i>Michigan</i>	<i>32,735</i>	<i>0.1</i>	<i>49</i>

Source: Anderson Economic Group; Bureau of Economic Analysis

Regional Approaches to Economic Development

ness by cutting business taxes, and providing physical infrastructure for factories and tax incentives for industry, do not result in raising wages and improved quality of life.⁷

Tax based economic development strategies can focus on reducing or eliminating business taxes (in Michigan, the single business tax and personal property tax were targeted), permanently or temporarily shifting the tax burden away from favored enterprises or categories of businesses, providing place-specific tax breaks, or reinvesting tax payments back into the payor enterprise.

Diversification Michigan's need to reduce its dependence on the automobile industry has long been recognized. In 1959, in a book entitled The Michigan Economy: Its Potentials and Its Problems, William Haber, Eugene C. McKean, and Harold C. Taylor stated:

We have noted the remarkable growth of the state of Michigan during the years from 1940 to 1953 and perhaps to 1955, and the great extent to which this growth was brought about by Michigan's predominance in the production of the wheeled vehicle. Both in production for civilian use and in production for military purposes, this industry was the mainstay of the Michigan economy. We have also noted that, beginning in 1953 or 1955, the pace of the wheeled-vehicle industry began to slow down somewhat. When coupled with decentralization of manufacture and assembly, we have been forced to conclude that the industry will not provide the necessary support that Michigan needs in the future for its continued growth. We must look elsewhere for the additional industries that may provide growth in this state in the years to come; and the search for appropriate industries to spark that further growth is one of the major research needs of the state for the present time.

Greater diversification of Michigan's industrial base has been suggested from time to time in the past. The basis for this recommendation has been that such a wider range of industrial activity was needed to mitigate the swings in production and employment in the auto industry and in certain other durable industries. Now (in 1959), diversification becomes a "must" for the state in order that we may compensate for the loss of defense and auto jobs.

In addition to diversification (finance, insurance, mail-order firms, tourism, and research-oriented industries are proposed in the report), that 1959 study recommended increased product research, greater participation in federal expenditure programs, promotion of tourism, an advertising and marketing program, increased vocational training, and passage of the "economic growth act of 1960" which would establish a Governor's Council of Economic Advisors and require an annual or biennial report on the economic situation of the state.⁸

Michigan's long manufacturing history may have created a prior bias in favor of making things, but nationally, the economy continues to transition from manufacturing to services. The proportion of U.S. employment in manufacturing declined from 22 percent in 1970 to 11 percent in 2000, while employment in services increased from 19 percent to 32 percent. Further, improvements in the economic statistics reporting system allow increasing recognition of the importance of the services sector and of productivity improvements in that sector resulting from information and communications technology, deregulation, and organizational changes. According to Jack E. Triplett and Barry P. Bosworth, services producing industries are driving economic growth. While U.S. employment in goods producing industries stagnated during the 1990s, services added 19 million jobs, and average annual productivity improvements in service industries in the 1995 to 2001 period exceeded that in the goods producing sector (2.6 percent to 2.3 percent).⁹

Diversification is a goal of Michigan's ten-year, \$2 billion, 21st Century Jobs Fund, which seeks to create and attract high-tech companies and jobs and targets four competitive edge technologies: life sciences; alternative energy; advanced automotive, manufacturing, and materials; and homeland security and defense.¹⁰ (An interesting contrast to Michigan, but consistent with a diversification strategy, is the greater Austin, Texas "roadmap to recovery" which includes among its strategies: "To combat Austin's over-reliance on the high-tech sector, the plan would target these industries: Automotive... Working with Toyota to determine preferred suppliers and attract them to the region while looking for opportunities in clean powered auto/truck technology..."¹¹)

Industry Clusters Many economic development strategies focus on attracting specific high wage, high growth industries and associated jobs. The attraction of one or more industry clusters that have been identified as particularly suited to the region, that complement and support existing businesses, or that export goods and services and thereby bring wealth into the region, forms the basis of this approach.

Industry clusters are geographic concentrations of interconnected firms that share common markets, technologies, and labor pools, and that are often linked by buyer-seller relationships. Firms in related industries often cluster in a region to take advantage of resources of particular value to those industries. Over time, the presence of a critical mass of related industries may significantly reinforce those resources by attracting and developing a workforce trained in particular skills, specialized suppliers, service providers, technical institutes and university research, and political influence. Geographic proximity provides companies with unique access, improved information, better relationships, and special incentives. According to Harvard's Institute for Strategy and Competitiveness, clusters increase the productivity with which companies can compete.¹² Examples include the film industry in Hollywood, computers in Silicon Valley, and autos in Detroit.

