

Second Edition



# Local Economic Development

Analysis, Practices, and Globalization

John P. Blair  
Michael C. Carroll

# Contents

Preface	xiii
<b>1. Local Economic Development in a Global Market</b>	<b>1</b>
How Economists View the World	1
<i>Models and Assumptions</i>	1
<i>Individual Behavior and Utility Maximization</i>	3
<i>Ideological Perspectives on Market Operations</i>	4
How Markets Work	5
<i>Supply and Demand</i>	6
<i>Supply, Demand, and Efficiency</i>	7
<i>Markets Are Not Always Efficient</i>	9
<i>The Role of Profits</i>	11
Economic Development Defined	13
Careers in LED	14
The Nature of Regions	15
<i>Types of Regions</i>	16
Local, National, and Global Economic Development	19
Summary	20
<b>2. Business Location, Expansion, and Retention</b>	<b>23</b>
Location Factors	23
<i>Inertia</i>	23
<i>Transportation–Cost–Minimizing Models</i>	24
<i>Production Costs</i>	28
<i>National Political Climate and Stability</i>	34
<i>Opportunity Creation</i>	34
The Decision-Making Process	35
<i>Motivations</i>	35
<i>Practical Limitations on the Choice Process</i>	36
<i>Steps in the Corporate Site Selection Process</i>	36

Changing Relative Importance of Location Factors	39
<i>Surveys of Location Factors</i>	39
<i>Survey Findings Past to Present</i>	39
Conducting Business Retention and Expansion Programs	41
Summary	42
<b>3. Markets, Urban Systems, and Local Development</b>	<b>45</b>
Demand and Market Areas	45
Demand in a Spatial Setting	46
<i>Competition for Markets</i>	47
<i>Threshold Demand and Range</i>	49
<i>Determinants of Market Size</i>	51
The Urban Hierarchy and Urban System	51
<i>Central Places</i>	52
<i>Goods and Services According to Urban Rank</i>	53
<i>Changing Urban Patterns</i>	55
An Evaluation of the Central-Place Approach	57
<i>Considerations Extraneous to</i>	
<i>Central-Place Theory</i>	57
<i>Empirical Evidence</i>	60
Globalization and Urban (City) Systems	61
How to Measure Areas of Influence	62
<i>Survey Techniques</i>	62
<i>Reilly's Law of Retail Gravitation</i>	63
<i>Probabilistic Models</i>	65
<i>Retail Spending</i>	66
<i>An Example</i>	67
Hinterland Expansion Strategies	68
Summary	69
<b>4. Economic Interdependence and Local Structure</b>	<b>71</b>
Agglomeration Economies	71
<i>Internal Agglomeration Economies</i>	71
<i>Direct Sale/Purchase Linkages</i>	72
<i>Localization Economies</i>	73
<i>Urbanization Economies</i>	75
<i>Recap</i>	76
Cluster Analysis	77
Measures of Economic Structure	79
<i>North American Industrial Classification</i>	
<i>System (NAICS)</i>	79
<i>Location Quotients</i>	80
<i>Estimating Export Employment With Location Quotients</i>	83
<i>Surveys to Determine Export Activities</i>	85

