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Regional Economic Development in Theory and Practice

Richard M. McGahey

Although the American economy has entered the sixth year of the current expansion, job growth during the current recovery is significantly slower than in the past. On a peak-to-peak basis, most indicators for the current recovery lag behind the postwar average—GDP growth is 2.6 percent, compared to a postwar average 3.3 percent gain; wages and salaries are 1.2 percent higher, compared to a postwar average of 2.8 percent; and employment is up only 0.6 percent, compared to a postwar average of 1.7 percent.[1] And there is a marked slowdown since 2003. Between 2003 and the first half of 2007, real median hourly wages have actually declined by 1.1 percent, and even for the top 20 percent of wage earners, hourly wages have risen by only 0.5 percent. Incomes also are growing significantly slower than productivity during this recovery. Since 2000, overall productivity is up by 19.8 percent, while real weekly earnings rose by 3.5 percent for women and actually declined by one percentage point for men.[2] So although the American economy continues to grow, it is producing jobs at a slower rate than in typical recoveries, and many of those jobs are actually paying declining real wages.

Richard McGahey is a program officer at the Ford Foundation. The views expressed in this chapter are his.

Not surprisingly, economic problems are disproportionately concentrated in older metropolitan regions, especially those where traditional manufacturing and related sectors continue a long-term structural decline. In 2006, on an annual basis, of the forty-nine largest cities in the United States, unemployment was the worst in Detroit, but also very high in Milwaukee (forty-seventh), Oakland (forty-sixth), St. Louis (forty-fifth), Baltimore (forty-third), and Philadelphia (fortieth).[3] Although many cities are showing signs of life in terms of growing downtown real estate markets and other indicators, they continue to show overall higher levels of economic distress than the nation, distress that also affects their surrounding regional economies.

According to a variety of analyses, the problems facing low-income workers and regions are essentially determined by larger national or global economic forces. The increase in globalization has meant that jobs, especially lower-skilled jobs, can be more easily moved out of the country. A corollary argument is that higher-skilled jobs are those most likely to stay in the United States, placing an ever-higher premium on skills and education, which disadvantages lower-skilled workers. Declining unionization and continuing racial and gender discrimination and exclusion also contribute to the problem. And increasing numbers of poor, lower-skilled immigrant workers have been entering the United States, leading some analysts to argue that this creates increased competition with native-born lower-skilled workers. This claim is disputed by others, who assert that immigration has no major impacts.[4]

Of course, national policy factors such as trade, immigration, federal taxation and regulation, and macroeconomic policy are beyond the control of any one region. But in contrast to these broad macroeconomic analyses of the causes of lagging economic performance, there is a renewed interest in what cities, regions, and states can do to improve their economies. For a multitude of other policy factors are under greater state and local control. Zoning, land use, and nonfederal fiscal and taxation policy are relatively free of federal direction. Education and workforce development policies and finance, along with some labor regulation, are largely state and local responsibilities. Environmental laws and regulations vary considerably among jurisdictions, both in formal law and in actual application and enforcement. Many states and localities provide or support financial, technological, and technical assistance to businesses. State and local procurement is locally controlled, and transportation policy is largely directed by states and localities, although supported through federal taxes.

This chapter reviews regional efforts in economic development, with special attention to the problems facing older industrial cities and regions. Paradoxically, in a time where the impact of global economic forces is increasing, strategies to increase prosperity and economic growth increasingly are focused at the regional level.

Economic Development Subsidies and Their Critics

In the twentieth century, regional economic development policy in the United States became focused on using tax and other incentives and subsidies to encourage companies to relocate to other states. During the Depression, Mississippi pioneered the use of Industrial Development Bonds (IDBs) to finance facilities for companies moving from the North.[5] IDBs and other policy inducements spread, with cities also offering a variety of location incentives to firms. The practice of attracting firms across state lines, often with a variety of financial inducements, is known derisively as “smokestack chasing” or, more recently—as relocation efforts expanded beyond industrial firms—as “buffalo hunting.”

The use of incentives to induce business relocation became very widespread, and there now is a somewhat dizzying range of incentives offered to firms. Peter Fisher identifies three broad classes of incentives—discretionary, entitlement, and tax cuts—and the picture is further complicated by programs that focus on specific industries (manufacturing, high technology), specific locations (economically distressed regions, urban “blight” areas, rural communities), differing uses of funds (plant and equipment, firm-specific job training, research and development, infrastructure), in-state versus out-of-state firms (“retention” versus “attraction”), different sections of the tax code (corporate income, property, payroll), and different public agencies (cities, states, quasi-public development corporations, special-purpose tax districts, public authorities). In part because of this wide-ranging array of options, many of them not subject to public disclosure or scrutiny, it is difficult to know how much is being spent, and with what impact. Two independent estimates valued state and local incentive spending at approximately $50 billion nationally in 1996, although both studies cautioned that the estimate was very likely too low, given imprecise valuation and the lack of transparency, and a diverse range of incentives.[6]

Incentive-based approaches to economic development have long been under fire on a number of fronts. One line of criticism is rooted in mainstream economic theory and the distinction between public and private goods. In this view, governments should compete for business on the basis of their general economic and policy climate, including factors such as overall tax rates, regulation, and educational quality, but should not use taxes and spending to compete for individual businesses. The use of scarce public revenue to induce changes in location by private firms means that less money is available to spend on appropriate public goods, and private firms receive a windfall for economic activity that they likely would have carried out anyway.[7]

A second critique of subsidies was developed by the Corporation for Enterprise Development (CfED), a nonprofit that advocates policies that look at the full range of factors supporting a healthy economy—not just tax rates and regulation, but education and workforce skills, environmental quality, and infrastructure. CfED's principal means of communicating this approach has been the "Development Report Card for the States," first issued in 1987, which created broad indexes of activities and outcomes deemed vital to economic growth and shared prosperity. When first issued, the report card was positioned against conventional cost indexes of economic development or "business climate," especially the one issued by a consulting firm, Grant Thornton, which primarily measured costs and taxes for manufacturing firms and ranked locations accordingly—lower costs and taxes were largely equivalent to a high ranking.

Indexes like Grant Thornton's viewed all public expenditures as costs facing individual firms, even if those costs were taxes and public spending to support infrastructure and education, two factors that are essential to economic growth. Further, higher wage costs in these indexes were viewed as a negative from the firm's point of view, but these costs can also be viewed as an indicator of greater prosperity, and therefore as an indicator of economic success.[8]

In contrast, CfED's approach looked at broad factors associated with outcomes such as high per capita income, job creation, business expansion, small business start-ups, education, research and development, and infrastructure. The various subcomponents of the analysis have changed somewhat during the past twenty years, but the overall logic remains the same. The report card now focuses on three broad domains, composed of sixty-seven specific measures: *performance* (including economic, quality of life, and environmental data); *business vitality* (including business start-ups and closings, and industrial diversity); and *development capacity* (ranging from educational expenditures and performance to infrastructure quality and investment).

This perspective leads to very different policy recommendations than a pure cost-reduction approach. Rather than tax reduction and firm subsidies, CfED's perspective emphasizes investment in infrastructure, education, and training; attention to the needs of existing businesses in the region; and support of new business formation and innovation through increased access to capital, improved technology transfer, and education and training programs aimed at entrepreneurs and small-business owners.[9] Although this approach shares the critique of firm-specific subsidies that microeconomic theory puts forward, it is also generally critical of competition based purely on lowering costs and overall tax rates, something that the pure microeconomic approach endorses.

CfED's work was instrumental in introducing a new perspective into economic development policy debates, one that focused on economic outcomes for states and their whole population, especially low-income people. It criticized policies and programs that focused on specific firms, and put forward a much broader view of what it takes for successful, sustained economic development. The report card has functioned in significant part as a way to advocate for this approach to development, as opposed to a strategy dominated by cost reduction or subsidies to specific companies.

