
Targets of State and Local Economic Development Policy

By Tim R. Smith and Deron Ferguson

State and local policymakers typically have three targets for their economic development policies: outside businesses, existing businesses, and new start-up businesses. Attracting outside businesses—especially large manufacturing plants—has long been a popular economic development activity, but increasingly this approach has come under fire.¹ As policymakers reexamine the effectiveness and appropriateness of economic development policy, an understanding of how resources are currently allocated among the three main targets is essential.

Unfortunately, little is known about how much emphasis state and local economic development policy places on each of the three main targets. For this reason, the Federal Reserve Bank of Kansas City recently surveyed a large number of economic development organizations to determine what types of businesses they are targeting. The survey results show that the most important target of economic development policy is *existing businesses*, and the emphasis on this target appears to be increasing.

About the survey

The survey was designed to determine how economic development organizations divide their time and budget resources among the three main types of businesses (box). In addition to identifying

the targets of economic development policy, the survey also sought information on how the targets have changed over time.

The survey was mailed to 1,783 economic development organizations in the seven states of the Tenth Federal Reserve District (Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming). The survey list was obtained from state economic development agencies and membership organizations. A total of 669 surveys were returned, yielding a 38 percent initial response rate. Some responses were excluded from the results due to incomplete information or reporting inconsistencies, leaving 580 respondents in the survey panel and a 33 percent final response rate.

Table 1 shows how individual states and types of development organizations are represented in the sample. Missouri and Nebraska account for the largest shares of respondents, while Wyoming and Colorado account for the smallest shares. Although a wide variety of organization types are represented, local organizations, such as chambers of commerce, make up the lion's share of the sample. About two-thirds of the respondents are from rural locations.

The survey indicated that some of the respondents devote more resources to economic development activities than others. Respondents that devote all of their time and budget resources to economic development are shown in the second column of Table 1 as "economic development" organizations. These specialized organizations account for more than a fourth of the sample. Others—listed as "multipurpose organizations"—devote considerably smaller shares of their time and budgets to economic development. Averaged together, all organizations spend 57 percent of their time and 55 percent of their budgets on economic development.

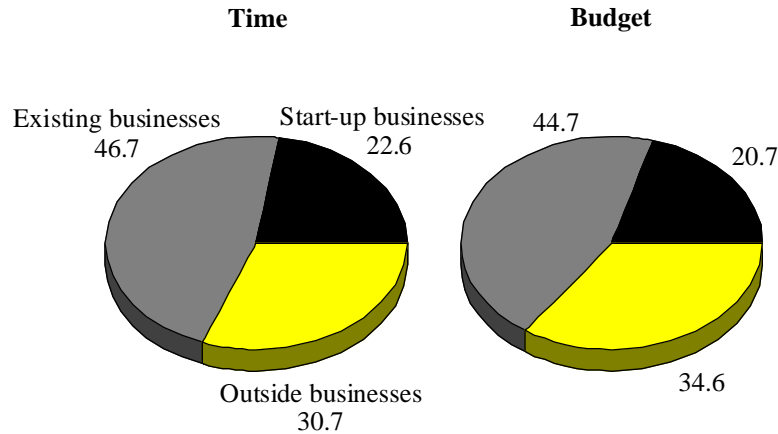
¹ Industrial recruitment has been criticized for being ineffective in boosting economic growth in individual states and communities and for creating high-stakes bidding wars to attract relocating businesses or branch operations. Smith and Fox discuss the effectiveness of industrial recruitment, and Burstein and Rolnick argue that tax competition among states leads to inefficient allocation of public goods and services.

Table 1
Survey Respondents

	Type of organization			Location	
	All	Economic development	Multipurpose	Urban	Rural
<i>State:</i>					
Colorado	43	24	19	27	16
Kansas	93	23	70	23	70
Missouri	139	36	103	59	80
Nebraska	118	25	93	29	89
New Mexico	74	13	61	23	51
Oklahoma	87	25	62	37	50
Wyoming	26	7	19	6	20
Total	580	153	427	204	376
<i>Organization type:</i>					
Local:	268	43	225	84	184
Community development corporation	40	16	24	6	34
Chamber of commerce	137	6	131	38	99
Municipal economic development office	67	18	49	30	37
Economic development unit of public utility	24	3	21	10	14
County:	49	15	34	10	39
County economic development office	37	12	25	6	31
Department of county government	6	3	3	4	2
County commission	6	0	6	0	6
Regional:	69	16	53	20	49
Regional planning agency	17	1	16	4	13
Land grant university extension	19	1	18	3	16
College or university center	33	14	19	13	20
State:	26	9	17	20	6
Department of state government	26	9	17	20	6
Private:	72	40	32	30	42
Private, nonprofit (some public funds)	61	34	27	25	36
Private, nonprofit (no public funds)	11	6	5	5	6
Other	96	30	66	40	56
<i>Total</i>	580	153	427	204	376

Note: Urban organizations are located in metropolitan counties and rural organizations are located in nonmetropolitan counties.
Source: Federal Reserve Bank of Kansas City survey.

