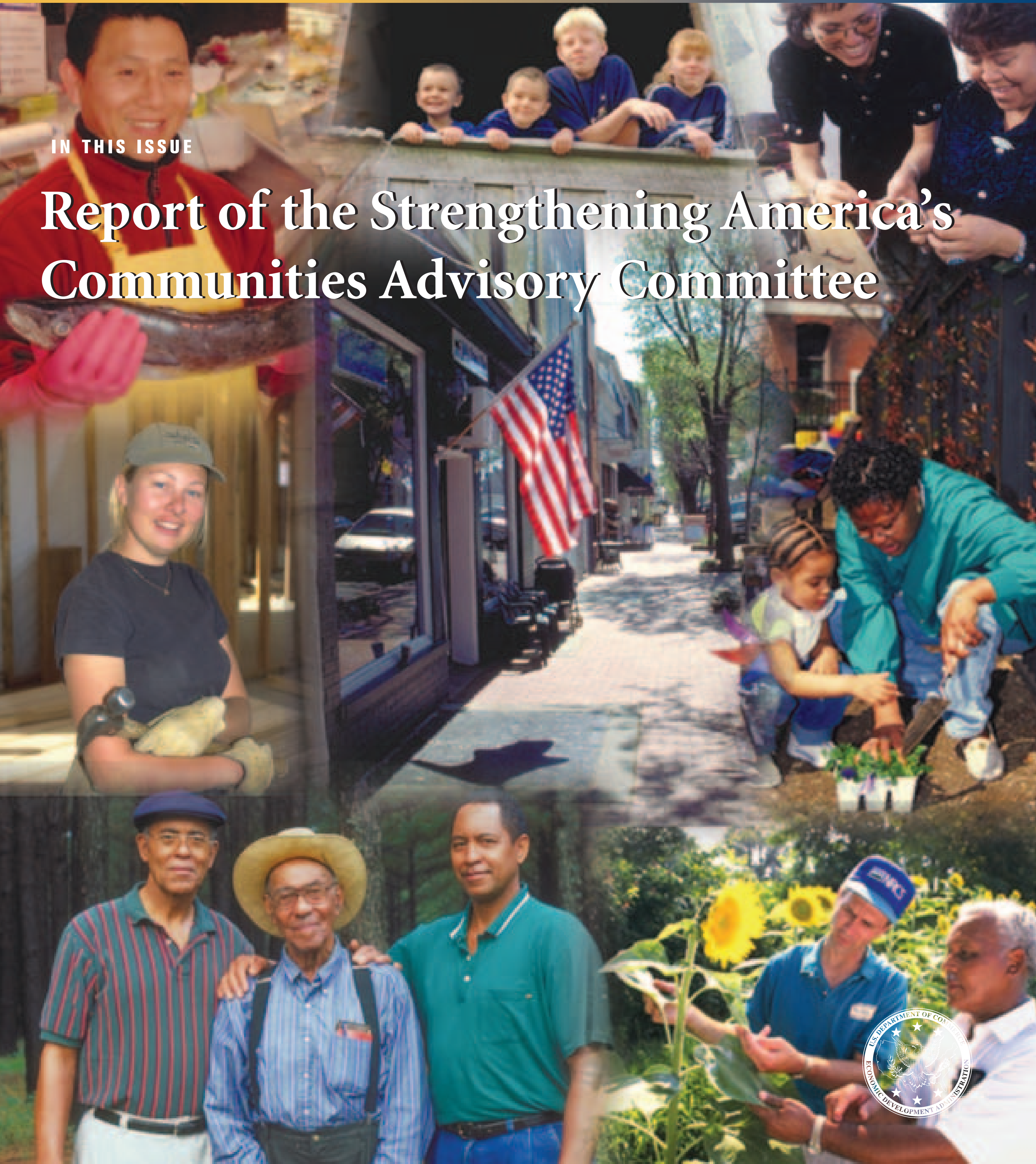
Economic Development America

COMPETING GLOBALLY ★ GROWING REGIONAL ECONOMIES ★ CREATING JOBS

SUMMER 2005

IN THIS ISSUE

Report of the Strengthening America's Communities Advisory Committee



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Economic Development America is a quarterly production brought to you as a benefit of a partnership among the Economic Development Administration (EDA), the International Economic Development Council (IEDC) and the National Association of Regional Councils (NARC). The partnership is designed to provide information about economic development practices and programs to economic development practitioners who serve distressed communities throughout the United States. It also provides six telecasts and a monthly e-newsletter, EDA Update. For more information, visit the EDA Web site at www.eda.gov.

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EDA Responds to the Gulf Coast

The devastation left by Hurricanes Katrina and Rita in the Gulf Coast communities of Louisiana, Mississippi, Alabama and Texas was severe and unprecedented in our nation's history. I traveled recently to the region with Treasury Secretary John W. Snow, Labor Secretary Elaine L. Chao and Social Security Commissioner Jo Anne B. Barnhart to assess both the near-term and long-term economic needs and to discuss the work the Commerce Department is doing to aid in the economic recovery of the region.

These storms have been devastating to lives and livelihoods, and we know that together we will heal. As the President has said, we will roll up our sleeves and go to work. We will build up again, better and stronger than what was swept away.

The Economic Development Administration has played a key role in the long-term economic recovery efforts following natural disasters. Now, EDA will make available more than $8 million for Alabama, Louisiana, and Mississippi to help their respective state and local governments begin to plan for economic recovery.

With these funds, the governors of these states can begin a critical examination of the damage to their state economies, and begin to work with the business community, including Chambers of Commerce and other local development foundations. The states can also hire the best firms in the development business to draft an overall economic recovery and development strategy. Some of you will be a part of this important effort.

I thank all of you in advance for the contributions that you will make to the long-term economic recovery efforts for this important region. Working together, we can and will restore the region as the economic driver it has always been.

Thank you for your commitment and service to our country.

Carlos M. Gutierrez
U.S. Secretary of Commerce

Rising to the Challenge

Advising Change to 40-Year-Old Federal Policy

By Deborah Wince-Smith

President, Council on Competitiveness, and Chairperson, Strengthening Americas Communities Advisory Committee

At first, our task seemed daunting.

In April 2005, U.S. Secretary of Commerce Carlos M. Gutierrez appointed 17 accomplished individuals to an Advisory Committee, with the charge of reviewing the recommendations of the Strengthening America's Communities Initiative and providing the Secretary with our thoughts on the proposal. In essence, our mandate was to advise first steps in updating current federal economic and community development policy and programs, which in large part, have not changed for 40 years.

It would be an understatement to describe Committee members' backgrounds as diverse; we are state and local officials, private-sector economic development practitioners, and leaders of community-based and research organizations. We come from 16 states and the District of Columbia, representing urban and rural regions, and a wide range of resources, strengths and needs. Indeed, it became clear upon looking around the table at our first meeting in Fresno, California, that this group could articulate firsthand the economic and community development challenges facing our nation.

Despite our diversity, we quickly agreed on several principles: The primary goal of economic development – securing an increasing standard of living for all citizens – has not fundamentally changed; community development and economic development are integrally linked; and there is no "one size fits all" solution for helping distressed communities and regions across the nation build prosperity.

After two additional public sessions and several months of research, deliberation and dynamic discussion, I am pleased to report that we reached consensus on a roadmap for directing future economic and community development policy. The resulting recommendations, set forth in the following report and presented to Secretary Gutierrez on June 21, 2005, are offered as our vision for ensuring the prosperity of America's communities and regions in the 21st century. The recommendations fall into three categories: 1) bringing federal policy into the 21st century; (2) targeting need and responding to opportunity; and 3) assuring flexibility, accountability and results.

The updating of federal policy is so extensive as to require a new vocabulary for 21st century community and economic development, bringing to light concepts of globalization, regionalism, competitiveness, innovation, and entrepreneurship. These concepts, detailed in the report, pave the way for the broadening context in which federal policy must be set. They also provide suggested guideposts for communities and regions to use as they begin focusing on the critical elements to innovation-based economic growth in a globally competitive world: talent, investment, and infrastructure.

There is no question that the playing field is leveling; America will have to work harder than ever before to maintain its position as economic world leader. America's ability to successfully compete in the global marketplace will be determined by the strengths of its regions.

Just as we compete in the world marketplace, so too must we compete at home. Economic and community development funds can no longer be provided exclusively on the basis of 40-year-old formulas. Rather, we must challenge each community and region by creating a system that rewards innovators and the visionaries while providing for those communities that truly need a helping hand.

Therefore it is my great hope that with these recommendations, our common goal of securing an increasingly higher standard of living for all citizens will be more attainable in the 21st century than at any time in our history.

Executive Summary

Globalization has fundamentally transformed the American economy. Regions — defined by economic rather than political boundaries — are the new building blocks of prosperity.

The drivers of economic growth are changing, dramatically and swiftly, bringing knowledge, innovation, and entrepreneurship to the forefront. As a result, our regions are competing globally in a fierce race for talent, capital, investment, skills, and expertise.

While the drivers of economic growth have changed, and while economists have discovered a host of new strategies that offer extraordinary potential to help regions compete globally, our nation continues with policies, organizational structures, and investment strategies built for a past era. Current federal economic development policy — which largely assumes a homogeneous, industrial economic landscape — has not changed for 40 years. The degree to which America's regions and communities can successfully compete in the global marketplace will determine whether residents of these regions will live in an environment of need and scarcity or one of abundance in the decades ahead. In short, given that the nation's economic health is inextricably linked to the competitiveness of its regions, a national dividend will accrue from federal investments that strengthen regions and the communities that exist within.

Communities and regions should adopt innovation-based strategies to remove barriers to economic growth and to increase their competitiveness in an era of globalization.

The Strengthening America's Communities Advisory Committee

A response to this need for change is the Strengthening America's Communities Initiative ("the Initiative"), announced in February of 2005 as part of the FY 2006 Budget Request of President George W. Bush. The Strengthening America's Communities Advisory Committee (the "Committee") was appointed to advise the U.S. Secretary of Commerce on policies, principles, and guidelines associated with the implementation of the Initiative.

The Committee focused its attention on policy considerations and basic principles that should guide the reorganization of federal economic and community development programs. The Committee did not assess or evaluate which federal programs would be best to consolidate, the individual performance of existing programs, or an appropriate level of appropriations for the Initiative.

The Secretary appointed Committee members to serve for a two-year period, and asked the Committee to submit a report of initial recommendations within three months.

Over the past several months the Committee held meetings in Fresno, California, Kansas City, Missouri, and Clearwater, Florida, and worked by teleconference to accomplish this end. In addition, subcommittees convened work sessions throughout this process.

Summary of Findings, Guiding Principles, and Recommendations

During its early deliberations, the Committee quickly recognized the need to revisit fundamental policy issues, and therefore focused its primary attention on implementation policies not on implementation procedures and processes. Its recommendations take into careful consideration the history of economic development policy and programs in the United States, the evolution of economic and community development thinking, and the challenges and opportunities posed by the 21st century economy.

As a framework for deliberations and for this report, the Committee organized its work into three categories: findings, guiding principles, and recommendations. Findings represent statements of the nation's current state in economic and community development policy and thinking. Guiding principles represent common beliefs, evolved from the findings, which illuminate the path to assisting communities and regions to achieve competitiveness in a global economy. Recommendations are specific actions that the federal government should consider to align federal policies and investments with 21st century economic imperatives.

By the Committee's third meeting in Clearwater on June 2, 2005, three very clear themes — or areas of recommendation — emerged: Bringing Federal Policy into the 21st Century; Targeting Need and Responding to Opportunity; and Assuring Flexibility, Accountability, and Results. (See Figure 1: Recommendations At-a-Glance.)