The multifaceted approach to economic development, reflected in the comprehensive nature of CfED's report card, is based on a rich vision of economic development, but, ironically, that very complexity and range also made it less useful for economic development agencies and policymakers. Individual governments or public agencies do not control many of the factors cited by CfED (education, infrastructure, environmental quality), and many also do not have staff or personnel trained or oriented in those directions.

Instead, another approach that also is critical of purely cost-driven strategies aimed at individual firms has achieved a good deal of popularity in recent years. Associated with Michael Porter of the Harvard Business School, this approach advocates policies oriented around "clusters" of economic activity: region-specific concentrations of firms, industries, workforce skills, and potential growth opportunities.

On the basis of his work on competitive strategy for firms, Porter already was one of the world's most prominent business scholars and consultants when he turned his attention to regional and national economic development. In his 1990 book, *The Competitive Advantage of Nations,* Porter argued that economic success, properly defined, focused on producing "a high and rising standard of living for its citizens," that high and rising productivity was the key to that goal, and that different groups of firms in different nations specialized to achieve that end.[10]

Porter's analysis was based on the now-famous "diamond" diagram outlining four sets of factors that together formed competitive advantage for firms, and by extension, for groups of firms: *factor conditions,* available to all firms, such as physical and human resources, infrastructure, and capital; *demand conditions* for products or services (Porter emphasized the quality rather than the quantity of demand, with more demanding and sophisticated customers seen as a critical source of pressure for firm and industry innovation); *related and supporting industries* in the region; and *firm strategy, structure, and rivalry.*[11]

Although Porter's work has been used extensively to advocate for and analyze regional clusters within the United States, it is striking that the analysis in his 1990 book is based almost entirely on analyses of nations, not regions within them. Porter and his research team had conducted very detailed case studies of ten advanced national economies, and those studies undergirded his analysis. He did say, almost in passing, that the analysis "can be readily applied to political or geographic units smaller than a nation," noting the geographic concentration of successful firms in regions within the United States. Later in the book Porter says that the combined forces of the "diamond" caused "*clustering* of a nation's competitive industries."[12] Porter viewed the geographic clustering of industries as actually spurring healthy competition among firms and exposing inefficiencies in business practices that could be exploited by rivals.

Despite the fact that Porter's book was based on analysis of national economies, the regional application of his framework was very rapidly taken up by state governments and others. The Connecticut Economic Conference Board had Porter brief state legislators on state policy in 1991, and an industry-focused report on the competitive position of Massachusetts was presented in the same year. Within two years, five states had begun some economic development based on regional clusters, and the practice has continued to grow.

There are basic economic arguments in favor of a regional focus. Regions have specific concentrations of industries, occupations, workers, and businesses that do not respond uniformly in the same way to aggregate national economic conditions, and labor markets for many nonprofessional and low-wage workers are specific to their regions.[13] Economic theory, since the work of the nineteenth-century economist Alfred Marshall, contains a rich literature on how regions can gain economic advantage from spillovers of technology, industry concentration, and labor-force development. Marshall's famous description of why industrial districts persist bears repeating:

> When an industry has thus chosen a locality for itself, it is likely to stay there long. . . . The mysteries of the trade become no mysteries; but are as it were in the air. . . . Good work is rightly appreciated, inventions and improvement in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas. And presently subsidiary trades grow up in the neighbourhood, supplying it with implements and materials, organizing its traffic, and in many ways conducing to the economy of its material.[14]

Porter's framework had, and continues to have, broad appeal because of his prior work on business strategy for firms, his reputation as a leading business scholar and consultant, and the style of his presentation, which is "couched in the more accessible verbal language of business competitiveness rather than the mathematically refined vernacular of urban and regional economics."[15] The emphasis on clusters also fit well with growing policy attention to retaining and expanding existing firms, rather than focusing on attracting new ones. The appeal to state and local economic development officials rested in part on the claim that regions can prosper even without controlling macroeconomic forces such as taxation, fiscal policy, or trade. Porter's work appeared at a time when many states had been concentrating on encouraging high-technology investment, and many of the early examples in this literature are based on high-technology sectors, especially Silicon Valley in California, Route 128 in Boston, and the Research Triangle in North Carolina.[16]

Porter's work was not without its critics, especially on the question of economic inclusion and the role of cluster policies in helping low-income people and communities. Bennett Harrison and Amy Glasmier criticized Porter's application of cluster and competition theory to low-income urban neighborhoods and cities, arguing that he had failed to appreciate the need for stronger involvement by government and community development organizations. But even these critics gave Porter credit for his work and advocacy on behalf of low-income neighborhoods, saying that he had "almost single-handedly rejuvenated and legitimated—even if he has not exactly invented—such approaches."[17]

Although all approaches to regional economic development, and cluster approaches in particular, concentrate on economic growth, there is little attention to inclusive growth or social equity in a region as part of economic development. Joseph Cortright's review of cluster literature found that "relatively few studies . . . have examined the relation between clustering and wages" and virtually none have looked at poverty alleviation in relation to cluster strategies.[18] Some recent work has focused on rural areas and clusters, with explicit attention to rural poverty, but the metropolitan economic development literature has not been focused on poverty or equity.[19]

This deficiency was documented in a 2002 report by Rural Technology Strategies, "Just Clusters," which reported on a 2001 conference on cluster strategies and equity. The conference focused on knowledge- and skill-intensive clusters, and concluded:

> Clusters are, by their nature, demand driven, with companies acting in their own best interests. Many rural and urban areas—which generally have lower

> levels of education and income—are thus caught between a rock and a hard place. They can match neither the still-lower incomes of offshore regions to compete for labor-intensive clusters nor the amenities and talent of America's high tech and cultural centers to attract knowledge intensive clusters.[20]

However, the conferees concluded that cluster approaches held promise for increasing economic opportunity for poor cities, regions, and workers, if policymakers and businesses could realign existing practices and programs. Clusters, if linked to strong workforce development programs, business assistance programs for small and minority-owned businesses, and support for a variety of intermediary organizations could "intentionally forge a pathway leading to higher incomes and stronger economies."[21] This vision moves back in the direction of the broader policy recommendations embedded in CfED's critique of subsidy policy, but like that approach, would require sophisticated coordination and implementation across a wide variety of often-uncoordinated institutions and organizations.

The Persistence of Subsidies

Cluster strategies are now ubiquitous in economic development. A cursory scan of state and regional economic development plans and policies will find work on clusters firmly embedded in strategic plans, policy initiatives, and regional visions of economic growth as expressed by governors and mayors, but also business organizations and universities. The Economic Development Administration of the U.S. Department of Commerce has promoted cluster strategies for several years, commissioning a detailed series of research reports and providing technical assistance to economic development agencies that want to use cluster analyses and practices.[22] The National Governors Association (NGA), in cooperation with the Council on Competitiveness, has issued a major report, *Cluster-Based Strategies for Growing State Economies,* authored by Stuart Rosenfeld, one of the nation's leading scholars and practitioners on clusters. The NGA also offers workshops on cluster strategies for state officials and economic development staff.[23] A wide range of consultants and academics conduct highly detailed cluster analyses, and a recent survey of economic development organizations found that more than half had commissioned one or more industry cluster studies.[24]

The explicit critique of economic development subsidies, and legislative efforts to rein them in or limit them, also have grown. A widely shared critique of subsidies as ineffective and wasteful ranges across the political spectrum, with more conservative groups seeing subsidies as market distortions and wasteful public spending, and more liberal groups seeing them as undeserved giveaways to companies that do not need them, taking revenue away from critical public needs. On the legislative front, according to Good Jobs First, the leading public interest organization in the nation that tracks and critiques economic development subsidies, ten states have enacted disclosure laws, twenty states have some type of "clawback" provision that allows recapture of subsidies if promised development targets are not met, and over forty states have some type of job quality standards attached to the receipt of subsidies. (At the same time, there is a good deal of skepticism about how aggressively such provisions are enforced.)[25]

A related critique focuses on urban and suburban sprawl. This analysis sees a combination of powerfully interlinked forces in finance, governmental organization, transportation policy, housing construction, and class and racial division fostering ever-sprawling development that degrades the environment and moves jobs and opportunity farther from poor people.

