



Local Economic Development The Evolution of Mainstream Theory

11.438 Economic Development Planning

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Economic Growth Basic Models

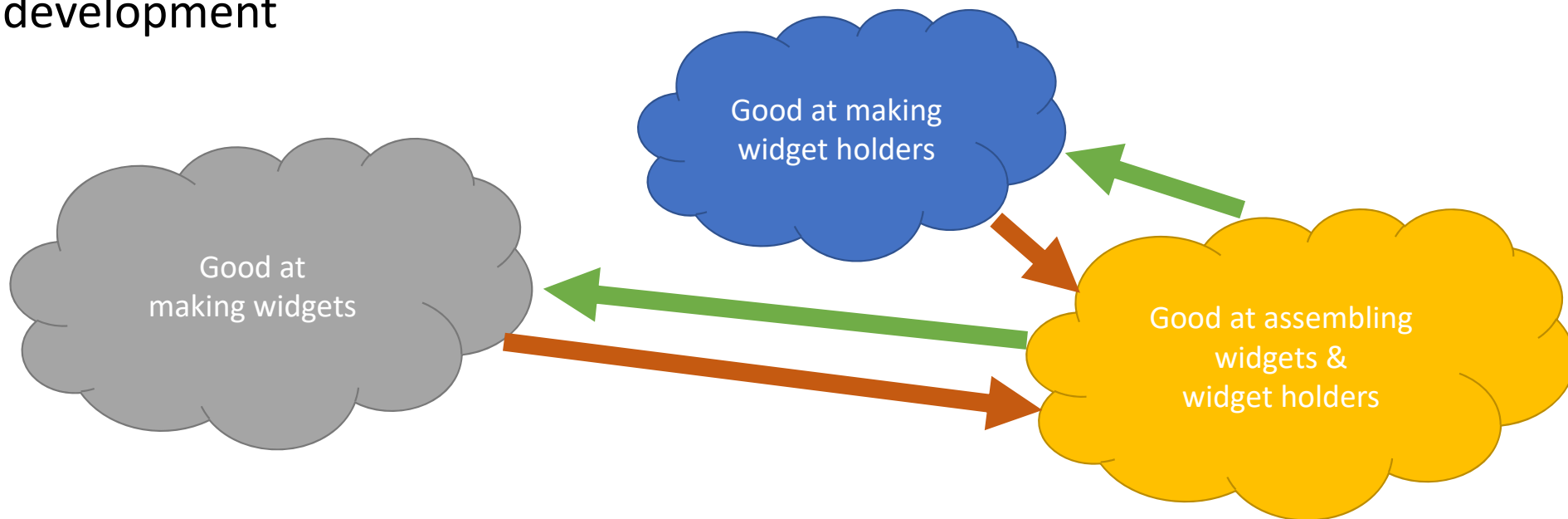
- Economic growth not necessarily the same as economic development
- Nor are they based in the basic question “why?”
- Traditional ways of thinking about it:
 - Local Economic Development = $C \times R$
 - ✓ C =relative capacity & R = resources
 - $Y = f(K, L)$
 - ✓ K is capital and L is labor
 - $Y = f(K, L, T)$
 - ✓ adding in T for technology

Economic Growth Theories

1. Neoclassical theory
2. New Growth theory
3. Economic Base theory
4. Product Cycle theory
5. Location theory
6. Central Place theory

