



Smart Economic Development for Minnesota

Getting It Right in Tough Times and Beyond

By Matt Kane

In these tough times, the economy and jobs are top priorities. Minnesota's policymakers must act wisely now to assess short-term economic development options and guide the state toward opportunities for growth and expanded prosperity in the long term. This policy brief arms policymakers for those tasks, building upon evidence and economic development concepts.

Economic Development Priorities for the Downturn

With the current recession, the economic development focus in Minnesota will shift in the short term away from expansion to retention and survival. Useful approaches for the here-and-now include:

- **Offer businesses assistance and technical advice.** Business assistance will need to address immediate concerns brought on by the economic downturn.
- **Help laid-off workers.** Some laid-off Minnesotans will need retraining. Others will benefit from job search assistance, particularly as the economy begins to recover.
- **Encourage entrepreneurs.** State government should encourage and support entrepreneurs – including laid-off workers – as they capitalize on economic change and emerging opportunities.
- **Tap federal economic stimulus funding for the long-term benefit of the state.** Minnesota should take full advantage of federal dollars to counteract the downturn but also to make smart investments in infrastructure, workers and places that will pay off for years to come.

Smart Approaches to Long-term Economic Development

Beyond the recession, Minnesota should commit to the following approaches in order to spur economic development and growth. State government should:

- **Invest in education and training to better the lives of Minnesotans and improve the skills and knowledge that they bring to their jobs.** Public investment in education and training can result in broad benefits that will advance Minnesota's economy in the long run.
- **Invest in public infrastructure that will yield high-return benefits for the cost.** Done right, infrastructure investment can yield broad and lasting benefits for the region.
- **Avoid or minimize company-specific tax breaks and public subsidies.** Better to spend public dollars or cut taxes in ways that benefit broad sections of the economy than to offer narrow tax breaks for specific firms.
- **Identify Minnesota's comparative advantages, critical region-wide industries and occupations, internal economic linkages, and emerging prospects for development and growth.** State government should further ramp up its use of objective economic analysis.
- **Pursue economic development strategies that take aim at the drivers of economic growth.** Smart ap-



proaches to economic development boost the productivity of key industries; improve the quality of life to keep and attract talent; encourage entrepreneurship; focus on industries and occupations that provide high-quality, good-paying jobs; and pay attention to industries and businesses whose sales bring new dollars into Minnesota, retain dollars within the state, or otherwise strengthen the state's internal economic connections.

- ***Avoid using tax dollars as financial capital for private ventures.*** Financial resources flow toward investment opportunities through the private sector, not through government.
- ***Secure a strong return on investment from any state economic development initiative, program or action – setting clear goals and demanding accountability for results.*** The measurement of impacts, while difficult, is important for accountability.

Four Tests to Ensure Real Economic Development Impacts

To have an impact, public sector economic development initiatives must pass four tests.

- ***Will government action truly spur development and growth, or will the development and growth occur anyway, without government involvement?*** Too often public dollars underwrite economic activity that would have taken place without any government action.
- ***Does the positive impact from economic development spending exceed the benefits that would have resulted from alternative uses for those funds?*** State funds for economic development cannot be used for other purposes – public investment in education, for example, or private sector purchases that taxpayers might have made with the money they paid to fund economic development.
- ***Does the impact of government economic development activity sum to greater than zero for the state?*** The positive impact on one area may come at the expense of another, as in the case, for example, of a firm simply relocating its production facilities from one site to the next.
- ***Do the overall benefits of the government economic development activity exceed its costs?*** Benefits must be weighed against the costs in order to assess whether or not economic development efforts yield true gains.

Guiding Economic Development Principles

The smart economic development approaches outlined above flow from the following guiding principles for government involvement in the state's economy.

- ***Market forces are the dominant drivers of the economy.*** Public policies influence economic development and growth, but they cannot supplant the private sector, nor should they try.
- ***Economic development should focus on factors internal to the workings of the state's economy and under the influence of the government.*** When it comes to economic development and growth, Minnesota's policymakers and state agency officials must understand what they can influence and how.
- ***Sensible economic development policy must build upon existing strengths.*** Policies and programs must take into account the comparative advantages that Minnesota and its substate regions have to offer.
- ***Economic development efforts should yield real net impacts on growth in the long run or the potential for growth in the short term.*** Generally the preferred course of action is one that yields the greatest impact at the lowest cost.
- ***Economic development policies should generate broad benefits for people and businesses.*** Especially



important are benefits that will continue to have a positive impact even if specific businesses downsize, close or move.

- **Any targeted economic development efforts should pay attention to the needs of lagging or distressed areas and of populations at the lowest rungs of the economic ladder.** In the long run, the benefits of growth will likely be greatest for low-income residents and for distressed places rather than growing ones.
- **Regional economies benefit from the production of goods and services that depend upon capital-intensive processes and skilled workers, and ones that incorporate high levels of locally added value.** These factors allow Minnesota's businesses to compete on innovation and quality, and earn strong profits from their goods and services.
- **Economic development initiatives should emphasize environmental sustainability and protect water, air and natural resources.** Given the magnitude of climate change and other environmental problems, Minnesota's economic development efforts should focus on prospects that will improve, not worsen, the outlook for the environment.

Why Government Plays a Role in Economic Development

There are solid reasons for public sector involvement in economic development, including:

- **Spillovers.** The market will produce too much when private sector buyers and sellers overlook negative spillovers, such as pollution, and too little when they overlook positive spillovers, such as the overall gains for a region from investments in education and training.
- **Information market failures.** Free market theory assumes buyers and sellers have perfect information about all elements of production, employment and consumption decisions. Reality often falls short of the ideal.
- **Existing but underused capacity.** If public infrastructure or private resources are left idle, a community misses out on the economic potential of those existing investments.
- **Social impacts.** Growth can have long-term positive impacts on the economic well-being of places and people, especially less-educated, low-skilled individuals.
- **Political pressure.** Economic stagnation or decline prompts demands from voters for economic development action – good or bad.

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