Is the economic development profession leading the country in a race to the bottom?

Corporate relocation subsidies feed intermediaries -- site consultants, law and accounting firms, magazines promoting the practice -- and push public money into private hands without much return. At the same time, the nation's infrastructure crumbles, states turn away from investments in our research universities, and our international education performance continues to sink. What's wrong with this picture? Has the time come for the economic development profession to move decisively in a different direction? If so, who will lead?

JZ • Talk about a pot stirring commentary... my counter response is... isn't it about time that the economic development profession, its standards, its underlying mission, and its critical role in the future economic viability of local, county, regional, state and national economics be given a prominent place at the table of policy decisions and resource allocations at all levels of government?

EM • $80 billion is being invested nationally in incentives that -- with any factual analysis -- are difficult to justify. Our profession sits back and (for as long as I can remember) throws up its hands and says "Everybody is doing it".

It's hard to argue that we have not been at the table. (IEDC sits in DC, after all, and has close ties to the DC policy establishment in economic development.)

In my view, we have been at the table with an inadequate or misleading or incoherent (or perhaps even a dishonest) message: That incentives matter and that if you do not give them, you're toast.

At the same time, we now have an army of transaction specialists -- site selection consultants, law and accounting professionals, corporate real estate types -- who advance their careers by landing these incentives. They push the addiction to a failed policy. This is not news: (The Minneapolis Fed examined these policies in a 1996 Washington DC conference and concluded they are wasteful.)

The problem, of course, is that these incentives rarely face any scrutiny (as a growing number of audits reveal), and they are undermining state and local finances to an alarming degree. A question to consider: Why did it take the NY Times to rip the cover off this practice? Why didn't we in the economic development profession get out front and propose the next generation of economic development policies? After all, the incentives policies started with Mississippi in the 1930's with the Balance Agriculture with Industry Act.

Isn't it about time for a re-examination? What would it look like if we declared an end to the Subsidy War?

More to the point, these incentives rarely have any rigorous evaluation. The Orlando Sentinel recently demonstrated how FL incentives were largely uncontrolled. WI, RI, KY, OH, KS, CO have all had local newspapers looking at how these incentive deals don't work as intended.

Pew released a report that concluded: "No state ensures that policy makers rely on good evidence about whether these investments deliver a strong return". http://bit.ly/11LP6yL

The dominant economic evidence suggests that state and local incentives have a minimal impact on the firms involved and generate weak returns for the public.

If public money is being wasted, why continue?

WL • Here in the heartland, I am not sure the New York Times article stated anything ground breaking. Residents that I talk to are more than happy to unload their thoughts about economic development when I run into them. Everyone has been conditioned to believe that if we want the factory to come to town, we have to pay for it and there is no guarantee that the company is going to stay. The impression that what economic developers do is this:

Economic developers go on trips half way around the world just to give the public treasury away.

Economic developers seem to advocate for quality of life, but appear to play a small role in improving quality of life.

Economic developers are more concerned with attracting short to medium term businesses rather than building what businesses are here and ready to stay for the long term.

If we are here to serve the public and these are the derisive comments that are out there, maybe it is high time that there is a re-examination of why we do what we do in this line of work. The impression is that we aren't serving the public and second we aren't held accountable.

EM • This is my point: We have been too passive in reshaping the debate around economic development.

State-level policies are almost by default organized around recruitment, and local policies are no better, often driven by developers.

We have a federal government repackaging 30, 40, and 50 year old programs and calling them i6 or Jobs Accelerator, or some other name. But when you scratch the surface, they are still old programs, ill-suited to today's challenges.

The Congressional Research Service just produced a report outlining how federal technology development and competitiveness policies over the past 30 years have been, to quote the report, "ad hoc and uncoordinated".

Isn't there an opportunity here for the profession to step forward more aggressively?

BW • For years, the mantra has been that if we don't do it, someone else will. I was at a meeting this morning where there was talk of lowering standards to be competitive. Not because our standards are too high for businesses but because someone else might undercut us later. Brilliant.