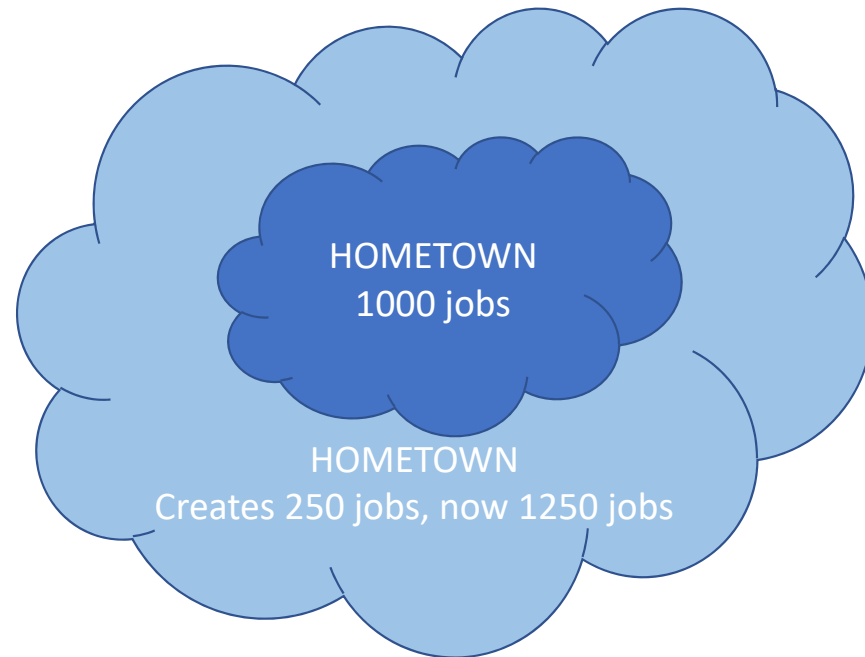
Neoclassical Theory

- Based in the equilibrium of the economic system and the mobility of capital
- Opposes government intervention as disruptive to efficient economic development



New Growth Theory

- Internal growth is the engine
- If you can figure out how to start it
- $Y=f(K, L, T, R, H)$
 - ✓ R- research
 - ✓ H- human capital



ECONOMIC BASE THEORY

- Related to Neoclassical theory but not opposed to regulation
- Economic growth is directly related to demands for goods, services and products from outside its local economic boundaries.
- Produce what you are good at and export it.
- Economic Development strategy is to aid and recruit businesses with national or international market, not service firms.
- Tax relief is a major tool here.
- High tech is popular.
- Relies on external demand

ECONOMIC BASE THEORY



ECONOMIC BASE THEORY

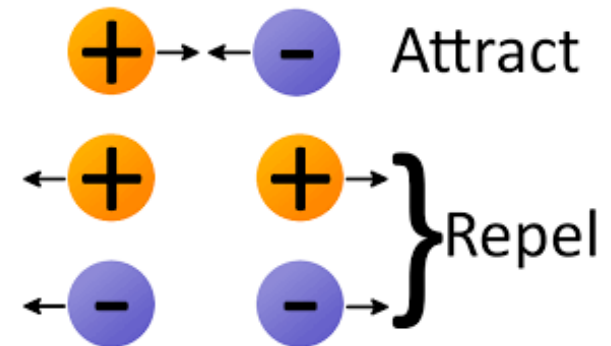


These 100 jobs would be BASIC jobs and create 50 NON-BASIC jobs

The BASIC jobs have an ECONOMIC BASE MULTIPLIER of 1.50

Location Theory

- Transportation, labor costs, energy availability, local government cultures are driving factors in economic development.
- Agglomeration economies can naturally attract business clusters
- Dispersal economies require some space
- Most land-use-planning based theory



Central Place Theory

- Variant on location theory
- Most applicable in service sector.
- Central place is supported by region but allows for specialized production in the Central Place.
- Rural Economic Development uses Central Place theory to create regional Central Places.
- Tennessee Valley Authority and other federal agencies (like EDA) support this model
- Some think that in advanced societies these models are fading
- Others suggest they are shifting.



