Economic development can be a highly competitive game—or should be, anyway.
The lost art of marketing communities to companies in the age of building them.

By Chris Mead

The economic development world seems to be split into two camps: those who want primarily to sell their community to relocating or expanding companies—the traditional approach—and those who want to build the community up from within. The traditional approach has had some bad press in recent years, with “smokestack chasing,” “buffalo hunting,” and worse being said about those trying to attract companies to their cities or towns. But, as is so often the case in life, neither side is completely right or wrong.

For chamber executives, as usual, the task will be to identify (if not necessarily to implement) what works best.

Flipping the government dime

A new book, *The Great American Jobs Scam* by Greg LeRoy (2005, Berrett-Koehler Publishers, San Francisco), comes out firmly on the side of the community builders. He attacks the community sellers and marketers with both guns blazing. State and local governments are, he believes, giving away the store in tax and other incentives to attract companies who probably would have moved anyway.

The amounts are staggering. LeRoy mentions studies documenting a giveaway of about $50 billion per year in relocation and expansion incentives. In the past only a few southern states offered such financial inducements but now the activity has spread almost nationwide and corrupts most major corporate relocations. Companies even ask for tax breaks in order to stay put. As a result of this largesse, the share of state revenues coming from corporate
income taxes has fallen from 9.7 percent in 1980 to 5.2 percent in the first couple of years of the 21st century. Had this money been used for LeRoy’s two favorites—“infrastructure and skills”—we’d all be much better off, he believes.

Here is where most business and chamber executives would disagree. State and local government spending has skyrocketed over the past few decades with questionable results. Should companies be condemned for not adding more fuel to this fire? As syndicated columnist and noted conservative thinker George Will wrote recently, the state of New York has 100,000 more employees now than it did 40 years ago, while its population has remained about the same. Money has been poured into public education while test scores in most places have remained flat. Chamber executives probably don’t need more examples of government inefficiency. But LeRoy greatly approves of bigger government and more and bigger unions, living wages, bigger subsidies for mass transit, shackling Wal-Mart, new regulations galore, indeed the whole liberal package. This he believes will take us to what he calls the “New Economy.”

Or is it a full-speed sprint backwards? Few business people would want to be in communities run by people sharing LeRoy’s vision. The LeRoy view shows how the community building school, when taken to its extreme, can hurt more than help a local economy. “Building” a community by saddling it with more taxes, government spending, and regulation is likely to make that city or town less attractive to business, not more attractive.

At least there is some competition going on to lower taxes. In this sense, the incentive wars that LeRoy derides are not so bad after all. If there’s a choice, aren’t such battles preferable to having state and local government spending keep rising inexorably, as it has in the past few decades (even while the dreaded incentives rivalry has been going on)? Ideally, states would reduce taxes across the board in an even, open manner—but since they’re not, companies are taking what they can get.

LeRoy’s union- and tax-heavy perspective on community building shouldn’t discredit the approach when it’s done well. Chambers traditionally have been charged with helping create a good overall climate for business. There are innumerable examples of chambers successfully and cost-effectively “setting the table” for economic development.

Learning from Raleigh

One of the best recent examples is that of the Greater Raleigh (NC) Chamber of Commerce, which, faced with under-performing schools, helped create a K-12 education summit in 1997. The summit was based on the principle that criticizing the local school system shouldn’t be taken as a political attack but as customer feedback and something that could lead to improvement.

Aided and encouraged by the chamber, the Wake County school system began a process of continuous improvement (following the Malcolm Baldrige National Quality Program) that resulted in dramatic test score increases, even though the system is not lavishly funded by any means. In a front-page story (Sept. 25, 2006), the New York Times reported that in Wake County schools “only 40 percent of black students in grades three through eight scored at grade level on state tests a decade ago. Last spring, 80 percent did. Hispanic students have made similar strides. Overall, 91 percent of students in those grades scored at grade level in the spring, up from 79 percent 10 years ago.”