Harvard Business School Professor Michael Porter recommends an economic development strategy based on improving the technological innovation and productivity in these clusters of related firms. According to Professor Porter, prosperity has less to do with the mix of clusters in a region than with the sophistication and productivity of the clusters.¹³

Identification and support for industry clusters is advocated by the Progressive Policy Institute, the Council on Competitiveness, and others as a powerful economic development strategy, but the current economic challenges facing metro Detroit and Michigan demonstrate that over-reliance on one industry can have very serious negative economic consequences for a region and a state.

Cluster based economic development may include facilitating consortiums and research that are of value to the industry, developing and providing customized training programs, providing physical infrastructure,

promoting the adoption of new production processes or materials, providing grants to help establish industry trade associations, and providing special attention and incentives to attract and grow firms in the cluster.

Industry attraction targets that were identified in a Citizens Research Council survey of regional economic development organizations include the following:

- Advanced manufacturing
- Advance materials, polymers, plastics
- Alternative energy
- Automotive/transportation research and development
- Aviation and aerospace
- Business and financial services
- Chemicals
- Corporate headquarters
- Creative
- Distribution and logistics
- Engineering and management services
- Film and television
- Finance and insurance
- Health care
- Information technology
- Life sciences/bioscience
- Machinery, metal, and instruments
- Medical and pharmaceutical
- Nanotechnology
- Printing and publishing
- Software
- Technology
- Warehouse operations
- Wholesale trade

Education Human capital is developed through education and training. Some experts argue that educational attainment is the key to economic development, that the forces of technology and globalization dictate that successful regions will be those with a highly educated workforce. A better educated workforce can learn new skills and tasks more easily, can use a wider range of technologies and high tech equipment, is more adaptable and mobile, requires less supervision, and is more apt to develop new ways to improve processes and outcomes.¹⁴ Edward Glaeser and Jesse M. Shapiro found that educational levels are consistent predictors of urban growth.¹⁵ N. Gregory Mankiw and Phillip Swagel note that international

Regional Approaches to Economic Development

trade results in gains to overall productivity and incomes, but also results in dislocated workers. The appropriate policy response is to ensure that those dislocated workers (as well as those just entering the job market) have the higher order job skills that allow them to compete successfully in a global economy.¹⁶ In that global economy, it is skill sets and wage levels that determine where work is performed.¹⁷

According to the Final Report of the Lt. Governor's Commission on Higher Education and Economic Growth, "To thrive economically, Michigan must now adapt and innovate to contend with global—not just national—competitors. To do that, Michigan must ensure that its residents are the best educated in the world and prepared for a lifetime of learning."¹⁸ Unfortunately, education is a challenge that is not being sufficiently well met in Michigan. According to the National Report Card on Higher Education, "Michigan's underperformance in preparing its young population for college could limit the state's access to a competitive workforce and weaken its economy over time. Since the early 1990s, Michigan has fallen behind in the proportion of 9th graders who graduate from high school in four years and enroll directly in college. Internationally, Michigan not only ranks very low in proportion of certificates and degrees produced, but is outpaced by such low-performing nations as Poland and the Slovak Republic. Moreover, colleges and universities in Michigan have become less affordable for students and their families since the early 1990s. If these trends are not addressed, they could undermine the state's ability to compete in a global economy."¹⁹

Because state, federal, and private sources provide funding for colleges and universities, and students pay only a portion of the costs of a college education, John Bound and Sarah Turner found that public investment in higher education plays a crucial role in the supply of college educated workers to the labor market.²⁰ Expanding education and training is also perceived to be key to reducing inequality and unemployment.

Strategies for improving educational outcomes include adopting core curricula and minimum standards; improving teacher training; increasing funding for early childhood and K-12 education, community colleges, and universities; and providing financial incentives to students.

Lifelong learning and workforce development are also key to economic development. The U.S. Department of Labor is managing a national demonstration project, the Workforce, and Regional Economic Development (WIRED) initiative, which provides \$15 million over 3 years to each of the 13 regions that received full project designation and funding. An additional 13 regions were designated as virtual regions that receive a \$100,000 planning grant and support services. The competitive grants are intended to promote regional partnerships in developing and implementing successful workforce investment programs that support economic transformation. Grand Rapids and Lansing areas both received full designation; metro Detroit received a virtual designation.