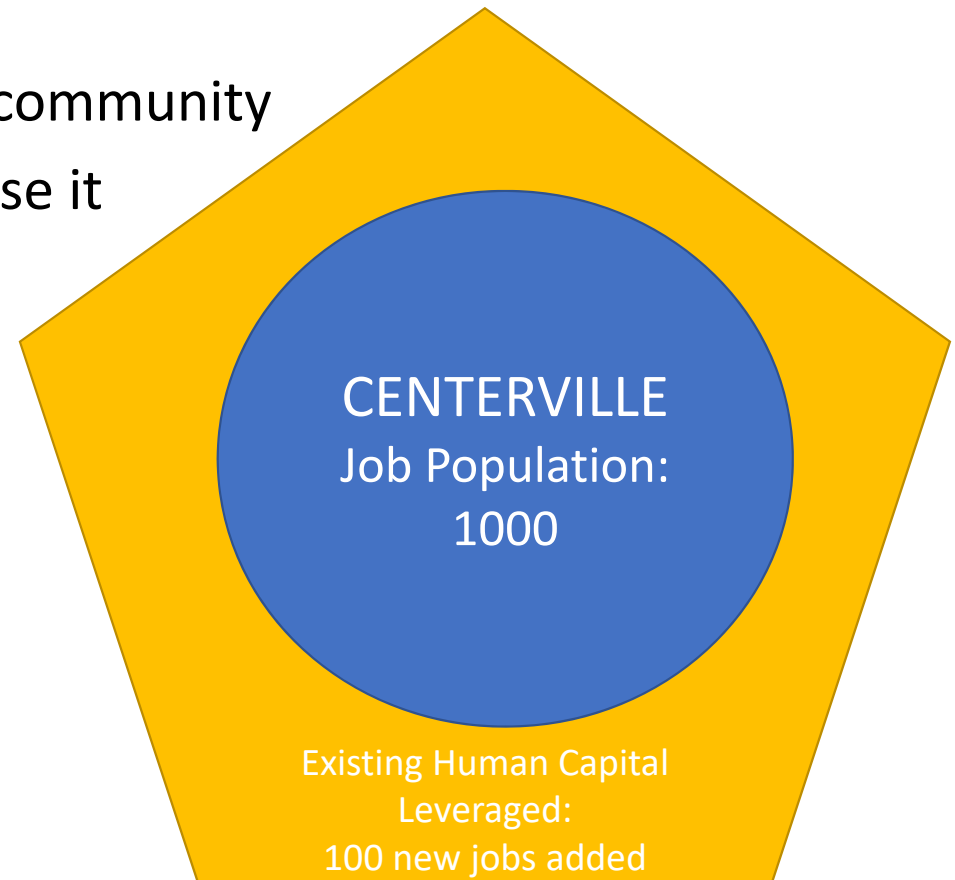
Photo by Melanie Gonick/MIT.

WHAT DOES THIS MEAN IN PRACTICE?

- You can affect your market position with intervention.
- But who pays for those interventions?
- And who actually benefits? Taxpayers and landowners? If so, what did you get?
- New approach is to attract certain populations not just jobs.
- Community as product and need to market

NEW MARKETS MODEL

- The market is already there in your community
- You just need to figure out how to use it
- More on this next week!



Changing Concepts in Economic Development

Component	Old Concept	New Concept
Locality	Physical location (near natural resources, transportation, markets) enhances economic options.	A quality environment and strong community capacity multiply natural advantages for economic growth.
Business and economic base	Export base industries and firms create jobs and stimulate increased local business.	Clusters of competitive industries linked in a regional network of all types of firms create new growth and income.
Employment resources	More firms create more jobs, even if many are minimum wage.	Comprehensive skill development and technological innovation lead to quality jobs and higher wages.
Community resources	Single-purpose organizations can enhance economic opportunities in the community.	Collaborative partnerships of many community groups are needed to establish a broad foundation for competitive industries.

Why Engage in Economic Development Planning?

- ✓ It empowers a community to shape its future
- ✓ Economic globalization has made local government more important
- ✓ A complex and changing world economy needs local action
- ✓ Failure to act is an action in itself, especially as national governments have become more reluctant to engage.
- ✓ And?...

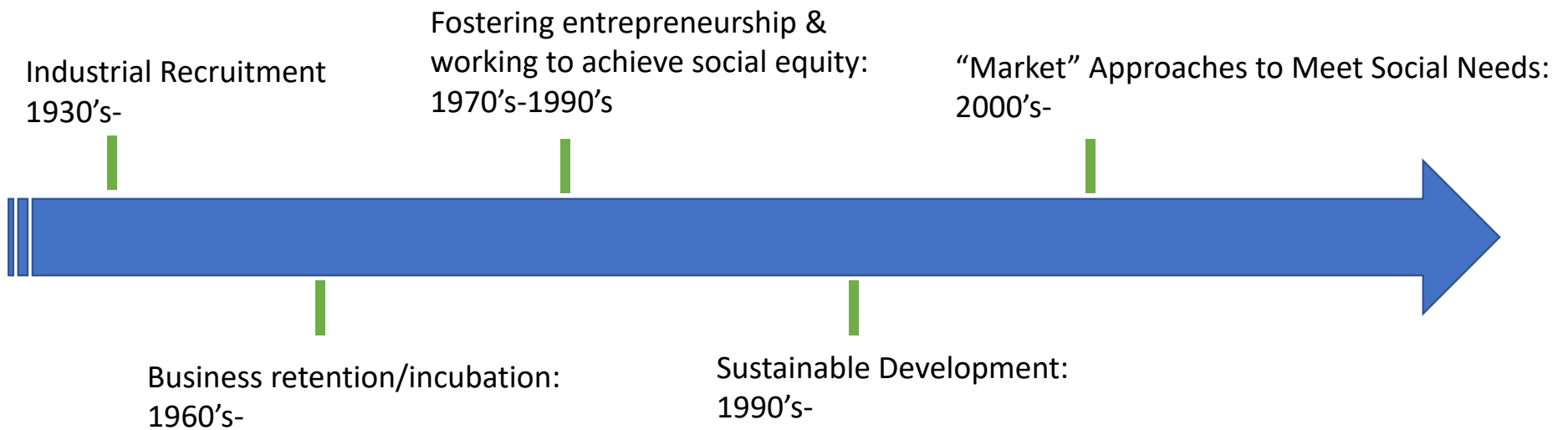
Why Might it be a Bad Idea?