GH
What disturbs me the most is the indictment that most incentives are bad and we economic developers do not know how to apply/monitor them. In addition, incentives are kept quiet and have no accountability. At least in my experience, that is dead wrong. Generally, if public funds are used, a public MOU is required. In some respects an economic developer cannot actually monitor parts of an incentive package because we may not have access to tax records to determine what, if any, credits were taken or other forms of incentives.

Offering jobs opportunities to citizens in our service territory are among the most important goals I think we have. It improves an individual and a community’s lives. Increasing the opportunities for citizens to compete for good paying jobs is increasing the quality of life for one and many.

EM
Three points to consider: 1) the numbers are big in absolute terms -- in the billions; 2) the returns on these public investments, when tracked at all, are small -- there's a lot of waste; 3) the perception is growing that we can't afford this type of "corporate welfare" -- a public backlash is growing. (This pressure will build. We're on the front end of the real crunch coming in local and state budgets.)

The reluctance of the economic development profession to take on these issues -- to deal with the facts of our situation -- feeds the perception that we're just "in on the game".

We need imaginative reform, and now may be a good time to push for it.

JG • It’s time we all said, “Whoa… wait a minute” and go back to basics. The incentives for businesses to locate within a certain area have gotten out of hand. A recent example is the bankruptcy of Digital Domain in West Palm Beach, Florida. Millions and millions of enticement dollars down the drain with all funding stake holders now scrambling to recoup anything they can get after the bust.

I believe we need to look at this in a totally new/old way. Local governments need to promote and support Economic Green Gardening (growing/starting businesses at home) coupled with Incubators and business assistance experts who have the connections, knowledge and resources to get things done on a local level.
The other tier is to improve the local quality of life and simply clean their towns up, not only on a governmental

level, but beautification as well. Create things for families and children to do, improve schools and medical facilities, etc.

No amount of incentive dollars can sway the opinions of the decision maker's families about moving to an area with no appeal to them. This also applies to those wishing to start up a new business or expand into new areas. You have to be able to provide a great place for them to live and do business by not only offering all the above, but expedited permitting, tax incentives, impact fee credits and just an overall feeling the local government is welcoming and willing to help in any way they can.

If all this is in place, incentive dollars often don't even enter into the equation.

JZ I think one of the shortcomings we are taking in this entire debate regarding incentives and its history is leaping at the surface glaring news headlines rather than delve deep into what may be happening.
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JG • I think you're right on point with your thoughts. Part of this should also extend to the investees as sort of a reality slap in the face to back them down from their heightened excitement about the deal and possibilities. We all know examples, as mentioned previously, of how big ideas go bust. This goes all the way up to the federal government like the millions and millions spent on that solar power company which never really produced anything. Where were the checks and balances?

Maybe part of the program should be to educate the potential local, state and federal government officials about all the things which can, and often do, go wrong.

JZ • Both the Digital Domain and 38 Studios (Curt Schilling's company) experiences are a much newer aspect to the underlying matter of inducing business location and/or expansion. In both of these cases, it really comes down to the public funds deployed to these companies really was venture capital betting on their new ideas and new products to reflect sustainable growth potential. In both these cases, the underlying question is whether sufficient and correct due diligence was undertaken and the sub-question yet not answered is whether due diligence for these types new age growth potential companies is able to be handled currently under the skill sets available within the public sector involved in incentive deployment and management.

EM • John: In the case of 38 Studios, Rhode Island invested in a startup company. I question whether this makes any sense at all, unless investments are structured in a similar fashion to an SBIR grant.

Employment growth comes from second stage companies, not startups. Supporting growth in second stage companies involves building networks that enable these companies to gain access to the resources they need quickly. When we do, we create innovation hotspots.

It seems to me a far better investment of public funds comes in building the "civic infrastructure" that innovation hotspots require.

These investments fall into five broad categories: investments in brainpower and career pathways; investments in innovation networks to support entrepreneurs in high-growth companies; investments in physical development to create quality, connected places attractive to smart people and innovating companies; investments in new narratives needed to reorient assets within a region and align them; and investments in collaborative leadership required to design and manage civic collaborations.

