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The Future of Regional Economic Development and Implications for U.S. Economic Development Administration Programs

Testimony
submitted to the
United States Senate Committee on Environment and Public Works
November 1, 2021

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Chairman Carper, Ranking Member Capito, and members of the committee, I want to thank you for this opportunity to offer testimony as you begin to examine the factors important to the reauthorization of the U.S. Economic Development Administration (EDA).

The EDA was last reauthorized in 2008. To say a lot has changed since then would be an understatement. In that time, the country experienced two historic recessions, creating a national discussion on how to help more people and more places better recover and benefit from economic growth. Facebook and Twitter were founded in 2004 and 2006, respectively, serving as harbingers of the explosive role new technologies would play in reshaping our social and economic landscape. And the U.S. continued to diversify by race and ethnicity. In fact, by 2020, per the latest Census, population growth in the past decade was driven entirely by people of color. Rural areas were not immune to this trend: two-thirds of rural counties are now home to 1 in 10 residents who is a person of color, especially of Latino or Hispanic origin.

Against that backdrop, I want to use my time today to reinforce three key points:

1. Economic development—especially regional economic development—matters. It matters because it is place-based, responsive to geographic inequality, and comprehensive in scope.
2. Local and regional leaders are trying to achieve meaningful economic development, but they face many obstacles.
3. The federal government, particularly EDA, has an important role to play to modernize regional economic development and reward what matters.

Before I elaborate on each point, let me provide some context as to how I, and my team at the Brookings Metropolitan Policy Program, have come to know this topic so well.

Since our founding 25 years ago, Brookings Metro has been dedicated to elevating the importance of cities and metropolitan areas. Over time, we have examined the economic prosperity of all regions, including the interdependence of rural and urban communities. After the Great Recession in 2007, we began working in partnership with leaders in over two dozen cities and metropolitan areas to help them develop global trade and investment strategies and comprehensive economic development plans. Leaders—including mayors, chambers of commerce, economic development entities, public-private partnership groups, and universities—were eager to jumpstart their economies in stronger, more durable ways. The goal was to move away from what we called "Starbucks, stadia, and stealing businesses" or consumption, amenities, and subsidy-driven business attraction, and toward growth that came from value-added assets like innovation, exports, human capital, infrastructure, and quality places. We worked with a diverse mix of regions, from Phoenix, AZ, to Portland, OR, and northeast Ohio to upstate South Carolina.

Ten years later, when it was clear that economic competitiveness strategies were not benefiting all households, we worked with a group of pioneering economic development organizations to advance inclusive economic growth. Today, Brookings Metro releases an annual Metro Monitor that helps metro areas with over 250,000 residents better understand the extent to which their regional economies are experiencing growth, prosperity, and inclusion, including improving wages by race. This includes economic performance data for metros like Philadelphia-Camden-Wilmington, Huntington, WV, Tulsa, OK, and Worcester, MA. We also have experience helping governors and state legislators develop statewide economic growth strategies, based on the assets of each of their urban and rural regions. This includes Nevada, Rhode Island, Tennessee, Colorado, and Indiana. And most recently, we have been helping local and regional leaders rebuild better in the post-COVID economy.

In short, we blend credible national and local research with on-the-ground experience with practitioners to advance economic competitiveness and inclusion. We understand how economic development strategies have evolved since the last time EDA was reauthorized.

Based on that experience, let me offer three broad observations as you begin to shape the future of EDA and federal economic development policy.

First, economic development – especially regional economic development – matters. Quality economic development is place-based, responsive to uneven geographic growth, and comprehensive in approach.

- Regional economic development matters because it is place-based, responding to unique regional conditions. The U.S. economy is not one monolithic economy but a network of hundreds of diverse metro economies with surrounding micropolitan and rural areas, each with their own unique industry specializations, labor and housing markets, and institutional capacities. In an increasingly competitive, globalized world, a uniform, top down approach to economic growth and job creation no longer works. Instead, a bottom up approach is critical to filling gaps and investing in distinct opportunities that will best position each region to achieve its economic potential.