<i>Coefficients of Specialization</i>	86
<i>Occupational Structure</i>	86
Other Aspects of Regional Structure	87
Summary	87
<b>5. Regional Growth and Development</b>	<b>89</b>
Stages of Growth	89
<i>Industrial Filtering (Life Cycle Model)</i>	91
<i>Adding New Work to Old</i>	91
<i>How Do Cities Move from One State to the Next?</i>	92
Circular Flow Diagram	92
<i>Elements of the Circular Flow Model</i>	92
<i>Equilibrium and Change</i>	96
<i>The Multiplier</i>	96
The Export Base Theory of Growth	99
<i>The Formal Income Model</i>	100
<i>How to Operationalize the Export Base Approach</i>	102
<i>Impact Studies and Export Base Forecasts</i>	104
Critique of the Export Base Approach	106
<i>Primacy of Exports</i>	106
<i>Import Substitution</i>	106
<i>Productivity</i>	106
<i>Exports Not Always Exogenous</i>	107
<i>Small Versus Large Regions</i>	107
<i>Feedbacks Among Regions</i>	107
<i>Nonbasic Activities May Not Increase</i>	108
<i>Long-Run Instability of the Multiplier</i>	108
<i>Excessive Aggregation</i>	108
Supply-Side Approaches	109
<i>Intermediate Inputs</i>	109
<i>Entrepreneurship</i>	109
<i>Capital</i>	110
<i>Land (Environmental Resources)</i>	110
<i>Labor</i>	111
Supply- and Demand-Side Approaches: A Synthesis	111
Summary	112
<b>6. Additional Tools for Regional Analysis</b>	<b>115</b>
Shift-and-Share Analysis	115
<i>An Application</i>	116
<i>Critique</i>	118
Econometric and Simulation Models	118
<i>Econometric Models</i>	119
<i>Caveats</i>	122

Importance-Strength Analysis	124
Input-Output Analysis	125
<i>The Transactions Table</i>	125
<i>The Table of Direct Coefficients</i>	126
<i>The Table of Direct and Indirect Coefficients</i>	127
<i>Input-Output Applications</i>	128
Summary	130
<b>7. Institutional Perspectives on Local Development</b>	<b>133</b>
External Benefits from Economic Development	133
<i>Job and Income Creation</i>	134
<i>Fiscal Improvement</i>	134
<i>Physical Improvements</i>	134
Who Benefits From Growth?	135
<i>Characteristics of Resource Supply</i>	136
<i>Opponents of Growth</i>	138
Subsidies, Competition, and Economic Development	138
<i>Is Local Economic Development a Zero-Sum Game?</i>	139
<i>Inefficiency and Oversubsidization</i>	140
<i>Discretionary Versus Entitlement Subsidies</i>	143
<i>Cost Minimization Versus Human Capital Strategies</i>	144
Social Capital and Economic Development	145
<i>Generic Economic Problems and Social Capital</i>	145
<i>Ambiguous Reception of Social Capital</i>	146
<i>Social Capital and Local Development Strategies</i>	146
<i>Using Social Capital to Mitigate</i>	
<i>Economic Development Conflicts</i>	147
Social Network Analysis: Getting the Right	
People to the Table	148
Targeting Development Efforts	149
<i>Cluster-Based Economic Development</i>	151
Summary	153
<b>8. Local Economic Development in a Flattening World</b>	<b>155</b>
Models of Trade and Resource Flows	156
<i>Comparative Advantage</i>	156
<i>Resource Mobility</i>	157
Economics of Migration	159
<i>Nonwage Factors</i>	159
<i>Gravity Models</i>	160
<i>Beaten-Path Effect and Intervening Opportunities</i>	160
<i>Net and Gross Migration</i>	161
<i>Retiree-Migrant Development Strategy</i>	161
Mobility of Capital	162

Innovations and Ideas	164
<i>Spatial Diffusion</i>	164
<i>Implications for Regional Development</i>	166
Mobility and Development Policy	167
<i>Jobs-to-People Versus People-to-Jobs</i>	168
<i>Immigration and Urban Development</i>	168
Summary	172
<b>9. Land Use</b>	<b>175</b>
What Gives Land Value?	175
<i>Land Rents and Value</i>	175
<i>The Nature of Rent, Productivity, and Access</i>	176
<i>Highest and Best Use</i>	177
The Land Development Process	179
<i>Developer Goals</i>	180
<i>The Market Study</i>	180
<i>Environmental Impact Statements</i>	182
<i>Profit Feasibility</i>	182
<i>The Development Decision</i>	186
<i>Implications of Financial Analysis for LED Officials</i>	186
Land-Use Patterns	187
<i>The Monocentric City Model</i>	187
<i>The Density Gradient</i>	189
<i>Roads and Axial Development</i>	189
<i>Agglomeration and the Multiple-Nuclear City</i>	190
<i>Speculation</i>	191
<i>Zones of Transition</i>	192
<i>The Spreading of the Metropolis</i>	192
<i>Evaluating Metropolitan Spread (Urban Sprawl)</i>	194
Land Use and Economic Development Tools	194
<i>Zoning and Its Critics</i>	195
<i>Flexibility and Land-Use Regulations</i>	196
<i>The Eminent Domain Controversy</i>	197
<i>Rights to Land and Economic Development</i>	197
Summary	198
<b>10. Housing and Neighborhood Development</b>	<b>201</b>
Fundamentals of Housing Economics	201
<i>Hedonic Pricing</i>	203
<i>Uncertainty, Market Imperfections, and Competition</i>	204
Residential Location and Neighborhood Change	206
<i>The Filtering-Down Theory</i>	206
<i>The Trade-Off Model</i>	207
<i>The Cultural Agglomeration Model</i>	209