RR • An excellent topic question and illuminating comments. Of course, there's truth on both sides of the debate about incentives. As academics note, incentives are typically the least important factors regarding business location decisions. The important factors include access to labor, resources, customers, etc.

But once the important factors have been analyzed, a company often finds that several possible locations are comparably suitable. At this point, the company approaches public officials and asks for incentives. The company will do equally well in locations A, B or C. So the incentives are merely a bonus.

WL •

There's a public good case to be made for some incentives, but as mentioned, the best are investment in infrastructure improvement (e.g. airport industrial parks) and workforce preparation. As George Robertson and John Gurney have said, these are the kinds of incentives that stay in a community, and make it more attractive to all businesses.

EM • Rick, thanks for contributing your perspective here. You have added a set of valuable insights. Who knew that reducing taxes on buildings and increasing them on land could stimulate construction and rehabs?

Your observation points us to thinking in new ways about economic development policies at the local level. In view of the coming crunch in state and local finances, we need some innovative thinking and some thoughtful experiments. Yet, I don't see this happening. Why not?

We have a distance to travel. A lot of education to do. Here's a story.

A colleague last week spoke with a governor about the NY Times article. The governor proudly noted that under his administration he had reduced the cost of incentives from $36K per job to $9K per job. Missing from the governor's statistic, however, in any notion of the returns generated. It's like saying that he reduced the price of a bond from $36 to $9, without telling me anything about the projected return on the bond.

At the same time, of course, the denominator in this calculation is too often a flabby number. States and localities rarely do the post facto analysis needed to verify and evaluate. That's typically where the newspapers and the state auditors step in.

What does the economic development profession need to do to get ahead of the curve here?

EM Richard: one of the major concerns I have about economic incentives as they are currently structured is that they take our attention away from the core issues of competitiveness. To understand these issues in a deeper way, I recommend Innovation Economics, a new book that you can find here:

Today's newspaper carries distressing news about the performance of American students compared to international peers. the US is 11th in fourth-grade math, 9th in eighth grade math, 7th in fourth grade science and 10th in eighth grade science. http://nyti.ms/Uzdmig

I have no idea why we're not focused as a profession on these issues.

AT • Ed, I am familiar with the statistic you cited about a Midwest governor focused on reducing the cost of incentives per job. I believe that same governor would say that the state has built a better sandbox (I prefer greenhouse) by lowering taxes and pursuing a number of other state-level initiatives. I appreciate the importance of focusing on medium- to long-term strategies focused on place-making and support for second-stage companies.

However, I think economic developers must address misperceptions about incentives and I would like to see partners like Purdue CRD on the side of economic development practitioners in that effort. Let me provide one example. The EDGE tax credit is probably the most lucrative business incentive available in Indiana. This statutory tax credit is calculated based on projected individual income tax withholdings generated by new jobs to be created, so it is forward-looking (e.g. does not "take" from current revenues) and can only be claimed to the extent the company actually creates the jobs. So the current debate about $80 billion in annual incentives is really disingenuous because incentives like EDGE are tax credits (not cash), do not take from current revenues, and are realized over 5-10 years (so that consultants at GE and elsewhere would be wise to heavily discount the NPV of the incentive). Let's target business incentives (EDGE is again a relevant example) toward decisions that are difficult for companies to make in this environment (e.g. job creation, employee training, capital investment) and that generate new wealth in communities to support the medium- and long-term investments we all want to see take place.

KR • Interesting discussions - of course the terminology ED has huge range and often there is one or two elements under consideration like for example incentives for businesses to relocate. Of course we all know it is a far wider topic and I agree with John about geography and location. If these are not very attractive, not only will you never recruit or enable new businesses to develop but you will struggle to retain existing ones. I also agree with going back to basics. We have pretty well scorned the latest trite terminology and have stuck with 'how do we improve THIS local economy?'

