G3366

COMMUNITY ECONOMIC DEVELOPMENT STRATEGIES

Glen C. Pulver

Policy-makers throughout the United States are looking for ways to increase individual income and employment. With these goals in mind, public and private leaders at the local, state and national level are trying to outline strategies for community economic development. These efforts are intensified in periods of high unemployment.

This activity takes many forms. At the local level, industrial development organizations, economic development committees, business groups and government officials develop industrial parks, prepare promotional brochures, and sponsor special events to attract more income and employment. State officials employ industrial developers, provide special tax incentives, and promote tourism. At the national level there are regional development districts, direct credit or loan guarantees for businesses, federal agency support to local government, protective tariffs, emergency employment programs and assistance to individuals.

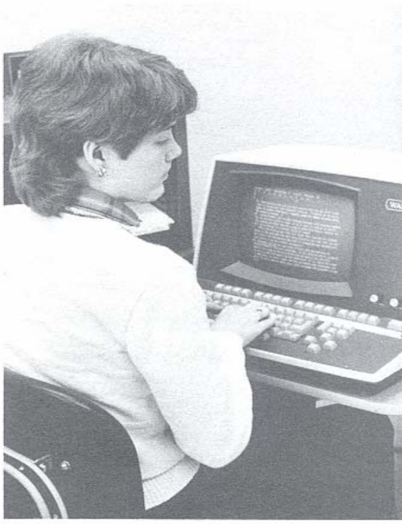
The current economic situation—especially continuing high unemployment—has stimulated a more serious look at the role of public governments at all levels. Some argue that government intervention does little to stimulate productivity or increase employment, but merely redistributes economic activity from one geographic region to another. They say the entire effort is a zero-sum game, benefitting one group of people at the expense of another.

Others argue that public investment can increase overall economic efficiency by increasing the flow of information and by reducing market imperfections which inhibit economic growth. They suggest lowering barriers to entrepreneurial entry in order to generate new sources of economic activity. They believe that investments in infrastructure, promotion, financial assistance, etc. will net higher employment and income. However, those who advocate public involvement must recognize a number of fundamental changes in the economic structure of the United States.

Structural Changes in the U.S. Economy

When a public entity invests in economic well-being, it rarely starts with a comprehensive analysis of the opportunities that communities have for development. Most such investments reflect a historic preoccupation with goods-producing industries, especially those that exploit natural resources or manufacturing. For many years, policy-makers have viewed manufacturing, mining, farming, forestry and construction as the most effective vehicle for creating jobs and stimulating long-term income growth. This preoccupation grows out of the long-standing belief that goods-producing industries are the source of all wealth and that access to all services are dependent upon them. This theory says that a community can best improve its income by producing more goods and selling them to buyers outside the community. In other words, the relative well-being of any locality, state or nation depends on its ability to produce and export goods.

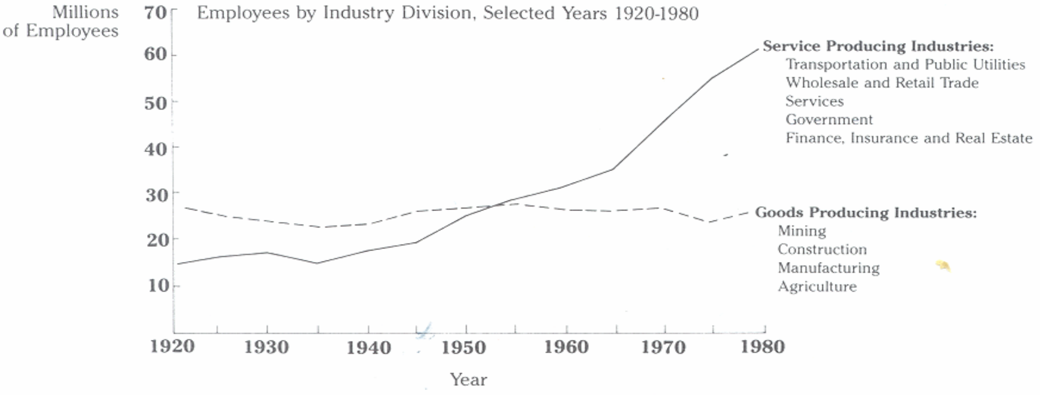
This simplistic application of *export base theory* has limited relevance in today's interdependent economies, in which individuals must choose between costly life insurance programs, complex health care and other services and goods such as computers, stereos and recreational vehicles. Contemporary community economic development policy must realize that both goods-producing industries and service-producing industries play a fundamental role in generating jobs and income [Smith and Pulver, 1981]. It must recognize that per capita income can be increased not only through the export of more goods and services but by reducing imports of goods and services which can be produced as efficiently within the community.



