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Information and Indicators

Keeping Tabs on the Local and State Economic Infrastructure

State and local governments have become increasingly involved in economic development over the last decade. One difficulty they encountered was the lack of information that could be used to evaluate public investment decisions. Planners and analysts working for the public sector need to identify new and relevant data sources as well as develop new methods of analysis. The expertise and resources of universities can be an invaluable resource in this regard if appropriate initiatives are made a systemic part of each institution.

The study and practice of urban planning and development have changed significantly over the last few decades. Originally, as cities evolved, the major focus was on urban form and design. During the 1950s and 1960s, methodologies evolved to deal with urban programs, such as the Community Action Program and Model Cities, that contained a strong social element. During the 1970s, city officials, planners, and researchers became more directly concerned with the economic health of urban areas.

State governments became directly involved in economic development during the 1980s. Buffeted by the 1982 economic downturn and subsequent "rolling recessions," state governments were confronted by a federal administration that offered little assistance. The "new federalism," in effect, transferred the principal responsibility for adapting to these economic changes to state governments.

While state governments had been "laboratories of democracy" in the 1930s, by the 1980s most innovative programs originated either with the federal government or local governments. State governments served as "pass-through" points for federal funding when it did not go directly to localities and most were considered backwater operations, especially in terms of economic issues. One of the first difficulties confronting governors and other state officials in the development of new and different state policies and programs was the inadequacy of the *structure* of state government for the new demands being placed upon it. Just as the federal

government set up entirely new organizational structures for the War on Poverty programs of the 1960s, state governments were forced to set up new agencies and operations for their economic development programs in the 1980s.

Once politically involved in the process, local and state governments evolved a wide range of policies and programs designed to retain existing firms and attract other firms. Other policies include the development—spurred by large amounts of public monies—of downtown hotels, office buildings, sports stadiums, and cultural centers. These policies have become so common, as Robert Goodman pointed out in *The Last Entrepreneurs*, that many cities and states now end up bidding against each other for desirable firms or projects (such as General Motors's Saturn Division and the federal super-collider project), taking enormous financial risks for frequently unclear benefits.

On top of the obvious problems with this, the public sector can be too soft on private investors, trying not to scare that investment away. This accommodating stance also means that the private sector is frequently not held accountable for its performance, particularly as that performance relates to the broad distribution of redevelopment benefits.

Part of the reason for this response is the lack of information and methodology relevant to these new economic concerns. Local and state organizations frequently do not have adequate ways to evaluate which proposed projects would most benefit regional and state economies and therefore be most deserving of scarce public monies. Too often, the investment of public monies, when targeted at all, tends to concentrate on specific growth industries that match some predetermined guidelines based on regional advantages and disadvantages. Many public entities, for want of clear direction and methodology, practice what Hirshman in *Development Projects Observed* called "pseudo-imitation." In the absence of real policy control and flexibility, they simply imitate whatever strategies and policies seem to work elsewhere, assuming that success is transferable.

Another issue involved is the increasingly advanced communication and technology of private firms, which enhances their flexibility in terms of their initial location decisions and subsequent moves. Private decisions to close, move, or expand a production facility invariably have an effect on the local and state economy. Yet both state and local levels of government frequently do not become aware of these private decisions until they are publicly announced, when the ability to intervene is usually minimal. Local and state governments are often forced to *react* to changes in the economy, rather than be involved in the *planning* of key economic decisions.

The pressures on state and local governments to find new ways of conceptualizing and interacting with the economy often lead them to universities. Information and analysis, after all, are traditional areas of university strength. Despite this seemingly perfect match, few universities are able to respond because they are not structured to deal with issues at this level. This article outlines a few of these informational and analytical issues and suggests ways in which universities can help resolve them.

The Paucity of Economic Information

A major stumbling block in the development of realistic local and state economic development strategies has been the lack of relevant information. There are several aspects to this.