Innovation and Productivity Growth Smokestack chasing and attracting large service operations are no longer the path to prosperity, according to the Council on Competitiveness. Nor, in a global economy, can U.S. regions compete on their natural resources, low cost labor, or tax incentives. Regional prosperity depends on the ability to support innovative firms, institutions, and people. A regional economic development model funded by the EDA is based on innovation, which supports productivity, which supports prosperity. The model is predicated on the theory that regions that embrace innovation and productivity as the foundation of economic development are the most successful.²¹

Developing efficient, politically justifiable government programs to facilitate innovation is a challenge. M.I.T. Professor Robert Solow focused on technological innovation as the basis of economic growth, and found that over time, more than half of the economic growth in the U.S. had come from technological innovation.²² Dr. Susan Hockfield, President of MIT, argues that this has serious implications for how we organize and support science and technology.²³ Rob Atkinson notes that innovation is increasingly cross-disciplinary.²⁴ Some academic research has focused on the relative advantages of public funding for academic or private sector research, and determined that the answer depends on how close a particular line of research is to commercialization.²⁵

While new technologies have transformed the global economy and increased productivity, a study by Ian

Dew-Becker and Robert J. Gordon challenges the accepted belief that productivity growth is the source of growth in real per capita income. This analysis found that from 1966 to 2005, only the top ten percent of the income distribution had real wage and salary growth equal to or exceeding the average rate of productivity growth. Real wages and salaries of the bottom 90 percent fell behind or saw no growth. For the 1997 through 2001 period, the top one-tenth of one percent of the income distribution earned as much of the real gain in wage and salary income as the bottom 50 percent. The extraordinary productivity growth of the 2001 through 2004 period, which was achieved to some extent through cost-cutting, layoffs and slow employment growth, de-linked productivity growth and higher living standards.²⁶

Economic development efforts based on innovation are directed to enhancing the “innovation platform,” the legal, cultural, financial, social, and educational institutions and conditions that induce, support, and accelerate innovation. Increasing funding for public and private research and development and increasing opportunities for commercialization of university research are key strategies, as are improving workforce skills and lifelong learning strategies.

Michigan's 21st Century Jobs Fund recently invested \$100 million in a number of universities, nonprofits and companies to help commercialize technology. Other states are also investing in innovation, technology, and research: in November of 2004, California voters authorized the issuance of \$3 billion of bonds to fund adult and embryonic stem cell research. Connecticut, Illinois, Maryland, Massachusetts, and New Jersey have appropriated funds to support stem cell research.²⁷ Another noteworthy example of public investment to support research is Florida's provision of \$300 million in state and local incentives to lure the Burnham Institute for Medical Research to Orlando. The medical research center will occupy a \$70 million facility paid for by Orange County and Orlando.²⁸

Entrepreneurship Economic development literature from the 1940s recognizes the importance of the entrepreneurial spirit in economic growth: Joseph Schumpeter noted that innovation and technological change come from entrepreneurs, and that this is re-

sponsible for new products, new means of production, and new forms of organization.²⁹ Eric Pages defines entrepreneurship as a way of thinking tied to creativity, idea generation, and opportunity recognition. Experts on a panel titled “Entrepreneurship: The Key to High-Wage Job Creation” noted the importance of information sharing among entrepreneurs, seed funding, and incubation facilities.³⁰

Joel Kotkin and Ross C. DeVol argue that entrepreneurial capacity and behavior are the primary drivers of economic growth and job creation in the new economy, and that 18 to 34 year olds have a greater tendency to entrepreneurship than other age groups. Young, technologically adept entrepreneurs are able to see the business potential of new technologies, and these new ideas are best implemented in new firms. Therefore, the success of geographic regions will depend on their capacity to inspire and nurture entrepreneurs and to support the infrastructure and financing they need to be successful.³¹

It has been suggested that regions that have been dominated by large, successful firms have more difficulty supporting entrepreneurship. The expectation of lifetime employment, with generous benefits and pensions, in a large firm may lead to financial conservatism and risk avoidance. Additionally, CEOs of newer, smaller firms have more difficulty in gaining recognition and leadership roles, and business failure may be more stigmatized, in regions dominated by a few very large, old firms.³²

Entrepreneurism, in and of itself, may not be the whole solution to the state's challenges. The 2005 American Community Survey found that men who were employed in their own incorporated business had the highest median earnings (\$58,468), and men employed in their own unincorporated business had the lowest median earnings (\$36,382). Women employed by the federal government had the highest median earnings (\$46,849) and women employed in their own unincorporated business had the lowest median earnings (\$22,927).³³ Clearly, the ability to create higher value products or services is important, as is the desire for a growth oriented, as opposed to a “lifestyle,” business.