Bringing Federal Policy into the 21st Century

In the 21st century America's communities will derive economic strength by acting and partnering regionally to compete globally. Innovation and entrepreneurship are the twin engines for wealth creation and a rising standard of living. Regional competitiveness needs to be the underlying strategy for federal economic and community development policy. Communities must act regionally to be competitive in today's world. To reach their full potential, communities must collaborate with other communities and with private and public partners (e.g., businesses, civic organizations, chambers of commerce, national laboratories, research and education institutions, foundations, nonprofits, regional developers, etc.), on economic strategic planning and growth initiatives and their implementation. Ideally, all American communities and regions should adopt innovation-based strategies to remove barriers to economic growth and to increase their competitiveness in an era of globalization.

Because this is so important, long-term strategy development should be the first use of federal assistance for any community receiving assistance, as well as a prerequisite for follow-on aid. In addition, federal policies and actions should be reviewed for their impacts on the sustainability and competitiveness of economic regions.

Targeting Need and Responding to Opportunity

The eligibility and allocation of federal resources must also be better targeted to communities and regions of high distress. Potential for improvement exists in all communities, but it must be identified and acted upon. Targeting need has declined under the long-standing and current formulas, which the Committee recommends updating to incorporate new measures and indicators of the relative strength of a community and region.

The Committee has also concluded that competitive challenge grants constitute a better mechanism than formula grants for maximizing scarce resources, assuring accountability, and achieving results. Over time, challenge grants should become the most prevalent model for federal assistance to distressed communities. The Committee recommends that the federal government set a goal to transition most federal assistance to competitive grants within the next ten years. To ensure that distressed communities are equipped to compete for these grants as the transition proceeds, significant technical assistance and support for capacity-building must be made available.

Regarding eligibility for assistance, this report recognizes that community development is a dynamic process; communities will not be in a constant state of distress. Every year some communities will have succeeded to the point they no longer require federal assistance. At the same time, it can be expected that other communities may weaken due to shifts in the global economy, major plant closures, and even natural disasters, and these communities may then qualify under the eligibility profile.

Federal resources must also be better targeted to communities and regions of high distress.

Assuring Flexibility, Accountability and Results

Federal economic and community development programs need to be consolidated for access, efficiency, and accountability. The federal role should clearly be one of catalyzing and supporting actions that are led, directed, and implemented by regions and communities. One of the many benefits of consolidation is better coordination at the federal level, where programs are dispersed across many departments and agencies. Assistance must also be made flexible, easily accessible, and strongly tied to performance, results, and measurable outcomes.

The changes recommended in this report must be implemented in ways that minimize disruption to participants in current programs. The Committee urges provisions for a significant transition period for the shift from current programs now providing assistance.

Leadership in Action

During agreement deliberations, Committee members also had the opportunity to learn about initiatives across the country that are transforming the economic landscape and growing prosperity. These initiatives encompass new alliances that cross jurisdictional lines, build public-private collaborations, and utilize universities and community colleges as full partners in building regional economies. Several of these initiatives are shown at the conclusion of the report.

Summary

While the Committee's recommendations are offered as a roadmap to the prosperity future, and "challenge and change" are the overarching themes of this report, the Committee has concluded that the fundamental goal of community and economic development has not changed: the goal of securing an increasing standard of living and greater opportunity for all citizens. With these recommendations, it is hoped that this goal will be more attainable in the 21st century than at any time in the past.

The Committee has concluded that the fundamental goal of community and economic development has not changed: the goal of securing an increasing standard of living and greater opportunity for all citizens.

Figure 1: Recommendations At-a-Glance

Bringing Federal Policy Into the 21st Century

In the 21st century America's communities will derive economic strength by acting regionally to compete globally. Innovation and entrepreneurship are the new engines for job creation, productivity, growth, economic prosperity, and healthy communities.

- Establish regional competitiveness as the overriding goal for federal economic and community development policy.
- Review all federal policies and regulations for their impacts on the sustainability and competitiveness of economic regions.
- Require long-term, innovation-based, regional economic and community development strategies as a prerequisite for follow-on federal assistance.
- Provide significant funding of technical assistance to regions for the formulation of innovation-based regional economic development strategies.
- Coordinate and consolidate workforce development programs with economic development initiatives to drive innovation-based economic growth.
- Direct federal economic and community development resources to encourage communities to form regional partnerships and governance models primarily based on economic relationships, not political boundaries.
- Promote private-public partnerships for regional development that include educational and research institutions, national laboratories, labor organizations, private businesses, and government, which collaborate and co-invest as partners in regional competitiveness.

Targeting Need and Responding to Opportunity

Federal economic and community development resources should be focused on communities/regions of greatest need. Potential for improvement exists in all communities, but it must be identified. Over time, challenge grants should become the prevailing model for federal assistance.

- Establish regional competitiveness as the overriding goal for federal economic and community development policy.
- Review all federal policies and regulations for their impacts on the sustainability and competitiveness of economic regions.
- Require long-term, innovation-based, regional economic and community development strategies as a prerequisite for follow-on federal assistance.
- Provide significant funding of technical assistance to regions for the formulation of innovation-based regional economic development strategies.
- Coordinate and consolidate workforce development programs with economic development initiatives to drive innovation-based economic growth.
- Direct federal economic and community development resources to encourage communities to form regional partnerships and governance models primarily based on economic relationships, not political boundaries.
- Promote private-public partnerships for regional development that include educational and research institutions, national laboratories, labor organizations, private businesses, and government, which collaborate and co-invest as partners in regional competitiveness.

Assuring Flexibilty, Accountability, and Results

Federal assistance for building strong communities should be rebalanced. Assistance must be made flexible and easily accessible, and it must be strongly tied to performance and results

- Establish a cabinet-level inter-agency council to coordinate federal community and economic development activities and implement a program consolidation plan. This council should identify best practices and report annually on federal goals, investments, and results.
- Consolidate federal community and economic development programs to eliminate overlap and duplication of multiple agencies and programs providing similar types of assistance.
- Recognize emerging, self-defined economic regional boundaries and harmonize federal economic and community development regional designations across federal agencies to make them consistent.
- Develop robust analytical tools and metrics to help regions identify competitive advantages, formulate strategies, track progress toward goals, and report on performance and outcomes.
- Require and reward co-investments from nonfederal funders, but allow exceptions to this requirement where circumstances of high distress make co-investments impossible. Implement a sliding scale for co-investments for different types of economic and community development activities.
- Allow subregional organizations to apply for and directly receive federal assistance as long as the funding requests are consistent with the long-term regional economic and community development strategy.
- Create effective forums for propagation and sharing of best practices in economic and community development.
- Partner - in the spirit of better governance on a national level - with educational institutions and non profit associations to provide policy makers and practitioners continuing education and capacity building under the new Initiative.

The Committee's Charge and Process

On February 9, 2005, the President's Domestic Policy Council requested the Secretary of Commerce (the "Secretary") to form the Strengthening America's Communities Advisory Committee (the "Committee"). The objectives and duties of the Committee are to provide advice and recommendations to the Secretary, and to develop a comprehensive written report of policy parameters to assist in implementing the President's Strengthening America's Communities Initiative (the "Initiative").

This includes advising on its legislation and regulations, and providing other guidance. The Committee has been asked to advise on all aspects of the envisioned Initiative, including policy findings and declarations, eligibility, program delivery, monitoring, and performance measures.

Appointments to the Committee were completed in April 2005. The membership of the Committee represents diverse backgrounds and geographic regions. The Committee includes individuals working within the private sector, state and local officials, and individuals from community-based and research organizations. Within the membership are individuals with expertise in global, national, and regional economic competitiveness, rural and urban economic development, and social and community development.

Committee members were appointed to serve for a two-year period, and the Committee was asked to submit an initial report to the Secretary in early summer 2005.

The Committee held its first meeting in Fresno, California, on April 15, 2005. Additional meetings were held in Kansas City, Missouri, on May 13, 2005, and in Clearwater, Florida, on June 2, 2005. Between the public meetings of the Committee, the members held administrative briefings and work sessions of subcommittees. Reports from subcommittees to the full Committee were made at the Kansas City meeting and were submitted prior to the June 2, 2005 meeting in Clearwater. At a teleconference meeting on June 27, 2005, the Committee conducted a final review of this report and authorized its submission to the Secretary.

Meeting notices, agendas, and transcripts of the Committee's meetings are posted on the Department of Commerce website at www.commerce.gov, where there is a link to all the public postings for the Initiative.

Expert Testimony

The Committee was fortunate to have presentations from outside experts at the meetings in Kansas City and Clearwater. Their knowledge and perspectives stimulated discussion and contributed significantly to the development of the policy recommendations of this report.

- Dr. Brian Dabson, Associate Director of the Rural Policy Research Institute of the University of Missouri, presented perspectives on how entrepreneurship works to energize and evolve regional economies, and what federal policy can and cannot do to help. While he focused his remarks on rural America, Dr. Dabson emphasized that many of the principles presented were relevant to all regions across the urban-rural continuum.

- Dr. Pamella J. Dana, Director of the Governor's Office of Tourism, Trade and Economic Development for the State of Florida, presented perspectives on federal policy as it relates to state community and economic development efforts. She discussed specific experiences in Florida's disaster recovery efforts following the 2004 hurricanes.
- Dr. Geoffrey J.D. Hewings, Professor at the University of Illinois at Urbana, shared his perspectives on critical trends in regional economic development. He discussed key issues for consideration that concerned the federal government's role in facilitating community and regional economic growth.
- Ms. Julie Meier Wright, President of the San Diego Economic Development Commission, offered remarks on bringing innovation into local and regional economies. She specifically cited the experiences of San Diego as it transitioned from a community heavily influenced by U.S. military presence. Her discussion included the exploitation of university resources to create and evolve a knowledge-driven economy, and how this can inform federal policy for application elsewhere in the nation, especially communities and regions not currently competitive in the global economy.

Oral and Written Comments

At the Kansas City meeting and again at the Clearwater meeting, the Committee provided an opportunity for public oral comments. In addition, the submission of written comments has been encouraged. All written comments received have been forwarded to the Committee members for additional review and consideration in the report development process.

It is important to acknowledge that a number of the public and written comments to the Committee expressed concerns about the Strengthening America's Communities Initiative. The most common concern was about consolidation of existing programs and the possibility that this might cause a reduction in funding or a total loss of funding for current program recipients. While the Committee was not charged with making recommendations on which programs should be consolidated or on levels of program funding, these concerns were inherently and explicitly taken into consideration.

Among the Committee's concerns was the need to address the strengthening of families in our distressed communities. The Committee recognizes that strengthening a community economically can contribute significantly to addressing the needs of the residents of those communities, such as families living in poverty, separated parents, the elderly, and those who are mentally and/or physically disabled. A nearby job with a sustainable wage, increased capacity of a community to provide social services, and the ability to have access to high-quality day care are benefits that can make a difference in the quality of life for the neediest members of those communities and set them on the path from poverty to prosperity. The Committee's recommendation to target resources to communities of greatest need couples this key concern with a potential solution.

Strengthening a community economically can contribute significantly to addressing the needs of the residents, such as families living in poverty, separated parents, the elderly, and those who are mentally and/or physically disabled.

The Committee believes that the concerns raised in public and written comments may be alleviated when more details of the Initiative are known. Meanwhile, all comments received by the Committee have been duly noted and are also being forwarded to the Secretary for the administration's consideration.

Description of the President's Strengthening America's Communities Initiative

The Strengthening America's Communities Initiative, for which the Committee was formed, was included in the federal Fiscal Year (FY) 2006 budget proposal submitted to Congress by President George W. Bush in February 2005. The Initiative calls for the consolidation of 18 existing community and economic development programs to simplify access to the federal system and to create a more efficient and responsive delivery system. The Initiative proposes more flexibility and stronger accountability measures than currently exist in many of the programs identified for consolidation. In addition, the Initiative proposes that federal economic and community development funds be better targeted to communities most in need of assistance.