- Given that, place-based economic development is an essential piece of the federal response to today's "winner-take-most" economy. The acceleration of new technologies, starting in the mid-2000s, has rewarded places with high concentrations of knowledge assets, enabling large superstar metros to reap most of the benefits of the digital economy while leaving all other places further behind. Specifically, between 2005 and 2017, just five metro areas (San Francisco, San Jose, Seattle, San Diego, and Boston) captured 90 percent of the nation's growth in innovation jobs. Other Brookings analyses found similar regional divergence, in which large metro areas outperformed small- and midsized metro areas this past decade, all metro areas grew jobs, and while micropolitan and rural areas lost jobs or barely stabilized. In response, some argue that the nation needs to facilitate people-based policies that provide working families the choice to move to higher-opportunity regions. Yet, as David Autor of MIT has shown, 'The migration of less-educated and lower-income individuals and families toward high-wage cities has reversed course.' In short, most lower-wage workers do not move. Thus to help struggling families, policies must address the economic conditions in struggling regions. Furthermore, national tax and monetary policies set important conditions for growth and access to opportunity, yet they alone are insufficient. Those policies must be paired with place-based interventions that enable leaders in "left-behind places" to develop tailored, local strategies that communities adapt and address unique market failures and opportunities.

- The best regional economic development is comprehensive in nature, addressing structural needs of the digital era and not creating short-term jobs from deals in the pipeline. To compete and prosper, many small and mid-sized communities in the middle of the country need to create critical mass in knowledge assets, such as applied R&D capability, a strong commercialization and entrepreneurship ecosystem, a thick pool of skilled workers, broadband and other modern infrastructure. Further, the growth in new technologies is automating some jobs and tasks while placing a higher demand for a different kind of workforce. Those most vulnerable to automation are less educated workers, young adults, men, and Black and Hispanic workers, many of whom are employed in "high-risk" sectors such as food service, logistics, and retail. To help these workers make the transition to durable, better paying jobs, leaders need to help workers acquire some college education or technical training, and the human capabilities like teamwork and emotional intelligence that cannot be easily replaced by machines. In other words, luring jobs with tax incentives is a minuscule activity that addresses none of these structural challenges and distracts limited time and resources away from critical services that help local businesses and workers adapt.

  That's why, in 2016, in response to what we were learning from our work in cities across the country, I authored a report called "Remaking Economic Development." I argued that traditional economic development – sales, marketing, recruitment, and wasteful incentives – failed to respond to what's needed to compete and prosper in the modern economy. Instead, the field of regional economic development had to embrace a broader vision, backed by years of academic literature: To put a region on a path to higher growth by improving the productivity of existing firms and workers in ways that lead to better incomes and living standards for all, closing disparities by race and place.

This vision of place-based, comprehensive economic development is even more urgent in the face of the COVID-19 pandemic, broad recognition of racial inequity, and the increasingly localized threats related to climate change. Meanwhile the rise of hybrid and remote work is putting a premium on creating quality workplaces and communities that can retain talent, not lose them to other places or attract them with one-time subsidies. In short, U.S. regions find themselves on the frontlines of this unprecedented change, requiring leaders to embrace a higher standard of economic development – and fast. While most local leaders and EDOs are increasingly aware of *what* they need to do, they continue to grapple with *how* to actually do it.

This leads me to my second observation.

Second, local and regional leaders are trying to achieve meaningful economic development, but they face many obstacles. A vanguard of leaders from regions across the nation are driving the transition to high-quality, inclusive economic growth. While none would say they are fully successful, these leaders provide models and a roadmap for other regions to follow. For instance:

- Indianapolis: In central Indiana, the Indy Chamber has adopted an inclusive economic growth strategy in which diversity, equity, and inclusion is a set of values embedded across their *existing* economic development programs. For instance, they have implemented a model inclusive incentives program, which rewards firms that create quality, family-sustaining jobs and invest in programs that remove barriers for local workers to access good jobs (in workforce, child care, transit). They have a partnership with the Department of Corrections to help returning citizens launch new businesses. Thanks to these efforts, the Indy Chamber was named the 2021 Chamber of the Year by their peers.