Economic development efforts to promote entrepreneurship have concentrated on increasing angel invest-

Regional Approaches to Economic Development

tors and venture capital and on connecting these early stage resources to start-ups, small business loans, preferential tax treatment, business incubators, and networking opportunities. Efforts to teach entrepreneurship at the university level are increasing.

Venture Capital It takes money to transform an idea into a marketable product, and to start and grow a business. From an investor's perspective, putting money in a new technology or business is a high risk venture, which if undertaken, should result in a high rate of return. Banks are usually unable to accept the level of risk associated with making loans to new businesses or technologies. Other investment mechanisms that have been created to meet the needs of business start up or expansion include venture capital funds, angel financing, and federally supported small business investment companies. According to the University of Michigan's George Fulton and Donald Grimes, venture capital is the single most important variable in explaining employment movements in biotech and information tech among states.³⁴

Steven F. Kreft and Russell S. Sobel argue in the *Cato Journal* that the presence of entrepreneurial activity causes more venture capital to flow into a region, not vice versa, and that low taxes, low regulations, and secure property rights are the keys to encourage entrepreneurial activity.³⁵

An increasingly common economic development strategy, and one employed by the 21st Century Fund, is the use of public funds to increase the availability of venture capital. The public sector can provide tax incentives or stop loss guarantees to private investors in preferred businesses. Another strategy is to use public resources to bring deals and private financing together.

Quality of Life In *The New Geography*, Joel Kotkin argues that those areas that are attractive to knowledge workers will do the best, because the critical asset for economic development is access to highly skilled labor including scientists and engineers, and these people will seek out the locations that provide them with the best quality of life. Kotkin proposes that low wages, tax incentives, and physical infrastructure are less important than the ability to attract the workers and investors that can drive company formation and growth.³⁶

Dhanoos Sutthiphisal found that the geographic location of inventive activity tends to mirror the geographic distribution of people with the advanced technical skills relevant to the particular industry.³⁷

Richard Florida famously developed a "Creativity Index," based on the creative class share of the workforce, high tech industry, innovation, and diversity, which he offered as a barometer of a region's long term economic potential. Of 49 regions of over one million population, Detroit ranked 39th and Grand Rapids ranked 44th on Florida's creativity index.³⁸

Investments in urban centers to make them more attractive to college-educated 25 to 34 year olds is seen as one way to promote economic development. These young, educated people are both the most entrepreneurial and the most mobile in the population.³⁹ While weather and natural assets are certainly components of quality of life, investments in public spaces including sports stadia, parks, libraries, performing arts centers, and museums have been promoted as improving quality of life. Mass transit advocates include dependable public transportation systems as a quality of life enhancement. Urban growth patterns, unique characteristics that define a sense of place, tolerance and diversity, a sense of community, the range of available leisure activities, cultural events, protection of historic buildings and districts, development of downtown lofts, opportunities for continuing education, and a host of other factors have been considered important considerations in economic development, and policies have been proposed to increase assets or decrease liabilities associated with these and other factors.

Edward Glaeser and Jesse M. Shapiro of Harvard University analyzed census data and found that among cities with 1990 populations greater than 100,000, cities in the western U.S. grew the fastest; warm, dry places grew and cold, wet places declined; cities with well educated residents grew the fastest; cities with strong service industries grew faster than those with large manufacturing bases; auto-dependent cities grew faster than cities built for pedestrians and mass transit; and immigration was a key component in city growth.⁴⁰

Image, Perception, and Marketing Developers in many areas in the Midwest believe that their regions are hampered by outdated images of the rust belt, characterized by difficult labor climates, obsolete manufacturing facilities, degraded infrastructure, and unskilled workers, and that if the image could be improved, business attraction and tourism would be enhanced. (Similarly, the CEO of the Economic Development Corporation of Utah reports that his state's biggest challenge is its image—but that image is that the state has too many polygamists and restrictive liquor laws.⁴¹)

As reported by Gongwer News Service, consultants have advised the Michigan Joint Select Committee on Economic Growth that this state must change the perception that business leaders have about Michigan's labor climate and should increase branding and marketing efforts.⁴²

Many economic development strategies include a component to enhance the image of the area. This may range from concrete actions to improve the visual appeal of downtowns and major transportation routes, attract major high profile events, and correct misperceptions, to efforts to redefine and reposition the region through developing a new brand image and marketing campaigns.