The Initiative contemplates improved formulas for determining eligibility for need-based federal assistance. A bonus feature has also been proposed for the Initiative, whereby low-income communities facing economic challenges can be awarded additional support under an Economic Development Challenge Fund. To qualify for this bonus, a community must show that it has taken steps to improve economic conditions and must demonstrate readiness for development.

A Challenge for the 21st Century

The Transformative Impact of Globalization

Globalization is the widening, intensifying, accelerating, and expanding impact of worldwide interconnectedness. Globalization has fundamentally changed economic development for regions, communities, and nations. Regions are now competing globally in a fierce race for talent, capital, and high-value investment across the globe.

As a result, the drivers of economic growth are also changing dramatically and swiftly. The intensity of global and regional competition and connectivity throughout the world will increase rapidly in the coming years.

Yet, while the drivers of economic growth have changed, our nation continues with policies, organizational structures, and investment strategies built for an economic era that is gone. It is time to align our federal economic and community development policy with the new paradigm for regional economic growth and competitiveness. Federal policy must recognize that growth is likely to be driven at the regional level, beyond the local jurisdictions that have prescribed past efforts — and, indeed, beyond state lines. Every region of the United States must craft a regional economic and community development strategy to build and sustain a competitive edge in a rapidly changing global marketplace.

Recognizing that every region is inextricably linked to this global economy, regions must now harness comparative advantage and create new value. Distinct economic assets will drive this strategy, as will recognition of the market niches that a region can tap in building new and transformational value propositions.

There are two keys to success in economic development in this era of globalization:

The first is fueling the engines of entrepreneurship, which focuses on the ability of firms and individuals to take fresh ideas to the marketplace swiftly and to transform them into new products, new services, and new business models. According to the Kauffman Foundation, entrepreneurship "flourishes in more dynamic and technologically sophisticated industries" and is "associated with products and services in the introductory stage of their life cycle," unlikely to be found "where there are low barriers to entry."[i] One of our nation's greatest economic assets is its entrepreneurial spirit and tangible success. Our risk-taking spirit is at the heart of our regional prosperity.

There are hundreds of diverse examples of how entrepreneurship has added new energy and economic growth to communities and entire regions across the nation. To cite a few:

- In 1939, at a time when Stanford University engineering graduates typically left California to begin their careers in the East, Stanford classmates Bill Hewlett and Dave

[1] HUD defines community development activities even more broadly, as those including "many different programs that provide assistance to a wide variety of grantees."

Building a region's capacity to adapt to and create new technologies and opportunities is the underlying business strategy for competitive advantage.

Packard founded Hewlett Packard. The company's first product, built in a Palo Alto garage, was an audio oscillator — an electronic test instrument used by sound engineers. One of the first customers was Walt Disney Studios, which purchased eight oscillators to develop and test an innovative sound system for the movie Fantasia. The company's success led to the formation of a microelectronics cluster that further evolved into the diverse technology region called Silicon Valley.

- In the 1950s, Herman J. Russell and his father started a construction company based on their background in the plaster business. Today, the Atlanta-based company has 650 employees and projects that span the country. The company is among the nation's top ten minority-owned businesses, according to Black Enterprise magazine.
- In 1959, a Missouri family of local entrepreneurs started an entertainment business in the basement of Branson City Hall, where they set up 50 folding chairs and put on a show. The family's persistence at this new commercial endeavor became the basis for an entire entertainment cluster. Today, Branson touts itself as ranking fifth on the list of America's favorite vacation destinations.
- In 1998, two recent graduates of North Dakota State University formed that state's first biotechnology company. Aldevron, headquartered in Fargo, has grown to 50 employees and recently received a $2.4 million contract for vaccine development.

The second key to regional success is promoting and harnessing innovation. Building a region's capacity to adapt to and create new technologies and opportunities is the underlying business strategy for competitive advantage. For example, regional innovation has allowed a large section of North Carolina to be transformed from a low-wage, tobacco-based economy into the high-wage Research Triangle. It has allowed San Diego to evolve from a military-dominated community into one of the world's top clusters of biotechnology. These transformations largely occurred over the last 25 years.

Our nation cannot compete globally on a low-wage strategy and hope to improve economic conditions and increase living standards for our citizens. We must be able to create and deliver the high-value products and services that command a premium in the global marketplace. This dynamic innovation process begins at the regional level. A National Innovation Agenda was proposed by the Council on Competitiveness in December of 2004. That agenda outlines how the ingredients of innovation (talent, investment, and infrastructure) can be the foundation for fostering new innovation "hot spots" in regions across the United States.

Every region's competitive edge in the 21st century will be different. Therefore, federal policy must be far more flexible in accommodating a wide spectrum of development strategies. Indeed, it must be agile, it must be multidisciplinary, and it must fuse a whole host of capabilities with a strategic goal of focusing on the future — not on sustaining the past.

A Definition in Flux

What is economic development? What is community development? What did these terms mean in 1940? In 1960? Do we understand them differently today? Have the terms become interchangeable?

Economists and social scientists agree that these questions are more easily asked than answered, but most would permit broadly defining economic development as "a process that influences growth and restructuring of an economy to enhance the economic well being of a community."[ii] When compared with a general definition of community development — "activities that increase the positive outcomes possible within a community by linking individuals and organizations working toward common ends"[iii] — the overlap is obvious. Most activities traditionally considered to be "community development" (housing, homeless assistance, revitalization, etc.), when successful, certainly contribute to the "economic well being of a community." And, conversely, increasing the economic strength of a community creates new civic resources to address a wide range of community conditions. It also unleashes the power of the marketplace to combat conditions of poverty and distress.

In preparing recommendations for this report, the Committee considered the interconnectedness of community development and economic development, as well as changes in economics, technology, demographics, and institutions over the past half-century. It is important to note that for the purposes of this report, discussion of federal economic development policy and programs is inclusive of community development.

The federal government plays three major roles in economic and community development: undertaking policies to affect broad national economic objectives; administering programs and policies that have economic consequences, but whose ostensible purposes are not economic (e.g., defense, transportation, environmental protection); and administering programs with the explicit goal of improving economic conditions in states, regions, and communities.[iv] It is worthwhile to note that one size does not fit all; communities differ widely in their geographic and political strengths and weaknesses. Consequently, each faces a unique set of economic and community development challenges.

Industrial recruiting — often called smokestack chasing — prevailed from the 1950s through the early 1980s, and is best characterized by communities' efforts to entice manufacturers and other large-scale businesses to set up shop. Industrial recruitment and industrial park construction were standard strategies aimed at building a region's export base. Deregulation in the 1980s spurred the second era, cost cutting, which witnessed firms (especially large industrial firms) cutting costs to remain competitive. Market-oriented strategies and privatization were encouraged, and the perceived keys to success were abundant and cheap factors of production (e.g., land and labor). A key economic development policy shift occurred at this time, as active government involvement became the responsibility of states and localities.

Globalization of markets for goods, services, capital, and labor accelerated in the 1990s and proved to be the undoing of both industrial recruiting and cost cutting. Regions were forced to move away from old industries and to search for new market opportunities, thereby ushering in our current era of regional competitiveness. This represents a fundamental change from previous eras: regional competition relies on *innovation* and *entrepreneurship* as the main drivers of growth and prosperity.[vii] It also emphasizes the importance of every region finding a specialty niche or niches. Clusters are one way of expressing this niche. In the past, such clusters often represented an entire industry locating in one place. Examples include the 19th century shoe factories of New England. Regional niches today often include clusters, but they are often more complex. For instance, the automotive industry is still heavily concentrated in the Midwest, but the industry is spread across a much wider geography. Many auto parts now cross three state lines before final assembly. Thus, the dynamics of regional niches need to be better understood by both policy makers and economic development practitioners.

While "chasing smokestacks" may be an approach that can no longer be effective for most regions, there are always notable exceptions. If attraction and recruitment of outside assets or investment focuses on creation of high-value technology products and services and advanced manufacturing activity, economic development benefits can accrue. For example, the North Carolina Research Triangle Park development was energized by the early-on recruitment of IBM as an anchor for a micro-electronics cluster, and the recruitment of an Amgen manufacturing operation and R&D unit to Colorado's Front Range in the 1990s paved the way for the growth of a biotechnology cluster in that region. However, the diversion of major resources from a broad-based regional innovation strategy to a marketing and recruitment program can hold back a region's ability to build indigenous capacity and execute a robust, innovation-based growth strategy.

Economists and policy makers recognize that this change in strategy requires time for transition, as well as training. An important part of adapting to the changes brought on by regional competitiveness is the need to educate and train the elected officials, economic development leaders, and professionals who formulate and implement growth strategies in the states, regions, and communities across America.

Evolution of Economic Development in the United States

The United States has a strong legacy of responding to the economic needs of the nation, its communities, and regions. The great majority of economic development programs — despite the changing political and economic climate — have remained surprisingly resilient and adaptive, and have accordingly received general bipartisan support.[v] Indeed, a review of what works is instructive in conceiving future policy, but perhaps even more so are periods characterized by imbalances of need and available assistance, poor program management and implementation, other inefficiencies, and how legislation responded.

Eras of Economic Thinking

Keeping the goal of applying lessons learned at the forefront, the Committee found it most enlightening to think of our nation's economic development history — as far back as Roosevelt's New Deal — in terms of *eras of economic thinking.* There are three such eras: Smokestack Chasing, Cost Cutting, and Regional Competitiveness.[vi] These represent broad development strategies employed by federal policy, and by states and their communities, to realize consistent economic growth and improvement of living standards for all citizens. Figure 2 goes further in defining these eras according to key drivers, strategies, and keys to success.

A Historical Perspective

Advising on the federal government's role in 21st century economic and community development requires understanding major characteristics of the eras discussed above, and how federal programs have historically been employed to foster growth within each. This section provides the necessary historical perspective. (See Figure 3 for a timeline of federal programs implemented after 1920.)

1900 to the 1950s

From the 19th century, individual states took the lead on economic development projects — building canals and highways or chartering banks — while the federal government played an indirect role, creating land-grant universities, providing subsidies for railroad building, and so forth. It wasn't until the New Deal of the 1930s that the federal government played a direct role in providing economic development assistance to states or local authorities through grants in aid, such as the Public Housing Program. It is important to note, however, that the intellectual underpinning of current economic development programs flows from the concerns of post-World War II economic planners, who wanted to avoid the economic downturns that seemed invariably to affect the nation in the aftermath of military demobilization — concerns reflected in the Full Employment Act of 1946.

A major milestone for the federal government occurred with the passing of the Housing Act of 1949. This was the first major piece of legislation aimed at unlocking economic value in urban land by rationalizing land use patterns through the use of eminent domain, and by providing funds for planning, clearance, and infrastructure development. Title I of the Housing Act, entitled "Slum Clearance and Community Development Renewal," created a competitive grant program, managed through local redevelopment authorities, that required local planning and local matching funds.

1950s to the 1980s

After World War II, and throughout the 1950s, federal legislation was progressively modified to allow greater program flexibility, including housing rehabilitation. By the end of the 1960s, cities across the nation, because of their active urban renewal bureaucracies, were receiving disproportionately large shares of federal funds. The legacies of these projects — in cities like New Haven, New York, Chicago, Pittsburgh, and Boston — still structure the physical fabric of these cities.

The 1960s saw President Kennedy's Area Redevelopment Act of 1961, the immediate predecessor of the Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC), which contain many of the same program elements as did the urban renewal legislation, including competitive grants, local planning, and matching funds. Then in 1965, the Department of Housing and Urban Development (HUD) was created. This decade, however, met with mixed results in urban renewal. While there were successful blight elimination actions, these efforts failed to revitalize many urban areas. Poverty and unemployment persisted despite the federal investments, in part because of suburbanization of middle-class communities, facilitated by the interstate highway program, and impelled by continued immigration of poor people. These experiences led to the creation of anti-poverty programs, such as Model Cities, and the dramatic expansion of federal funding for local social services and community development activities.