Computer and data-processing services are expected to generate 675,600 additional jobs between 1982 and 1995.

The United States economy has changed substantially over the past 60 years. In 1920 slightly more than two-thirds of American workers were involved in the production of goods. In 1954, employment was almost evenly distributed between the goods-producing and service-producing sectors. In the 1980s, well over two-thirds of the workers and self-employed in the U.S. are in service-producing industries. Throughout the years the absolute number employed in the goods-producing sector has remained relatively constant at slightly less than 30 million people. During the same period the number in service-producing industries has grown from approximately 14 million to nearly 70 million (see Figure 1).

There are two fundamental reasons for the reduction in the relative importance of goods-producing industries as a source of employment. First, the increased efficiency in production of goods has released human and other resources for application in other sectors of the economy. The percentage of the U.S. work force required to meet the need for food, fiber, minerals, construction and manufactured goods has declined. Farming represents a stark example. In 1920 a large proportion of the people working in the goods-producing sector were engaged in farming. Today, only a small percentage of those working in the sector are thus employed. This much smaller number of farmers produces enough food and fiber for the entire U.S. population with large amounts available for export.



Source: National Commission on Employment Policy, *The Work Revolution*, 8th Annual Report, Washington, D.C., Dec. 1982.

Figure 1. Total U.S. Goods and Service Employment

Although essentially the same total number of workers were involved in goods production in the United States in 1940 and 1980, the amount of goods produced increased from 171.8 billion dollars to 668.1 billion dollars (in constant 1972 dollars). During the same time period employment in the service-producing sector increased nearly fourfold. The output of this sector multiplied approximately five times from 139.9 billion dollars to 687.7 billion dollars. The efficiency increase was greater in goods production than service (see Table 1).

One result was an increase in real wealth that has allowed individuals to demand what the the service-producing sector provides. Nearly every household now requires health, life and retirement insurance. Credit cards, personal checking and other financial services are seen as necessities, not privileges. Individuals now have opportunities to move, get educated, and seek recreation. Society can afford to provide some relief from the stresses of unemployment, aging and physical handicap. These are only a few examples of what the American people have come to identify as essentials of life.

There is another major reason that goods production has declined as a job generator in the United States: the change in the world economic structure. In recent years, manufacturing jobs have been escaping the United States at an increasing rate [Drucker 1980, Naisbitt 1982]. As a given industry's manufacturing tasks become more standardized, and its technology ages, its firms begin to seek more favorable economic climates abroad. For example, more and more textiles, leather products, steel, automobiles and radios are produced outside of the United States. The United States is not apt to regain its former share of these products, regardless of future increases in U.S. production efficiency.

Table 1. U.S. Gross National Product in 1972 Dollars (Billion of Dollars)

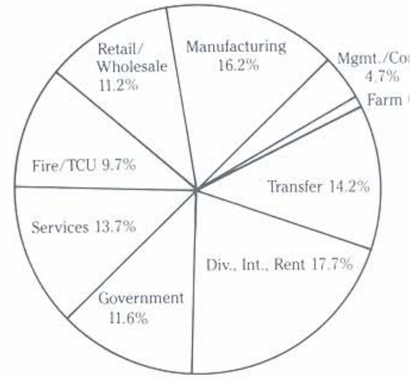
Year	Gross National Product	Goods	Services	Structures
1940	344.1	171.7	139.9	32.5
1950	534.8	261.5	207.4	65.9
1960	737.2	335.8	312.5	89.0
1970	1,085.6	486.9	482.4	116.3
1980	1,475.0	668.1	687.7	119.1

Source: Department of Commerce, Bureau of Economic Analysis.

These changes in sources of employment have been accompanied by significant shifts in sources of personal income. As might be expected, the percentage of personal income generated by jobs in the goods-producing sector has declined and that of the service sector has increased. In 1983, only one in six dollars of personal income in the United States came directly from manufacturing industries. Only one in 100 came directly from farming. Nearly half of the dollars available for personal expenditure comes from the service-producing sector.

Less obvious is the large share of personal income controlled primarily by people of retirement age. In 1983 14.2 percent of personal income came from transfer payments, mostly through social security, medicare and medicaid. Another 17.7 percent came from dividends, interest and rent. This property income also goes in substantial measure to the elderly population. Nearly one out of three dollars of personal income are "non-earned" income and controlled largely by elderly people (see Figure 2).

