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How Can a Community Respond to the Economic Downturn?

Many communities are being hit with major layoffs because of the current recession. For the lucky ones, most of the eliminated jobs will return as the global economy recovers. However, evidence suggests that many local economies, especially those with strong ties to the Detroit Three automakers, will suffer long-term negative effects from this current recession.

The effectiveness of a community's response depends both upon factors that are within its control and on ones that are clearly outside its control, including simple luck. In short, there is no one clear strategy that fits all areas and guarantees success. Nevertheless, recent research activities at the Upjohn Institute support the following three-faceted approach.

1. Replace Products, Not Workers

Three macro factors influence a community's economic future: 1) technological change, 2) global demand, and 3) regional structure (Figure 1). A region's structure is determined by its industry mix, competitiveness, amenities, and the ability to innovate. Too often, local economic developers determine their economic targets by moving overly quickly to identify opportunities where new technologies interact with global demand. The clearest example of this approach (which we call "rounding up the usual suspects") is life sciences—a field popular because of its growth rate and high-wage occupations, but not a good fit for every community.

Such a strategy ignores what W.R. Thompson (1965, p. 3) calls "the very essence of long-run growth," which is to adapt what you know to what the changing world economy needs. A more fruitful strategy would be to identify new technologies, products, or markets for the

area's existing companies and workforce. An example of this could be to assist a threatened auto supplier in making wind turbine components.

2. Build from Strengths

In times of crisis, community economic development stakeholders too often focus on their area's weaknesses. A more productive community strategy is to build from strengths and identify industries that can do the following:

A) Draw upon the existing regional economic base for either suppliers or customers. Firms in industries that draw upon the base have the potential to create new jobs while shoring up existing jobs. Moreover, new companies that are integrated into the local economy have a great potential for generating sizable overall income impacts.

B) Provide jobs that are within reach of affected local workers. Economic developers should try to improve the well-being of residents, not just bring in workers from outside the region.

C) Show good growth potential regionally and nationally.

D) Demonstrate capacity for innovation. Firms that employ engineers and designers have a greater probability of continuously providing what the global economy wants and, in doing so, of keeping the area's workforce employed.

3. Success Takes Time and Trust

Finally, many of the more successful economic development efforts in the country are found in communities that share the following attributes:

A) *A stable and well-respected economic development staff.* Longevity matters in building trust and partnerships in a local community. Economic development requires risk-taking by private investors, which can only be undertaken in an atmosphere of trust.

B) *Focus.* Identified projects should be focused on tapping into the region's strengths and potential.

C) *Support from private investment.* Private investors can respond more quickly than public agencies and can build more effective partnerships.

D) *A regional strategy.* A regional approach can overcome barriers caused by fragmented interest groups or competing geographical concerns.

Reference

Thompson, W.R. 1965. *A Preface to Urban Economics*. Baltimore: Johns Hopkins University Press.

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Figure 1 Possible Economic Development Strategies for Local Areas