- ✓ World Bank says it's 'lumpy' and Economic Development efforts should not be place based
- ✓ May encourage development of infrastructure with limited supply
- ✓ Also results in "rent seeking" behavior
- ✓ And?...

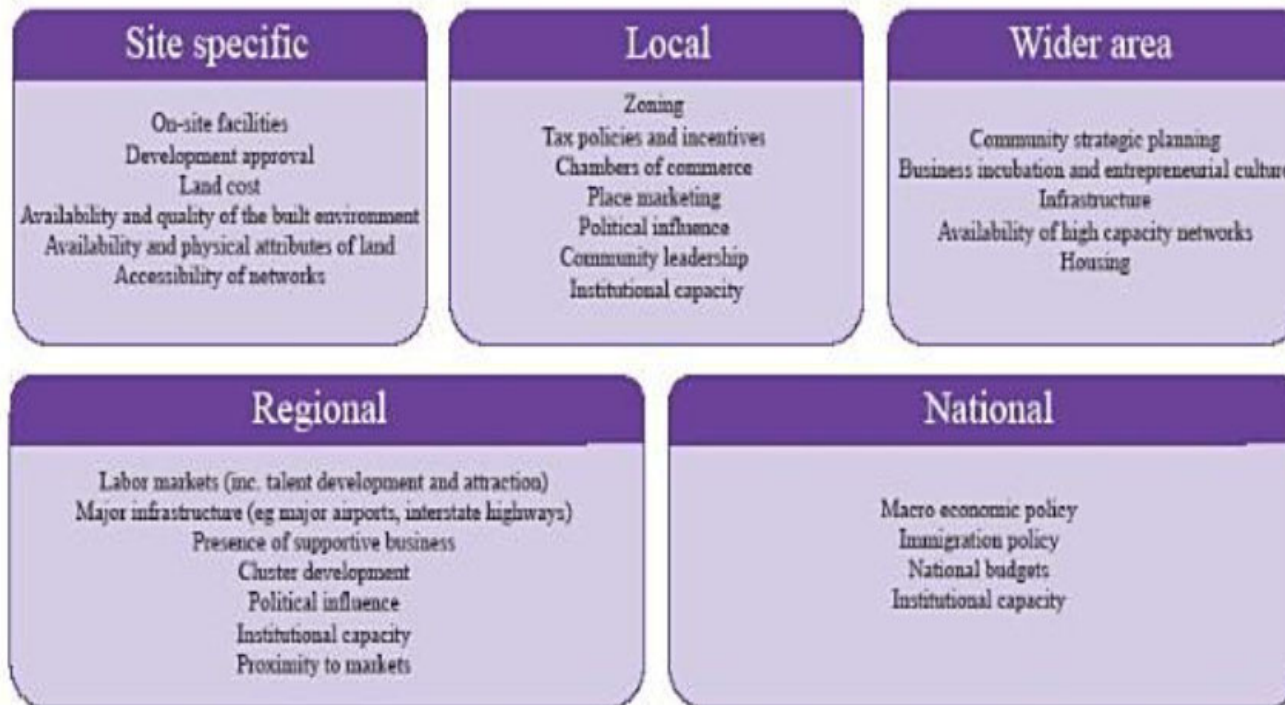
What's Effective (Beer and Clower)

- ❖ Business support and advice
- ❖ Site preparation
- ❖ Grants and loans
- ❖ Securing investment through promotion

A Brief History of Economic Development Planning in the US (Beer & Clower)



Geography of Tools



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