In years past, developers often saw the elderly as an economic drag, adding to the costs of public and private services (e.g., hospitals, nursing homes) while adding little to community income. These perceptions are changing. Recent research has shown that the elderly not only provide income—and thus local sales and service revenue and bank deposits—but also bolster employment. Summers and Hirschl found that $4,000 of social security payments is sufficient to create a full time equivalent job in the local economy. This does not take into account income from retirement programs, dividends, interest, rent and medicare and other sources. In contrast, it takes $91,743 in manufacturing or $65,516 in agricultural sales to produce one job [Summers and Hirschl 1985]. The elderly are more apt to spend their income locally and on items with a high labor content than are younger workers or proprietors. Community leaders bent on taking advantage of all potential economic development opportunities must recognize the growing importance of the "silver-haired" economic base (Shaffer 1981).



United States Total = $2,853,820,000

Source: Bureau of Economic Analysis

Figure 2. United States Sources of Personal Income 1983

Sources of Future Employment Growth

Sources of future employment growth are apt to be different than those of the past. The U.S. Bureau of Labor Statistics predicts that forty industries will generate over three-fourths of the net new job growth between 1984 and 1985 (Table 2). Of the 40, only five are in manufacturing and one in construction. The remainder of these "high-growth" industries are in the service-producing sector.

The five industries projected to grow the most in absolute employment—eating and drinking places, miscellaneous business services, computer and data processing, educational services and personnel supply services—represent one-fourth of the expected job growth. Going by the BLS predictions, it's clear that business services and health-care will be leaders in generating new jobs.

Goods-producing industries will play a major role in any U.S. or state development scheme. In terms of absolute numbers of people employed, manufacturing continues to be important. This sector is expected to provide nearly 24 million jobs nationally by the year 1990. This is roughly 20 percent of the 118.6 million expected to be employed at that time. Manufacturing will continue to provide a large number of jobs to a high percentage of communities. Shifts in agricultural production and natural resource exploitation will also have important impacts (both positive and negative) on many rural and urban communities (see Table 3). It's clear that expansion of the goods-producing sector will continue to be an important part of any economic development strategy. But it will no longer be the dominant force it once was.

Table 2. Projected High Employment Growth Industries

SIC Code	Title	Projected Employment Growth 1984-1995 (In Thousands)
580	Eating and Drinking Places	1255.9
739	Miscellaneous Business Services	801.4
737	Computer and Data Processing Services	675.6
820	Educational Services (Incl. State & Local)	618.9
736	Personnel Supply Services	546.6
805	Nursing and Personal Care Facilities	505.4
541	Grocery Stores	499.1
531	Department Stores	441.1
508	Machinery, Equipment and Supplies (Wholesale)	409.5
801	Office of Physicians	405.5
810	Legal Services	399.7
734	Services to Buildings	333.9
891	Engineering and Architectural Services	325.5
930	Local Govt (Ex Hosp & Ed)	316.3
920	State Govt (Ex Hosp & Ed)	311.2
806	Hospitals (Incl. State & Local)	287.9
421	Trucking, Local and Distance	246.8
701	Hotels, Motels, and Tourist Courts	246.4
357	Office and Computing Machines	229.6
799	Misc. Amusement and Recreation Services	212.7
893	Accounting, Auditing, and Bookkeeping	205.4
808	Outpatient Care Facilities	199.3
594	Misc. Shopping Goods Stores	181.9
367	Electronic Components and Accessories	173.7
836	Residential Care	172.8
366	Communication Equipment	169.9
307	Misc. Plastic Products	167.3
809	Health and Allied Services, N.E.C.	164.0
602	Commercial and Stock Savings Banks	161.8
489	Communication Services, N.E.C.	149.6
804	Office of Other Health Practitioners	141.9
753	Automotive Repair Shops	136.8
633	Fire, Marine and Casualty Insurance	134.0
154	Nonresidential Building Construction	132.3
802	Office of Dentists	125.3
832	Individual and Family Social Services	105.3
491	Electric Services	104.9
275	Commercial Printing	97.2
514	Groceries and Related Products (Wholesale)	95.8
621	Security Brokers and Dealers	94.9

SOURCE: *Employment of Wage and Salary Workers by Industry 1984 and Projected 1995 Alternatives*, Bureau of Labor Statistics, United States Department of Labor, November 1985. (Moderate growth estimates are used for 1995 labor force.)

Variables Influencing Employment and Income

There is a growing recognition among policy makers that the economic well-being of any community depends on a wide range in types of industries and sizes of firms. Changes in a community's level of employment and income are influenced by five interconnected variables: (1) the migration of employers; (2) the change in employment size of existing firms; (3) the birth or death of firms; (4) the location of private expenditures; and (5) public expenditure patterns. Each can have a positive or negative influence on employment in a specific geographic area (Table 4).

Table 3. Projected Total Employment by Major Sector in U.S.