So firm-specific, subsidy-driven "buffalo hunting" approaches to development have come under sustained attack from a diverse group of critics. The critics range from conservative free-market advocates who want an end to all public subsidies to business-oriented consultants and organizations who want to shift resources to cluster-based approaches to groups who want to redirect subsidies to other pressing economic and social needs such as infrastructure, education, and health care. In contrast to most research in the field, one recent study claims measurable benefits from competing for industrial plants among jurisdictions, but it has been criticized on a variety of grounds, especially because the authors did not include data on the size of incentives, so they did not assess whether the benefits of the incentives under study outweighed the costs.[26]

It comes as somewhat of a surprise, given the breadth of the critique, that states and localities continue to make substantial use of "buffalo hunting" approaches. These subsidy policies are tracked and criticized by groups such as Good Jobs First, and some of the state-level groups that are part of the State Fiscal Analysis Initiative (SFAI) or the Economic Analysis and Research Network (EARN),[27] but the persistence of subsidies in practice even as their analytic support has eroded is one of the major paradoxes in this field.

Examples of large subsidy-driven deals abound. Critics of attraction deals point to the $320 million in subsidies provided to United Airlines to develop an aircraft maintenance facility in Indianapolis. The center was projected to employ a staff of more than five thousand, at high wages. The deal was made during the recession of the early 1990s, and over ninety cities bid for it. The city and state put $320 million into the deal, and United pledged another $500 million for expansion. At its peak, United employed close to twenty-five hundred mechanics at the facility, but then United, and the airline industry, hit hard times. United's investment topped out at $229 million, and the facility closed in 2003. The city and state struggled to find other tenants, while public sector costs rose to around $40 million annually in bond payments and maintenance costs. The center's space was slowly filled by a variety of tenants, capped off by Wellpoint, Inc., with a call center and specialty drug distribution center employing nine hundred, described by the Indianapolis Mayor's office as "high-tech" jobs. (Wellpoint received an additional subsidy of up to $10.1 million in forgivable loans, tax credits, and rent credits.)[28]

Even though some public decisionmakers recognized that the deal might be wasting public resources, they felt subsidies were necessary in order to compete with other jurisdictions. Governor Joseph Kernan of Indiana, in a statement that could be echoed by a myriad of public officials, said, "I understand the argument that taking jobs away from Boston and putting them here is nationally a zero-sum game. But Indiana, like virtually every other state, is not going to unilaterally disarm."[29]

The inability or unwillingness of governments to end a policy that many recognize may be wasteful and ineffective has led some critics to despair of reform and instead to call for federal intervention to end subsidies. This culminated in the recent *DaimlerChrysler* v. *Cuno* litigation, in which an Ohio federal appeals court held that state investment tax credits to attract a manufacturing plant violated the Constitution's Commerce Clause, which gives Congress the authority to manage trade between states.[30] The decision was overturned by the U.S. Supreme Court, which held that the plaintiffs did not have standing to sue. While the case was in litigation, it sparked efforts in Congress to ratify the right of states to use subsidies. The case underscored the complexity of the politics of subsidies, with state governments, business organizations, and labor unions advocating subsidies, while a combination of liberal organizations such as the Center on Budget and Policy Priorities and conservative advocacy organizations who favor a sharply limited role for government lined up against them.

In addition to classic "buffalo hunting" subsidies aimed at attracting firms from outside a state, many jurisdictions now provide incentives to firms to prevent them from moving—"retention" subsidies. In New York City, recent subsidies to construct new headquarters for financial firms have resulted in more than $650 million to Goldman Sachs and at least $240 million to JPMorgan Chase. The Chase subsidies were justified in part because of a supposed counteroffer from Stamford, Connecticut, but Stamford officials later confirmed that there had been no discussions with Chase.[31] Subsidies also are routinely used by local governments within metropolitan areas to compete with each other for businesses. In 2005, the

Applebee's restaurant chain negotiated with several suburbs in the Kansas City region for a new headquarters; the project eventually went to the neighboring city of Lenexa for $12.5 million in local benefits (on top of $14 million from the state to keep them on the Kansas side of the border). The new site is ten miles from the old headquarters.[32]

The Applebee's case illustrates one reason for the persistence of subsidies and highlights a major barrier to more effective regional development approaches—the fragmentation of and competition among governments in regions. The economic boundaries of a region spill across multiple jurisdictions, and sometimes state lines, encompassing a very large number of separate jurisdictions and economic development actors.[33] But there are relatively few incentives or mechanisms for these jurisdictions to cooperate with each other, even if they recognize that such cooperation is in their mutual interests.

In fact, proliferation of governmental units—new jurisdictions as the metropolitan area grows, along with special-purpose districts and various types of public or quasi-public authorities—often is advocated as a way to increase economic development. Although some of this growth in jurisdictions can be attributed to advocacy from relatively narrow real estate development interests, the growth of special units with bonding or taxing authority also is linked to efforts to get around mandated debt limits on existing government. Although debt for various projects can be raised in this way, the new units do not necessarily increase the region's overall revenue-generating ability, leading to longer-term problems in repaying debt and declining ratings from finance agencies.[34]

Recent analyses find that governmental fragmentation harms overall regional economic development. In one comprehensive study, Jerry Paytas compared 285 metropolitan areas, from 1973 to 1997, focusing on a measure of metropolitan competitiveness based on a dynamic shift-share analysis incorporating employment levels, industry mix, income, and regional economic performance. The study found a "strong and negative influence" from metropolitan governmental fragmentation on economic competitiveness. Fragmentation was highest in the Northeast and the Midwest was second—two regions with large concentrations of older industrial cities.[35]

But Paytas also found that simply centralizing functions at the state level did not resolve the fragmentation problem—in fact, it further decreased metropolitan competitiveness, with particularly harmful effects on smaller metropolitan areas, the "worst-case scenario" being "a fragmented metropolitan area within a centralized state." The largest contributor to metropolitan fragmentation, with a consequent negative impact on economic competitiveness, was creation of new governmental units in the region—not only new political jurisdictions, but also new units within existing governments. Paytas concluded that "the proliferation strategy is a trap for the long-term health of local governments."[36]

Varying electoral cycles and diverse and contradictory incentives for the multiple jurisdictions in a regional economy, and the persistence of unproductive or contradictory economic development policies within regions, suggest that the problem of intraregional competition cannot be effectively solved solely by the public sector, which often does not have the capacity for longer-term economic development planning, and where political leaders' time horizon is often short. The policies are driven by the need for quick results that conform to electoral cycles; the differing needs and views of legislative and executive branch stakeholders, including legislators who want to reward their own district; and the skills and orientation of traditional economic development agency staff, who work closely with real estate developers and are not rewarded for other, less tangible outcomes than specific relocation of a single firm or facility.

These pressures are much more pronounced in declining economies and older industrial regions. But state governments are not a magical solution to this problem; although there is an important role for states, they need to be flexible in relation to the long-term competitive needs of particular regions. And the problem is compounded by the lack of a broader range of interested stakeholders who support longer-term programs that may have relatively slow payoffs.[37]

Engaging Other Stakeholders—Business, Workforce, and Philanthropy

The difficulty of changing economic development practice through government actions alone means that other nongovernmental stakeholders need to be involved on a sustained basis. In recent years, regional efforts have been carried out by business groups and philanthropy, and also have used workforce development as an entry point into regional economic development efforts.