Other Factors Depending on the perspective, frivolous lawsuits, high health care costs, rules and regulations affecting foreign trade, regulatory and environmental policies, immigration policy, unionization levels, and other factors may be considered important factors in economic development. Local context and history may either empower or doom economic development strategies.

Local Context In a paper titled "The Fundamentals of Regional Economic Development," Edward W. Hill, Professor and Distinguished Scholar of Economic Development at Cleveland State University, expanded on the idea of "local context" in the economic development process. Local context is the catalytic agent that permits well-designed economic development strategies and programs to succeed or fail. Local context

is made up of the economic resources the region has at its disposal and its current economic base, the competitive strategies of local businesses and the position of their products in the product cycle, the structure of laws that govern economic development activities, as well as political and business cultures, attitudes toward risk-taking, labor management relations, leadership styles, and the personalities, motives, and relationships of those who maintain the civic agenda. Context also incorporates the characteristics of local civil society and the strength and flexibility of the civic infrastructure.⁴³

Changing local context may be the most difficult economic development challenge of all. Efforts to develop a shared vision for the region, to create effective regional structures, to reduce divisive rhetoric and extreme economic and social disparities, to eliminate dysfunctional regulation and policy, to improve management-union relations, to realign reimbursement expectations with skill sets, to value risk-taking, and to develop trust and respect, may take a very long time to come to fruition.

History and Happenstance According to Edward W. Hill, businesses' locational decisions reflect the portfolio of assets in a region and, therefore, a region must strive to be the best place to operate a business. If the region is not the best place for a business to be located, then the business is there either through historical accident and inertia, or because of the CEO's personal housing investment.⁴⁴

In *Edge City*, Joel Garreau describes the effect of the Erie Canal on Detroit and may thereby incidentally provide an example of Hill's thesis. As a result of the opening of the Erie Canal, both money and skilled labor accumulated in Detroit. The money belonged to the lumber barons of the late 1800s, who were looking for new investment opportunities as the pine forests dwindled. The laborers had flocked to Detroit as it became the center of the stove and carriage industries. Entrepreneurial money and mechanical workers were critical ingredients when inventors started experimenting with the automobile.⁴⁵

Recommendations

The first report in this series noted that Michigan's manufacturing based economy is confronting a set of harsh realities—globalization, legacy costs, loss of market share—that have forced an urgent reevaluation, not only of business practices, but also of state and local public policies. The second report reviewed the range of public and private sector organizations engaged in economic development efforts in Michigan. The third report presented the results of a survey of regional economic development organizations. This report described a range of economic development theories and strategies in an effort to explain why well intentioned individuals and organizations advocate for particular, often contradictory, economic development approaches. While there is no single solution to the dislocations caused by globalization, a more organized and structured regional approach to economic development is needed. The organization of the whole state into economic development regions could enable those regions to emphasize their diverse characteristics, coordinate existing public and private efforts, reflect regional values and resources, and assess the success of varying regional strategies. The state's role in defining regions, initiating regional public-private partnerships that build on existing structures and represent all of the constituent groups, and sharing information and resources is key.

Because economic development is based on a region's assets, not on the region's needs, economic development must be directed to improving and defining those assets. Any number of tactics and short term strategies may be employed: protecting existing industries and jobs; increasing the amount of export products; disseminating information that assists businesses to organize work around technology, lowering business operating costs; attracting entrepreneurs and fast growing firms; providing venture capital; commercializing university research and unlocking corporate patents, providing business and technology incubators, marketing and image campaigns. Any number of excuses have been advanced: the product cycle; the actions of prior state administrations; NAFTA and national trade policies; foreign nations' currency manipulation. But, in the long term, successful strategies will improve the skills and talent of the workforce and the productive infrastructure of the place. It is the relative competitive quality of the people and place that determine how a region will navigate the increased competition and churning that define the new economy.

