



# Dr. Ken Poole, CEO of the Center for Regional Economic Competitiveness

To compete effectively, focus on core competencies and growth of existing businesses

A Civic Caucus Focus on Competitiveness Interview

*May 16, 2014*

## Present

John Adams, David Broden (vice-chair), Janis Clay, Pat Davies, Rick Dornfeld, Amir Gharbi, Paul Gilgie, Randy Johnson, Sallie Kemper, Dan Loritz (chair), Clarence Shallbetter.

## Summary

In the current global economy, the distribution of businesses and jobs has become more competitive. In response, state and local policymakers often turn to economic development incentives to attract and retain jobs. According to Dr. Ken Poole at the Center for Regional Economic Competitiveness, the current economic environment presents a number of challenges to communities seeking to grow and attract good jobs.

Moving beyond the classic "tax rates versus service quality" discussion, Poole highlighted issues such as workforce development, rapid changes in the global economy, and new infrastructure needs. Poole said these issues also are having an impact on the ability of local and regional economies to grow. He argues that policymakers should focus on fostering the growth of the companies already located in their communities. Poole believes that growing from within is far more effective in creating a large number of jobs than trying to attract outside companies with incentives.

## Background

Dr. Ken Poole has managed economic development research, analysis, and technical assistance efforts for over 30 years. Poole co-founded [Center for Regional Economic Competitiveness](#) in January 2000 as an independent non-profit organization focused on assisting policy-makers in using data to determine how state and regional economies can compete effectively in the evolving, knowledge-based economy.

Under Poole's leadership, the center has successfully completed dozens of projects for federal, state, regional, and local clients. For those projects, Poole has conducted quantitative and qualitative analyses of economies and program impacts, facilitated strategic leadership planning sessions, and provided technical assistance on economic and workforce development program design and strategy.

Poole received his PhD in Public Administration, Regional Development Policy, from George Mason University.

## Discussion

**What is Economic Development?** Poole suggests that economic development should be defined as creating economic activity that adds value to a local economy and increases the prosperity of the people who live there. Poole also acknowledges that sometimes the people who live in a given area may not have the skills necessary to benefit from increased development. In those cases, companies tend to attract new in-migrants to take those jobs, but it is generally the community's responsibility to ensure that skilled talent is available.

### Should Development Incentives be used?

This year, the Center for Regional Economic Competitiveness launched a new initiative with Pew Charitable Trust to [collect information on the performance of economic development incentive programs](#). Collecting this information should help policymakers craft policies that deliver the strongest results at the lowest possible cost, while also increasing public transparency.

The Center for Regional Economic Competitiveness remains neutral on whether to use economic development incentives. The political reality is that most states employ incentives and are likely to continue doing so. Poole says their work is designed to help policymakers be better stewards of public dollars. If political leaders feel that incentives are important, then CREC would like to help those leaders make the most effective investments possible.

**The Challenge for Economies.** Currently, Minnesota and other states are grappling with how to support growth and job creation in a changing economic environment. As a result, states are left trying to answer several critical questions:

- What factors drive economic development and job creation?
- What public policies present the best chance to support job growth?
- What resources are available to support economic development?

In this environment, Poole says states are trying a variety of different initiatives in an attempt to spur development. These efforts range from promoting entrepreneurship and investing risk capital in new start-up businesses to providing tax credits for job creation, investing in customized job training to meet companies' workforce requirements and offering infrastructure programs to help expand their facilities.

**Barriers to Development** . Not all job creation results in economic development for a state. Poole cites the fact that no more than 25 to 30 percent of jobs in a regional economy bring new money into the area; the remaining jobs tend to "recycle" the region's existing wealth. Manufacturing and tourism are two obvious examples of industries that bring dollars into a local or regional economy. In comparison, the vast majority of jobs focus on filling local needs, circulating current money around. Problematically, these local service jobs have a smaller multiplier effect, and more importantly, these jobs are much more likely to be low paying.

**Distribution of Development**. Poole suggests that there are a number of factors that affect where development occurs, many of them outside of policymakers' control:

- **Demographic shifts**. The aging of baby boomers and new immigration patterns play a significant role in shaping economic and tax policies.
- **Knowledge intensity**. Innovation and creativity are becoming increasingly important for economic prosperity, while brawn and geography have become less critical.
- **Product life cycles**. Product life cycles are becoming shorter, which has a major impact on how industries operate and how quickly things can change.
- **Increased fragmentation** . In the past, large conglomerates directly produced products and services themselves. Today, these companies often organize and manage other businesses. As a result, the value chain and the supply chain play a much larger role in the economy.
- **Greater Integration**. Global supply chains mean that issues in other countries can impact economic development in the United States. For example, the 2011 tsunami in Japan had a huge impact on the automotive supply chain around the world.

**Principles for Policymakers**. Considering these factors, Poole argues that policymakers should turn to some basic principles to guide their work:

- **Encourage private markets** . Policymakers should allow private markets to operate free from interference, except in the case of market failures that preclude a level playing field or that create barriers to entry that are too high.
- **Balance costs and services** . Policymakers can impact corporate behavior. This means they should strive to keep taxes at moderate levels, while maintaining the high-quality services that the best paying companies (and their workers) demand.

Resource scarcity presents a significant challenge for state and local governments, especially since the recession. These limitations make it difficult for governments to make desired investments while holding costs in check. Instead of making direct expenditures, state and local policymakers have become much more willing to implement development incentives through tax structure changes because those expenditures were not monitored as traditional budget line items.