Business

There is a long history of business organizations being involved with economic development. Much of that work, especially by broad membership organizations at the state or national level, traditionally has focused on reducing the costs to companies through changes in the tax code, reducing regulatory burdens, and seeking other ways to reduce costs. Although advocacy for cost reduction remains an important feature for many regional business organizations, the focus on making cities and regions economically competitive in a broader sense than just low costs has been picked up by several business-led organizations.

In 2003, FutureWorks and the Alliance for Regional Stewardship conducted a detailed study of twenty-nine regional business-civic organizations, to analyze innovative practices and to see "what contributions do business-civic organizations make to the health of major metropolitan regions." The researchers interviewed sixty-three executives from business organizations, analyzed the results of a web-based survey, and talked with a wide range of stakeholders in these regions.

They concluded that these organizations were shifting priorities from a focus on a traditional, purely cost-reduction perspective to a focus on broader regional competitiveness. A smaller number also were directly concentrating on economic inequality in their regions. But moving to a regional perspective confronted them with substantial organizational and funding challenges, and many found that adopting a regional perspective required changes in their own organizational practices and structures.[38]

It sometimes is not apparent to other regional stakeholders that business organizations are largely membership driven, and must provide useful services for their members. Like other sectors, there is competition among business organizations for members, and firms can be variously organized by geography, cluster, size, ethnicity or gender of owners, and other factors. Changing practices and adopting a new focus run the risk of losing a sometimes fragile membership base. Also, many organizations report that a continuing wave of corporate mergers and more rapid turnover of high-level business personnel in their regions make it harder to engage senior leaders of major firms on a sustained basis. And there are substantial barriers and a legacy of misunderstanding between business-led groups and community organizations, especially in poor cities and neighborhoods.

Nevertheless, there is an emerging generation of regional business leaders, often strongly influenced by Michael Porter's work, which accepts the need to focus on the regional economy. But remember that Porter's analytic work is most supportive of business organizations that support clusters of similar industries in a region, not a broad organization across industries. Linking diverse business sectors, and competing for support from firms and industry groups, remain a substantial challenge for these regional business organizations.[39]

These challenges will not be easy to overcome. In the Detroit metropolitan region, the continuing rapid decline of the major American automobile companies, coupled with years of racial polarization and distrust between the city and suburbs, has created a very difficult climate for regional economic development. Detroit Renaissance, a business-led civic organization that historically had concentrated on the city of Detroit, has now joined with other regional organizations, both business and nonprofit, to launch "One D: Transforming Regional Detroit," a collaborative that seeks to strengthen a regional economic perspective through specific development projects. The collaborative has carried out a detailed economic analysis of the region and is concentrating on six target areas, focusing initially on the mobility and logistics sectors, but also on entrepreneurial, creative, and educational strategies. The project also is working in conjunction with other organizations to address regional political fragmentation and race relations.[40]

In the central New York region around Syracuse, the business-led Metropolitan Development Association has long been one of the key organizations in a business relocation and attraction strategy. Although the region, like many economically declining metropolises, continues to emphasize attraction strategies, it also has broadened its approach to include expansion of existing enterprises and now is working to develop linkages among technology-based firms in the region, collaborating with the region's universities to retain new graduates, and creating a stronger sense of regional economic identity that spans twelve counties in the Syracuse area.[41]

Other efforts are under way, sometimes in explicit cooperation with government. In Oakland, California, the Oakland Metropolitan Chamber of Commerce has taken the lead in forming the "Oakland Partnership," which has the explicit goal of fostering "sustainable, equitable economic growth." McKinsey and Company conducted a study of Oakland's economic situation, the results of which are being rolled out in cooperation with a series of economic development task forces created by Mayor Ron Dellums.[42]

Workforce and Human Capital

Regions also are the most important locus for workforce development and human capital. Many labor markets, especially those for low-income workers, are local or regional in nature. Key institutions such as community colleges run through different governance systems, and face different institutional incentives and management. Programs in welfare reform, training for dislocated workers, English as a second language, community colleges, and others all are governed primarily at the state and local levels. Industry clusters such as health care, infrastructure and construction, transportation and logistics, and hospitality and retail also all operate at the regional level in terms of most of the decisions that affect low-income workers.

Innovative workforce development programs also are focusing more intently on the needs of industries in their regions. Much of the emphasis in economic development policy, whether on subsidizing individual firms or on supporting clusters, emphasizes working with companies in areas such as site development, technology transfer, and business management assistance. But in the past several years, some efforts in regional economic revitalization have emphasized, instead, the skills and education of the regional workforce. There are two principal approaches here: one that trains and aligns workforce resources with clusters or sectors, and another that emphasizes the development, attraction, and retention of highly educated and creative people, without much regard to specific business sectors. Although these two approaches sometimes are lumped together in a broad emphasis on "talent," they differ in their origins, focus, and implications for policy.

Just as with economic development resources, workforce resources are scattered and uncoordinated in most regions. In 2002, The Reinvestment Fund identified over $1.2 billion in Pennsylvania for workforce development funding, broadly defined, but showed that the funding was fragmented in forty-nine separate funding streams, administered by literally hundreds of entities, without common performance standards, reporting systems, links to other regional economic resources, or accountability procedures. A similar picture would result from an analysis of workforce development funding in almost any state and region.[43]

For years, efforts in reforming workforce development policy concentrated on governance issues about the composition of workforce boards, and the allocation of spending by different formulas among competing organizations. In contrast, during the 1990s the main innovations in workforce development have grown out of sectoral workforce development programs that were launched by local organizations and stimulated by support from foundations. Building on the observed success of innovative local projects such as Project QUEST in San Antonio and the Center for Employment Training (CET) in San Jose, and with support from the Charles Stewart Mott, Ford, Annie E. Casey, and Rockefeller foundations, sectoral efforts were linked in networks. Evaluations showed promising results in a climate where many are skeptical about the potential effectiveness of workforce programs.[44]

Sectoral programs have a natural affinity with cluster-based economic development strategies. When they focus on specific sectors, employer demand can be aggregated, education and training providers can target specialized training, and potential career ladders can be developed. The quality of the local workforce is seen in cluster theory as a critical variable in regional success, further reinforcing the linkage. The sectoral work supported by foundations has been explicitly focused on advancement for the poor, which has led many of these programs to concentrate on sectors employing a large number of low-income workers, such as health care.

States also have aligned training along sectoral lines with less regard to equity issues as part of cluster strategies. In some cases, such as the state of Connecticut's metal manufacturing cluster and the Northeast Oklahoma Manufacturers Council, broad cluster projects have grown out of sectoral training programs.

The community college has emerged as the key institution in this type of cluster-focused training. Community and technical colleges have long embraced a mission of assisting local business, but they often operated in a reactive mode, rather than defining their mission in relation to specific industry concentrations and needs. That is changing rapidly, and community colleges now play an increasingly important role in aligning education and training with economic development.[45] There are many examples of individual community colleges that work effectively with employers, and some that focus on clusters and concentrations of industry in their region. But these efforts are more characteristic of individual community colleges, often tied to leadership at the particular institution, and are less a function of broader system efforts.[46]

The state of Washington has perhaps the most extensive effort to link post–high school training with cluster strategies in economic development. The state has designated eleven "Centers of Excellence" in community colleges, in such sectors as construction, process manufacturing, and health technology. The centers are resources for community colleges to work with employer associations and assist in developing appropriate curricula and career pathways for students and workers who need further education and training.[47]

Although cluster-focused workforce strategies often show less commitment to the goal of building career ladders for low-income workers, several analysts have noted the alignment of sectoral workforce development programs with cluster strategies and concluded that workforce development could play an important role in bridging the equity gap between lower-skilled workers and higher-skilled jobs in knowledge-based clusters. In the late 1990s, a group of foundations invested in pilot programs in six cities to explore the role of funder collaboratives and sectoral workforce approaches for low-income workers. Most of these pilot programs ended up focusing on clusters in their respective regions, and the promising results have led to a new national effort to expand these approaches.