	1980	(Thousands) 1990	Change
Manufacturing	21,492	23,882	+ 2,390
Mining	1,002	1,072	+ 70
Construction	5,087	5,748	+ 661
Transportation, Communications, Public Utilities	5,212	5,658	+ 446
Trade (Wholesale & Retail)	23,351	27,370	+ 4,019
Finance, Insurance, and Real Estate	5,312	6,695	+ 1,383
Services and Miscellaneous	21,463	28,049	+ 6,586
Government (Civilian)	15,868	17,507	+ 1,639
Agriculture	2,974	2,634	- 340
Total	101,761	118,615	+16,854

Source: Bureau of Labor Statistics, *Employment Projection for the 1980s*, U.S. Department of Labor, Bulletin 2030, (1979) p. 32.

Migration: Recent research [Birch 1979] indicates that U.S firms rarely move their entire operations. The migration of employment opportunities generally takes the form of new branch plants, offices or other facilities. Between 1976 and 1980 new business establishments (including both new branches of affiliated firms and local startups) created about the same number of jobs as expansions of firms already in a community. In the same period, affiliated firms created 65 percent of the net change in U.S. private sector employment [Miller 1985]. Local governments do not always benefit, depending on associated public costs and tax legislation. But the migration of a firm out of an area almost always produces negative results. Not only are jobs and income lost, but tax revenues may be sharply reduced, while the obligation to pay off public debt continues [Detomasi and Gartrell 1984, Summers 1984, (Summers et al 1976]. There is substantial potential for policy manipulation. This has in fact been the focus of most state and local industrial development strategies.

Table 4. Variables Influencing Employment and Income

Variables	Positive	Negative
Migration of employers	—Firms move into an area	—Firms move out of an area
Change in size of existing firms	—Expansion in number of employees	—Contraction in number of employees
Births or deaths of firms	—Firms are started	—Firms die
Location of private expenditures	—Goods and services are purchased locally	—Goods and services are purchased outside of area
Public expenditures patterns	—Public expenditures are made in an area	—Tax payments are sent out of an area

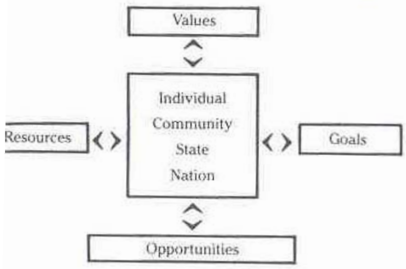
Change in Size: Expanding firms have been the largest source of employment growth in most states. The often-repeated "80 percent of new jobs comes from the growth of existing firms" is, if anything, an understatement. Armington and Odle of Brookings found that on average, each percentage point of net employment growth is the sum of 1.1 percent growth due to births of new firms, 1 percent loss due to deaths of old ones, 1.7 percent due to expansion, and .8 percent loss due to contractions [Armington and Odle 1982]. The fact that the contraction of existing firms also has a major effect on economic well-being has often been neglected. In recent years, many more community economic development strategies have focused on business retention and expansion programs [Morse et al 1985].

Births and Deaths: A number of recent studies have placed great emphasis on the importance of the births of new firms, especially small ones, in the creation of jobs [Schweke and Friedman 1983]. Brookings found that 41 percent of net new jobs between 1978 and 1980 were created by small independent enterprises. Birch states that 79 percent are created by such firms. (The differences are largely a result of complications in data availability.) Both agree that a major portion of job loss stems from the death of small firms. It is clear that independent firms both large and small are major contributors to employment growth through birth and expansion. Small independent firms also develop a significant portion of new high technology. A study produced for the Small Business Administration indicates that small firms produce 2.5 times as many innovations as large firms, relative to the number of people employed [Gellman Research Associates]. More than half of the technological advances in this century are credited to individual inventors or small companies [Environment and Management Report 1967]. The 1980s have been heralded by some as the age of the entrepreneur. Some argue that it is the only true generator of new jobs and income [Inc. Magazine 1985]. While there isn't complete agreement as to which factors encourage expansion of entrepreneurship in a specific geographic area, community economic development strategies should encompass this goal.

Private Expenditures: In an economic system dominated by private enterprise, consumers and industrialists are free to purchase goods and services any place they choose. Where they buy has a direct influence on employment and income in various geographic areas. If they acquire a share of their needs in other communities, states or nations, the immediate consequence is the loss of employment and income opportunity at home. Since no community can produce everything its residents need, the long-run consequence of purchase patterns is a matter of trade balance. Local employment and income will be improved by anything that captures more of the purchases of local citizens and firms as well as those from outside of the community; this produces a positive trade balance. The converse is equally true.