There is an issue for me about ED 'Professionals" - not sure what this means I consider myself one, as a consultant for 20 years and my business being my primary source of income. No disputes with clients. I do not consider anyone and everyone employed to work in ED as a professional. I think that's part of the problem - too few skills out there and little understanding of SME's and how they work and unwillingness to acknowledge that we don't know everything. There is a gulf between the thinking of the public and private sectors and while there are some great people in both,

SM Its interesting to see so much energy coming from academic and other institutions to build "Working strategies and processes" to rebuild the economy; when there are already so many working models being deployed in the urban and rural areas. Programs that increase the success rate and opportunities for startups and growing businesses to achieve new markets and revenues using networks (very similar to what Ed M. discusses). There are also scalable models for workforce development and skills training, and for actively bringing in corporations and jobs without the use of incentives. Most of these programs are even at a break even or revenue rate of return for the communities that adopt them.

So why don't EDO's leverage these entrepreneurs in their or adjacent markets. It seems like collaborating with the entrepreneurs that are making social ecosystems and improving local and regional economies are being left out or pushed out of conversations. How can this be changed? Any ideas?

EB Good financial stewardship requires a culture where a return is sought for every penny invested. We can certainly have a discussion on what constitutes a return and how to quantify it. But, every penny represents a choice on how to utilize a resource that should be treated as finite, not infinite. After all, any level of incentive spend can be considered a rounding error if the denominator gets large enough. Second, I think the profession would benefit from a thoughtful assessment of how to monetize the value non-cash assets and considerations (e.g. favorable policies) for better modeling of a deal NPV. Our profession needs to understand how our communities impact a company's P&L, and how to reflect the impact in terms a CFO would be aligned with. I think better deal modeling is an area academia could be a huge help with.

GD • I think that ultimately ED really comes back down to taking our "tool box" and working outside of the box with tangible results. Going back to building up communities so as to identify their place within the local, regional and global innovation cycle. From there long lasting ED strategies will take a deeper root. Rather than try to pump up jobs as in the incentives perpetual debate, as in the Mets example given.
I like to approach ED from the micro and work outward to the global. Depending on the project. Clearly ED isn't a one trick pony, having said that it should be about capturing data that identifies a location's assets in relationship to economic viability. Along with the skills needed to, in many cases, get them there. There are many cases when well-known locations are fixated on being one thing and it’s not the best thing for them. However , they see the "big box".

If a location is strategically operating at its maximum capacity, the likelihood for expansion, innovation etc. becomes exponential in proportion. This is BASIC ED 101, however it should still be the priority. Ed you cut through the incentives issue with the clarity of GOIN back to the cornerstone. Incentives are fine so long as they are not in the driver’s seat. If they are the result of the aforementioned then there's a better chance the people win. Perhaps ;-)

EM • Gregg: You point to the critical dimension of synergies in economies. If we think of our local and regional economies as networks, as Eric Beinhocker suggests in the Origin of Wealth(http://amzn.to/W8zDEU), then the skills of effective economic developers must expand to include cluster analysis and activation. At Purdue, we are developing this new approach to economic development. As I note in my comment to EB above, there's no room in today's world for the sloppy work that characterizes our profession's current incentive practice.

CT • I don't believe economic developers are leading the nation to the bottom, but we surely aren't leading the nation forward. We tend to get so caught up in the process that we forget, and in some cases have never acknowledged, that if we don't produce jobs and revenue - we've failed. The solution to this problem is to get away from our deontological approach to our profession in favor of a more objectively measurable one.

EM • Pew has just released a new report: http://bit.ly/TSP4yV

The report shows that surprisingly few states make serious estimates of the potential cost of tax incentives they offer companies, and very few cap the total benefits, leaving the government exposed to large losses.

EB In my mind it isn't a question of whether offering incentives is right or wrong. It is a question of financially smart or stupid. Communities should be just as concerned about taxpayer return as businesses are about shareholder return. Sometimes incentives are a good strategy. My concern is when it is viewed as the automatic default strategy. It ends up discouraging partnership behavior and reinforces the landlord tenant type of relationship. Partners grow together and their success is interdependent. Tenants move when they feel the rent is too high. Communities need more partnerships and fewer tenants. Creating a general model that can be used for the majority of deals (and customized for special deals) will help drive better decision making.