For example, Minnesota now spends \$9 in so-called economic development tax expenditures (through breaks offered in the tax code) for every \$1 it spends through direct economic development

program expenditures. Other states have similar patterns of economic development tax expenditures versus budgeted program expenditures. Poole argues there is not anything inherently wrong with using the tax code in this fashion, but when such expenditures are left unbudgeted it is hard to determine how much is invested or whether that investment provided a return. Further, if left uncapped, tax expenditures have the potential to become too expensive to be sustainable.

**Growing Economies, Not Shuffling Them** . Poole argues that business incentives that simply relocate companies are ineffective, unless it can be argued that new location is more efficient or that the state has made a substantial strategic choice to lure a new industry, not just a single enterprise. And on practical level, companies that receive incentives to relocate are less likely to remain permanent additions to the local or regional economy.

Instead, Poole suggests that local and state governments should focus on helping their current businesses add jobs, one or two at a time. In the long run, these businesses are likely to create more jobs in total than the relocating businesses can add to a local economy. Thus, Poole argues that policymakers need to think about "growing the pie," instead of taking a slice from someone else.

**Finding Competitive Advantages.** To grow their economies, policymakers should consider what makes their region unique. Do they have a talented workforce, a desired natural resource, a great location, etc.? They also need to consider what their gaps are. For many regions, Poole says, this gap frequently is workforce talent; either a community has not invested in its talent or its companies need a different type of talent.

To determine where these strengths and weaknesses lie, Poole advocates examining a variety of factors. At the Center for Regional Economic Competitiveness, they look at issues such as the mix of industries or businesses found in a local economy and the trends in that field. They also are interested in the types of workers found in that region and the pipeline of future workers. For high-skill positions, immigration patterns also are important because "you don't just create a masters' degree in six months."

Poole cautions against relying on some popular measures to assess regional economic competitiveness. He says venture capital and patent statistics can be misleading. For example, [Maplewood-based 3M is a prolific patent accumulator](#) , recently surpassing 100,000 total patents. However, many great ideas are never patented and thus are not reflected in this measure of innovation.

**The State/Local Conflict.** Economic development typically occurs at the regional or local level. However, the states typically control the financial resources and institutions critical to economic development (such as tax incentives and land grant universities). Poole says that to maintain a state-local partnership, both sides need to find a "glue" that binds them together. Support for this partnership can come from a variety of sources: civic leaders, state economic development resources, or even federal dollars.

States such as Utah and North Carolina have done good jobs supporting sustainable economic development. Utah has used educational incentives to build from within, while maintaining relatively low costs. Similarly, North Carolina has built a series of economic development anchors that support their economy. These anchors start with the research triangle (North Carolina State University, the

University of North Carolina, and Duke University) and more recently some new developments in the greater Charlotte area. In both cases, these states have triggered success in these areas without engaging in the most expensive bidding wars for outside businesses. Instead, they have used internal growth to sustain economic development and job creation.

**Skills Gap Real or Imagined?** The [skills gap remains a major point of concern](#) for economic development policymakers across the United States. Poole points out that economy is transforming rapidly, which creates problems for both companies and communities, including:

- **Rapidly changing needs.** Right now, the needs of companies are changing quickly, making it difficult to find employees that match the needed skill set. This problem is compounded by a historic underinvestment in training by corporations.
- **Stagnant wages.** Companies are looking for employees with more skills, but appear unwilling to pay more to get these employees.
- **Personal underinvestment.** There is evidence that suggests some people may not be investing in their own job skills and that an aging workforce compounds this problem.

Poole says there are not many good solutions to this issue. Many times, companies don't know what their needs will be in six months, making it difficult to create job training programs for specific occupations. Poole also suggests that most job creation is happening at smaller companies (as opposed to larger employers), which makes it difficult to develop customized job-training programs for groups of individuals requiring the same skills at the same time, the model that most community colleges use.

Poole cites the [Industries Partnership Program](#) in Pennsylvania as an exemplary workforce development initiative that has tried to address some of these issues during the past decade. The program brings together multiple businesses to identify common workforce needs, and then it trains individuals to fill these positions. This approach helps resolve the issue of trying to create training programs for small companies that might only need one or two newly trained employees. Many states have created their own version of this initiative under the auspices of "sector partnership" programs; some of these have been supported with funding from local workforce investment boards.

According to Poole, another key component of the skills gap discussion are "critical" jobs. For example, a small manufacturing company might only need one welder or one machinist, but if the firm is unable to fill the position they may find operating smoothly very difficult. Thus, while the number of skilled workers required may be small, this gap can have a significant impact on growth.

**Importance of Public Infrastructure.** Communities that lack access to high-quality, reliable, and affordable broadband are put at serious economic disadvantage. In this context, Poole says that internet accessibility and high speed broadband telecommunications have become just as important as traditional infrastructure needs.

Poole also argues that as communities become denser, they need to consider alternate transportation options. Developing overlapping transportation systems creates redundancy, which helps ensure that people have ways to get around even when a car or bus breaks down or daily traffic congestion snarls access to work and school.

**Globalization and Regional Competitiveness.** International trade offices became popular during the 1990s and then declined when states were forced to make budget cuts. The roles of state-based international trade offices also vary. Some states use the offices to attract foreign companies to their states, while others use them to help their businesses go overseas.

The benefit for large corporations is somewhat limited because they have the ability to enter foreign markets without public help. However, for smaller businesses these trade offices can be instrumental in providing the skills and market intelligence required to help businesses enter new markets and develop overseas business connections.

### **Closing**

Poole concluded by noting that since every region is unique, economic development policy must reflect distinctive regional differences. He also suggested that if policymakers opt for development incentives, they should consider how to use them in a strategic way. Otherwise, he encourages regions to focus on their core competencies to develop strategies aimed at growing from within.