- Birmingham: A new public-private partnership table, called Prosper, launched earlier this year to help the greater Birmingham region break from its past as a racially segregated, sluggish, older industrial economy. The mayor, local business CEOs, the university president, and other community leaders have come together to advance four catalytic initiatives. This includes growing quality jobs from existing businesses, helping young adults prepare for college and careers through an apprenticeship program, nurturing a health tech innovation cluster at UAB with equity advisors from community members, and growing Black businesses and neighborhoods.

- Milwaukee: In the wake of Milwaukee's decimated brewing and tanning industries were an abundance of firms with diverse specializations in water technologies. In a strategic effort to position Milwaukee for an economic rebirth, local leaders, led by the business community and the university, developed a comprehensive water tech cluster initiative, establishing the region (and its firms) as a top center for meeting globally relevant demand. Much of the critical early funding came from federal and state government.

- Memphis: The Greater Memphis Chamber is using inclusion metrics to drive the agenda of its new Center for Economic Competitiveness. The metrics are part of a new, public-facing People Powered Prosperity Benchmark that makes clear, for instance, that the region needs to greatly increase its production of diverse STEM graduates from local colleges and universities, in order to grow more quality jobs in advanced industries and shrink racial income and wealth gaps.

- Wytheville, VA: Wytheville, VA is a small town of 8,000 residents in the foothills of the Blue Ridge mountains, which like many rural areas, suffered job and population loss in recent decades. In response, Main Street, Downtown Wytheville, Inc. (Virginia) decided to revitalize its main business corridor by focusing on people and entrepreneurship. It received a grant from the State of Virginia to launch Evolution Wytheville, a business competition to reward and spur startups, resulting in four new businesses. This kind of capacity building and placemaking is proving critical to the success of small-town revitalization efforts across the country.

For all these and other promising efforts, the field remains a patchwork of innovation and legacy practices, leaving most programs to function on the margins of the economy. U.S. regions and their economic development leaders face significant obstacles in their well-intentioned efforts to make the important transition to high-quality, comprehensive, inclusive economic development.

- **Leaders lack needed resources.** First, regional EDOs are not resourced with the staff, skills, and funding required to take on the new roles being demanded of them, while also maintaining their current body of work. Embracing firm competitiveness implies EDOs must now fully engage on issues that impact talent, such as childcare, transportation, workforce preparedness, and housing, as well as topics such as exports and mergers and acquisitions. Embracing inclusion implies EDOs must work to ensure more people genuinely benefit from growth, particularly people of color who have long been excluded from economic prosperity, an area where most EDOs have limited, if any, experience.

- **Leaders lack capacity to collaborate and overcome intense fragmentation.** Second, most places do not possess the strong regional 'civics' capacity and culture required to bring multiple stakeholders together to address systemic change. Local leaders struggle to align the alphabet soup of public, private, and nonprofit sector entities around common objectives. It is hard to navigate daily conflict among urban, suburban, and exurban jurisdictions and the state. Further, an inclusion mandate implies that EDOs must now forge constructive partnerships with workforce and community development actors. As a leader in one of our partner metro areas recently commented, "regional collaboration has never been more important, but it's also never been harder."