Public Expenditures: The fifth variable with a profound influence on a community's economic well-being is public expenditures. In most U.S. communities, individuals and business pay a wide range of taxes, most of which go to wider governments (county, state, and nation). A significant proportion of these funds are used to maintain the services of these broader governments (e.g. social security, national defense, highways, universities). Most these funds are spent within specific communities to maintain services (e.g. streets, schools, police protection). Some of the rest are returned through grants, etc. for community purposes. Funds which are returned to the community, either as direct government expenditures or as grants, have a positive effect on employment and income. Communities which have a net outflow—that is, that pay more in taxes to wider governments that they get back in expenditures—lose employment and income. The potential effect is large. An indication of this is the fact that government employment (including federal, state, and local) accounted for 11.6 percent of U.S. personal income in 1983. Government transfer payments, dominated by social security, medicare and medicaid, accounted for 14.2 percent of total income (see Figure 2). Together they are a larger source of personal income than manufacturing.

Manufacturing continues to be an important source of employment.



igure 3. Framework for olicy Development

Framework for Policy Development

Community economic development planners should recognize that each of the five aforementioned variables have both positive and negative impacts on employment and income. Policy development does not take place in a vacuum. To properly exploit all community economic development options, policy makers need to consider four things: 1) Values; 2) Goals; 3) Resources; and 4) Opportunities for action (see Figure 3).

Each individual and group of people (community, state, nation) bring a set of values to community economic development policy-making. For example, two values usually considered in community economic decisions are *efficiency* and *equity*. Efficiency calls for decisions which result in the optimum return for the community as a whole; equity leads to decisions aimed at a "fair" distribution of costs and benefits. Both strongly influence policy choices. Other influential values have to do with the role of public intervention in the economy, and that of citizen participation in public choice. Every individual, community state and agency has a different set of values. Values are critical in determining that which is acceptable policy.

Policy-makers must also analyze the resources which are available. These include both human and capital resources—not only those which are already in the community but acquirable from outside. Some strategists suggest that most economic development can be accomplished by simply exploiting existing community resources more wisely. This badly underestimates the potential value of external private and public funds as well as technical know-how. Smaller communities are undoubtedly at a disadvantage from a resource standpoint, so their development strategies must differ from those in larger areas.

Goal setting should come early in policy development. Goals provide a focus for specific actions. Most successful economic development efforts make an effort to get citizens involved in setting goals. That is not to say that individual or small-group goal-setting and action cannot lead to more jobs and income. In fact, necessary change almost always requires individual effort. But if citizens participate, there's a better chance that the concerns and interests of the greatest number of people will be considered. It may also prevent the introduction of unnecessary barriers to economic change. Clear goals are a must in order to evaluate options against desired outcomes.

Although the preceding section lists only five general variables that influence employment and income, in most cases, policy makers have a wide range of courses of action from which to choose. Most actions influence more than one variable. Something that encourages growth of existing small business is likely to encourage entreprenuership as well. A policy which discourages outside firms from locating branch plants in a community may also discourage local private expenditure. This argues for a carefully thought out, comprehensive community economic development policy.

Community Economic Development Strategies

Most new job growth is in the service-producing sector.

Which strategies are chosen depends on the locus of policy development. They depend on the area of coverage (community, state, nation), and on the resources and goals of the policymakers. Strategies for increasing employment and income fall into five general categories: 1) improve efficiency of existing firms; 2) improve ability to capture dollars; 3) attract new basic employers; 4) encourage business formation; and 5) increase aids received from broader units of government.

The following pages focus primarily on specific strategies for *local* community action. A similar list could be developed for action at the state and national level. Public governments at these levels have more latitude. For example, they can create financial institutions, target their expenditures to specific geographic areas and citizen groups, support broader promotion and management education efforts and modify tax environments. They can focus on specific variables that influence income and employment. Comprehensive community economic development policies at the community, state and national level are increasingly necessary but not yet a reality.

Improve Efficiency of Existing Firms. As firms become more efficient, they become more competitive in regional, state, and national markets. The greater their efficiency, the more net income they can return to the community. The ability to stay competitive is a firm's best guarantee of being able to stay in business or expand in a specific locality. Efficiency is just as important to firms in industries in which total employment is declining. The most efficient of these can survive longest.

There are a number of actions which communities can take to assist businesses in improving their efficiency:

1) Organize educational programs to strengthen the management capacities of existing firms. Management is the factor most closely linked with business success or failure. Providing high quality management education at a low cost may be one of the most effective things a community can do to assure economic development.

2) Start a business and industry visitation program, in which community leaders visit business executives on an regular basis in order to uncover limitations to growth. It may be possible to reduce these limitations through some form of local public or collective private action. All businesses, not just manufacturing, should be included.