There was notable impetus at this time to distribute funds more evenly through a distress-based formula, and to provide greater local control of funding. This led to the creation of the Community Development Block Grant Program (CDBG) in 1974. The transition to CDBG provided a "hold harmless" provision, which assured recipients of current categorical federal programs the funding level needed for activities to be completed, followed by a phase-in of formula over several years. CDBG incorporated both the physical development components of urban renewal and the community development components of Model Cities.[viii] With minor modifications to increase flexibility of local funds, CDBG remains largely the same program today, with eligibility based on factors of housing conditions, deterioration, poverty, and population, with less than 12 percent[ix] allocated to economic development. (The CDBG program formulas for determining level of funding are now thought to need revision to better target funds to actual need. This matter is discussed in greater detail in the Committee's "findings" statements.)

In the 1970s, both HUD and EDA were given new competitive grant programs to administer: the Urban Development Action Grant Program (UDAG) and the Local Public Works Program, respectively. UDAG was essentially a

Figure 2: Eras of Economic Thinking

	Industrial Recruiting 1950s to 1980s	Cost Competition Early 1980s to Early 1990s	Regional Competitiveness Early 1990s to Present
Driver	Export base	Scale economies	Innovation & Entrepreneurship
Strategies	• Financial incentives to firms • Industrial parks	• Industry consolidation & cost cutting • Deregulation	• Entrepreneurship • Clusters • Commercial research
Keys to Success	• Government funds for subsides and tax breaks • Industrial infrastructure	• Health of existing industries	• Distinct regional assets, such as: • Human Capital • Higher Education • Amenities

Source: Mark Drabenstott, 2005

more flexible and competitive urban redevelopment program that allowed the concentration of resources in larger projects, with an economic development rather than a housing goal. Local Public Works grew from a $2 billion to a $6 billion effort designed to reduce unemployment. Due to dramatic changes that occurred in the economic and political landscape, both programs were eliminated in the next decade.

1980s through the early 1990s

By this time states had become the locus of innovative economic programs. Shifting from a once-narrow focus on industrial recruitment, states began implementing new, technology-based economic development programs, best represented by Pennsylvania Governor Richard Thornburgh's Ben Franklin Partnership and Ohio Governor Dick Celeste's Thomas Edison Program. This family of programs promoted technology commercialization, entrepreneurship, linkages with universities, the use of nonprofit intermediaries, and manufacturing extension services. As other states launched pilot initiatives, the federal government assumed a catalytic role in stimulating a new generation of public-private partnerships in research and development, technology commercialization, and entrepreneurship. Among new public-private partnerships, competitive federal grant programs were established, such as: The National Science Foundations; Engineering Research Centers (ERCs); The Department of Defense's Technology Reinvestment Program (TRP); and the Department of Commerce's Manufacturing Extension Program and Advanced Technology Program. These federal programs co-invested with states and the private sector to accelerate innovation activity.

Passage of the 1980 Bayh-Dole Act, and federal technology transfer legislation in 1986 and 1989, enabled research universities and federal laboratories to become pivotal players in the creation of new businesses and commercial deployment of federally-funded research. National laboratories and U.S. industry entered into cooperative research and development agreements (CRADAS) to cost-share research and development and jointly perform next-generation research.

Most importantly, federal technology transfer authorities allowed private sector companies to secure exclusive commercial rights to intellectual property (IP) co-developed under CRADAS with national laboratories. In concert, federal laboratories could license laboratory-generated IP to U.S. corporations and start-up companies for both non-exclusive and exclusive commercial fields of use. As a result, both universities and national laboratories emerged as critical knowledge and technology nodes and incubators for innovation and entrepreneurship across regions of the nation.

Stanford University's license of the Boyer-Cohen Patent for genetic engineering launched Genentech, and in parallel, global corporations such as Motorola, Kodak, Xerox, Intel, and Goodyear targeted a new era of strategic partnerships with national laboratory and university partners. This regional innovation and entrepreneurship was further fueled by strategic collaboration between university and national laboratories joined with industrial partners such as: Oak Ridge National Laboratory, The University of Tennessee, Los Alamos, and Lawrence Livermore Laboratories at the University of California. Federal, state, and private resources invested in university and national laboratory research parks to provide physical and business infrastructure to support entrepreneurs and incubate new businesses across the country.[x]

1990s to the Present

In the 1990s HUD was given a new discretionary program called Empowerment Zones, and EDA was also given greater responsibilities, primarily in defense conversion and disaster relief. Other agencies (DoE, USDA, EPA, and DoD) were tasked with economic development programs and adopted the historic post-World War II model: strategic planning, matching dollars, and discretionary grants. And in the late 1990s, inspired by the enduring example of ARC, self-defined regions proposed the creation of similar entities, such as Alaska's Denali Commission and the Mississippi Delta Commission.

Competing in a global economy demands that policy makers understand a new geographic scope and the predominant new drivers of growth: innovation and entrepreneurship at the regional level.

Today the federal government administers a panoply of programs aimed at economic and community development. Just inventorying existing programs is a Herculean task, and because opinions vary on what this rubric includes, the tally remains indefinite. In 1996, the advisory panel for a study by the National Academy of Public Administration (NAPA) found at least six dozen separate federal economic development programs, in 12 cabinet departments and independent agencies.[xi] In 2005 the Center for the Study of Rural America (an arm of the Federal Reserve Bank of Kansas City) conducted a comprehensive review of all federal programs "having a clear connection with economic development," as it is broadly framed earlier in this report, including not only those aimed at infrastructure, but also those focusing on workforce training, technical assistance and technology transfer, and business development. Their total: 180 programs across 19 government budget functions (as defined by the Office of Budget and Management), totaling $188 billion a year — more than one out of every four federal dollars spent.[xii]

In summary, programs have come and gone, with grant delivery mechanisms varying from formula-based grants to competitive grants, with many stages between. But there has been no fundamental change to policy or economic development strategy for four decades. Competing in a global economy demands that policy makers understand a new geographic scope and the predominant new drivers of growth: innovation and entrepreneurship at the regional level. The Strengthening America's Communities Initiative represents the first opportunity in a generation for the federal government to create new federal policy that supports the economic and community development challenges and opportunities of the 21st century.

Figure 3: Timeline of Federal Programs That Fund Selected Economic Development Activities

1920s

- Fish, Wildlife and Parks Programs on Indian Lands (1921)
- Indian Loans/Economic Development (1921)
- Road Maintenance/Indian Roads (1928)
- Economic, Social, and Political Development of the Territories and the Freely Associated States (1929)

1930s

- Schools and Roads/Grants to Counties (1937)

1940s

- Surplus Property Utilization (1949)

1950s

- Small Business Loans (1953)
- Watershed Surveys and Planning (1954)
- Certified Development Company Loans (1958)

1960s

- Farm Ownership Loans (1961)
- Water and Waste Disposal Systems for Rural Communities (1961)
- Federal Transit Technical Assistance (1964)
- Federal Transit/Capital Investment Grants (1965)
- Appalachian State Research, Technical Assistance, and Demonstration Projects (1965)
- Economic Development Technical Assistance (1965)
- Economic Development /State and Local Economic Development Planning (1965)
- Appalachian Area Development (1965)
- Grants for Public Works and Economic Development (1965)
- Appalachian Local Access Roads (1965)
- Appalachian Local Development District Assistance (1965)
- Highway Planning and Construction (1966)
- Rural Housing Site Loans and Self-Help Housing Land Development Loans (1968)

1970s

- Business and Industry Loans (1972)
- Community Facilities Loans and Grants (1972)
- Rural Development Grants (1972)
- Rural Economic Development Loans and Grants (1973)
- Economic Adjustment Assistance (1974)
- CDBG/Entitlement Grants (1974)
- CDBG/State's Program (1974)
- CDBG/Small Cities Program (1974)
- CDBG/Section 108 Loan Guarantees (1974)
- CDBG/Special Purpose Grants/Insular Areas (1974)
- Trade Adjustment Assistance (1974)
- Planning Assistance to States (1974)
- Native American Programs (1974)
- Bureau of Indian Affairs Facilities/Operations and Maintenance (1975)
- Federal Transit/Formula Grants (1975)
- Indian CDBG Program (1977)
- Community Economic Adjustment (1978)
- Federal Transit/Metropolitan Planning Grants (1978)
- Formula Grants for Other than Urbanized Areas (1978)

1980s

- Fisheries Development and Utilization Research and Developmental Grants and Cooperative Agreements Program (1980)
- Experimental Program to Stimulate Competitive Technology (1980)
- Public Housing Comprehensive Improvement Assistance Program (1981)
- Joint Land Use Studies (1981)
- Resource Conservation and Development (1981)
- Growth Management Planning Assistance (1981)
- Community Economic Adjustment Planning Assistance (1981)
- Community Services Block Grant Discretionary Awards (1981)
- CDBG/Special Purpose Grants/Technical Assistance Program (1983)
- Capitalization Grants for State Revolving Funds (1987)
- Public Housing/Comprehensive Grant Program (1988)
- Historically Black Colleges and Universities (1969)
- Rural Development, Forestry, and Communities (1989)

1990s

- Emergency Community Water Assistance Grants (1990)
- Water and Waste Disposal Loans and Grants (1990)
- Community Base Reuse Plans (1990)
- National Forest/Dependent Rural Communities (1990)
- Rural Cooperative Development Grants (1990)
- Community Economic Adjustment Planning Assistance for Reductions in Defense Industry Employment (1990)
- Transit Planning and Research (1991)
- Community Outreach Partnership Center Program (1992)
- Brownfield Pilots Cooperative Agreements (1993)
- Empowerment Zones Programs (1993)
- Airport Improvement Program (1994)
- CDBG/Economic Development Initiative (1994)
- Fisheries Disaster Relief (1996)
- Capitalization Grants for Drinking Water State Revolving Fund (1995)
- Fund for Rural America/Farm Ownership Loans (1995)
- Rural Business Opportunity Grants (1996)
- Rural Housing and Economic Development (1999)

Findings, Guiding Principles, and Recommendations

Since first convening in Fresno, California, in April 2005, Committee members have spent many hours of careful research, deliberation, and dynamic discussion in formulating the recommendations in this report. Early on, the basic challenge of changing federal economic development policy and programs became abundantly clear: America's communities have wide-ranging strengths, natural resources, and differing needs.

One size does not fit all. Considering the sweeping market changes brought on by globalization, this is perhaps truer today than ever before. But the Committee recognizes and strongly believes that America's diversity is one of its greatest and enduring assets.

The Committee recognized the seminal opportunity and responsibility before it, namely to suggest changes to federal policy that will assist communities and regions across the nation in building prosperity. With that point of departure, the Committee's 17 members held three public meetings and many more subcommittee work-sessions to develop the recommendations offered herein as a beginning roadmap for ensuring America's continued prosperity in the 21st century.

By the third and final public deliberation in Clearwater, three overarching themes had emerged, which constitute the policy framework for the Committee's guiding principles and subsequent recommendations. These themes include:

- The need for federal policy to recognize the growth of regions, with innovation and entrepreneurship as drivers of wealth creation and standard of living;
- The need to focus resources where need is greatest and in areas demonstrating great potential for improvement; and finally,
- The need to rebalance federal assistance to be flexible and easily accessible, and tied to performance and results.

Each theme opens with an explanation of findings, or the current state, followed by a brief discussion of guiding principles that emerged in the Committee's deliberations. The guiding principles, then, constitute the building platform for the Committee's recommendations.

Bringing Federal Policy into the 21st Century

Findings

The New Reality: Regions

Globalization is forcing regions throughout the nation to find new competitive niches in new and rapidly changing markets. While the scope is global, the focus is turning increasingly to regions themselves, where hubs of new economic activity are forming. The greatest success is where partnerships have formed between public and private sectors and among education institutions, research organizations, chambers of commerce, community development corporations, foundations, and other non-government entities, across and within communities that constitute a region.