First, the bulk of the information compiled by public agencies has little to do with the economic base of the community. While over half of the cities with at least 10,000 residents use computers, for example, the focus has overwhelmingly been the collection of financial and facilities data. Typical data banks include selected information about land use, zoning, building permits, etc., as well as demographic and housing census data, but not information about the nature of regional industry and the structure of the work force.

Second, most economic data is compiled and analyzed on an aggregate basis or at the macroeconomic level. While this type of analysis is useful, it is far from sufficient. The data used is usually secondary in nature, i.e., data compiled originally by other people for other purposes. Not only are the data often uneven in terms of accuracy, but significant problems of cross data compatibility and comparability exist. For example, the employment size categories of the U.S. Census *County Business Patterns* differ from those used by the U.S. Department of Labor's Employment Security Division.

The timeliness of such data is also an issue. Rare in this era of budget cutbacks is up-to-date secondary information on local, regional, or state economies. The 1987 *Census of Manufactures*, for example, was not released by the U.S. Bureau of the Census until early 1991.

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Finally, the information generated from such macroeconomic techniques is very general and broad. While trends are indicated, it is difficult to gauge specifics. At best, it is possible to work at the level of the industry or the nature of the product. Sectorial or industrial information, for example, is useful as a data source for shift-share analyses, a technique that compares local and national employment changes by industry over a period of time, and input-output models, where the relationships between regional industry sectors are quantified. But, as Kraushaar and Feldman observed, if the major forms of industrial restructuring now underway are (1) a shift from manufacturing to services, (2) the emergence of new industrial sectors based on technological advances, and (3) the centralization and concentration of the control of economic activity in large corporations, then the use of sectorial analysis must be considered inadequate. Its reliance on the inflexible Standard Industrial Classification (SIC) codes makes it a poor method of targeting burgeoning services (such as computer software), isolating new technologies (such as ceramics), or identifying subsidiaries or branches of larger corporate entities (such as General Motors's ownership of Electronic Data Services).

The Planner as Stock Analyst

It is perhaps too obvious to state that the goals of private industry and government differ. Yet, in at least a limited sense, public planners, working for some spatial entity such as a city, and private planners, working for an economic entity such as a company, function under similar conditions. First, both invest other people's money. Second, both try to maximize that investment. Third, both need to anticipate the economic arena within which they work. To anticipate correctly is to enhance investment. To be caught unaware is to risk economic security. Fourth, both need to be able to identify winners and losers. Finally, the ability to differentiate between success and failure in the most effective and efficient manner is crucial to both.

Public and private planners also share the need for accurate and up-to-date economic information and analysis. Well-established mechanisms exist in the private sector for both gathering and analyzing information. Specific ratios and indicators can be found in the financial statements of companies. Marketing and credit services exist, such as Dun & Bradstreet, that can supply relatively up-to-date information on both individual firms and industrial sectors. Electronic libraries with stock market information can be accessed via computers, and numerous books and methods allow the stock analyst to interpret this wealth of data.

The public planner in local and state agencies responsible for economic development also requires relevant economic data. Indeed, a great deal of information is available, even though much is considered proprietary and/or hidden by internal accounting mechanisms. Business directories and reports from the Securities Exchange and the Federal Trade Commissions, trade journals, and annual corporate reports all supply potentially relevant data. While issues of location are relevant, to the private planner they are considered secondary to *vertical* linkages, both within the individual firm and the industry as a whole. A large brokerage firm might have a chemical or steel industry expert who provides expert and in-depth information both about the sector as a whole as well as about individual firms, their market outlook, potential stock performance, etc.