Chart 1
Economic Development Targets
 Percent of time or budget devoted to target



Source: Federal Reserve Bank of Kansas City survey.

What are the targets?

The most important target of economic development policy in the Tenth District is existing businesses. Retaining and expanding existing businesses account for the largest share of both time and budget resources among economic development organizations in the survey (Chart 1).² On average, these organizations direct nearly half of their resources toward existing businesses. Attracting outside businesses also remains an important function of economic development organizations, consuming about a third of their time and budgets. Assisting local entrepreneurs with start-up businesses receives the least attention, both in terms of time and budget.³

² The resource allocations among targets depicted in Chart 1 are averages for all survey respondents, but frequency distributions reveal the resource allocations of individual respondents are arrayed differently among the policy targets. For example, time and budget allocations to existing businesses were tightly grouped around their average. All allocations to the other two policy targets were concentrated below their average. The different distributions among targets possibly reflect a bias among respondents that retaining and expanding existing businesses may be more effective in promoting economic growth than attracting outside businesses or assisting local start-ups.

Have the targets changed?

The allocation of resources shown in Chart 1 is the outcome of changes already made by state and local policymakers in the targets of their economic development efforts. Chart 2 shows how the emphasis on the targets has changed over the past five years. The chart uses an index to summarize this information and to simplify subsequent discussions of how the targets have changed across different locations and categories of respondents.

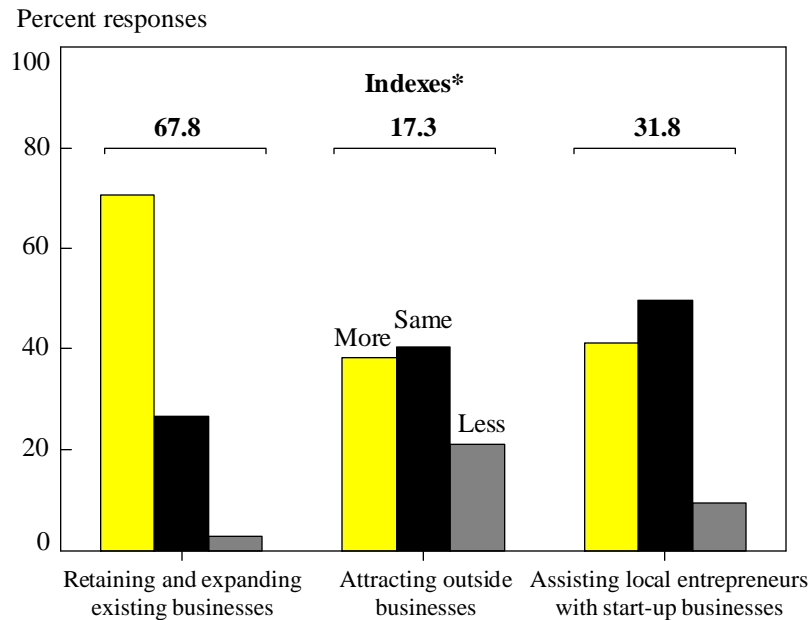
The index is calculated by subtracting the percentage of total respondents reporting less emphasis on a particular target from the percentage reporting more emphasis on that target. Index values can range from 100 to -100. Positive index values indicate an increase in emphasis on a target, while negative values indicate a decrease. A value of zero indicates no change.

The index shows that existing businesses have been an increasingly important target of economic

³ Due to the similarity in the allocation of time and budget resources (which holds for all levels of disaggregation), only budget allocations are shown in subsequent charts and tables.

Chart 2

Changing Emphasis of Economic Development Policy



* Calculated as the difference between the percentage of total respondents reporting "more" and the percentage reporting "less."

Source: Federal Reserve Bank of Kansas City survey.

development policy. The index for existing businesses is much greater than for the other two targets. More than 70 percent of respondents report an increase in activities aimed at existing businesses, while only a small percentage report a decline.

The increased importance of existing businesses has two potential sources. One possible source is an increase in overall resources devoted to economic development. Positive index values suggest all three targets may have been beneficiaries of such an increase in time and budget outlays, with existing businesses benefiting most.