MS • I've watched with dismay the one-upmanship in economic development for some time. I work mostly with rural communities that have no ability to compete on the same playing field with cities that have access to more resources (or have more motivated elected officials). I think we all have to get more creative in answering the question, "What's in it for me," when negotiating with a potential business. What can we offer - besides cash incentives - to entice relocating businesses? A few thoughts: improved infrastructure (transportation, fiber-optics), educated, skilled workforce, and attractive living environment, just to name a few. Are these things without cost? Obviously not. But they are things that will still be improvements to the quality of life of residents, even if the big smokestack never moves in.

EB • Mary Lee - And they are things that offer value to companies already doing business in your community as well as making your community more competitive for future capital investment. We need to be more holistic in the modeling done to calculate a project NPV. And, I think we need to be collaborative in creating a specific project NPV model. Rather than do it in isolation, we should strive to create it with the company at the table. This is the approach I was used to when doing licensing and acquisition work in the private sector. I will add, the process of creating a mutually aligned model leads to a deepened understanding of what a true win: win proposition looks like. That leads to a solid partnership if the deal goes through.

EM • Mary Lee: Rural communities can turn their back on the old incentive game and, instead, make investments in things that matter. My favorite example: Fairfield, IA.

But there are other rural communities that stand out, as well. My colleague, Dave Ivan at Michigan State has studied these communities carefully. Learn more here:http://ge.tt/3ZBdBcT/v/0?c

In my view, site selection consultants and publications has been stringing along the economic development profession for years. Many economic developers have fallen into the trap of thinking that their strategy should be dictated by what these folks say.

It's a fool's game. I'm not a huge fan of Richard Florida, but on this point he's right on target. http://bit.ly/W9KDFF

EM
Most communities lack the rigorous analysis and the strategic frameworks for evaluating incentives as alternative investments. The Pew study released last week highlights that states often lack both transparency and control over these policies. See:http://bit.ly/TSP4yV

EB I totally agree most EDOs lack the skill to create an effective NPV model for a project. We need to focus on enabling them to do so. As you know, that means creating and deploying training as well as providing case studies that demonstrate application.

EM • Ed: You point rightly to a current gap in the education of economic developers.

JZ • This is primarily a very healthy and constructive discussion but I am disturbed by suggestions that the economic development profession is behind rather than ahead of the curve. I may be a tad sensitive on this subject but I do feel obligated to weigh in. I am proudly a Certified Economic Developer which requires meeting rigorous standards of demonstrated experience and expertise in the field in leadership positions and successfully passing a rigorous three part exam over two days which covers every aspect of the principles and practices of economic development. The International Economic Development Council has been for decades and remains the foremost professional organization for economic development with well recognized leadership in keeping the profession fresh and current on what is critical to being an economic development professional. The CEcD process and designation embraces the finest standards of excellence through IEDC for the economic development profession. While we who proudly have earned the CEcD will be the first to admit that to be a successful economic development professional means to never stop striving to learn and explore new and better means to meet community goals and standards, it is grossly unfair to even suggest there is a gap in the education of economic developers. The foremost challenge to the fundamental point of this discussion stream is not the need for smarter, wiser, or more educated economic development professionals but, rather, to engage in this discussion the other key stakeholders who drive the issue starting with the elected officials and continuing with business organizations, financial institutions, and others who have a role in setting policy because at the core of this issue is a question of policy not implementation.

EM • John:

For the past 15 years or so, I have taught the strategic planning course at the Economic Development Institute (OU-EDI). This has provided me a vantage point to see how professional education in economic development actually works.

In the case of strategy, major advances are taking place in how companies, communities and regions are designing and executing strategy. Yet, within EDI, the curriculum is largely controlled by IEDC. While this approach seems sensible, it comes with a cost in a field that is so rapidly shifting. It is very difficult to innovate within this system.

We are having a much easier time of it at Purdue. So, for example, we are developing a pipeline of courses that will be helpful to community, economic and workforce development professionals. We are also developing a national network of universities to deliver these courses. Most recently, we collaborated with Michigan State University to develop a new approach to teach strategy to community leaders.