3) Encourage business growth by identifying capital sources. Small businesses are especially sensitive to capital availability. If local financial institutions are aggressive participants in local economic development efforts, deserving businesses can usually find adequate debt capital. Equity capital may be less readily available. Organized informal and formal capital pools are great stimulants to economic expansion.

4) Sponsor educational programs in science and technology to keep businesses aware of the latest technology in their field. Local universities and technical schools will usually cooperate in such efforts.

5) Improve the quality of the local work force by providing vocational and technical education, employment counseling and supportive social services. For example, parents who are preoccupied with the general well-being of their preschool children are seldom as productive at work; good day-care may be the answer. Constructive community action can be helpful.

6) Provide local and regional services that compete in quality and price with those of other communities. This can improve business efficiency and open access to nonlocal markets. Communications is a good example. Cities, villages and towns with out-dated telephone systems present a major barrier to an increasingly computer-dependent society.

7) Sponsor business and industry appreciation events. These do little per se to improve operating efficiency, but they can encourage business leaders to stay in the community and to expand. At minimum they make management feel more a part of the community, adding a positive to the intangibles of business location.

Improve Ability to Capture Dollars. In every community, farmers, the self-employed, workers, retirees and businesses of all types control a substantial amount of the funds with which purchases will be made. Every dollar spent in the community, whether for retail and wholesale goods and services, or for other industrial inputs, adds to the community's employment and income. At least some of these dollars will be re-spent in the community. In contrast, dollars spent outside won't have this immediate positive impact on employment and income; nor will they have the important internal multiplier effect. Thousands of people pass by some communities on interstate highways, or visit nearby tourist attractions. The dollars spent locally by non-local people is as valuable as those generated by the exports of goods.

Health-care and business services will be the leaders in generating new jobs.

Communities can take a number of steps to capture these dollars:

1) Survey consumer needs and buying habits to identify the market potential of retail and service outlets. Once opportunities are identified, individuals or firms can be encouraged to do more specific market and financial feasibility analysis. Communities can also provide support mechanisms which help firms conduct difficult business analyses.

2) Analyze and renew downtown shopping districts. Sophisticated, costly plans are seldom implemented without early and active merchant and local government participation in the entire process. State and national historic preservation programs can often provide funding.

3) Help employers develop employee training programs to improve the quality of service. Friendly and efficient service is the cornerstone of all successful businesses.

4) Generate more purchases by nonlocal people (tourists, citizens of neighboring communities) through appropriate promotion and advertising. Every place is unique in some way, whether it's because of natural resources, historic events, ethnic heritage or simply creative imagination. Such uniqueness is exploitable, but it takes organized effort by a number of people.

5) Encourage local citizens and businesses to buy locally through informational programs. Most important is that those who have something to sell use contemporary purchasing and marketing techniques. Advertising, merchandising and buying systems which served well five or ten years ago are now badly out of date. The competition is often not next door or in the next town, but in a large shopping mall or discount store in a city miles away. Community leaders can help organize educational programs and joint promotional efforts.

6) Bring retailing centers alive by combining effective product and service promotion with recreational activities. In days gone by people went downtown to buy goods and to meet their friends. The city park, courthouse square and bandshell are symbols of the era. Large shopping malls and more recently large city centers have rediscovered the rewards of combining entertainment and sales.

7) Breathe life back into retail and business communities by forming chambers of commerce, business clubs and downtown associations. These organizations can serve as useful catalysts in encouraging industrial and government leaders to buy as much as possible locally.

Attract New Basic Employers. Bringing new basic employers to a community will add employment and income directly. Through the multiplier effect, it may also add other jobs and income. Basic employers can include manufacturers, nonmanufacturers such as tourist attractions, insurance headquarters, computer service bureaus, warehouses and nonlocal government. But use care in estimating the potential employment and income effect of new employers. Many of the jobs are apt to be taken by new immigrants or people who live in neighboring communities. Multipliers are seldom as high as hoped for.

Nonetheless, community leaders can take a number of steps to attract employers:

1) Develop local industrial, office or commercial sites and public services, and provide specific information on available labor. Once they have decided where to locate, businesses want to set up shop and start operating in a hurry. Having well-prepared sites and facilities available speeds up this process. But the community has to weigh the cost of these investments against the likelihood of attracting a new industry.

2) Develop community and regional facilities to provide transportation, recreation, communication, business services, etc. These not only attract new employers; they also benefit existing businesses and prospective entrepreneurs. Businesses are giving such facilities more and more weight when selecting a location. Natural resource and market access are becoming relatively less important. Conditions which make a community a nice place in which to live are growing in importance. Generally they are strongly influenced by public or quasi-public governments.