<i>The Tiebout Model</i>	209
<i>The Aggregate Economic Fallout Model</i>	212
<i>Initiating and Perpetuating the Change Process</i>	212
Housing Policy Issues	214
<i>Rent Control Versus Market Forces</i>	214
<i>Income Support Versus Housing Assistance</i>	215
<i>Supply- Versus Demand-Side Assistance</i>	216
<i>Ghetto Dispersal Versus Ghetto Improvement</i>	216
<i>Dwelling Unit Versus Neighborhood Development</i>	217
Linkage Between Local Housing and	
Global Financial Markets	217
Retail and Commercial Neighborhoods	217
The Social Economy of Neighborhoods	219
<i>Community Development Corporations</i>	220
<i>Cooperatives</i>	221
<i>Community Gardens</i>	221
Summary	222
<b>11. Poverty and Lagging Regions</b>	<b>225</b>
The Nature of Poverty	225
<i>Conceptual Approaches</i>	225
<i>Demographics of Poverty</i>	229
Spatial Concentrations of Urban Poverty	231
<i>Regional Linkages: The Spread and</i>	
<i>Backwash Effects</i>	231
<i>Empirical Studies of Spatial Linkages</i>	232
<i>Spatial Linkages and Theories of Spatial Poverty</i>	234
Policy Issues	238
<i>Strengthening Linkages</i>	238
<i>Improving Productivity</i>	239
<i>Addressing Wage Rigidities</i>	242
<i>Employment Guarantee Schemes in India</i>	244
<i>Income Support</i>	245
Summary	247
<b>12. Local Governance, Finance, and Regional Integration</b>	<b>249</b>
Spatial Perspectives on Government Functions	249
<i>Distribution and the Race to the Bottom</i>	249
<i>Local Allocation</i>	250
<i>Public Transportation: An Example</i>	252
Size and Scope of Local Governments	254
<i>Economies and Diseconomies of Scale</i>	255
<i>Decision-Making Costs</i>	255

Improving Government Efficiency	256
<i>Using Prices and Fees</i>	256
<i>Local Taxation and Economic Development</i>	259
<i>Accountability</i>	262
<i>Intergovernmental Competition</i>	264
<i>Intergovernmental Grants and Coordination</i>	265
<i>Rearranging Functions</i>	267
<i>Privatization</i>	268
<i>Market-Based Reforms in Education</i>	269
Fiscal Impact and Benefit-Cost Studies	271
<i>Fiscal Impact Studies</i>	272
<i>Benefit-Cost Analysis</i>	274
Summary	278
<b>13. Planning, Future Studies, and Development Policy</b>	<b>279</b>
The Future and Local Development	279
<i>Concern with Values and Attitudes</i>	280
<i>Technological Change</i>	281
<i>Systems Orientation</i>	282
<i>Importance of Timing</i>	284
Planning Perspectives on LED	284
<i>The Planning Process</i>	285
<i>Limits of Planning</i>	288
Planning and Future Studies Tools	288
<i>Delphi Forecasting</i>	288
<i>Games</i>	290
<i>Scenarios</i>	290
<i>Environmental Scanning</i>	291
Summary	291
<b>References</b>	<b>293</b>
<b>Index</b>	<b>304</b>
<b>About the Authors</b>	<b>313</b>