The Edward Lowe Foundation has pioneered a new certification in economic gardening. APLU, the Association of land-grant universities, has been conducting webinars on how universities are changing the game in regional economic development. A group of universities, led by Northern Illinois University, is connecting with European universities who, as a general rule, are farther along in their thinking about how universities drive innovation economies. We are also rolling out a powerful on-line GIS tool, called Regional Decision Maker that will make business and occupational cluster analysis far more accessible. We are launching training for this platform in 1Q 2013.

The good news for economic development professionals: the choices for continuing your professional education are proliferating.

EM • If possible, I'd like to refocus the discussion on what the economic development profession could do now to address a growing challenge: the mounting evidence that incentives policy at the state and local level needs an overhaul.

While more effective professional education offers a long term solution, what are steps that can be taken in the next 9 -12 months to move on the incentive question?

EM • Rick: Although I am not a member of IEDC, it seems to make sense to me that IEDC should take the lead here in crafting the next generation of state and local incentive policies.

Yet, when I go to the IEDC web site and click on "incentives" tab on the left, I get a page that has not been updated, apparently, for six years. It discusses DaimlerChrysler v. Cuno, a Supreme Court decision issued in 2006: http://www.iedconline.org/?p=Tax_Incentives

(The court held that Ohio taxpayers did not have standing to challenge Ohio's tax incentives.)

What's going on here?

EB • We need a broader perspective than simply job creation.

KS • Does economic development ever take into account the strengths of its inhabitants? Does a neighborhood, community type, town, company create a matrix of strength? Natural resources, passions, skill sets, education levels into account? Is time ever taken to create a shared vision with the inhabitants of that community?

Have schools ever thought about creating an opportunity to look at the student body strengths and how their strengths as a student body might be used to benefit the community? Instead of economic development being driven by the few, shouldn't it be driven by the whole? A holistic system generally understands balance, strengths, and deficits and can create a sustainable vision that might create business instead of wait for jobs to come to them...think of all the marketing money that could be saved in the draw of large companies when small ones who better serve the larger companies as part of a more responsive team. Large companies would be best served by the flexibility and have less of an impact on job gains and losses as product life cycles ramp up, end or become less competitive. I would like to see who is looking at this perspective elsewhere.

KR • Hi Karen, yes to all that - we see individual orgs. could do a great deal more in terms of their approach which we see as sustainable or integrated. I think this is one of the areas ED fails. People do not do more than their job description and often CEO's of ED orgs. or within the public sector, are just too busy or not interested in taking a 'maximizing local opportunities and strengths' approach. I think you and me and no doubt some others see this as fundamental to ED development but again, I think the limited silo approach rules at the current time.

SM • KS - You are completely on point! When communities take into account the local strengths and build support mechanisms around these local strengths economies get rebuilt in months, not years. Especially as you so brilliantly spelled it out that ED's should be supporting to those groupings of individuals who are, in many cases, already doing most of the heavy lifting.

RR

Should ED be concerned with minimizing the complexity of fund applications and increasing the amount of funds applied directly. Should they have greater discretion than the political elements involved. Should monies be applied to and tied to results in long term job creation as opposed to short term projects such as facade improvements and public works projects.

JZ • This discussion has certainly wandered in many directions and has a sustained life with loads of interesting views and thoughts. Bringing it back to the underlying focus of this discussion, economic development strategies and practices encompass a wide range of tools available for deployment of which incentives are one tool and there are a wide variety of incentives. Professional economic development PR actioners understand and embrace that their foremost obligation is to responsibly and effectively deploy the full range of tools to accomplish goals and objectives which reflect the aspirations and needs of the community, region, or state being served. These underlying principles and practices offer a very strong foundation throughout this nation. There is no question that the underlying force driving economic development is ever changing environment in which we operate and the ever present need for us to be flexible to adapt and adjust to that ever changing environment but such flexibility does not warrant radical changes to how the underlying successful principles of economic development. And for every example of an incentive related project which has failed there are 10 examples of incentive packaged deals that meant significant sustainable benefit to communities.