However, for the public planner working for a spatial entity, the need is to structure this information *horizontally* with location as a prime determinant. For data to be useful, their emphasis must be on the businesses located in the geographical areas that contribute to the local or regional economic base. The ultimate ownership of the business or its industrial sector is of secondary importance. With horizontally linked data, a "locality analyst" (i.e., public planner) could develop capital mobility indicators that would provide crucial information on individual firms and industries. This data would then serve as input into public policy and investment decisions, similar to the process whereby the private market analyst's information is used to guide private policy and investment decisions. While some research has been done to predict corporate behavior, most of it concentrates on vertical linkages (e.g., the effect of that behavior on the stock market).

Potential Horizontal Indicators

Little research has been done to see which are the key horizontal indicators. The work that has been done has dealt almost exclusively with plant closings. Even so, preliminary conclusions from researchers such as Wiewel and Ranney, who have tried to set up a system of local indicators in Chicago, are that "early warning signs are generally quite available; the problem is having a mechanism to see and record them and then take appropriate action."

A rough compilation of possible locality indicators would combine secondary data, available from such sources as the Bureau of Labor Statistics of the U.S. Department of Labor and the Bureau of Economic Analysis of the U.S. Department of Commerce, with primary data compiled from such sources as direct surveys of firms and unions.

The object of these indicators is to go beyond present concepts of early warning systems, which, by concentrating on weak firms that are in danger of either closing or moving, represent the worst aspects of capital mobility. Equally important are the characteristics of expanding firms or the needs of key firms that are not necessarily the largest employers. Therefore, the *number* of jobs, while important, must be matched against the *quality* of the jobs. Product life cycle can be as important as capital investment. It is only by combining all of these factors that the true worth of a firm to the region can be ascertained.

Specific Possibilities for Application

The potential benefits of such locality indicators are significant. First, they would help in the identification of key firms or industrial sectors within the regional and/or state economy. This would include not only the obvious large establishments, but smaller firms that are either important as local suppliers or have strong and regionally supportive growth potential.

Another important utilization of the locality indicators would be to identify corporate linkages. For example, almost 60 percent of the manufacturing firms in western New York with one hundred or more employees are either branches or subsidiaries of absentee corporations. These firms account for almost 65 percent of the employment as well. With the exception of a few corporate cities and regions, this degree of outside ownership is not uncommon throughout the country.

In several cases, the SIC code of the parent is different. The Buffalo Strippet Division of Houdaille, which is based in Ft. Lauderdale, Florida, employs almost six hundred people. The SIC code of the Strippet Division is 3541 (metal fabricating) while Houdaille itself is 3293 (metal forming machine tools). To analyze Strippet on either its local base or its metal fabricating is misleading. Fisher-Price, the toy company headquartered in western New York, was owned until recently by Quaker Oats, which is based in Chicago.

A third use of the locality indicators would be as a key element in the development of true early warning systems, similar to ones that private planners use. Various systems of this kind have been proposed or

implemented at the state or union level. Some localities, such as New Orleans and Baltimore, have initiated the rudiments of such a system, but most rely on seminars and individual contacts with private and public sector representatives who deal regularly with local firms. None have developed anything resembling a systematic approach to the issue.

The worth of early warning systems seems self-evident. For example, industry-wide conditions or investments by parent companies in plants in other regions could serve as an indication that the continued operation of local facilities was in question.

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Approaching private businesses before potentially adverse decisions have been made final or made public could significantly help local business retention. The development of locality indicators could also help in understanding the reasons for local disinvestment and indicate ways of preventing it. Finally, as Wiewel and Ranney concluded in their work in Chicago, "even if a closing cannot be avoided, the earlier its likely occurrence becomes known, the more time there is to arrange transition and severance arrangements."