In the fall of 2007, a consortium of foundations and the U.S. Department of Labor launched the new National Fund for Workforce Solutions, which aims at raising up to $50 million and leveraging another $200 million for regional efforts to link education and training more closely to business needs, and also make public policy more effective in assisting low-income workers and the businesses that employ them. Initial sites in the fund program are focusing on training in a variety of sectors: biotechnology (Bay Area), health care and building services (Boston), health care and aviation (New York City), and health care, biotechnology, and construction (Baltimore). The fund announced four new sites in September 2007 and plans to provide support to forty metropolitan and rural sites over the next few years, while pulling together lessons from the work and engaging in public education and policy development.

All of the regional projects have close links with public economic and workforce development efforts, but at the same time are independent of the public system. For example, in New York City, the Workforce Development Funders Group conducts aligned program funding in collaboration with the city's Department of Small Business Services. The Boston program, SkillWorks, works closely with the city of Boston and surrounding jurisdictions and the state of Massachusetts, and has become a voice for increased levels of funding and more effective workforce programs, with successful outcomes ranging from more effective use of Food Stamp funds for training to increased state funding for training and support services, following the SkillWorks model.[48]

The most ambitious program aligned with the new fund is Pennsylvania's Industry Partnership Project. As part of a broader effort to make workforce development more effective in economic development, coupled with a focus on troubled regional economies and sectors, the state has allocated $15 million annually to training in high-priority occupations, with an additional $5 million to support the intermediary organizations necessary to have effective regional partnerships. The partnerships are regionally based and concentrate on a specific set of industry clusters. In a competitive process, funds are awarded to multiemployer partnerships of business, labor, education and training, and community organizations. The project requires ongoing evaluation and results-oriented targets, and provides information and peer-learning opportunities to the various regional programs. To date, the program has provided training to over 24,000 workers from over 5,700 companies.[49]

A second prominent approach to regional development that emphasizes human capital encourages regions to focus on improving the quality of life for higher-income professionals, including both improvement of public education and also amenities such as arts and culture. The theory, based on the work of Richard Florida and others, is that attracting and holding young, mobile, college-educated professionals will give a region an economic advantage.[50] Critics have questioned the causality—whether the movement of professionals is a cause or an effect of growth in certain sectors—but the approach is widely discussed and increasingly is being applied in development circles.[51]

The emphasis on attracting and retaining creative, highly educated talent has led to a wave of efforts in cities to make themselves more attractive to this cohort. Several cities—Philadelphia, Memphis, Portland, Providence, Tampa, and Richmond—have commissioned studies that position them in relation to the demographic trends in other regions and the nation as a whole. In a series with the clever title, "The Young and the Restless," these six studies provide very detailed demographic information on each city, along with generic advice about how to attract and retain younger educated people. In some cases, such as that of Philadelphia, the generic advice about attracting people is linked to a regional strategy focused on high technology and innovation-based businesses, but for other cities, recommendations for attracting young people are exactly the same and are not tailored to the specific city or region or set of industry clusters.[52]

There is one major national policy effort to bring cluster-based analysis together with an emphasis on attracting and developing talent—the U.S. Department of Labor's WIRED program, standing for "Workforce Innovation in Regional Economic Development," which was begun in 2005. There have been three rounds of grant awards for regional proposals, with three years of funding in each round. Total projected federal spending for the thirty-nine current WIRED regions is $325 million, with significant required matches from states and regions.

WIRED uses the work of the Council on Competitiveness that advocates the development and capture of leading technology sectors as a regional growth strategy. According to the Labor Department, WIRED "is designed to support the development of a regional, integrated approach to workforce and economic development and education." The WIRED regions range from rural to urban and include both older industrial regions and newer, faster-growing ones.[53] The development of WIRED drew heavily on work carried out by the Council on Competitiveness, whose regional innovation project focused on clusters, with research support from Michael Porter.[54] Porter coordinated a detailed cluster study of technology- and innovation-based sectors in five U.S. regions, and those case studies formed the basis for the council's report. This work is the most explicit linking of cluster analysis to a focus on higher-educated talent, in comparison with the broader non-sector-specific approaches that are found in the work of Richard Florida and the "Young and the Restless" series.

Philanthropy

The examples in workforce development are part of a larger engagement by philanthropic institutions in regional economic development activity. As part of the WIRED process, the Charles Stewart Mott Foundation organized a successful regional application for a thirteen-county region in central Michigan, centering on older industrial cities such as Flint, Lansing, and Saginaw. Drawing on Mott's extensive knowledge and leadership in workforce development and its role as a neutral partner in an economically declining region, the region organized the "Mid-Michigan Innovation Team." Enjoying strong participation from Michigan State University and other universities, regional community colleges, civic organizations, and the nonprofit Center for Automotive Research, the mid-Michigan program targets clusters in advanced transportation and manufacturing, alternative fuels and energy, health care, and construction, along with a parallel program to promote and develop entrepreneurship.

The mid-Michigan strategy emphasizes "talent," but defined broadly to include not only next-generation leaders and highly educated people but also the current regional workforce, with a focus both on current workers and students in the K-to-16 system. A central goal of the strategy is collaboration with the various government agencies and programs in the region, and the strategy outlines in detail the array of programs to engage. But the WIRED grant and the program are run through the Prima Civitas Foundation, a collaboration led initially by Michigan State, with support from a nonprofit organization, the Corporation for a Skilled Workforce, directed by a steering committee with representatives from foundations, higher education, business and economic development organizations, and other civic leaders.[55] It is a striking example of a broad regional collaborative that focuses both on clusters and on broad and inclusive regional prosperity, with strong leadership from anchor institutions, especially in higher education and philanthropy.

Another philanthropically led effort has focused more on higher technology and innovation in its region. In the Pittsburgh region, the Heinz Endowments have led these efforts through their Innovation Economy Program, which emphasizes three main goals: stimulating innovation-based businesses and clusters; developing career paths, especially for low-income and underrepresented groups; and supporting public policy and regional planning to assist the development and success of regional business clusters.

The Pittsburgh efforts started with, and have maintained, a strong cluster and regional focus and have deepened their work with the labor force, especially low-income groups. The strategy builds on one potential strength of philanthropy—its ability to take risks and be flexible. Grants have gone to a wide range of organizations, including joint economic development efforts among the major research universities, smart growth and sustainable development organizations, community colleges, and regional loan funds. The Heinz Endowments' new strategic plan emphasizes a regional perspective, reflecting its view that the region is at a "tipping point" that can start to reverse years of "slow job and population growth, racial and gender inequities, fragmented government, and a negative self-image."[56]

This effort, which has drawn on work at the Metropolitan Policy Program of the Brookings Institution, again links an emphasis on clusters and innovation with creating employment opportunities, developing and articulating a regional perspective, and engaging with public policy and government as a collegial but independent voice.

A third philanthropic effort, which helps to coordinate over one hundred foundations, organizations, and individual donors in northeast Ohio, is the Fund for Our Economic Future. Formed in 2004, the fund is a collaborative that makes grants to regional organizations, supports research emphasizing current economic conditions and the region's position relative to others, and funds civic engagement activities to educate the region's population and decisionmakers and to help build regional identity.