- ¹ "Economic Development" at cepa.newschool.edu/het/schools/develop.htm.
- ² N. Gregory Mankiw, Robert Carrol. "Dynamic Analysis," American Enterprise Institute for Public Policy Research, 2006, at www.aei.org/include/pub_print.asp?pubID=24716.
- ³ American Enterprise Institute for Public Policy Research. "Corporate Income Taxation and the Economy," AEI Newsletter, June 21, 2006, at www.aei.org/include/pub_print.asp?pubID=24578.
- ⁴ Paul Pryde, Jr., "Tax Strategies for Community Economy Development," 1998, at financeproject.org/Publications/rydetax.htm.
- ⁵ Patrick L. Anderson and Caroline M. Sallee. "In Benchmarking for Success: A Comparison of State Business Taxes," 2006, www.AndersonEconomicGroup.com.
- ⁶ Timothy J. Bartik et al. draft, August 11, 2006, "Michigan's Economic Competitiveness and Public Policy," The W. E. Upjohn Institute for Employment Research.
- ⁷ Progressive Policy Institute. "The State New Economy Index," available at www.neweconomyindex.org/states/2002/strategies.html.
- ⁸ William Haber, Eugene C. McKean, and Harold C. Taylor. The Michigan Economy: Its Potentials and Its Problems, The W. E. Upjohn Institute for Employment Research, 1959, pgs. 240-249.
- ⁹ Jack E. Triplett and Barry P. Bosworth. Productivity in the U.S. Services Sector: New Sources of Economic Growth, Brookings Institution Press, 2006.
- ¹⁰ www.michigan.org/medc/ttc/21Century.
- ¹¹ www.austinchamber.org/DoBusiness/AboutOpportunityAustin/About.html.
- ¹² Harvard Business School-Institute for Strategy and Competitiveness, at www.isc.hbs.edu/econ-clusters.htm.
- ¹³ Ted Sickinger. "Harvard Professor Suggests Industry Clusters," The Oregonian, January 10, 2006.
- ¹⁴ William T. Dickens, Isabel V. Sawhill, and Jeffrey Tebbs. "The Effects of Investing in Early Education on Economic Growth," Brookings Institution, 2006.
- ¹⁵ Edward Glaeser and Jesse M. Shapiro. "City Growth and the 2000 Census: Which Places Grew, and Why" Center on Urban & Metropolitan Policy, 2001.
- ¹⁶ N. Gregory Mankiw and Phillip Swagel. "The Politics and Economics of Offshore Outsourcing," Harvard Institute of Policy Research, 2006.¹⁷ Pol Antras, Luis Garicano and Esteban Rossi-Hansberg. "Offshoring in a Knowledge Economy," Harvard Institute of Economic Research, 2005.
- ¹⁸ The Lt. Governor's Commission on Higher Education & Economic Growth. "Final Report," 2004.
- ¹⁹ The National Center for Public Policy and Higher Education, "Measuring Up 2006: The State Report Card on Higher Education: Michigan," 2006, at measuringup.highereducation.org/reports/stateprofilenet.cfm?myyear=2006&stateName=Michigan.
- ²⁰ John Bound and Sarah Turner. Abstract, "Cohort Crowding: How Resources Affect Collegiate Attainment," National Bureau of Economic Research, Working Paper No. 12424, 2006.
- ²¹ Council on Competitiveness. 2005, "Measuring Regional Innovation" at www.compete.org/pdf/126956_12-15.pdf.
- ²² Comments of Dr. Lael Brainard at the Bernard Schwartz Forum on U. S. Competitiveness in the 21st Century, April 28, 2006, at www.brookings.edu/comm/events/20060428.htm#TRANSCRIPT.
- ²³ Comments of Dr. Susan Hockfield at the Bernard Schwartz Forum on U. S. Competitiveness in the 21st Century, April 28, 2006, at www.brookings.edu/comm/events/20060428.htm#TRANSCRIPT.
- ²⁴ Rob Atkinson. Presentation to the Association of University Research Parks, available at www.ppionline.org.
- ²⁵ Philippe Aghion, Mathias Dewatripont, and Jeremy C. Stein. "Academic Freedom, Private Sector Focus, and the Process of Innovation," Harvard Institute of Economic Research, 2005.
- ²⁶ Ian Dew-Becker and Robert J. Gordon. 2005, "Where did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income," paper presented to the 81st meeting of the Brookings Panel on Economic Activity.
- ²⁷ National Conference of State Legislature. "State Embryonic and Fetal Research Laws" at www.ncsl.org/programs/health/genetics/embfet.htm.
- ²⁸ Christine Jordan Sexton. "Florida Gives Research Institute \$300 Million to Go to Orlando," The New York Times, August 24, 2006.
- ²⁹ "Joseph Alois Schumpeter," The Concise Encyclopedia of Economics, at www.econlib.org/library/Enc/bios/Schumpeter.html.
- ³⁰ Eric Pages et al. "Entrepreneurship: The Key to High-Wage Job Creation," in "A Report on a Symposium for 21st Century Economic Development," Penn State University in Partnership with the U.S. Department of Commerce Economic Development Administration, 2005, pgs. 20-23.
- ³¹ Joel Kotkin and Ross C. DeVol. "Knowledge-Value Cities in the Digital Age," Milken Institute, 2001.