Fourth, given limited resources, the locality indicators would provide better indications as to which firms should be the recipient of local and state aid and assistance. This is especially relevant given the drastic federal cutbacks over the last decade. For example, they might indicate that while several diverse firms use a specific ball bearing, the bearings are supplied from various vendors outside the region. The size of the local market might indicate whether the ball bearings could be profitably manufactured locally, thus increasing regional self-sufficiency and backward linkages. Paul Eberts, who has worked extensively in the rural counties of New York, refers to this as "import substitution." It would allow local investment to be "directed to existing local firms as suppliers, or to create new supplier firms if no existing firms are available." If no local firm can supply a particular need, the size of the potential local market might indicate whether it would be profitable to initiate local manufacturing of the particular component. While assistance to a particular company may not have obvious direct regional benefits (i.e., very few jobs may be involved), its importance could also be measured by identifying its regional linkages to other more important sectors of the economy.

A Role for Universities

The expertise and resources of the universities, from sophisticated computer equipment to the participation of students, can be an invaluable resource. The research and economic information elements of university support for these efforts at the state and local levels should meet the following key objectives:

Provide timely and relevant analysis and studies of regional economic development issues and policy alternatives. Universities can provide local and state governments with the capacity to monitor as well as diagnose the issues comprising their changing economies. The idea is not

meant to transform universities into policy makers but to mobilize universities' analytic abilities in the service of informed and effective policy formation. This should greatly enhance the present public planning process. The topics of such research could include developing assessable and consistent data sets, industry studies, market studies, international border studies, tourism reports, and the development of analytical tools, such as input/output models, for understanding the economy.

Provide consistent, timely, and up-to-date economic information requested by local and state policy makers. This does not represent a duplication of present data collection efforts at local and state levels. Local and regional differences within states require a diversity of economic statistics and a variety of approaches to the assessment of economic change. Universities could develop specialized data sets to assist local and state entities in economic analyses.

Supply studies and reports on topics that will aid the development of public economic development policies and programs of the relevant agencies. Just as the regional and state economies do not exist in political or economic vacuums, relevant economic research is not region-bound. State policies, for example, must be as cognizant of national and international forces as they are of local forces. Universities are capable, often uniquely so, of serving as centers of such broadly applied analysis, information, and study. They could provide concrete deliverables and organize regional study teams of academics and others to develop local and state capacity and to tap resources more effectively. Both the state and local governments, for example, would benefit from procedures that traced the effectiveness of public expenditures at creating new income and employment.

Stimulate the most advanced thinking on the future of global, national, and state economies and the nature of public/private responses to economic change. Universities are able to explore new developments, both in policy and theory, pertaining to economic change and its relation to local and state governance. The expansion of knowledge on economic development, urban and regional economies, and global change as it relates to states and regional economies can be considered a valid goal of a university. Information and analysis concerning the state and regional impacts of international issues, such as the Canadian-American Free Trade Agreement, the political and economic changes in Eastern Europe, and the coming 1992 European Economic Community, are of great value.

Enhance the skills of local and regional public officials involved in economic development. Besides organizing conferences, workshops, and certification programs, universities could facilitate the broader use of new techniques and measures of economic performance.

Conclusions

With government agencies at all levels directing a range of programs toward industries and specific firms in an attempt to promote economic development, the lack of relevant data and useful analysis is a serious concern. Along with the issues of new programs and organizational

structures, therefore, needs to be a concern for information and analysis. Simply put, the economic information and analysis presently available at the local and state levels are insufficient for the demands being placed upon them. Local and state governments need to restructure their traditional methods of both obtaining and processing economic information.

While this is an arena well suited to universities, they need to restructure their own activities to match these new realities. In many universities the issues get lost in old but continuing debates of "town vs. gown" and "applied vs. basic" research. Others are more involved in the diffusion of industrial innovation (i.e., centers for advanced technologies) than of economic innovation. Even the universities that are active in the economic policy debate have tended to focus at the national or international levels, ignoring the innovation and leadership on these issues of individual states and cities.

Most of the effort at present is the work of a few entrepreneurial professors or research centers. Until these efforts are made a more systemic part of universities, their assistance in this continuing transformation of local and state governments will be inconsistent and marginal.

Suggested Readings

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Note

This article represents the views of the author and does not necessarily represent the views of the New York State Department of Economic Development.