The fund has brought together sixteen counties in the region, centered on Cleveland and surrounding cities, and also has supported broad public involvement in the development of regional strategy. In the initial phase of work, the fund supported a process that resulted in "Advance Northeast Ohio," an initiative with four main strategic goals: business growth and attraction, workforce preparation, growth through racial and economic inclusion, and government collaboration and efficiency. They funded an elaborate regional process involving leaders from the sixteen counties and over 21,000 residents, to better understand people's views of the economy and priorities for the future. The fund tracks public opinion on the region's economy through an "NEO [Northeast Ohio] Barometer," which is made widely available.[57]

Each of the four strategy areas works on a continuing set of specific goals and outcomes, and the fund is committed to measuring and reporting on the strategy's progress. The fund also tracks the region's overall economy, through an innovative regional "dashboard" that shows the region's relative economic performance on eight broad growth factors, with a number of specific subcomponents. The region is then assessed in relation to over 130 U.S. metropolitan areas on the same broad set of indicators, and also tracked over time on its own performance.[58]

Other foundations have focused on specific aspects of economic development processes, such as the Kauffman Foundation's support of entrepreneurs and new businesses, the Annie E. Casey Foundation's focus on how economic and workforce development affects the well-being of children and families, the Surdna Foundation's new work on "weak-market" cities, and the Charles Stewart Mott

Foundation's interest in sectoral workforce and economic development strategies. The MacArthur Foundation is supporting a research network on "Building Resilient Regions." Increasingly, foundations are supporting economic development efforts in their respective cities and regions, although their strategies are still in formation in several cases.[59]

Challenges for the Future

This is an exciting time for regional economic development efforts. In part because of a lack of attention from federal policy and in part because a variety of analyses suggest that regions can and must play a larger role in their own economic destiny, a wide variety of initiatives either are under way or are being considered. In this chapter I have discussed efforts that make use of clusters and sectors, workforce development, and talent attraction, but other analyses and initiatives are grounded on anchor institutions such as universities and medical systems, new approaches to technology transfer, linkages to smart growth, and entrepreneurial development.

These ideas have particular resonance in older industrial cities, where many specific examples of these types of work can be found. Most analysts now accept that the employment base for manufacturing and industrial work will continue to shrink, and that regions must find new ways to thrive economically. That will include continuing to work with manufacturing, which is too deeply embedded in these regions to simply be abandoned, and, where there are a variety of new initiatives focused on that sector, to draw on innovations in cluster approaches, technology transfer, and workforce development.[60]

This interest and innovation in regional development needs to be encouraged and supported, even though the current complicated and not always well-connected set of new ideas creates both opportunities and threats. The opportunity is to build more cohesive regional economic development policy and practice in older cities. The threat is another round of fractured policy and programs that are not linked into an overall, sustained vision for regional economic prosperity shared equitably by all residents and communities in a region.

This suggests some guideposts for moving forward in regional development, along with some unanswered questions and challenges for the next phase of work.

Improve Government Economic Development Policy

The persistence of subsidies and the challenges facing elected officials to "do something" about economic decline mean that subsidy policies are likely to persist.

Especially in weak-market cities and regions, there will be continuing political pressure to halt economic decline, and the challenge to policy is to craft as intelligent and comprehensive a policy as possible. If that is not done, other ideas and approaches will take center stage and use valuable and limited public resources. Although the particular mix of policies and programs will vary depending on a region's economic makeup, there are some good practices that all regions should use.

Increase transparency. There is a wide range of economic development subsidies in use, and only some of them, in some jurisdictions, are open to public view. Making these policies more transparent is essential to making more intelligent use of them. Good Jobs First keeps track of various transparency measures and the successes and difficulties involved in using them.[61]

Tie subsidies to specific, measurable benefits. Although there is a concern in weak markets that negotiating with developers and the private sector will cause a loss of investment, there also is a concern that development subsidies may not produce tangible benefits for poor residents. Over 120 cities and counties have passed "living wage" agreements that require government contractors to pay wages and provide benefits that will provide higher standards of living for poor workers and their families. Many cities are enacting "community benefit agreements" (CBAs) that require companies that receive public development assistance to provide concrete benefits in the form of job quality, use of minority contractors, employment of local residents, construction of low-income housing, and other benefits, an approach pioneered by organizations such as the Los Angeles Alliance for a New Economy.[62]

Align economic and workforce development programs with the regional economy, not with governmental boundaries. In all regions, the architecture of programs follows governmental lines, not the contours of the regional economy. The higher the degree of fragmentation, the more waste and duplications of resources there are, and the harder it is for private sector firms and organizations to work with the public sector. There is an important role for state government here to realign programs and change the incentive for regional cooperation, as local governments have too many negative incentives to compete with each other.

Work with groups of firms, not individual businesses, whenever possible. One of the broad points of agreement among all critics of ineffective subsidies is that making deals with individual firms is wasteful and counterproductive. Whenever possible, economic and workforce development programs should work with groups of firms. Cluster approaches take this one step further and look to align programs with groups of firms that share needs and interact and cooperate with each other.

Groups of firms also can be aligned geographically, which allows working with the wide variety of public resources that target neighborhoods and communities.

Role of Civic, Business, and Nongovernmental Stakeholders

Civic, business, and nongovernmental stakeholders must play a sustained and independent role in regional strategy. The many incentives for governments to engage in short-term competition with each other, or simply not to coordinate their economic, infrastructure, and workforce policies within a single economic region, mean that change will need other engaged stakeholders.

Regions need effective business organizations that engage with other stakeholders on regional policy. Cluster approaches to economic development policy rest implicitly on the idea that there are strong, functioning private sector organizations to work with in key industry concentrations in regions. But the reality is far from that, and work needs to be done to build effective, engaged business organizations both within clusters and across regions.

Strategies must engage and work with, but not be captured by, government. Regions need a strong, long-term focus that is not grounded exclusively in government agencies. Of course, there cannot be successful regional strategies without government involvement. Too many critical factors—infrastructure, education, taxation, and regulation—are the responsibility of the public sector. At the same time, governments face very significant challenges in conducting successful strategies on their own. Limited time horizons stemming from electoral cycles and short-term budgeting, fragmentation and competition among governments in regions, and a difficulty in sustaining a long-term focus due to the fiscal and political pressures in older regions, all mean that nongovernmental institutions must have a central, friendly, but independent role in regional strategies.

Philanthropy can play a key role. Foundations are especially well suited to play an important role in convening regional stakeholders, and supporting work on a long-term vision with accountable results. But foundations will need to engage more closely with public policy if regional success is ever to reach scale. There are public resources that are ill-used and misaligned, and sometimes working in ways that are counterproductive to regional success. Nongovernmental groups need an independent voice to point that out and offer ideas for improvement. Practices like intraregional tax and subsidy competition for relocating existing firms within a region need to be criticized and challenged, and alternative visions of regional prosperity and identity need to be articulated and sustained.

Different institutions can take the lead. There are examples of regional efforts led by business and civic organizations, philanthropies, higher educational institutions, and government entities. There isn't a single formula for who should convene and lead these efforts. Visionary political leaders should welcome strong organizations of nongovernmental stakeholders as an important voice in confronting the political challenges to regional success. These stakeholder organizations can be convened and led by business, higher education, or philanthropy, but cannot be successful unless they branch out to include other sectors.

Building a Common Regional Identity

Regions need to develop and implement strategies and build a common identity. Far too often, relationships between core cities and smaller regional cities and suburbs are hostile and unproductive, even though they all are part of the same regional economy. Issues of politics, taxation, and race, along with the presence of incentives that encourage suburban sprawl, all contribute to the inability of separate locales to see a common regional economic destiny. Changing these views and building a regional identity are critical for success.