Regional Approaches to Economic Development

³² Council on Competitiveness. "Measuring Regional Innovation," 2005, at www.compete.org/pdf/126956_12-15.pdf.

³³ U.S. Census Bureau. "Income, Earnings, and Poverty Data from the 2005 American Community Survey," 2006.

³⁴ George A. Fulton and Donald R. Grimes. "Michigan's Industrial Structure and Competitive Advantage: How Did We Get Into This Pickle and Where Do We Go from Here?" University of Michigan, 2006.

³⁵ Steven F. Krefl and Russell S. Sobel. "Public Policy, Entrepreneurship, and Economic Freedom," *Cato Journal*, Vol 25, No. 3, The Cato Institute, 2005.

³⁶ Joel Kotkin. *The New Geography*, Random House Trade Publications, 2000.

³⁷ Dhanoos Sutthiphisal. Abstract, "Learning by Producing and the Geographic Links Between Invention and Production: Experience From the Second Industrial Revolution," Working Paper No. 12469, National Bureau of Economic Research, 2006.

³⁸ Richard Florida. *The Rise of the Creative Class*, Basic Books, 2002.

³⁹ Joseph Cortright. "The Young and Restless in a Knowledge Economy," CEOs for Cities, 2005.

⁴⁰ Edward Glaeser and Jesse M. Shapiro. "City Growth and the 2000 Census: Which Places Grew, and Why," Center on Urban & Metropolitan Policy, 2001.

⁴¹ "Utah Fights Image to Lure Biz," *Billings Gazette*, September 3, 2006.

⁴² Gongwer News Service, Inc., "Michigan Report", September 19, 2006.

⁴³ Edward W. Hill. "The Fundamentals of Regional Economic Development" 2002, at urban.csuohio.edu/distinguishedscholar/hillspeech.pdf.

⁴⁴ Edward W. Hill. "The Fundamentals of Regional Economic Development," 2002, at urban.csuohio.edu/distinguishedscholar/hillspeech.pdf.

⁴⁵ Joel Garreau, *Edge City: Life on the New Frontier*, Doubleday, 1988, pgs. 106-107.

CRC Report

Attachment A

September 15, 2006

Dear Regional Economic Development Organization Official;

Citizens Research Council of Michigan, a non-partisan, non-profit, public policy research organization that was established in 1916, is gathering data on regional economic development agencies to determine how these organizations are structured and funded, what kinds of activities they engage in, and how they measure their success. The attached survey is part of that research effort.

The survey questions are designed to be answered quickly and easily by someone who knows your organization well, and to generate answers that can be compiled into meaningful information about the state of regional economic development efforts. A number of the questions were included at the request of regional and state economic development officials in Michigan.

We would very much appreciate your taking a few minutes to complete the survey, and we would be happy to share the compiled results with you. If it would be more convenient for you, the survey can also be accessed and returned on a dedicated website, <http://surveys.crcmich.org>. The general website for Citizens Research Council, <http://www.crcmich.org>, contains recent CRC publications that may be of interest to you, including a Survey of Economic Development Programs in Michigan (Report No. 334).

If you have any questions or comments, please do not hesitate to contact me at bbuss@crcmich.org, telephone (734) 542-8001, or fax (734)542-8004.

Thank you for your participation.

Sincerely,

Bettie Buss
Senior Research Associate

Regional Approaches to Economic Development

REGIONAL ECONOMIC DEVELOPMENT ORGANIZATION SURVEY

Name of your organization

Mailing address

Contact person and e-mail address or telephone number

Your Region

1) What region does your organization represent?

Would you primarily define your region as: (please check whatever is relevant)

A group of local governments (cities, villages, and townships)? If yes, how many?__

A group of counties? If yes, how many?__

Parts of two or more states? If yes, how many?__

2) How was the boundary of your region determined? (MSA, agreement among local governments, state designation, decision of your board, etc.)