EM • John:

While I understand your sentiments, the data just do not support your statement,

"And for every example of an incentive related project which has failed there are 10 examples of incentive packaged deals that meant significant sustainable benefit to communities."

The available data underscore that these type of "beggar thy neighbor" policies -- promoted by companies and their agents (site selectors, law firms) as "essential" -- do not work in the long run to generate a positive return to the community.

It's time that we move toward more data-driven strategies that actually measure investments and returns. When we do that, we as a profession, will be advancing the policies needed to build competitive economies in the 21st C.

It's time that we climb out of economic development as land development or real estate development and redefine the scope of these investments to include perspectives on economies as complex emergent systems (Beinhocker, The Origin of Wealth).

Right now, though, it looks to me that, when I compare economic development discussions going on in Asia and Europe, the U.S. is stuck somewhere in the early 1980's and heading backward.

So, for example, the European Commission last month published a very interesting report exploring how open innovation changes the regional development game. In Canada and Europe, professionals are advancing new ideas around sustainable development that go far beyond what we are doing in this country.

It's time, I think, to climb out of our cheerleading outfits and start discussing what the economic development profession can do to meet the challenges put out by Shih and Pisano (Producing Prosperity); Hwang and Horowitt (The Rainforest); Atkinson and Ezell (Innovation Economics); Liu and Hanauer (The Gardens of Democracy); Brock (American Gridlock); the new Bush Institute web site providing international education comparisons for every school district in the country; and the National Academy's recent report on research universities.

It's time we move past the bumper sticker thinking that has paralyzed our profession and threatens to make it irrelevant in the coming decades.

JG • Here's a thought to ponder… I attended a regional Legislative Delegation workshop this morning to create an agenda of hot topics, a wish list, for our legislators to consider this year. Among all the thoughts, one was to make sure the Enterprise Zone benefits don't go away as rumored. After the meeting a County Administrator told me there is a lot of pushback on this subject as well as tax abatements, incentives, and other economic development benefits we've used to stimulate business growth. The feeling is the vast majority of businesses do not have these incentives and are paying the full tilt of taxes. It's like giving special discounts to new members, but not the existing members who have supported the coffers over the years. Doing away with impact fees, for example, can help the new business, but they're a drain on the county's limited resources. There are also instances of a new company collecting the prevailing incentives while their existing competition receives no assistance at all to level the playing field. It was a very interesting way of looking at it and could be a cause of why economic development isn't as well received as it used to be.

EB • @John - I believe a lot of the push back is coming from a renewed recognition that there is an opportunity cost associated with the use of incentives. Now that people are seeing their personal taxes going up, every opportunity cost has become more suspect. Net, the climate is right for this conversation. I also believe incentives are simply a tool, neither good or bad in nature. If used strategically, the tool can be very helpful. If used indiscriminately, it can be a tremendous waste of tax payer dollars. What I would like to see is economic development professionals becoming more knowledgeable on how to better evaluate the NPV of projects with and without incentives. Included in that analysis should be both the opportunity cost and the indirect costs associated with each deal.

EM • John:

You have captured a good deal of what is wrong with these incentives. They are firm-level investments that amount to picking winners (although many are not winners at all). The remaining losers are all the businesses that must cover the costs of government and pay for the subsidy or tax expenditure.

While some would argue that the incentives trigger returns in excess of their cost, the evidence is shaky at best, and most jurisdictions do not have a sufficient tracking system in place to monitor their investments in these firms. (A fact that a growing pile of state audits is underscoring.)

The beneficiaries of these incentive policies -- site selection consultants who generate fees -- support them for obvious reasons. They also provide financial support to the existing economic development ecosystem of associations and publications.

So, it's not surprising that the economic development profession fails to take on this issue in any meaningful way.

SM • This conversation has come to an interesting point. @Rick points out a great scenario where a business is equally interested in three cities; and is the strategy to maximize the incentives for the business.

The interesting business perspective here is that when it is about price (as incentives really are about dropping to price of entry into the community) then it is a race to the bottom. (Where Scale wins and there are no loyalties.)