While the school system was primarily responsible for these dramatic changes, they likely would not have happened without the initial, politically sensitive pressure from the Greater Raleigh Chamber, as well as the chamber’s follow-through over the years. This active kind of table-setting is an excellent boost to economic development marketing, which the chamber also handles. Better schools make the area more attractive to potential corporate recruits. Probably not coincidentally, more respondents selected the Raleigh metro area than any other when asked, in a recent ACCE Quick Poll, to cite the metro area with the best business climate (see sidebar on page 20).

If chambers have a legitimate role to play in building their communities, what about in marketing their communities? Presumably if the product’s good, someone ought to sell it. Schmitt says that chambers traditionally performed this function and can continue to do so. “If you do a good job, you’ll get to keep it,” he says.

Traditional approach

Community marketing has been going on for a long time. A fascinating if obscure book, Selling Places: The Marketing and Promotion of Towns and Cities 1850–2000 (1998, Spon Press, London and New York), shows how the marketing of places has permeated the western edge of the Western world. Interestingly, town and city marketing appears to be a primarily North American activity, with a bit happening in Britain and less on the European continent, where most marketing has been done at the national level. In the United States especially—except for the period from 1850 to 1920, when Canadians were slinging incentives like nobody’s business—it was taken for granted that towns and cities would and should compete strenuously against one another for business. Here, chambers took a major role in this competition.

Another View of Incentives

“Think of incentives in the automobile business. They are designed to move inventory. Communities face the same challenge in creating jobs for their inventory of workers. If inventory is high then you need to offer incentives to move the inventory. When one auto manufacturer offers an incentive others follow. Communities are no different. Today we have people wringing their hands about incentives, but these same people accept a tax break on their federal form for their mortgage payments. Communities that are helping attract jobs are using government policy to incent behavior. There is nothing new here other than the application of the concept to the businesses that create the jobs and make the economy successful.”

—Harvey Schmitt, President and CEO, Greater Raleigh (NC) Chamber of Commerce

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Chamber executives have a great deal of interest in business-climate issues and economic development, according to an ACCE Quick Poll conducted in September.

There were 253 responses to the poll. Most executives responding (90 percent) believe their chamber is the lead organization locally for advocating/effecting a positive business climate, with only 5.6 percent disagreeing and 4.4 percent saying they don't know.

But chambers normally don't take the lead on business attraction. Only 31.9 percent of those responding said their chamber is the lead organization locally for advocating/effecting a positive business climate, with only 5.6 percent disagreeing and 4.4 percent saying they don't know.

By contrast, 43.8 percent said their chamber is the lead organization in the community for business retention in the area, as compared with 51 percent who said their chamber is not the lead business retention agency.

Chambers only clearly lead in the first aspect of economic development (advocating/effecting a positive business climate), but that could change down the road. In five years, said 58.4 percent of respondents, their chamber will be more active than it is today in economic development, whereas 37.6 percent said it will have about the same level of activity. Only 4 percent predicted a decline in their chamber's level of economic development activity five years from now.

Generally speaking, which metro area offers the best climate for business? Interestingly, two North Carolina metro areas topped the list. Here are the top 11 as named by the respondents:

<table>
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<tr>
<th>Metro Area</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Raleigh-Durham</td>
<td>22</td>
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<tr>
<td>Charlotte</td>
<td>19</td>
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<tr>
<td>Atlanta</td>
<td>16</td>
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<td>Austin</td>
<td>12</td>
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<td>Dallas-Fort Worth</td>
<td>11</td>
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<td>Nashville</td>
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<td>Las Vegas</td>
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<td>Kansas City</td>
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<td>Chicago</td>
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<td>Phoenix</td>
<td>5</td>
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<td>San Antonio</td>
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Source: ACCE Quick Poll, September 2005

Atlanta, Ga., became the leader of place promotion. While in the 1880s Henry Grady of the Atlanta Constitution began the push to promote Atlanta as the industry-friendly capital of the “New South,” the Atlanta Chamber of Commerce (now the Metro Atlanta (GA) Chamber of Commerce) soon took up the cry. Other chambers in other cities imitated the master, but for several decades, none was quite as effective as Atlanta.