Innovation and entrepreneurship are the drivers of wealth and prosperity.

With increasing competition from across the globe, U.S. industries can no longer rely on low-cost labor, access to raw materials, and low-value-added products and services to drive success. Instead, they must differentiate and create new value to win. To succeed, U.S. firms — both large and small — need to be more productive than their global counterparts in the creation and marketing of complex products and services.

Innovation and entrepreneurship are the twin engines for creation and global deployment of high-value products and services. Through a continual focus on new and improved product development, U.S. industries can maintain their economic leadership and support high and rising wages.

Innovation within existing firms, collaboration between firms, and the creation of new companies offer the best way to accomplish this goal. This means that federal policy must be tailored to assist regions as they work to improve their environments for innovation.

The development of workforce skills is a critical component of regional economic prosperity.

In an innovation-based economy, skilled human capital has become the most important form of capital. Knowledgeable and skilled people and their ability to apply that knowledge creatively constitute the engine of successful innovation. There has been a traditional divide between workforce development and economic development policies and practitioners. This divide must be bridged in order to benefit fully from innovation-based economic growth strategies.

Higher education plays an increasingly key role in innovation and economic competitiveness of regions.

Long seen as an important tool for advancement of communities and regions, higher education must now become a full partner in formulating and implementing regional competitiveness strategies. This includes the entire higher education continuum. Great strides have been made by community and technical colleges since the early 1990s, as they have expanded their missions to help develop labor forces, and adapted curriculums to offer a wide variety of innovative education and training programs and services to help rural companies modernize, become competitive, and grow.[xiv]

These higher education assets must be assembled, aligned with regional objectives, and managed closely with other regional assets in pursuit of unique opportunities.

Current federal policy is tailored to another era.

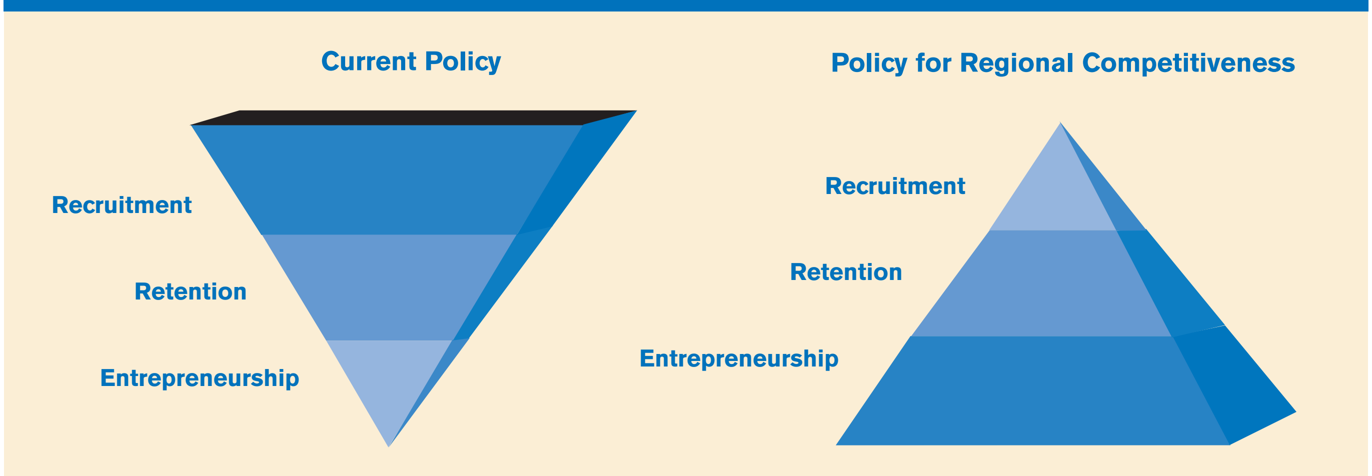
As shown in the earlier, historical perspective, current federal policy for supporting community and regional economic development is tailored to the past century. With underpinnings that were developed more than 40 years ago, federal policy remains essentially unchanged in its basic orientation to the industrial era. Furthermore, there is no unifying purpose or goal behind the vast array of federal economic and community development programs; they exist as "stovepipes" delinked from a prosperity strategy.

Because the basis for economic growth has shifted from industrial recruiting and cost cutting to innovation-based regional economic development, federal policy must also be refocused. Opportunities for economic advancement in the 21st century may be greater than at any other time in our nation's history. However, if federal policy does not change, the opportunity to transform weaker communities into vibrant participants in growing regional economies will be lost.

New federal policy must reflect the latest understandings on how regional economies will survive and grow in the coming decades, and where resources should be focused. In turn, this will inspire communities and regions to put their own resources behind growth strategies that are freed from those of the industrialization era of the last century.

Figure 4 compares alternative policies for allocation of resources to foster regional economic growth.[xv] The inverted pyramid on the left shows most resources directed toward recruitment of existing businesses from other locations. The pyramid on the right reflects the effective policy for the 21st century, where most growth will come from a regional competitiveness strategy that fosters and supports entrepreneurial activity and startups. In turn, communities will derive their economic strength by being active participants and collaborators in formulating and acting upon a regional strategy.

Figure 4: A Policy Framework That Supports Regional Strategies for Competitiveness



Source: Brian Dabson, RUPRI

Guiding Principles

The social purposes of federal investment are tied to the health of regional economies.

The future economic health of our nation's regions fundamentally affects the strength of communities within these regions. It is important to grow vibrant regional economies to raise the prosperity level of its citizens. The purpose of federal funding should be to improve the standard of living for all citizens. In a globalizing economy this must happen through enhanced regional competitiveness and economic strength. Federal assistance should have a regional focus — not a sectoral focus — to help regions gain the capacity to be competitive in the global economy.

Workforce development, community development, and economic development investments should be fully integrated into common strategies at the national, state, and regional levels.

Economic development and workforce development institutions should work hand in hand to support regional prosperity. For example, traditional industries (e.g. manufacturing and retail) now require computer use by workers, knowledge of supply chain management, etc. Success requires that workers in these industries rise to the technological occasion; they need a workforce system that is tied to communities, that seeks to understand local employer's needs, and that bonds with local education institutions to help keep students competitive.[xvi]

Regions must be based upon economic spheres of interconnected communities, not on political boundaries.

Economic regions are ideally self-defined geographic spheres of common economic interests, assets, and challenges, and they may include a mix of interdependent strong communities and weaker communities and jurisdictions. In all cases, critical mass is required to compete in a global economy. Regions should be defined to encompass a level of critical mass of population and economic interests that allow planning and action on a regional economic agenda. What constitutes this minimum critical mass or scale of activity may vary widely across the urban and rural landscape of our nation.

All regions should have a competitiveness strategy and the collaborations to act upon it.

Every region should identify distinguishing competitive advantages upon which its economy can grow in the 21st century. From this, every region should create a customized and flexible development strategy for competitiveness and economic growth. This strategy should encompass what is needed at the community and regional levels. Regions must find their niche by identifying and analyzing their unique regional assets, whether they are human, capital, business, or infrastructure.

Community development resources should be focused first on building a regional competitiveness strategy. The next step is to address critical needs in implementing this strategy. Regions must build an infrastructure (intellectual, digital, and physical) that can be the basis for long-term sustained growth.

Regional economic and community development planning should no longer be the sole province of government. The public and private sectors must now collaborate on plans and strategies for economic growth of communities and regions. For effective regional governance, the federal government should encourage a system of simplified compacts or other incentives to remove barriers and to encourage multi-jurisdictional and inter-institutional regional cooperation. Higher education and research institutions should play key roles in forming regional cooperative partnerships, as their participation is critical to building knowledge-driven, innovation-based economies.

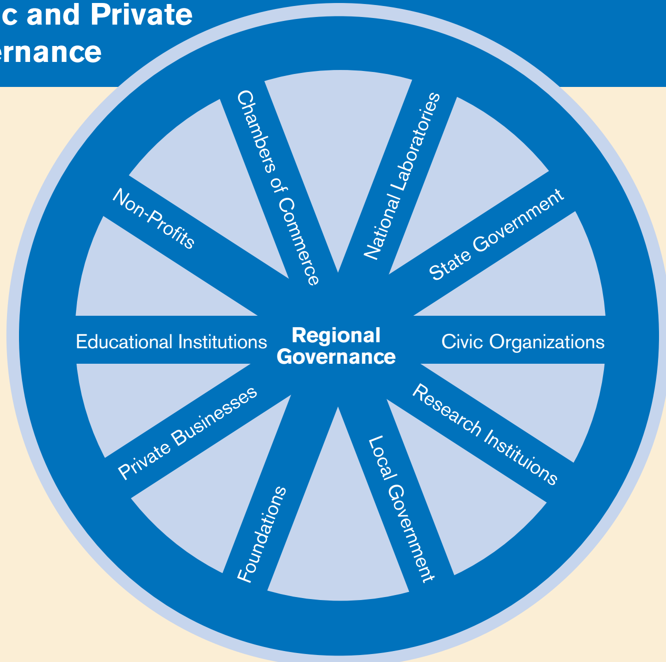
Recommendations

Bringing Federal Policy into the 21st Century

- **Establish regional competitiveness as the overriding goal for federal economic and community development policy.**
- **Review all federal policies and regulations for their impacts on the sustainability and competitiveness of economic regions.**
- **Require long-term, innovation-based, regional economic and community development strategies as a prerequisite for follow-on federal assistance.**
- **Provide significant funding of technical assistance to regions for the formulation of innovation-based regional economic development strategies.**
- **Coordinate and consolidate workforce development programs with economic development initiatives to drive innovation-based economic growth.**
- **Direct federal economic and community development resources to encourage communities to form regional partnerships and governance models primarily based on economic relationships, not political boundaries.**
- **Promote private-public partnerships for regional development that include educational and research institutions, national laboratories, labor organizations, private businesses, and government, which collaborate and co-invest as partners in regional competitiveness.** **(See Figure 5.)**

Figure 5: The Joining of Public and Private Sectors under Regional Governance

To succeed, regions must think and act as regions, crossing jurisdictional lines and spanning public and private sectors.[xvii] Regional governance is the method by which different entities from the private and public sectors come together and make decisions as a region. (See also Glossary of Terms.)



Targeting Need and Responding to Opportunity

Findings

New formulas are needed.

Significant amounts of federal community and economic development assistance are allocated with formulas that have not changed over the years. This has resulted in inequitable distributions of federal assistance based upon need. This problem was clearly illustrated in the February 2005 report "CDBG Formula Targeting to Community Development Need," prepared by the U.S. Department of Housing and Urban Development, Office of Policy Development and Research. The HUD report included an extensive analysis of distributions of CDBG funds relative to a community's need, with data showing that many high-need entitlement communities are currently receiving less funding than low-need communities.[xvii]

In reviewing this problem with the current targeting formulas, the Committee concluded that traditional indicators of community need (age of housing stock, population growth, overcrowding, and unemployment) are not always reliable. Current formulas do not fully represent the economic health of a community. One example is age of housing stock. With affluent populations returning to inner-city neighborhoods and older suburbs, one must question the reliability of age of housing as an indicator of poverty and need.

Given the new emphasis on economic competitiveness as a basis for assessing a community's strength or relative need for federal assistance, important indicators were found to be missing from some current allocation formulas. Indicators or measures should include business formation, capital investment (including venture investments), levels of entrepreneurial activity, underemployment (in addition to unemployment), poverty rate, household income, and educational performance. Also, community distress due to population shifts should be assessed, such as that occurring from rapid immigration into border regions or from out-migration from rural regions.

In addition, sudden and severe occurrences may happen in a community that presents a need for federal assistance. This could be a major plant closure, a sudden shift in a sector of the economy in which a community is heavily invested, a natural disaster, or a military site realignment or closing.