@Ed's 5 described problem areas are the symptoms of a systemic problem within the Economic Development profession: A Disconnect with the Individual community members. Essentially every business owner, every employee, every entrepreneur, every influential person, and everyone else within an Economic Developers area are their most prized assets and opportunities! These people, their interactions, and their relationships can move mountains if the ED's will engage them in current activities and objectives. Think when is the last time that you pulled together a grouping of small business owners (granted you know some in your area) and asked them to help attract a new business. (It is a given that you will have to explain how the new business presence will help each of their businesses and community's become more successful!)

ED's are currently looking at their toolboxes as a war chest to identify how to grow their communities, and then how to measure growth. They completely forget the community is a frickin' ARMY that is either dormant, or more likely working as inefficient clusters trying to grow their businesses and the community. ED's are perfectly positioned as rear Generals that can mobilize these communities of individuals to attract new businesses, support existing businesses, bring to light the hidden entrepreneurs and businesses that are in homes and the "shadows."

ED Professionals could turn their local economies around in mere months by using their community's to drive momentum. Create new jobs, new businesses, change the culture, give existing corporations reasons to never leave a community, and provide incoming corporations every emotional connection that will draw them into 1 community, YOURS! (I.e. Social Entrepreneurs are doing this in multiple areas, and they have no governmental backing what so ever!)

I just fear the ED profession is too stuck in its ways of being followers, playing it safe, and worrying about all the negative scenarios. The ED Profession, especially in America, has a chance to reinvent itself by empowering the community to work together to achieve community goals!

There are very, very few that are pushing down this path, but there ARE ED's using social enterprise strategies to rebuild their economies. Just wish there were more...as I am one of those community individual's waiting to be led!

JZ • Sounds to me that the gist of this discussion is the thought that the incentive to further advance the economic development profession is to incentivize not relying on incentives.

EM • John:

I have not suggested wholesale abandonment of incentives. Rather, I'm recommending that we as a profession treat the expenditure of public money as an investment that demands a return. We also need to recognize that the winds of change are blowing.

How does an incentive that moves a company from Illinois to Indiana help our overall global position as a region (the Midwest) or a country? It's hard to answer that one.

We need to treat these investments more seriously than we have in the past. As the primary agents of public entities that have invested funds with no clear returns, we bear some responsibility for the general failure of incentive policies.

It is not hard to figure out that over the coming years these incentives will come under increasing scrutiny. http://1.usa.gov/ISLQZq

Right now, like it or not, public perceptions are being set by newspaper investigations, publicity surrounding reports such as those published by Good Jobs First (http://www.goodjobsfirst.org/), state audit reports, and the occasional glaring failure, such as the Rhode Island investment in Curt Schilling's gaming venture.

Nowhere that I see is the economic development profession taking on this issue in any meaningful way. Instead, I see the profession coming up with business as usual

I've been involved in the profession since 1977, when I first worked on competitiveness issues in the US Congress. I spent 25+ years working directly with communities and regions on their strategies, including notable successes like Oklahoma City and Charleston, SC.

Based on my experience, I believe that the investment of public funds is an important component of economic development strategies.

My problem is that most jurisdictions 1) have no clear strategy or policy guiding these investments, including transparency in reporting them; 2) have very weak, if any, process of investment evaluation of risk and return beyond some simple-minded dollars per job metric; 3) fail to track these investments and the returns they generate in any rigorous way; 4) do not have procedures in place for "clawbacks" to mitigate risk; and 5) fail to evaluate these investments in the context of a strategic framework to evaluate alternative investments of public funds in, for example, education and training or support for start-ups and existing Stage 2 companies.

Aside from this rather lengthy string on LinkedIn, a welcome but somewhat clumsy forum, where are these conversations happening?

JZ • Ed, I was just trying to establish that we ED professionals while mainly serious do have a sense of humor...

EM • John: I obviously missed the point, which, I guess, establishes that I have a hard time finding humor in our situation. That's more a comment on me, of course, than on your good and welcome spirit.