3) Do local governments within your region have their own economic development departments?

Yes_____ No_____

If yes, how does your organization interact with these departments?

4) Are there other organizations involved in regional economic development in your region?

Yes_____ No_____

If yes, please explain.

5) What are the top three economic strengths of your region?

6) What are the top three problems related to economic development facing your region?

7) Does your region have a shared vision and plan for economic development? Please explain.

Your Organization

8) What proportion of your organization's activities is devoted to economic development?

0-25%

26-50%

51-75%

76-100%

9) Please indicate the structure that describes your organization:

Chamber of commerce _____ Council of governments _____

Local unit of government _____ Part of state government _____

501(c)(6), but not a chamber of commerce _____ 501(c)(3) _____

If your organization has a different structure than those noted above, please explain.

10) How long has your organization been focused on regional economic development?

CRC Report

11) Compared to five years ago, has your organization
Increased in size _____ Stayed the same _____ Decreased _____

12) What is your annual operating budget?

13) Please indicate how much of your operating revenues come from the following sources:

Federal government _____ State government _____ Local government _____
Private sector member or investor contributions _____
Service fees or earned income _____
Foundation grants _____
Other (please explain) _____

14) How many governmental units contribute financially to your organization?

15) How many non-governmental members or investors contribute financially to your organization?

16) How are member contributions determined?

17) Does your organization have taxing authority? Yes _____ No _____

18) Does your organization have bonding authority? Yes _____ No _____

Board of Directors and Staff

19) Please indicate how many of your board members fall in the following categories:

Government officials _____
Representatives of for-profit companies _____
Representatives of colleges and universities _____
Representatives of community colleges or workforce training boards _____
Union officials _____
Representatives of non-profit organizations _____
Other (please explain) _____

20) How are board members selected?

21) Are board members primarily CEO's of their organizations? Yes _____ No _____

22) How many employees are in your organization? Full-time _____ Part-time _____

How many employees are on your regional economic development staff?

Full-time _____ Part-time _____

Your Organization's Role

23) Does your organization target a particular kind of economic development such as technology, high wage-high growth, medical-pharmaceutical, etc.? If so, what is that focus?

24) Which of the following functions and services does your organization now provide?

	Directly	By referral	Not some- thing we do
Business retention	_____	_____	_____
Business attraction	_____	_____	_____
Assistance to businesses relative to local government requirements and procedures	_____	_____	_____
Low interest loans, gap financing	_____	_____	_____

Regional Approaches to Economic Development

Venture capital	_____	_____	_____
Equity investing	_____	_____	_____
Branding/image campaign	_____	_____	_____
Operate a business improvement district	_____	_____	_____
Workforce training	_____	_____	_____
Research, reporting of economic development data	_____	_____	_____
Inventory of available sites	_____	_____	_____
Business incubator	_____	_____	_____
Industrial park	_____	_____	_____
Buy, improve, lease, sell real property for economic development purposes	_____	_____	_____
Trade missions	_____	_____	_____
Involvement in quality of life issues	_____	_____	_____
Affordable housing	_____	_____	_____
Mass transit	_____	_____	_____
Education	_____	_____	_____
Infrastructure	_____	_____	_____
Arts and culture	_____	_____	_____
Member services such as seminars, health insurance, networking opportunities	_____	_____	_____
Advocacy on legislative issues/lobbying	_____	_____	_____
Creating economic development plans	_____	_____	_____
Coordinating strategic approaches to regional economic development	_____	_____	_____
Advice to local governments to improve competitiveness	_____	_____	_____
Other (please explain)	_____	_____	_____

25) On a scale of 1 to 5, with 5 being the best, how do you rate your partnership with your local: Universities_____ Community colleges_____ Workforce development agency State economic development agency_____ Local government officials_____

26) How does your organization measure success in its economic development efforts?

27) In the past 12 months, how many new businesses has your organization attracted to your region?

28) In the past 12 months, how many new jobs has your organization attracted to your region?

29) In the past 12 months, how many businesses has your organization retained in the region?

30) In the past 12 months, how many existing businesses has your organization helped to solve a problem?

Would you like a copy of the compiled results of this survey? Yes_____ No_____

If you have questions or comments about this survey, please contact Bettie Buss at bbuss@crcmich.org, phone (734) 542-8001, or fax (734) 542-8004.

Thank you for your participation. We invite you to visit our web site at <http://www.crcmich.org>.

