

# WORKING TO GROW

WISCONSIN ECONOMIC DEVELOPMENT



## WHAT IS ECONOMIC DEVELOPMENT?

An Economist's View

—Dale Knapp, Director of Research & Analytics, Wisconsin Counties Association

The term “economic development” does not mean the same thing to everybody. For some, economic development is about assisting local businesses, whether that is by providing gap financing loans, helping them access state business expansion grants or credits, or aiding them in some other way.

For others, it is about convincing non-local businesses to expand or relocate in the community. Some view it as a combination of helping local businesses and recruiting new ones. While these activities can be a part of an economic development plan, economists and economic development professionals take a broader view.

## SETTING THE STAGE

For economists and economic development professionals, economic development is anything that sets the stage for the long-term success

of businesses, workers, and the community. Success includes growth in jobs and output but encompasses much more than that. A 2014 journal article<sup>1</sup> summarizes the economic view of economic development this way:

*“Economic development is ... the expansion of capacities that contribute to the advancement of society through the realization of individuals’, firms’ and communities’ potential. Economic development is a sustained increase in prosperity and quality of life realized*



*through innovation, lowered transaction costs, and the utilization of capabilities towards the responsible production and diffusion of goods and services.”*

In this definition, capacities are conditions that create outcomes that set the stage for realizing potential. Economic development is about creating an environment where businesses grow in a sustainable way, where workers prosper along with business owners, and where the community becomes a desirable place to live.

## **DEVELOPMENT IS LOCAL**

The state can help with economic development, but the bulk of the work needs to be local. What is needed to put Florence County on a sustainable path to prosperity is often very different than what is needed in Milwaukee or Madison. One example might be broadband.

In many areas of the state, both affordable housing and affordable day care are critical issues that impact both workers and businesses. For workers, these issues determine whether they can afford to live in the community and whether it makes financial sense for a mother or father to be in the workforce. Programs that address these issues are economic development.

Some parts of the state are struggling with a skills gap. Again, this is an issue that affects the potential of both workers and businesses. Partnering with educational institutions to provide needed training is economic development, as is creation of amenities to attract skilled workers to the area.

Because the focus is on reaching the community’s potential, a vast array of programs or activities fall under the economic development umbrella. The challenge is scarce resources which lead to prioritization.

## **MEASURING SUCCESS**

How one measures economic development success depends on the objectives of the strategy. If the only goal is to increase the number of jobs, then progress is determined by that measure. However, if the broad definition of economic development is used, then progress can be measured using a variety of statistics.

Measures of financial security are often used to measure progress. Among these are per capita personal income, household income,

average wages, and percent of the population in poverty. On the business side, data on output, productivity, and profits can sometimes be tracked.

The availability of cultural and recreational amenities, environmental quality, and crime rates are good measures of quality of life. The availability of affordable housing is another measure than might be tracked.

Depending on the community’s goals, these and other measures can be weighted if, for example, financial security is considered more important than some quality-of-life indicators.

## **FINAL THOUGHTS**

When thinking about economic development, it is often better to take a holistic rather than narrow approach. Development is about trying to achieve both individual and community potential.

Finally, economic development is not just for struggling communities. Local and regional economies can change rapidly. The ability to quickly adapt depends on fundamental capabilities. To put a twist on a famous Louis Pasteur quote: Prosperity favors the prepared. ♦

<sup>1</sup> “The logic of economic development: A definition and model for investment,” in *Environment and Planning C: Government and Policy*, November 2014.