Map the economy, measure its progress, and inform the region. Information is critical for regional strategy and for building a sense of regional identity. Detailed information on existing and emerging business clusters can be amassed and made available to business organizations, workforce development providers, opinion leaders, and the public, to help them understand the challenges the region faces and the opportunities and assets it possesses. There also needs to be ongoing data analysis on the region's progress, presented in easily accessible formats to the public. One excellent example is the Fund for Our Economic Future, in the Cleveland region; it produces an ongoing set of "dashboard" indicators that are based on a detailed analysis of the region's economy and social conditions, and can be used to compare the region to other metropolitan areas around the country. These indicators are updated on an easily accessible website.

Encourage regional cooperation and limit intraregional competition. A combination of government and nongovernmental stakeholders will be needed to build regional cooperation and limit destructive intraregional competition. Governors have an important role here. For example, the federal WIRED program requires that regional players put a proposal together but that it be submitted by the state's governor. This gives governments and regional organizations incentives to cooperate, but also forces states and governors to think strategically about which proposals they would submit and to encourage and direct regional actors to increase their cooperation.

There is no single "best" starting point, but strategies must constantly build out. Regions have started work with a focus on high-technology business development, attracting and retaining highly educated young people, workforce development, smart growth, clusters, and building regional identity. There is no single "best" way to start, but all of the best efforts recognize that the network, and focal points, need to keep expanding. Older industrial regions face a multitude of problems, and a successful strategy in one arena can be undermined or neutralized by negative forces elsewhere.

At the same time, strategies must stay focused. Given the scope of problems in older industrial regions, taking on everything in depth at once will likely lead to little or no impact. Successful strategies recognize the breadth and interconnectedness of their region's problems but choose to dig in and make an impact on specific issues.

Equity and inclusion are critical for success, but are not well developed or integrated into many strategies. The goal of regional prosperity has to include having a positive impact for all residents, or the region will continue to suffer, and political support for scaling up the work will be hard to obtain. Strategies that rely solely on reducing costs, wages, and benefits can impoverish a region, making it difficult to create and sustain prosperity. A low-skilled, poorly housed, and socially disrupted labor force cannot provide the skills and productivity needed for strong economic growth. Moreover, regions that are poor economic performers do not generate the revenues necessary to invest in education, infrastructure, environmental quality, and other public goods necessary for sustained prosperity. At the same time, traditional community development organizations need to broaden their horizons and see that their community and neighborhood are part of a larger regional economy and that adopting this perspective can have tangible benefits for their residents and communities.[63]

As this discussion underscores, there are enormous challenges for economically troubled regions in putting a comprehensive strategy together. Coordinating economic or workforce policy in any single dimension is difficult enough; to ask governments and other stakeholders to work simultaneously across the multiple dimensions outlined here, and in this volume's other chapters, may seem especially difficult in an economically challenged region that faces a daily set of crises and fiscal difficulties.

But it is precisely the depth and interrelated complexity of the necessary elements facing older industrial cities and regions that require such ambitious and comprehensive efforts. And there are promising examples of work emerging on a number of fronts, which take a realistic view of the problems facing a region but also are building new, inclusive efforts that assess the region's current place in the economy, map regional challenges and assets, bring diverse stakeholders together, and take concrete actions to make real progress, building on and amplifying positive economic and social trends for urban regions. Fostering this work in older industrial regions while supporting and learning from existing and emerging efforts can help not only these regions but also the nation's economy, creating prosperity for all Americans and meeting the challenges of global economic change.

Notes

1. Alvira-Aron Dine, Chad Stone, and Richard Kogan, "How Robust Is the Current Economic Expansion?" report (Washington, D.C.: Center on Budget and Policy Priorities, June 28, 2007).
2. Jared Bernstein and Lawrence Mishel, "Economy's Gains Fail to Reach Most Workers' Paychecks," Briefing Paper 195 (Washington: Economic Policy Institute, September 3, 2007).
3. U.S. Bureau of Labor Statistics, "Unemployment Rates for the Fifty Largest Cities," available at http://www.bls.gov/lau/lacilg06.htm.
4. Compare George Borjas, "Increasing the Supply of Labor through Immigration: Measuring the Impact on Native-Born Workers" (Washington: Center for Immigration Studies, May 2004), and David Card, "Is the New Immigration Really So Bad?" *Economic Journal* 115, no. 507: 300–23.
5. Critics of economic development subsidies note that Real Silk Hosiery, which moved to Durant, Mississippi, and is widely considered to be the first company in the country to move because of these types of incentives, received a twenty-five-year lease on the newly constructed factory for five dollars per year, along with other benefits and support from subsequent bond issues. But prior to the final payoff of the initial bond, Real Silk closed all of its factories in Durant and became an investment company. See Donald L. Bartlett and James B. Steele, "States at War," *Time,* November 9, 1998.
6. On classifying incentives, see Peter Fisher, "The Fiscal Consequences of Competition for Capital," in *Reining in the Competition for Capital,* edited by Ann Markusen (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 2007), pp. 57–85. Estimates of the total cost of incentives are found in Kenneth Thomas, *Competing for Capital: Europe and North America in a Global Era* (Georgetown University Press, 2000), and in Peter Fisher and Alan Peters, "The Failure of Economic Development Incentives," *Journal of the American Planning Association* 70, no. 1: 27–37.
7. The classic version of this argument is found in Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64, no. 5 (October 1956): 416–24. An excellent application in terms of development subsidies is Melvin L. Burstein and Arthur J. Rolnick, "Congress Should End the Economic War among the States," *Annual Report* (Federal Reserve Bank of Minneapolis, 1994).
8. Business climate rankings are discussed and critiqued in Peter Fisher, *Grading Places: What Do the Business Climate Rankings Really Tell Us?* (Washington: Economic Policy Institute, 2005).
9. CfED also has increased its attention to asset development policies for families as an important element in economic development strategy.
10. Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990), p. 6.
11. Ibid., pp. 71–124; emphasis in original.

12. Ibid., pp. 29 and 148; emphasis in original.
13. The market for seasonal migrant agricultural workers is one exception.
14. Alfred Marshall, *Principles of Economics* (London: Macmillan, 1890), book 4, chapter 10, p. 332. The theoretical and applied literature on clusters has grown dramatically since Porter's book was published. For an excellent discussion of the economic theory and practical issues relating to clusters, see Joseph Cortright, "Making Sense of Clusters: Regional Competitiveness and Economic Development," discussion paper (Brookings Institution, Metropolitan Policy Program, 2006).
15. Edward Feser and Michael Luger, "Cluster Analysis as a Mode of Inquiry: Its Use in Science and Technology Policymaking in North Carolina," *European Planning Studies* 11, no. 1: 14.
16. Stuart Rosenfeld notes that the term *cluster* came into economic development practice in SRI International reports on organizing economic development in Florida, published in 1989–90.
17. Bennett Harrison and Amy Glasmier, "Why Business Alone Won't Redevelop the Inner City," *Economic Development Quarterly* 11, no. 1 (February 1997): 31.
18. Cortright, "Making Sense of Clusters," pp. 42–43. Cortright reports that a 2005 search of abstracts on scholarly articles using the search terms *industry cluster* and *poverty* did not turn up any citations.
19. Center for Regional Development, Purdue University, and Indiana Business Research Center, Kelley School of Business, Indiana University, *Unlocking Rural Competitiveness: The Role of Regional Clusters* (U.S. Economic Development Administration, January 2007).
20. Stuart A. Rosenfeld, *Just Clusters: Economic Development Strategies That Reach More People and Places* (Carrboro, N.C.: Regional Technology Strategies, September 2002), p. 8.
21. Ibid., p. 50.
22. See the materials at http://www.eda.gov/Research/ClusterBased.xml.
23. National Governors Association and the Council on Competitiveness, *Cluster-Based Strategies for Growing State Economies* (2006). Information on NGA workshops can be found at http://preview.nga.org.
24. Western Carolina University, Institute for the Economy and the Future, and University of Illinois, Regional Economics Applications Laboratory, *Regionalism and Clusters for Local Development: Needs Assessment Results* (U.S. Economic Development Administration, 2007), p. 15.
25. For further information on Good Jobs First, see their website, www.goodjobsfirst.org/accountable_development/overview.cfm.
26. Michael Greenstone and Enrico Moretti, "Bidding for Industrial Plants: Does Winning a 'Million Dollar Plant' Increase Welfare?" Working Paper 04-39 (Cambridge, Mass.: National Bureau of Economic Research, November 2004). Also see William Hoyt, Christopher Jepsen, and Kenneth R. Troske, "An Examination of Incentives to Attract and Retain Businesses in Kentucky" (University of Kentucky, Center for Business and Economic Research, January 2007).
27. For example, the Mountain Association for Community Economic Development (MACED) has produced a "unified economic development budget" for Kentucky, which details the full range of state spending for economic development, providing a useful tool for activists and those who seek greater accountability for public spending, which can include business groups.
28. Louis Uchitelle, "States Pay for Jobs, but It Doesn't Always Pay Off," *New York Times,* November 10, 2003; Office of the Mayor, City of Indianapolis, "Indianapolis Lands More Than 900 New Life Sciences Jobs," press release, December 4, 2006.