Competitive grants promote performance and results.

Formula or entitlement federal grants tend to be treated as line items of ongoing annual revenues for supplementing local government budgets. As such, they are not typically seen as strategic "investments" in building a community's future strength, and there is less accountability for performance and results. By comparison, competitively awarded grants require more focused strategic planning and action formulation at the front end, as well as greater accountability for performance and results.

A current federal economic development program built around competitive awards of grant assistance is the Public Works Program of the Economic Development Administration (EDA). EDA has been recognized by governmental performance analysts for its use of a matrix of measures in the form of a "balanced scorecard" to assess performance and results.

Guiding Principles

Targeting must refocus on need.

The greatest amount of federal community and economic development resources must be directed to those communities and regions of greatest need. New factors need to be included in the analysis for determining eligibility and allocation.

To identify this potential, all communities should be provided the resources and capacity-building assistance to engage in strategic planning for competitiveness and economic strengthening. As previously recommended, this needs to occur as a collaborative regional process rather than as an insular activity of an individual community.

Delivering assistance as investments rather than entitlements stimulates an "earn it, keep it, grow it" approach.

All communities should become development-ready.

All distressed communities should set a goal to achieve development-ready status, meaning that a community has taken steps to improve conditions in ways that have been proven to develop and grow businesses and secure sustainable investment. The specific steps to gaining this status will differ, depending upon community needs and assets. It can include activities such as creating business-friendly environments, improving schools and lifelong learning, upgrading skills, reducing regulatory barriers and costs, reducing violent crime, and initiating programs to strengthen families. But, in all cases, it means: (1) communities joining regional efforts to develop a strategic plan for regional competitiveness and economic growth, and (2) acting on this plan in collaboration with other public and private stakeholders.

Competitive challenge grants should become the prevailing form of assistance.

As distressed communities become development ready, competitive challenge grants should become the prevailing model for federal assistance. Through a move toward competitive grants, the federal government can catalyze long-term, self-sustaining economic and community development through growth-oriented investments. Delivering assistance as investments rather than entitlements stimulates an "earn it, keep it, grow it" approach. This will allow currently distressed communities and regions the opportunity to become less dependent upon federal grants over time — and in greater control of their own destinies. The Committee recognizes, however, that distress levels are dynamic; communities will move into and out of the program based on changing or emerging levels of distress.

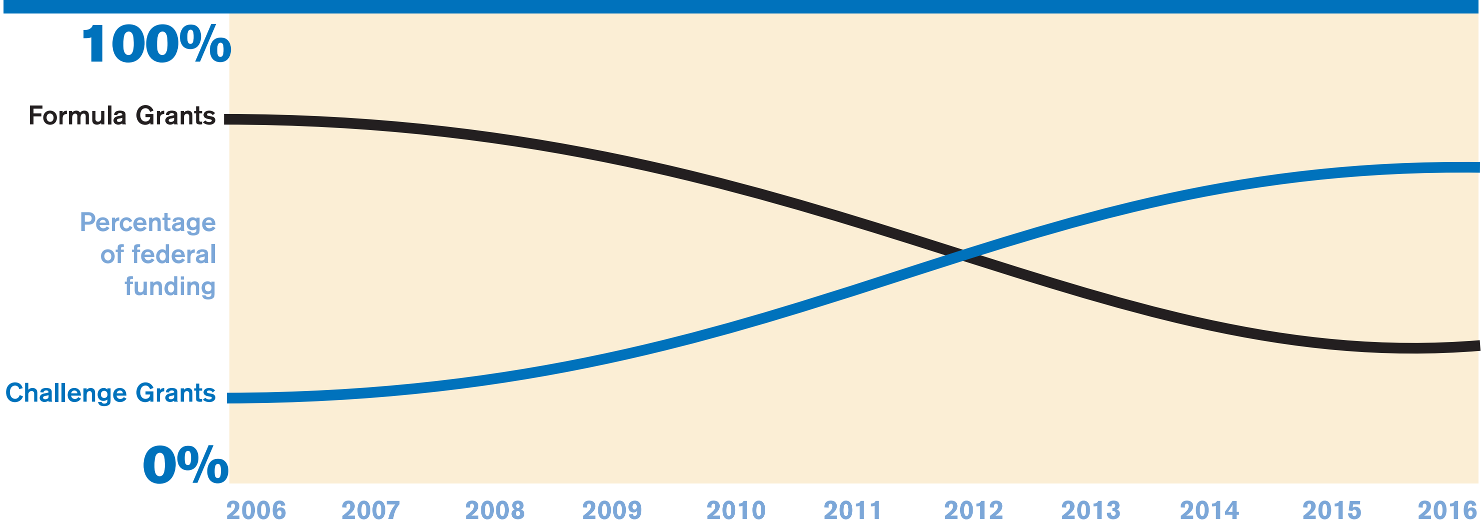
Private sector economic and community development resources must be leveraged by federal resources, with an increased role for educational, nonprofit, and other organizations.

Distress and eligibility should not be a constant state for any community.

Over time, communities should use federal assistance to move up the scale of development readiness, with the goal of attaining a level of improvement that removes the community from eligibility under distress criteria. It should be recognized that over time communities may improve to the point that they "graduate" from a state of need and distress. This should be celebrated and rewarded.

Conversely, it is likely that events and circumstances will regularly cause other communities to enter a state of need and distress. These circumstances could result from a major plant closure, a sudden shift in business patterns or markets, a major defense closure, contract cancellation, or a natural disaster.

Figure 6: Allow a gradual transistion period of ten years for shifting most formula grants to challenge grants.



Recommendations

Targeting Need and Responding to Opportunity

- Develop new eligibility and allocation criteria to ensure that federal economic and development funding is targeted to communities of greatest need.
- Establish criteria for assistance eligibility and allocation of funds that include multiple measures of the relative strength or weakness of a region or community in the global economy, such as rate of new business formations, entrepreneurial activity, homeownership rates, venture capital investment, changes in assessed valuations, unemployment, underemployment, population loss, poverty rate, household income, and distress caused by migration patterns. (Results and progress would be monitored and reported based upon improvements in the same measures.)
- Develop a new competitive challenge grant program to provide additional funding to distressed communities. This program will be available as a bonus to those communities or regions that have adopted innovation-based economic and development strategies and taken action to encourage investment and business expansion.
- Provide significant capacity-building assistance to communities that are unaccustomed to competing for grants, to ensure a level playing field.
- Establish a goal for shifting most federal community and economic development assistance to results-oriented, competitive grants within ten years, thereby phasing out most noncompetitive formula or entitlement grants in favor of challenge grants targeted to distressed communities. (See Figure 6)

Assuring Flexibility, Accountability, and Results

Findings

Great inefficiencies exist in the accessing and delivery of federal resources.

Federal community and economic development assistance is spread across a multitude of programs and agencies. The exact count depends on precise definitions and missions. What is certain is that multiple federal programs are funding similar activities, creating both added burdens for communities needing access to assistance and added inefficiencies in resource delivery.

A recent analysis by the Center for Rural America at the Kansas City Federal Reserve found that federal assistance for community and economic development is disbursed into approximately 180 programs with average annual federal outlays of $188 billion.

In 2000 the Government Accountability Office (then called the General Accounting Office) identified 10 agencies and 27 subagency units administering 73 programs related to economic development. These 73 programs can be used to fund one or more of six basic economic activities:

- Planning and developing economic development strategies.
- Constructing or renovating nonresidential buildings.
- Establishing business incubators.
- Constructing industrial parks.
- Constructing or repairing roads and streets.
- Constructing water and sewer systems.[xviii]

The Office of Management and Budget (OMB) has reported that some of the key community and economic development programs are ineffective and fail to produce or document results and outcomes sufficient to justify the costs. While the Committee was not asked to review the effectiveness of any specific current federal program, including those noted in OMB's Program Assessment Rating Tool (PART) analysis, the Committee has found that access to federal economic development assistance is inefficient and cumbersome due to the wide variety or programs, regulations, and application processes.

For example, Florida's communities faced considerable challenges accessing federal assistance, including the burdens of needing to understand the array of regulations, eligibility standards, application processes, and deadlines for federal programs. In the Florida example, inefficiency and confusion about the various channels of federal assistance became especially acute during the recovery efforts that followed the 2004 hurricanes.[xix]

Beyond Florida, much additional anecdotal information exists regarding the inefficiencies of multiple federal community and economic development programs. Communities regularly find themselves weaving together pieces of federal assistance from HUD Special Initiatives, Economic Development Administration, USDA Rural Development, EPA and HUD brownfields programs, and so forth. Where multiple agencies are involved, there is often a need for special interdepartmental agreements to identify a lead federal agency, and this requires negotiations on which agency's regulations will take precedence. The premium exacted by these inefficiencies includes lost time, lost opportunities, and greater administrative costs for the federal government and applicant. In addition, there is great difficulty in applying accountability and performance measures when multiple agencies, regulations, and program guidelines are involved.

Guiding Principles

A consolidating and rebalancing of the federal role is needed.

Access to federal assistance and application processes should be simplified by consolidating most programs and administering them through a single agency. For reasons of accessibility, efficiency, and accountability, multiple federal agencies should not be administering duplicative programs.

The federal role in community and economic development should be rebalanced to be one of facilitator, with states and localities assuming increased ownership and accountability in identifying and investing in regional competitiveness. As part of this, a sharing of risks in economic and community development is important, so that the federal government is not the sole risk taker in community and regional efforts. Federal assistance should be part of a co-investment plan, with other parties (state and local governments and private sector organizations) bearing risks and accountability in achieving the outcomes.

Increased accountability for performance and results should apply to both federal government and the recipients of federal assistance.

Federal assistance for building strong communities should be flexible and easily accessible, and it must be tied to performance and results with outcome-based metrics.

Transparency and accountability should be the norms of effective governance, policy development, and program delivery. Success in economic and community development should not be measured by traditional industrial recruitment goals but on broader measures of economic competitiveness, innovation, regional cooperation, capital investment, new business formation, creation of higher-wage jobs, increased homeownership, reduced crime, improved performance of schools, reduced underemployment, and halted or reversed out-migration from regions currently experiencing severe population loss.

Recommendations

Assuring Flexibility, Accountability, and Results

- **Establish a cabinet-level inter-agency council to coordinate federal community and economic development activities and implement a program consolidation plan. Identify best practices and report annually on federal goals, investments, and results.**
- **Consolidate federal community and economic development programs to eliminate overlap and duplication of multiple agencies and programs providing similar types of assistance.**
- **Recognize emerging, self-defined economic regional boundaries and harmonize federal economic and community development regional designations across federal agencies to make them consistent.**
- **Develop robust analytical tools and metrics to help regions identify competitive advantages, formulate strategies, track progress toward goals, and report on performance and outcomes.**
- **Require and reward co-investments from nonfederal funders, but allow exceptions to this requirement where circumstances of high distress make co-investments impossible. Implement a sliding scale for co-investments for different types of economic and community development activities.**
- **Allow subregional organizations to apply for and directly receive federal assistance as long as the funding requests are consistent with the long-term regional economic and community development strategy.**
- **Create effective forums for propagation and sharing of best practices in economic and community development.**
- **Partner – in the spirit of better governance on a national level – with educational institutions and nonprofit associations to provide policy makers and practitioners continuing education and capacity building under the new Initiative.**

Leadership in Action

The concepts and principles included in this report are already appearing across the United States. They include alliances that cross jurisdictional lines, public-private collaborations, and universities acting as full partners to create competitive regional economies. This report cites just a few examples. The Committee is aware of many more, and it commends all efforts to strengthen communities and regions for the opportunities of a global marketplace.