3) Help provide capital resources. Reduced interest rates through revenue bonds and other incentives have become widespread. Large firms often look for this type of community assistance as a way of reducing the cost of construction of new facilities. Giveaways or temporary tax reductions seldom play a significant role in location.

4) Consider targeted searches for firms which might be interested in developing a local branch operation. Admittedly, such searches are long-shots. Nonetheless the process of becoming well-prepared to seek out prospective employers can also help businesses already in the community. The most desired types of employers can be identified through careful study.

5) Identify specific public programs, projects, offices, facilities and other services which could be located nearby, and lobby to get them. State and national government are significant employers. Programs and facilities are constantly changing. These represent a real growth opportunity.

6) Form organizations such as industrial development corporations. It is important that local government be involved in these efforts, but the flexibility of nongovernmental organizations is often useful. For instance, an industrial development corporation may move faster than a local government in taking options on land, or building streets in an industrial park. Communities must be careful to avoid giving something to attract a firm that they would not want to give existing businesses.

Encourage Business Formation. There is a continuing need for new businesses to meet changing demands resulting from population growth or evolving goods and services (video recorders, outpatient care or fast foods, for example). A new business can mean new income and employment as well as expanded trade with local businesses. It can also capture sales which might otherwise go to other communities.

Historically, communities haven't done much to take advantage of this opportunity. There are a number of ways to correct this omission:

1) Form capital groups to invest private funds locally. In the beginning, entrepreneurs usually rely on their own financial resources, or that of family and friends. But they soon need more capital. Financial institutions are usually willing to provide debt capital to familiar businesses when loans can be collateralized. The problem comes with unfamiliar types of businesses, or those usually considered high risk. Having a local capital pool for debt or equity investment may provide the critical ingredient for success for such enterprises. These pools can be informal arrangements, or more formal, such as a community development corporation. It is important that potential entrepreneurs know the pool exists.

2) Provide counseling and intensive education for those interested in forming new businesses. First-time entrepreneurs seldom know much about business management, marketing or business plans. Nor do they know of government regulations which would affect them. A local support structure can be very helpful and encouraging to business start-ups.

3) Study the market potential for new retail, wholesale, service and industrial input-providing businesses. This points out opportunities for new local establishments. General insights can be acquired through analysis techniques such as *input-output, location quotients, population/employment ratios,* and *trade area capture.* More detailed analysis will be required to identify real opportunity in the sectors which look promising.

4) Be aware that adversity often stimulates entrepreneurship. Plant closings or lay-offs get people interested in going into business for themselves. Local leaders should be sensitive to this and encourage and support entrepreneurship at these critical times.

5) Adopt an encouraging community attitude towards entrepreneurship. Many new businesses fail after a short period of time. Highly successful small business operators have often failed once or twice before finally achieving their goals. Communities should recognize this pattern, and encourage prospective businesses to try again.

6) Provide the same services and incentive to businesses in formation as to businesses already in existence or those being sought from outside.

Increase Aids Received from Broader Governments.

A community may strive to get back some of the dollars taxed away by broader governmental units, and if possible, to acquire dollars taxed in wealthier areas. Not only are state and national governments major employers, but they return large quantities of funds to local governments through grants and aids. These funds do not always come by an aid formula; often the local government must specifically request them. Social security, medicare, and medicaid payments are also major sources of personal income. Communities must be sensitive to all these sources of income.

Once again, there are strategies which communities can follow to attract these funds.

1) Organize education and other program efforts to assure the correct use of public assistance programs for the elderly, handicapped and others who cannot work. People do not always know what kinds of state and national financial assistance is available. Getting such assistance almost always requires some form of supportive structure.

2) Provide well-organized public transportation, meal service, outpatient health care, recreation and other services focused on the elderly. These are among the things retirees consider when choosing a place to live. Most of these activities are within the financial grasp of well-organized small communities. Such efforts go a long way toward keeping the buying power of the "silver-haired industrial base" in the community. That buying power not only includes transfer payments, but an equally large amount of dividends, interest, and rent.

3) Obtain aids from broader governments whenever possible (e.g. streets, parks, sewers) by actively monitoring government programs; local officials can lend valuable support in this effort. It is almost impossible for any individual to be aware of all the programs which might provide financial or other assistance. This is a task which can be clearly divided by an organization in cooperation with local government officials.

Approximately one of three dollars of total personal income in the U.S. are controlled by the elderly.

4) Support political activities which insure that the community's concerns get fair treatment from broader governmental units. Monitoring and positive political effort on an ongoing basis are necessary. Once again, this requires organization.