Another possible source of the increased importance of existing businesses as a target for economic development policy is a shift of resources away from other targets. The percentages of respondents reporting *decreased* emphasis on other targets provide some evidence of such a shift. For example, over 20 percent of respondents indicate decreased emphasis on attracting outside businesses, suggesting a shift

in targets from outside businesses toward existing businesses.⁴

While the shift in emphasis clearly favors existing businesses, start-up businesses have also grown as a target of economic development policy. Over 40 percent of respondents indicate increasing activities aimed at start-up businesses over the past five years. Some of this increase may represent a shift from attracting outside businesses.⁵

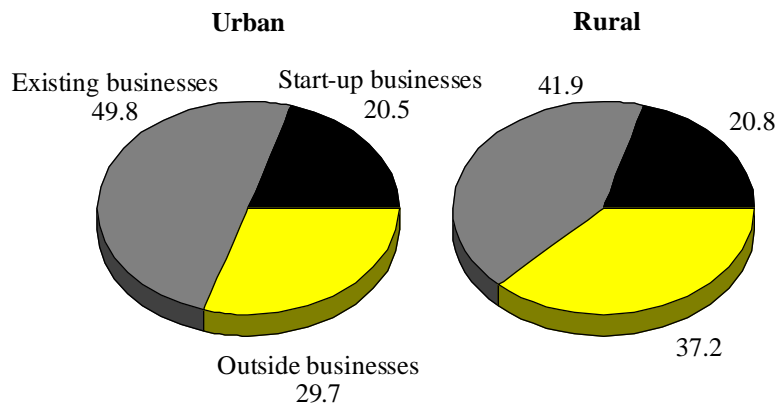
⁴ Respondents were not asked to reveal *how much* emphasis on the three targets has changed. Thus, while the survey results suggest a shift from outside to existing businesses, no conclusive evidence of such a shift is provided. Also, the large index values suggest an increase in overall resource outlays for economic development. However, the index reflects only the numbers of respondents reporting increases in emphasis on the three targets, not averages of actual changes in time or budget outlays.

⁵ Surprisingly, despite the possible shift of targets from outside to existing and start-up businesses, many economic development organizations have also been *increasing* their emphasis on attracting outside businesses. Increased emphasis on outside businesses was reported by 38.4 percent of the respondents.

Chart 3

Economic Development Targets, Urban vs. Rural

Percent budget devoted to economic development



Note: Urban organizations are located in metropolitan counties and rural organizations are located in nonmetropolitan counties.

Source: Federal Reserve Bank of Kansas City survey.

Are targets the same across the District?

Looking beneath the aggregate results of the survey reveals that existing businesses have become the most important target of economic development policy throughout the district. This emphasis can be seen in both urban and rural locations and in most district states.

Urban and rural locations. Urban and rural economic development organizations devote most of their resources to retaining and expanding existing businesses. As Chart 3 shows, urban organizations devote a somewhat larger share of their budgets to existing businesses than their rural counterparts. This greater emphasis by urban organizations may stem from their larger inventory of existing businesses.

In addition, both urban and rural organizations have been increasing their efforts to develop existing businesses. This increased emphasis is reflected in high index values associated with existing busi-

nesses: 69.8 for urban organizations and 66.7 for rural organizations.

District states. Survey respondents across the district states report they divide their resources among the three targets in similar ways (Table 2). For most states, the largest share of resources goes to existing businesses, followed by outside businesses and start-ups. Only two states depart significantly from this pattern. Wyoming's economic development organizations spend almost half of their budgets on attracting outside businesses, while channeling relatively few resources to local start-ups. Oklahoma's organizations spend the smallest share of their resources on luring outside businesses and spend a greater share than other states on assisting local start-ups.

An emphasis of economic development efforts on existing businesses has been growing throughout the Tenth District. Table 3 shows extremely high index values for existing businesses in all seven states. The index values for outside businesses and start-ups are much smaller and less uniform.

Table 2
Survey Results by State

	Colorado	Kansas	Missouri	Nebraska	New Mexico	Oklahoma	Wyoming	Total
Total responding:	43	93	139	118	74	87	26	580
	Percent							
Share of total budget devoted to economic development	79.8	53.8	49.2	55.1	46.5	58.7	68.3	55.4
Share of total economic development budget devoted to:								
Retaining and expanding existing businesses	48.2	45.8	46.1	42.6	45.3	43.5	39.3	44.7
Attracting outside businesses	33.5	35.4	38.1	36.2	32.1	25.4	44.6	34.6
Assisting local entrepreneurs with start-up businesses	18.3	18.7	15.8	21.1	22.6	31.1	16.0	20.7
Change of focus of economic development activities:	Index*							
Retaining and expanding existing businesses ¹	61.9	78.5	75.4	62.7	59.5	58.1	76.9	67.8
Attracting outside businesses ²	0.0	10.8	27.7	16.9	20.8	9.8	29.2	17.3
Assisting local entrepreneurs with start-up businesses ³	26.2	32.6	34.6	38.1	34.7	27.9	0.0	31.8

* Calculated as the difference between the percentage of total respondents reporting “more” and the percentage reporting “less.”