- **Leaders struggle to ease reliance on business attraction and incentives.** Third, business attraction continues to maintain a strong and outsized hold on current economic development culture. This sales and marketing focus, designed first and foremost to attract new investment from other regions, is hard wired into the DNA of state and local EDOs and their stakeholders. These transactions are often matched with questionable taxpayer-funded incentives: tax increment financing to support suburban malls and sports arenas; tax rebates for businesses to move from this town to that and back again; subsidies to build far-flung industrial parks and office towers. The lure is big, visible wins that result in easy to count new jobs even if, as one prominent economist found, "75% of the time, typical incentives do not affect a business's decision on where to locate and create jobs—they're all cost and no benefit." The even more unfortunate matter is that the vast majority of job growth in states comes not from business attraction but from start-ups and the expansion of existing businesses.

- **Leaders confront outdated metrics.** Fourth, traditional performance metrics continue to measure and reward outdated behavior. The number of jobs created through attraction, for example, does not clarify the quality of jobs created, how many other local jobs were lost, or whether local residents are better off as a result of economic development. Further, the sales nature of traditional economic development means that metrics are often used to market the region, creating a cycle of boosterism that makes it hard to feature and address data that show fault lines in the regional economy, such as the growth in working poverty, the shrinking productivity and income of existing industries, or the lack of gender or racial diversity in entrepreneurship.

If U.S. metro and rural regions struggle to adapt, even in the face of the very real economic threats they face, and they are not resourced and structured to effectively plan for and manage needed initiatives, then EDA interventions and investments won't likely take root and drive intended outcomes. Even leaders in the more pioneering regions admit that their deliberate efforts represent a beginning. Given this reality, the federal government must step up with real resources, a true partnership, and model efforts to help regions adapt and excel.

Which brings me to my third observation.

Third, the federal government, namely the EDA, has an important role to play to modernize regional economic development and reward what matters.

The EDA matters. It is the sole agency in the federal arsenal that has the mission and capability to revitalize the economy from the bottom up. However, for the EDA to be an effective, high-valued partner to local, regional, and state leaders, it must *itself* modernize.

I offer five high-level recommendations for EDA's reauthorization. Some of these ideas draw from conversations with our most pioneering economic development partners in the field.

1. EDA must be a true partner, not just a grant-maker.

For an agency that is supposed to support bottom-up solutions, it remains perceived as a top-down grants administrator, rather than a strategic economic development partner truly engaged and invested in the states, regions, and projects it supports. This customer-service orientation would require a major culture shift across Headquarters and the regional field offices. This would also require more seasoned economic development professionals, particularly in the regional EDA offices, who understand the changing market dynamics facing firms, industries and workers, have practical experience in comprehensive economic development, and can serve as a catalyst in helping economic development leaders and their partners adapt and execute smart programs. This aligns with a recent Brookings recommendation to have federal coordinators in U.S. regions help with grants, planning, and implementation.

One of our local partners summed it up this way: "Our regions and states need a reliable national partner that can truly engage with us to confront the very real, and often daunting, economic challenges we face." And this from another: "Stronger engagement on the actual work could better help regional EDA officials understand what kind of investments make sense given the unique needs of a community."

2. EDA must formally adopt the broader, modern vision of economic development.

Over the years, absent reauthorization, EDA programs have gone through a series of experiments, made by changing presidential administrations and congressional appropriations. The result is a set of vision statements, mission, and programmatic innovation by headquarters staff that, while can be welcome, often shifts regularly and does not get executed by the regional offices.

So, EDA reauthorization ought to formalize the components of a broader, modern economic development agenda and drive it through the agency. This would be one that de-emphasizes subsidy-driven transactions and prioritizes the complex, structural work of growing innovative industry clusters, developing local talent with employers and training providers, nurturing business dynamism and entrepreneurship, integrating place-making and infrastructure development, and embracing global trade and investment to help existing companies tap new markets.

EDA also needs to change performance metrics. It must acknowledge that the goal of job creation for distressed communities is too limiting. It doesn't reflect what's desired across urban and rural communities, such as improving the incomes of existing residents or diversifying its industry mix or helping existing firms and industries thrive. Furthermore, there is increasing evidence—and private sector demand—for embracing diversity, equity, and inclusion, and climate resilience, as good for business and the economy. EDA ought to provide its staff and state and local partners the tools and capacity to integrate both goals as core to economic competitiveness.