Summary

There is widespread interest in the generation of intelligent community economic development policy at all levels. The intense interest is undoubtedly an outgrowth of the current concern for high unemployment and reduced incomes of many persons in the United States. Critical in this is the development of comprehensive policies appropriate to the changing times.

The goods-producing sector of the economy is becoming less important as a source of new jobs. The greatest increase in U.S. employment over the next few years will come through service-producing industries. Local employment growth will come through expansion of establishments already in the community, new branches of larger firms and new business starts. Small independent enterprises will generate much of the growth. Government employment, transfer payments and property income are becoming equally important as sources of family livelihood.

A comprehensive community economic development policy must consider the variables which influence employment and income: migration of employers, change in size of existing firms, births and deaths of firms, location of private expenditures, and public expenditure patterns. Communities can follow a variety of strategies to influence each of these variables. In choosing a set of strategies, communities should take their values and resources into account.

None of these strategies is a sure thing. No amount of action will guarantee growth in employment and income. Nor will a lack of action guarantee that there will be no growth. But a concentrated effort, following comprehensive community economic development policies, offers the best hope of meeting desired goals.

References

Armington, Catherine and Marjorie Odle. *Sources of Employment Growth 1978-80*, Brookings, Washington, DC, 1982.

Birch, David. *The Job Generation Process*, Massachusetts Institute of Technology, Cambridge, Massachusetts, 1979.

Bureau of Labor Statistics. *Employment Projections for the 1980s*, United States Department of Labor, Bulletin No. 2030, Washington, D.C., 1979.

Detomasi, Don, and John Gartrell. *Resource Committees: A Decade of Disruption*, Westview Press, 1984.

Drucker, Peter. *Managing in Turbulent Times*, Harper and Row Publishers, New York, 1980.

Gellman Research Associates, Inc. *The Relationship Between Industrial Concentration, Firm Size and Technology Innovation*, Small Business Administration, Washington, D.C.

Miller, James P. "Rethinking Small Businesses as the Best Way to Create Rural Jobs," *Rural Development Perspectives*, Economic Research Service, United States Department of Agriculture, Washington, D.C., February 1985.

Morse, George W., John D. Rohrer, and Sam J. Crawford. *Retention and Expansion Business Visits*, The Ohio State University, Columbus, OH, 1985.

Naisbitt, John. *Megatrends*, Warner Books Inc., New York, 1982.

National Commission on Employment Policy. *The Work Revolution*, 8th Annual Report (December 1982), Washington, D.C.

Schweke, William and Robert Friedman. *"The Debate Over Who Generates Jobs?" Entrepreneurial Economy*, Corporation for Enterprise Development, Washington, D.C., February 1983.

Shaffer, Ron. "The Silver-haired Economic Base," *Community Economics*, Dept. of Agricultural Economics, University of Wisconsin-Madison, Madison, Wisconsin, January 1981.

Smith, Stephen M., and Glen C. Pulver. "Nonmanufacturing Business as a Growth Alternative in Nonmetropolitan Areas." *Journal of the Community Development Society*, 1981.

Summers, Gene F. and Thomas A. Hirschl. "Capturing Cash Transfer Payments and Community Economic Development." *Journal of the Community Development Society*, Volume 16, No. 2, 1985.

Summers, Gene F. and Thomas A. Hirschl. "Capturing Cash Transfer Payments and Community Economic Development." *Journal of the Community Development Society*, Volume 16, No. 1, 1985.

Technological Innovations, an Environment and Management Report to the Panel on Invention and Innovation to the Secretary of Commerce, Washington, D.C., January 1967.

"Your World Will Never Be The Same," *Inc. Magazine*, April 1985.

UWEX **University of Wisconsin-Extension,** Cooperative Extension Service, Charles F. Koval, director, in cooperation with the U.S. Department of Agriculture and Wisconsin counties, publishes this information to further the purpose of the May 8 and June 30, 1914 Acts of Congress; and provides equal opportunities in employment and programming including Title IX requirements.

Produced by the Department of Agricultural Journalism, University of Wisconsin-Madison.

This publication is available from your Wisconsin county Extension office or from:
Agricultural Bulletin, Rm. 245
30 N. Murray St.
Madison, Wisconsin 53715
Phone 608-262-3346

Editors, before publicizing, contact Agricultural Bulletin to determine availability.

Glen Pulver is a Professor of Agricultural Economics in the College of Agricultural and Life Sciences, University of Wisconsin-Madison and a community development specialist with the Cooperative Extension Service, University of Wisconsin-Extension.

G3366 Community Economic Development Strategies

55¢

I-09-86-2M-E