¹ Results for the 577 respondents for whom this question was applicable.

² Results for the 568 respondents for whom this question was applicable.

³ Results for the 572 respondents for whom this question was applicable.

Table 3
Survey Results by Type of Organization

	Local	County	Regional	State	Private	Other	Total
Total Responding:	268	49	69	26	72	96	580
	Percent						
Share of total budget devoted to economic development	45.6	65.1	50.8	64.6	83.8	57.2	55.4
Share of total economic development budget devoted to:							
Retaining and expanding existing businesses	45.2	39.3	53.9	49.4	40.6	41.4	44.7
Attracting outside businesses	38.7	42.1	11.9	25.9	42.4	31.8	34.6
Assisting local entrepreneurs with start-up businesses	16.1	18.6	34.2	24.7	17.0	26.8	20.7
Change of focus of economic development activities:	Index*						
Retaining and expanding existing businesses ¹	72.4	53.1	66.2	50.0	73.6	63.8	67.8
Attracting outside businesses ²	20.7	30.6	-1.5	-3.8	19.7	17.8	17.3
Assisting local entrepreneurs with start-up businesses ³	35.2	18.4	31.9	32.0	24.3	34.7	31.8

* See notes for Table 2.

Are targets the same for different types of organizations?

Most types of organizations across the district focus on helping existing businesses (Table 3). Local, regional, and state organizations all make existing businesses their primary target. In contrast, county and private organizations—nonprofit organizations that often use private and public funds for economic development—usually target outside businesses.

Despite some differences in targets among different types of organizations, all types have been shifting the emphasis of their economic development policies toward existing businesses. The index values shown in Table 3 are very high for existing business, and much smaller and less uniform for the other two targets. In fact, index values for state and regional organizations suggest a decline in their emphasis on attracting outside businesses.

Summary

As industrial recruitment and other forms of “smokestack chasing” increasingly come under fire, state and local economic development policy appears to be shifting from these potentially costly and ineffective strategies toward strategies that target existing businesses. Outside businesses remain a popular target of economic development policy to be sure, but the survey results reveal a much stronger tendency of economic development organizations to target existing businesses. Start-up businesses, however, remain a distant third among economic development targets.

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REFERENCES

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ECONOMIC DEVELOPMENT ACTIVITIES

Retaining and expanding existing local businesses

- Regular or occasional visits to existing local businesses
- Structured retention and expansion program
- Providing existing local businesses with information, technical assistance, or counseling regarding:
 - loans or grants from public or private sources
 - government regulations (environmental, worker's compensation, Americans with Disabilities Act, etc.)
 - exports
 - government contracts
 - worker training
 - technological innovation or modernization
 - community characteristics, trends, or attitudes
- Any activities related to special development districts for retention and expansion of existing local businesses. Special development districts include enterprise zones, Community Reinvestment Act areas, foreign trade zones, tax increment financing districts, etc.
- Committee meetings, research, public speaking, letter writing, telephone calls, or any other activity related to above items

Attracting outside businesses

- Industrial or commercial site development and planning for supporting infrastructure
- Developing brochures, audio-visuals, or advertisements to promote your area as a business location
- Recruiting business prospects through personal contacts, telephone calls, writing letters, or any other means

- Hosting business prospects
- Providing outside businesses that you wish to attract with information, technical assistance, or counseling regarding:
 - loans or grants from public or private sources
 - government regulations (environmental, worker's compensation, Americans with Disabilities Act, etc.)
 - exports
 - government contracts
 - worker training
 - technological innovation or modernization
 - community characteristics, trends, or attitudes
- Committee meetings, research, public speaking, letter writing, telephone calls, or any other activity related to above items

Assisting local entrepreneurs with start-up businesses

- Providing local entrepreneurs with information, technical assistance, or counseling regarding:
 - loans or grants from public or private sources
 - government regulations (environmental, worker's compensation, Americans with Disabilities Act, etc.)
 - exports
 - government contracts
 - worker training
 - technological innovation or modernization
 - community characteristics, trends, or attitudes
- Any activities related to small-business incubator facilities or programs
- Committee meetings, research, public speaking, letter writing, telephone calls, or any other activity related to above items
- Identifying available space for new small businesses