A regional approach to job creation in central California shows early results.
Private sector executives, the mayors of Fresno, Clovis, and the Chair of the Fresno County Board of Supervisors joined forces in 2003 to create the Regional Jobs Initiative (RJI) to transform fundamentally the Fresno/Madera regional approach to economic development. Focusing on improving the region's climate for innovation, business creation, expansion, and retention, RJI includes nine industry clusters (water technology, food processing, information processing, etc.), and has an initial goal of creating 30,000 new jobs within the first five years. By the end of its first year, RJI generated 3,800 direct jobs in the nine clusters, and many indirect jobs. By April 2005, Fresno County's unemployment had dropped below double-digits for the first time in 15 years during the month of April.

In Colorado, a university-industry-city collaboration builds a 21st century "life sciences city."
The 1999 shutdown of Fitzsimons Army Medical Center in Aurora, Colorado, caused the sudden loss of the city's largest employer and generator of economic activity. The need of the University of Colorado for a new medical campus became the basis for strategy to colocate an academic medical center and a biotechnology research park. The redevelopment, led by an authority chartered by the city and university, is recasting Aurora as a hub and focus for the life sciences industry in the Rocky Mountain region. The 4,000 jobs lost from the base closure have already been replaced with higher-wage, higher-pay positions in teaching, patient care, research, and private biotechnology R&D activity. The strategy at Fitzsimons goes beyond physical redevelopment; it involves industry-university collaboration, business incubation, entrepreneurial support, venture capital, and private developer investments. Broad civic support has been a critical factor in the launch of this ambitious endeavor. The first new building, Bioscience Park Center, opened within 15 months after the Army's departure; and by the start of 2005, capital investments in the Fitzsimons redevelopment had already reached $2 billion and employment had reached 5,000.

Five states join to pursue CANAMEX, an economic development initiative of broad regional scope.
The CANAMEX Corridor Project is a joint project of Arizona, Nevada, Idaho, Utah, and Montana, with the primary objective of developing and implementing the CANAMEX Corridor Plan. The Plan provides areas of collaboration by the states with the goals of stimulating investment and economic growth in the region and enhancing safety and efficiency within the corridor. A comprehensive and coordinated plan will ensure the efficient allocation of resources along the corridor necessary to maximize the economic potential for the United States, Canada, and Mexico. CANAMEX includes transportation, commerce, and communications components. The transportation component calls for the development of a continuous four-lane roadway from Mexico through the U.S. CANAMEX states, into Canada. However, CANAMEX is more than a line on a map or a specific highway because people and products may enter or leave the CANAMEX at any point. Plans call for integrated development of the entire CANAMEX corridor to provide extensive benefits to the region.

Washington-Idaho cross-border collaboration sets a regional strategy for economic growth.
Five years ago, five chambers of commerce in the Inland Northwest Region formed the Regional Chambers Alliance. The collaboration has increased their clout and effectiveness on an agenda affecting economic growth, transportation, water resources, and higher education. The area's five universities have also joined in an effort to work with the region's business community on a common economic development agenda. The Regional Chambers Alliance consists of three chambers in Eastern Washington and two in Northern Idaho.

In North Dakota, the vision of a U.S./Canada research corridor takes shape.
A new partnership of North Dakota State University and the University of North Dakota is creating a cluster of 21st century, knowledge-driven industries within the state's Red River Valley region. The two traditional academic rivals are collaborating through the development of innovation centers and research parks in Grand Forks and Fargo, and through joint marketing of research resources to private industry. The state's Centers of Excellence initiative is putting additional resources into the mix to ensure that North Dakota's institutions of higher education are better resourced to drive economic growth and prosperity. The public support and university collaboration have inspired additional private-sector funding, technology startups and expansions, and new relationships with the nearby University of Manitoba. University-industry specialties are forming in such areas as nanotechnology, aerospace, energy, sensors, and polymers.

Two small communities in Arizona are increasing homeownership and job skills through jurisdictional and educational partnerships.
In 2002 the City of Casa Grande partnered with the State of Arizona, Pinal County, and the University of Arizona to help prepare a cohesive revitalization plan for the Colonia del Sol community in adjacent Pinal County. Colonia del Sol is significantly lacking in health and safety infrastructure and consists of primarily older mobile homes occupied by low-income residents. In addition to implementation capacity, Casa Grande provided its Mutual Self Help Housing Program, utilizing Central Arizona College to assist families in becoming first-time homeowners under a sweat-equity program. The program allows an equity infusion of approximately $20,000 for first-time homebuyers while teaching marketable skills in construction. In the last five years, nearly 20 percent of the program participants have moved from low-wage service sector jobs to better paying construction positions with benefits. Since 1987 Casa Grande has assisted more than 400 families through this program, giving it the capacity to begin assisting in neighboring jurisdictions.

An aggressive regional strategy in northeast Ohio is based upon an innovation agenda.
Northeast Ohio's technology community has formed NorTech to focus on business development efforts. NorTech took up the innovation challenge, concentrating its efforts on the talent, investment, and infrastructure needs of the region in bioscience, information technology, electronics, nanotechnology, polymers, and advanced materials.

NorTech has spurred the development of BioEnterprise, whose efforts have resulted in 40 companies receiving $154 million in investment capital since 2003. It also launched JumpStart to help accelerate the growth of early-stage ideas and businesses into venture-ready companies. JumpStart has invested $1.9 million in seven companies, with follow-on commitments totaling $8.7 million NorTech has also partnered with six universities to increase faculty levels in electrical engineering and computer science by 80 percent, with a goal to quadruple research funding by 2009. In addition, NorTech has led development of managerial talent and other resources to support the creation and expansion of a region-wide ultrabroadband network, with significant investment coming from private companies.

In Wyoming the university's market research department is helping companies find opportunities in the global marketplace.

The State of Wyoming's economic development budget recognizes the importance of growing business from assets within the state. Only two percent of the Wyoming Business Council's budget is dedicated to out-of-state recruitment efforts, while 63 percent goes toward community development infrastructure needs such as water, sewer, and business parks through its Business Ready Community Program. Recognizing the importance of growing existing business, the state allocates 35 percent of its budget on retention and expansion assistance for existing businesses. The Market Research Center at the University of Wyoming provides basic research, marketing lists, business-to-business contacts, competitive intelligence, demographics and psychographics, GIS analysis and mapping, site selection assistance, customer profiling, marketing material evaluation, and original research. Started in 2003, the Market Research Center has gained popularity each year, growing from 55 clients in the first year to an estimated 276 in 2005. The cost of the databases and software used to provide this research is beyond the means of most Wyoming companies, but by leveraging this cost across the entire state, the state is able to provide every Wyoming company with its own "in-house" market research department, linking activity in Wyoming to global market opportunities.

Universities collaborate with regional partners on a scientific-entrepreneurial initiative in inner-city St. Louis.

Three St. Louis universities are collaborating in a regional public-private partnership to create a scientific-entrepreneurial district in a blighted inner-city area. The nonprofit Center of Research, Technology & Entrepreneurial Exchange (CORTEX) is a joint venture of Washington University, Saint Louis University, the Barnes-Jewish Hospital Foundation, the University of Missouri-St. Louis, and the Missouri Botanical Garden. The City of St. Louis, the State of Missouri (the Missouri Development Finance Board), Civic Progress, the St. Louis Regional Chamber & Growth Association, and the Coalition for Plant and Life Sciences are participating with CORTEX in the construction of a $36 million, 170,000-square-foot initial phase of R&D space. Additional support came from corporate and philanthropic sources. The CORTEX partnership's vision is to expand the district into a 50-acre zone of innovation and knowledge-driven activity, all of it benefiting from the proximity and involvement of research and educational institutions.

In Texas, high-pay private-sector jobs land at Kelly Air Force Base, thanks to a locally driven joint-use partnership arrangement.

Kelly USA is a master-planned aviation, logistics, business, and industrial center, previously home to the Air Logistics Center at Kelly Air Force Base. The center has revitalized the base with existing facilities, and it has brought significant opportunities and major employers (e.g., Boeing and General Electric) to the south side of San Antonio. Kelly USA remains the home of the 433rd Air Force Reserve Squadron flying cargo aircraft and the 149th Air National Guard flying an F-16 fighter squadron. The USAF maintains control of the runways, taxiways, tower, navigational aids, and the airfield. 85 percent, or 7.6 million square feet, is leased to 65 tenants who have created 5,379 jobs with salaries averaging more than $38,000 per year. This, plus the retention of 7,221 Air Force jobs, has provided a current job base of 12,600 people and an economic impact of $2.5 billion/year upon the San Antonio economy. Kelly USA is operated by a development authority formed in 1996 by the City of San Antonio.

Four states join to promote the Tennessee Valley Corridor Jobs Initiative.

A multi-state regional economic development initiative is linking North Alabama, East Tennessee, Southeast Kentucky, and Southwest Virginia under an economic competitiveness strategy. The corridor effort connects and builds upon the science and technology assets of communities and institutions within the Tennessee Valley. The objective is to create and attract innovation-oriented businesses and to generate higher-wage jobs. The innovation assets of this regional corridor include several research-oriented universities and the Oak Ridge National Laboratory. This cross-border regional collaboration has been in place for nearly a decade. The effort is coordinated through regional economic summits, guided by a board of civic, corporate and governmental leaders, and endorsed by the region's congressional representatives.

Delaware's Technology Park extends science-based growth across a Mid-Atlantic region.

The Delaware Technology Park (DTP), home to 42 companies at the nexus of four states, is the result of a partnership forged by government, academia, and industry to foster new and emerging business in the region. By clustering high-tech businesses and providing shared services and resources, DTP extends the reach of these businesses across the Mid-Atlantic region and around the world.

DTP operates in partnership with the Delaware Biotechnology Institute (DBI). DTP/DBI has become a hub of activity for interaction between the academic community and the growing industry cluster. And, under the leadership of DBI, a research and education infrastructure links DBI and five other institutions, allowing an easy sharing of ideas, facilities, education programs, faculty resources and student mentoring opportunities. DTP/DBI enabled nearly 12,000 new jobs in life science in 20 new companies between 1998 and 2005. More than $200 million has been invested, and $250 million in grant funding has been awarded to DTP/DBI.

In Georgia, a corporate-university alliance capitalizes on research resources to build a vibrant, technology-rich economy.

The Georgia Research Alliance (GRA) was started by corporate leaders who wanted to see the state capitalize on the extraordinary innovation capacity of its public and private research universities. They believed that business, these universities, and state government could form a powerful alliance that would enhance the economic prosperity and quality of life of all Georgians. Their vision has become an internationally acclaimed model for turning university research and development into economic development.

The GRA partners range from Georgia's top universities and largest corporations to early-stage technology companies. Over the past ten years, more than 100 technology startup companies have grown out of university research and have become GRA business partners. They are joined by dozens of established companies throughout the state, which have benefited from access to university research centers and laboratories and the fostering of research relationships between industry and universities. The GRA also collaborates with chambers of commerce, trade associations, and civic groups to bring its programs to all regions of the state. In its first ten years the GRA has helped to lift Georgia from the lower or middle tier to the top tier of states on several measures of economic vitality.

Hartford and Springfield partner across state lines to advance a region's economy.

In September 2000, political, business, and government leaders of Hartford, Connecticut, and Springfield, Massachusetts, signed a compact creating the Hartford-Springfield Economic Partnership. The goal is to advance the region's economy and quality of life. Separated by only 25 miles, the cities anchor a region with the second largest population in New England. The partnership helps market the region north and south of the Connecticut-Massachusetts border along the I-91/Connecticut River Valley corridor. The group is dedicated to increasing cooperative efforts to position and advance more effectively the economic progress and livability of an interstate region, which is home to 1.86 million people, a labor force of more than 1.1 million, 41,000 companies, 32 universities and colleges, and more than 120,000 students. The partnership's latest project is the launch of an "intern here" campaign to persuade more graduates of the region's universities to remain in the region by matching them up with local employers. Through an Internet-based resource, the project also allows area employers to find the specific talents within the internship candidate pool.