Finally, these components of modern economic development must show up in the CEDS (or Comprehensive Economic Development Strategy) process. To date, local practitioners find the CEDs to be a check-the-box exercise and not meaningful. I suggest that EDA collect input from its stakeholders on how to update and streamline the CEDS to better reflect regional and private sector needs.

3. **EDA programs ought to codify what works and remove impediments to creative, integrated approaches.**

To that end, the $1 billion Build Back Better Regional Challenge grant, made possible by resources provided by the American Rescue Plan Act, reflects what is welcome. The funding is properly scaled to match the size of the ambition, which is to empower local leaders to implement smart, holistic regional cluster initiatives that create lasting economic competitiveness. It rewards multi-sector collaboration, by spurring local leaders to work together across a comprehensive set of programs, such as applied research, workforce training, entrepreneurship, and community development initiatives that together create the conditions for industry clusters to succeed. The program articulates clear outcomes, such as long-run industry competitiveness, quality jobs, racial and economic equity, and bridging urban and rural linkages. As one of our local partners shared, "these targeted investments to fill (key intervention) gaps is one capability that EDA has that maybe no one else does. If this is the direction the EDA is going, then bravo!"

EDA programs structured like the Build Back Better challenge grant could catalyze dozens of transformational initiatives, like the ones I cited in Milwaukee, Birmingham, and Central Indiana. Status quo EDA funding simply will not. We need well-resourced challenge grants like Build Back Better to become the norm because that is what it takes to generate impact.

State and regional stakeholders agree. EDA reported it received over 500 applications from all 50 states and five territories, for just 60 planning grants and fewer implementation grants for this Build Back Better program. That's an indication of the hunger for large-scale economic revitalization programs and what's right about this program design.

4. **EDA should formally serve as point for federal interagency coordination in support of regional economic growth.**

EDA ought to work across silos in much the same way their partners do in regions, thus aligning federal programs that maximize effectiveness on-the-ground. In the past, especially during the Obama administration, when federal resources were scarce, EDA stepped up in chairing federal interagency responses to a wide array of critical regional challenges. This includes coordinating program delivery with USDA, HUD, Labor, SBA, and Treasury to grow green industries, support advanced manufacturing communities, and promote regional innovation clusters. This role may also require elevating the role of the EDA assistant secretary to an Undersecretary position to give the agency greater authority and leverage to drive a federal interagency process.

5. **EDA should build the capacity of local agencies and institutions to meet this broader mandate.**

Historically distressed communities, both urban and rural, and often small and mid-sized places, lack the local capacity or resources to even start and manage a productive planning process for needed economic development initiatives, let alone to ultimately implement them. To that end, EDA should retain "predevelopment assistance," currently a pilot approach, as a core feature of providing planning and capacity dollars to help places better compete for larger grants. EDA should streamline proposal requirements to improve accessibility for low-capacity communities and institutions, such as Main Street organizations or other nonprofits, so that EDA funds do not always flow directly to colleges and universities or other established institutions with robust federal grants administrators.

Conclusion

You've invited me here to provide testimony on how economic development is evolving, particularly in U.S. metro and rural regions, and to discuss the relevance and role of the EDA in the current economic environment. What I hope I relayed to you today is that economic development matters, perhaps more than ever before, because, in the face of rapid and unprecedented disruption, we must work together to shape and manage our shared economic future. U.S. metro and rural regions are on the front lines of this disruption, and while they recognize the urgent need to adapt, they are held back by obstacles which often require outside support to overcome. The federal government, led by the EDA, ought to be that catalyst, partner, and capacity builder to state and regional leaders. This is not top-down industrial policy, but modern devolution that invests in leaders and organizations that know their communities—and their opportunities—best. It is this modernized and reauthorized EDA that has the best potential to help every community be prosperous, inclusive, and resilient, expanding American competitiveness.