Chapter Three
Economic Development Organizations

Chapter Goals

1. Recognize what economic developers do and how they do it
2. Understand what makes a successful public-private partnership
3. Recognize the different types of economic development organizations and be able to determine which one should be used in different situations
4. Acknowledge both the strengths and weaknesses of economic development organizations

Economic Development Organizations and Economic Development

Policy makers and business leaders are fortunate to have a broad array of tools at their disposal to implement economic development strategies. Economic development organizations is one of the tools. They use business retention, business attraction, and promotion of entrepreneurship as their prime tools to promote economic growth. Economic development organizations are in the business of creating successful public-private partnerships. These organizations are private sector led, public sector led, or a combination of both. Private sector-led economic development models are growing in popularity. Many major metro regions have created multicounty private sector-led groups, likely with public sector funding, charged to retain and attract jobs. In some states, the private sector is taking over economic development; however, the majority of state economic development efforts are directed by state government.

Success stories abound about how economic development organizations impact a region’s growth and success. One such example is how a Nissan manufacturing facility ended up in Tennessee. Of course, Tennessee offered a site with needed infrastructure, a large pool of available skilled workers, and an array of tax incentives to Nissan. Tennessee was not the only state going after Nissan. However, the Nissan project actually got its start through a conversation years before between the state economic development leader for Tennessee and a Nissan official at a University of Tennessee alumni event in California. It was that personal connection between the
company and the state, fostered by an economic development leader, that may have given the volunteer state a leg up in a highly competitive market.

Policy Arguments for Economic Development Organizations

Not all states are winners in the economic development game. Recent winners are a small number of states in the south and midwest. While California is still the nation’s largest state economy, the lone star state of Texas is making a strong play to move into the number one position.\(^1\) They recently surpassed New York to be the nation’s second largest state economy, and the industrial midwest, California, Massachusetts, New Jersey, and Georgia, have seen recent economic declines.\(^2\) The federal government does not dictate what states and regions do and do not to promote economic success. They provide tax credits and programs that all regions can access. States and regions are left to their own efforts to be economic winners or losers. The creation of economic winners and losers across the United States and a lack of national coordination on economic development strategy turned economic development into a competitive business at the state and local levels. State governments operate economic development organizations to retain and attract high-wage jobs.\(^3\) Competition dictates regions to not only create economic development strategies that focus on what industries to grow but also to focus on how best to retain and attract high-wage jobs.

The existence of regional economic winners and losers creates a strong policy argument for communities to utilize economic development organizations to play in this game. Multicommunity or regional development organizations is one strategy implemented by communities to promote economic success. Regional economic development organizations crossing local government boundaries are more effective as they increase budgets and staff and reduce local battles over existing companies.\(^4\) Private sector economic development leadership brings new financial resources to business retention, attraction, and promoting entrepreneurship. Opponents of the use of economic development organizations question whether their programs really impact economic growth. They argue that regional companies’ business decisions dictate economic success of a region much more than economic development groups promoting that region. The programs offered by these groups are argued to be “free money” given as an incentive to companies growing through their own efforts and not due to promotion of the region.

Economic Development Organization as an Economic Development Tool

Dating back to the 1920s, private sector companies started working together to form economic development organizations to further their business growth.\(^5\) New York City hired its first economic development staff member in the late 1960s. Economic development organizations today focus on three core tools: job retention campaigns, job attraction campaigns, and promotion of entrepreneurship.

Existing companies produce 80 percent of a region’s new jobs.\(^6\) The economic success of a region starts with a successful existing job retention program. A job