Private industry, community groups, and public support help Bridgeport metal manufacturers increase competitiveness.

In partnership with the Initiative for a Competitive Inner City, more than 200 Bridgeport, Connecticut, leaders from industry, community organizations, and the public sector developed a strategy that resulted in formation of the Metal Manufacturers' Education and Training Alliance (META). META has improved the efficiency of small local metal manufacturers (which together represent the second largest employer in Bridgeport) through joint purchasing, workforce training, and lean manufacturing. Among other results, META organized a lean manufacturing initiative, resulting in the training of 679 incumbent workers and an increased overall proficiency of 53 percent.

In Florida, a high-tech initiative has a 23-county reach – and the backing of a wealth of partners.

Florida has established the Florida High Tech Corridor Council (FHTCC) to attract, retain, and grow high-tech industry and to help develop the supporting workforce in a 23-county region served by the University of Central Florida, University of South Florida, and University of Florida. FHTCC partners also include more than 20 local and regional economic development organizations and 15 community colleges in efforts to facilitate applied research among the universities, colleges, and high-tech industry partners. During its first eight years FHTCC provided more than $40 million to collaborations involving 215 companies and more than 550 research projects. The companies have matched FHTCC funding with more than $80 million, generating a total of $120 million in applied research within the targeted industries ranging from aerospace to photonics. The FHTCC also engages in strategic marketing to cultivate technology clusters and is working to expand workforce skills development programs.

Acknowledgements

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At the meetings in Kansas City and Clearwater, the Committee benefited from special presentations from a number of outside speakers. These speakers traveled to the meetings on short notice, and they provided testimony that was most useful for the work and recommendations of the Advisory Committee. The Committee expresses its great appreciation to Dr. Geoffrey J.D. Hewings, Professor at the University of Illinois at Urbana, to Dr. Pamella J. Dana, Director of the Governor's Office of Tourism, Trade and Economic Development for the State of Florida, to Dr. Brian Dabson, Associate Director of the Rural Policy Research Institute of the University of Missouri, and to Julie Meier Wright, President of the San Diego Economic Development Commission.

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Finally, because the members of the Advisory Committee served as individuals, the organizations, businesses, agencies, and governments with which they are associated contributed support staff resources and also accommodated the absence of Committee members for numerous meetings, subcommittee sessions, and other work demands. These contributions from the members' organizations across the United States are also acknowledged.

Glossary of Terms

The terms listed below appear in this report to describe findings and recommendations. They are presented and defined here as the Advisory Committee used them, which is in the context of local and regional community and economic development.

Capacity Building

Mobilizing of individual and organizational assets from the community and combining those assets with others to achieve community building goals.[xx]

In its work for this report, the Advisory Committee considered the special needs for capacity building in distressed communities and regions for convening civic, business, and governmental partners and collaborators to formulate and implement strategic plans and to access resources under the Strengthening America's Communities Initiative. In addition, the Committee sees an important component of capacity building to include strengthening the skills of state, regional, and community economic development officials to allow them to facilitate regional governance models, strategic competitiveness strategies, partnerships, actions, performance, and accountability.

Challenge Grants

Challenge grants are competitive grants available to communities or regions that have adopted economic development strategies and taken action to encourage investment and business expansion. An Economic Development Challenge Fund is a specific component of the Strengthening America's Communities Initiative that was proposed by President George W. Bush as part of his FY 2006 budget request to Congress. The initiative proposes a bonus grant program for low-income communities facing economic challenges that have already taken steps to improve economic conditions and demonstrate readiness for development.

Clusters

Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products, and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions — such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations — that provide specialized training, education, information, research, and technical support.

Clusters represent critical masses of unusual competitive success in particular fields. Clusters can be concentrated in one economic region or may spill across several regions. The success of the cluster depends on taking full advantage of the distinct assets and knowledge of the places involved. The enduring competitive advantages of a region increasingly lie in the things located within the region — knowledge, relationships, and motivation — that distant rivals cannot match. Untangling the paradox of location in a global economy reveals a number of key insights about how companies continually create competitive advantage. What happens inside companies is important, but clusters reveal that the immediate business environment outside companies plays a vital role as well. This role of locations has been long overlooked, despite striking evidence that innovation and competitive success in so many fields are geographically concentrated.[xxi]

Community Development

Activities that increase positive outcomes within a community by linking individuals and organizations working toward common ends. The U.S. Department of Housing and Urban Development more broadly defines community development as being "many different programs that provide assistance to a wide variety of grantees." (See the section of this report titled "A Definition in Flux" for an expanded discussion of the meanings and uses of the terms "community development" and "economic development.")

Competitive Grants

Grants awarded by means of a review of relative merits of multiple proposals, whereby grant requests proposing activities with greater impact and more certain outcomes are given priority over requests where activities will have less impact and less certain outcomes. Competitive grants typically require matching funds and leveraging of nonfederal investments and job creation.

Competitiveness

A nation's ability to sustain and drive long-term productivity growth and maintain a rising standard of living for all its citizens.[xxii]

Competitiveness is the way communities, states, and regions will succeed in the 21st century global economy. Achieving economic competitiveness requires engagement and collaboration of networks of economic, environmental, and social assets to identify and utilize distinctive competitive advantages. In an era of globalization, economic competitiveness is more effectively pursued by regions of economic spheres of common interest.

Development-Ready Community

A community that has taken steps to improve conditions to be more attractive for businesses and investment. These steps may be different for each individual community situation, but in all cases they should include joining in regional efforts to identify competitive assets and participating in the development and implementation of a strategic plan for regional competitiveness and economic growth.

Distressed Community

A community where indicators of economic standing show significant weakness. These indicators may include such factors as unemployment, underemployment, homeownership rates, business formation rates, capital investment, changes in assessed valuations, percentage of substandard housing, out-migration and population loss now prevalent in some rural regions, and adverse impacts from rapid immigration prevalent in some border communities and regions.

Economic Development

Influencing growth and restructuring of an economy to enhance the economic well-being of a community, region, state, or nation and its citizens.

Entitlement Grants

Grants that are awarded by standardized formulas and not by the relative merits, impacts, or assurance of outcomes. Entitlement grants have been typically awarded on an ongoing basis with certifications for compliance with basic regulations and with no requirements for matching funds.

Entrepreneurship/Entrepreneurial Activity

The exploitation of opportunities that exist within a market. "Entrepreneurial companies continually bring new products and services to market, and make dramatic rather than incremental changes when product modifications are required. Entrepreneurial companies initiate actions rather than wait for the competition to make a move. They do not avoid competitive clashes, and are often the first to introduce new products and services. They pursue riskier projects with higher returns and greater uncertainty. They believe that bold action is necessary to achieve lofty objectives. When confronted with uncertainty, the entrepreneurial company will take the risk, refusing to be paralyzed by the fear of failure. In short, entrepreneurially oriented firms are innovative, proactive, and willing to risk."[xxiii]

Entrepreneurs undertake a managerial role in their activities, but routine management of an ongoing operation is not considered to be entrepreneurship. In this sense entrepreneurial activity is fleeting. An individual may perform an entrepreneurial function in creating an organization, but later is relegated to the role of managing it without performing an entrepreneurial role. In this sense, many small-business owners would not be considered entrepreneurs. Finally, individuals within organizations (i.e., non-founders) can be classified as entrepreneurs because they pursue the exploitation of opportunities.[xxiv]

While many entrepreneurs undertake activities that do not have huge impacts on regional growth, dynamic entrepreneurs in high-growth industries can drive economic growth.

Formula Grants

(See Entitlement Grants.)

Globalization

The process in which geographic distance becomes a factor of diminishing importance in the establishment and maintenance of cross-border economic, political, and socio-cultural relations. Globalization can be thought of as the widening, intensifying, speeding up, and growing impact of worldwide interconnectedness.[xxv]

Innovation

The turning of new concepts into commercial success or widespread use. Innovation is not exclusively a technological term and can occur more broadly across a region's economy. Innovation can be spurred when research and educational institutions contribute to the development and diffusion of new knowledge, human talent, and technologies in a region. Ideally, interconnected institutions form a system whose performance is determined both by the individual performance of each institution, but also by how they interact with each other as elements of a collective system.[xxvi]

Innovation-Based Economic Development Strategy

An economic development strategy that reflects an understanding of the key role innovation plays in supporting economic growth. Such strategies would recognize that a region and its firms compete in a global economy that is increasingly driven by knowledge-based assets, rather than assets like access to raw materials or low-cost labor. Close synonyms would include "knowledge-based" or "tech-based" economic development strategies.

Innovation Hot Spots

Regions where institutions foster knowledge-transfer, collaboration, and support for entrepreneurial startups. Innovation hot spots combine and accelerate the deployment of key elements of the innovation ecosystem by building on cutting-edge research, providing a training ground for next-generation innovators, creating a crossroads between researchers and businesses, and linking innovators with early-state funding and experienced innovation mentors.[xxvii]

Knowledge-Driven Economic Development

Employing a region's knowledge and educational resources to gain economic advantage in the global economy.

Poverty

The most common method used to define poverty is income-based. A person is considered poor if his or her income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the "poverty line." What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines that are appropriate to its level of development, societal norms, and values.[xxviii] In the United States, the federal government has a set of lines, or thresholds, that are compared with families' resources to determine whether or not they are poor. The thresholds differ by the number of adults and children in a family and, for some family types, by the age of the family head. The resources are families' annual before-tax monetary income.

Public-Private Partnerships

Cooperative ventures between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks, and rewards. The essence of a public-private partnership arrangement is the sharing of risks. Central to any successful public-private partnership initiative is the identification of risk associated with each component of the project and the allocation of that risk factor to the public sector or the private sector, or perhaps involving a sharing of risk. Thus, the desired balance to ensure best value (for money) is based on an allocation of risk factors to the participants who are best able to manage those risks and thus minimize costs while improving performance.

Best value is also enhanced by the social benefits (i.e., educational or health) accrued through the ability to deliver programs earlier than otherwise might have been possible. The opportunity and ability to share resources with the private sector through a long-term relationship allow the government to pursue initiatives that may not otherwise have been possible for several years, had a partnership arrangement not been achieved.

Through an array of techniques, the private sector can apply its skills and resources to services that have traditionally been provided by the government.[xxix]

Region

A geographic area, typically comprising multiple communities and jurisdictions but sharing a common identity; a localized labor and trade market; and transportation and distribution networks. The interdependencies within a region form the basis for its definition, as well as for the pursuit of regional governance to increase regional competitiveness.

Regional Competitiveness

A region's vigorous pursuit of a competitive edge in a rapidly changing global marketplace. Building and retaining this edge involves three steps: (1) understanding the region's critical economic assets; (2) identifying the best market opportunities for the region; and (3) crafting a strategy that exploits one to seize the other.[xxx]

Regional Governance

How a region thinks and acts as a region.

Regional governance is the method by which relations and interactions within regions are coordinated through a combination of mechanisms and network-like structures involving public and private actors. In economic development terms, governance relates to the development of goals, strategies, capacities, and instruments to advance sustainable regional development.[xxxi]

Strategic Plan for Economic Growth

A plan formulated from an analysis of a community's and region's distinct competitive assets/advantages, matching the exploitation of these assets/advantages to market opportunities within the global economy.

Underemployment

A condition where a portion of a community's or region's population is employed but individuals are not earning enough to maintain self-sufficiency.

Unemployment

All persons who had no employment during a reference week, were available for work, except for temporary illness, and had made specific efforts to find employment sometime during the four-week period ending with the reference week. Persons who were waiting to be recalled to a job from which they had been laid off need not have been looking for work to be classified as unemployed. The rate of unemployment is the ratio of unemployed to the civilian labor force expressed as a percent.[xxxii]

Appendix A

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xxxii U.S. Department of Labor, Bureau of Labor Statistics. www.bls.gov.

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