29. In Uchitelle, "States Pay for Jobs."
30. *DaimlerChrysler Corporation et al.* v. *Charlotte Cuno et al.,* 547 U.S. Part 2 (2006).
31. Charles V. Bagli, "As Lower Manhattan Recovers, Many Question Use of Subsidies," *New York Times,* June 16, 2007.
32. The headquarters move, and the associated tax breaks, are now up in the air, as Applebee's was recently acquired by IHOP. See "Tax Break for Applebee's Now Uncertain," *Kansas City Star,* July 16, 2007.
33. Counting not only general-purpose city, town, and county governments, but special-purpose districts, school districts, and others, revealed a very large number of governments in older industrial areas. For example, in 2002, the Pittsburgh, Pennsylvania, Metropolitan Statistical Area contained 905 distinct governments.
34. Alberta Sbragia, *Debt Wish: Entrepreneurial Cities, U.S. Federalism, and Economic Development* (University of Pittsburgh Press, 1996).
35. Jerry Paytas, "Does Governance Matter? The Dynamics of Metropolitan Governance and Competitiveness," Carnegie-Mellon University, Center for Economic Development, December 2001, p. 15.
36. Ibid., p. 24.
37. See Margaret Dewar, "Why State and Local Economic Development Programs Cause So Little Economic Development," *Economic Development Quarterly* 12, no. 1 (February 1998): 68–87.
38. FutureWorks, "Minding Their Civic Business: A Look at the New Ways Regional Business-Civic Organizations Are Making a Difference in Metropolitan North America," report (Watertown, Mass., September 2004).
39. For a detailed discussion of current challenges and specific organizational examples, see chapter 5 of this volume, by Stephen Moret, Mick Fleming, and Pauline Hovey.
40. New Economy Strategies, *Road to Renaissance: A Collaborative Strategy for Regional Economic Growth* (Washington, November 2006).
41. Metropolitan Development Association of Syracuse and Central New York, *2006 Annual Report* (Syracuse, 2007).
42. Oakland Metropolitan Chamber of Commerce, *Taking Stock of Oakland's Economy* (Oakland, April 2007).
43. David Jason Fischer and others, *Seeking a Workforce System: A Graphical Guide to Employment and Training Services in New York* (New York: Center for an Urban Future, December 2003).
44. This history is detailed in Richard McGahey, "Workforce Intermediaries: Recent Experience and Implications for Workforce Development," in *Workforce Intermediaries for the Twenty-First Century,* edited by Robert P. Giloth (Temple University Press, 2004).
45. See Stuart Rosenfeld, Jim Jacobs, and Cynthia Liston, "Cluster-Based Workforce Development: A Community College Approach," White Paper (Carrboro, N.C.: Regional Technology Strategies, April 2003).
46. Individual cases and a typology are presented in Robert Harmon and Keith MacAllum, *Documented Characteristics of Labor Market–Responsive Community Colleges and a Review of Supporting Literature* (U.S. Department of Education, Office of Adult and Vocational Education, 2003).
47. Katherine L. Hughes and Melinda Mechur Karp, *Strengthening Transitions by Encouraging Career Pathways: A Look at State Policies and Practices* (Washington: American Association of Community Colleges, 2006).

48. Descriptions of the pilot sites and the new fund, along with reports on such topics as forming funder collaboratives, public policy advocacy, and industry-specific training approaches that build career opportunities, can be found at the National Fund's new website, www.nfwsolutions.org.
49. See, among other documents, Center for Workforce Information and Analysis, *Pennsylvania's Targeted Industry Clusters* (Harrisburg: Pennsylvania Department of Labor and Industry, 2006).
50. The best-known proponent of this view is Richard Florida, whose book, *The Rise of the Creative Class* (New York: Perseus, 2002), has attracted a great deal of attention and attempts to enact policies based on the analysis. Florida, like Michael Porter, has formed a consulting firm to work with cities and regions.
51. Porter had noted, briefly, that "geographic concentration of an industry acts as a strong magnet to attract talented people and other factors to it." But attracting talent in his analysis was only one "determinant" of regional clusters of competitive firms. Porter, *Competitive Advantage of Nations,* p. 157.
52. See the series of reports for the six cities at The Young and the Restless, a website created by Joseph Cortright and Impresa Consulting, www.restlessyoung.com/yar.
53. The older industrial regions include three in Michigan, centered around Grand Rapids, Flint, and Detroit. Other regions with older cities at their core include Philadelphia, Newark, Wilkes-Barre–Scranton, Rochester, and Milwaukee. On WIRED's overall strategy, see Emily Stover DeRocco, "WIRED Town Hall Remarks" (U.S. Department of Labor, February 22, 2006), available at www.dol.gov/_sec/media/speeches/20060222_wired.htm.
54. Michael Porter, Monitor Group, ontheFRONTIER, and Council on Competitiveness, *Clusters of Innovation: Regional Foundations of U.S. Competitiveness* (Washington: Council on Competitiveness, 2001).
55. See Mid-Michigan Innovation Team, *Regional Implementation Plan* (East Kalamazoo, October 2006).
56. Grant Oliphant, "Drafting the Plan," *h Magazine,* winter 2007, p. 9.
57. See www.neobarometer.org.
58. Randall Eberts, George Erickcek, and Jack Kleinhenz, "Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic Future," Working Paper 06-05 (Federal Reserve Bank of Cleveland, April 2006).
59. The Community Foundation of Southeastern Michigan is assembling the largest philanthropic fund in the nation to date, $100 million, for their New Economy Initiative in the Detroit metropolitan region. See Sherri Begin, "$100m Fund for Detroit Coming?" *Crain's Detroit Business,* April 1, 2007.
60. See chapter 9, by Daniel Luria and Joel Rogers, in this volume.
61. Greg LeRoy, *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation* (San Francisco: Berrett-Koehler, 2005) for a disheartening catalogue of bad economic development deals, but also encouraging examples of the various efforts to increase transparency and accountability.
62. Julian Gross, Greg LeRoy, and Madeline Janis-Aparicio, *Community Benefits Agreements: Making Development Projects Accountable* (Los Angeles: Good Jobs First and the California Partnership for Working Families, 2005).
63. See chapter 4, by Manuel Pastor and Chris Benner, and chapter 13, by Angela Glover Blackwell and Radhika Fox, in this volume.