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Economic Development Midterm

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1.

The post Keynesian concept of *effective demand* explains a region’s relatively low demand for goods/services as an unfortunate effect of a weak labor market without full employment, resulting in relatively lower purchasing power.

By artificially increasing aggregate demand for labor by means of significant government investment ($80 billion), this infusion of funds will contribute to higher employment numbers and, as a result, higher average incomes across regions.

According to the consumption function derived from the regional income modeling framework, this increase in propensity to consume should be associated with a higher multiplier for the region.

As a result, this increase in government spending has a similar economic impact to an equivalent increase in exports. According to the Economic/Export Base Model, because of this large increase to the economic base ($80 billion across regions), non-basic efforts (services like restaurants, salons) will flourish inside of communities in turn.

2.

Nationwide economic-development strategies based around large investments into infrastructure projects such as the American Recovery and Reinvestment Act of 2009, or even those like the scaled-back Build Back Better Bill passed in 2021, make for a useful short-term injection of capital into poor communities, but are flawed in that they may not come with any meaningful plan to ensure that those much-needed funds remain in the communities that need them.

In many poor communities, especially in areas suffering from disinvestment or in rural communities who may have never benefited from much investment to begin with, people are dependent on large national corporations for clothing, groceries, and employment – stores like Walmart and Dollar General, which are owned by private shareholders and are likely associated with more **leakage and lower multipliers** than locally owned businesses.

As a result, thinking through the rationale of Economic Base Theory, it is essential that economic development planners and politicians consider ways to help communities use these infusions of wealth to establish more resilient **basic** and **non-basic services**, perhaps through investment in **entrepreneurial development** and **education** so that community members are able to benefit from **expanded local purchasing options** or **export-focused jobs that will continue to bring money into their communities for years to come**.

3.

First-wave economic developments strategies, referring to the “smokestack chasing” practices that emerged in the 1930s, make sense in the context of export/economic base theory in the sense that the most visible cause/effect of the Great Depression, for most people, was massive unemployment.

Provision of incentives like sale of cheap land, relaxed environmental regulations, and low corporate taxes, in the 1930s, would have been considered emergency measures taken in hopes of easing the burden of unemployment on the populace by creating any sort of economic base.

Without any kind of non-basic economy to prop up regional incomes, the **non-basic** sector would also shrivel in response to low consumption. And, without money coming into the region, **multiplier effects** **don’t matter**.

4.

From a regional development perspective, the question of whether knowledge and technological advancement is inherent-to or irrelevant of place is important as it serves, in a sense, as a means to measure which regions are most deserving of investment, which is relevant to both public and private interests.

Whether-or-not characteristics like “innovativeness” or “disruptiveness” is a characteristic inherent to metro areas like San Francisco and Boston, or not, essentially determines their value to companies (the employers), the labor market (their employees), and the government agencies that serve them.

Do investments in “innovation districts” like Boston’s Seaport or North Carolina’s Research Triangle Park make sense for municipalities as a means of fostering economic development? These are the sorts of situations where endo/exogenous growth is relevant.

5.

If technological change is at least partially endogenous, the best public investments to foster “innovative” economic development are probably those that help to retain/attract skilled workers, as well as investments that serve as a means for collaboration.

Intuitively, attracting skilled workers first means investments in market-rate housing and amenities for your region. For a high-paying sector like software or biotechnology, this might mean more luxurious housing options, craft breweries, or cozy coffee shops (for instance).

Similarly, as a means of attracting professionals as well as creating new ones, comparable investments in education (universities for young people, K-12 schools for families) may show similar benefits as a means of fostering long-term growth in a region.

6.

The entrepreneur (and entrepreneurial development programs) are important in fostering long-term regional growth not only as means to **exploit gaps in the market (as says the neoclassicists)**, but for creating new markets and, therefore, new opportunities for export-based growth and employment.

According to theorists like Kirzner and Schumpeter, entrepreneurs act as agents of change that help to **make markets more efficient** and **expand the production possibility frontier** by **identifying market gaps that would be unrecognizable by establishment entities like incumbent firms and university academics**, taking advantage of their outside perspective in order to create disruptive change.

The **Knowledge Spillover Theory of Entrepreneurship** concept of **tacit knowledge** is important here as it further explains why innovation and technological change will tend to flourish in areas with more investment in knowledge infrastructure (like universities) as well as private businesses interested in disrupting markets.

7.

Of Marshall’s three primary sources of localization, the first two being “Specialized Inputs” and “Labor Pooling” both speak primarily to the usefulness of clusters of specialized businesses that are in the same industry, whereas the third “Shared Knowledge Spillovers,” seems like it could have applications across disciplines, making it a useful feature of both Localization and Urbanization economies.

Essentially, all of the benefits of localization are factors having to do with different small, specialized firms using the same resources and supply chains in a collectivized economy of scale.

For instance, specialized inputs may refer to the same materials used across different manufacturing firms in the same sector, whose proximity and abundance in an area may mean for lower costs or better access. To the same tune, Labor Pooling refers to a local economy that is able to collectively attract and utilize the same general labor pool. As examples, the Boise, Idaho area might benefit from proximity to potato fields, processing facilities, and transportation networks in the same way that San Francisco tech firms enjoy a plentiful supply of highly-skilled programmers all living in close proximity to one another.

8.

Regional industry clusters, beyond the smaller scope of specialized localization economies, can make sense for a region with a diverse set of production “skills” that may depend on one-another as parts of regional supply chains or as sources of shared labor and resources.

For instance, using the example of the collaborative effort that is Maine’s ship-building industry, a place-based development strategy can help to integrate regional assets (like skilled workers, financial institutions, and infrastructure) with specialized goods (motors, electronic, adhesives, etc.) and specialized services (custom tooling, marine engineering) into a viable ship-building market, which eventually led to the creation of unique specialty services in the region such as boat yards and ship mechanics.

9.

Specialization and diversity are not mutually exclusive! In fact, thinking of the same dichotomy between the aforementioned “localization” and “urbanization” economies, it very possible to create nodes of localization within a larger urban setting. This desired outcome, known as “cluster diversification,” is encouraged by a strong entrepreneurial climate and mobile investment.

For instance, a large city like Los Angeles, with lots of mobile capital and a famed entrepreneurial spirit, has lots of specialized economies within it. For instance, it is one of the nation’s largest port cities (associated with lots of shipping and logistics infrastructure) as well as the home of America’s film and television industry, which requires its own specialized labor force and supply chain inputs).

10.

As a planner, a good place to start is to figure out what sorts of out-migration you might be expecting – like, who is likely to leave and who is likely to stay? Furthermore, if you’re thinking about an area that is likely to attract a lot of climate-refugees in the next ten years, you’ve got to be thinking about who’s coming. Is your community likely to shrink or grow? In what way?

In general, well-educated and wealthier people tend to be more mobile across regions. And, if they’ve already travelled across the country to live there, they may be more likely to move again.

A city like Phoenix or Orlando, with a relatively low percentage of locally born residents, may be more susceptible to population decline than smaller, older cities with stronger local ties.

It’s also important to think about what kind of economic base you have, and how region-dependent it is. In a city like Boston, which may be vulnerable to the impact of extreme storm events, are your biotech firms likely to stay put? How about your local universities? Some of these institutions may be stickier than others.

Is your economy well diversified? You may be in less trouble than a region whose economic base consists of a single manufacturing plant.

Lastly, are your climate problems solvable? Do you have the means to invest $9 billion into a new seawall to combat rising sea levels? If not, what kind of investments can you make to protect your region’s economy?