But it was Mississippi that ushered in the modern era of incentive-based economic development. In 1936, Governor Hugh White arranged for the passage of the Mississippi Industrial Act, which permitted communities in the state to issue what are now called Industrial Revenue Bonds. These had the effect of lowering both the taxes on the acquired industrial property and the interest rate on money borrowed to finance the purchase. Soon, these incentives spread throughout the South and after World War II, such inducements helped encourage a massive exodus of low-wage industry from the North to the less expensive South. Chambers were extremely active in encouraging this process.

Today, when financial incentives for business attraction have spread to virtually every state and locality, and when wages between South and North have reached near parity, what’s an economic development marketer to do? In this extra-competitive environment, ingenuity and business savvy will be at a premium. Active chambers will have many opportunities to make their mark.

At least, that’s one person’s view. The standard work on place marketing takes a somewhat different approach. Marketing Places (1993, The Free Press, New York; authors Philip Kotler, Donald Haider, and Irvin Rein) puts a great deal of emphasis on almost LeRoy-esque community building and relegates straight selling to the laggard “first generation” of economic development marketing. Listed under the “old” approach to marketing (p. 233) is an “aggressive chamber of commerce,” contrasted with the “new” approach of “partnerships.”

The question here may be one of style. Old-fashioned boost-erist messages may not work any more, but that does not mean that no messages will work anymore. Indeed, the book is full of perky, still-relevant examples of clever community marketing.

The opportunities for community marketing are massive. Marketing Places points one out with relevance today (p. 240): from 1986 to 1990, Dallas’s corporate real estate market went into what can only be called a depression, while home prices stayed flat. In this period, all these companies added or relocated more than 500 jobs to the area: General Motors, UPS, FoxMeyer Corporation, Cardinal Industries, LTV Aerospace, J.C. Penney, GTE, Texas Instruments, Fujitsu Ten Corp. of America, Children’s Medical Center, E-Systems, MCI Communications, J.B. Hunt Transport Services, and American Airlines. A massive price drop helped instigate a massive influx of companies.

A similar opportunity is occurring today, commented on by economist and writer Joel Kotkin and others. This time, however, it’s not that real estate prices are falling, but that the relative prices of homes in the heartland of the United States are much lower today (compared with big cities on the two
States and localities frequently give tax incentives to companies to invest in their areas—but these policies are under attack in a current court case, Charlotte Cuno v. DaimlerChrysler Corp. In 1998, the State of Ohio and two local school districts gave DaimlerChrysler $280 million in tax credits and exemptions if it would place a $1.2 billion plant in the state. A group of citizens in Ohio and Michigan filed suit to oppose the tax breaks.

The federal Court of Appeals for the Sixth Circuit sided with the citizens group, saying that the tax incentives were coercive, restricting interstate commerce by channeling DaimlerChrysler to invest in Ohio rather than elsewhere. Although the court oversees only Ohio, Michigan, Kentucky, and Tennessee, its decision if not overturned would presumably lead to a precedent for other jurisdictions.

The U.S. Supreme Court has agreed to hear the case in early 2006, with a decision expected by summer. In the meantime, U.S. Senators George Voinovich (R-Ohio) and Debbie Stabenow (D-Mich.) have introduced legislation (S. 1066) that seeks to assert Congress’s authority under its Commerce Clause powers to affirm the authority of states to offer tax incentives for economic development purposes. Identical legislation has been introduced in the House (H.R. 2471). Both bills enjoy broad and bipartisan support. Congressional action could avert the threat to state incentives policies even if the Supreme Court doesn’t. “Under the Commerce Clause, the Congress has the ultimate authority to decide what is and isn’t an undue burden on interstate commerce,” says Kevin Thompson, Legislative Counsel at the Council on State Taxation (COST).


Sources: Council on State Taxation, National League of Cities, Tax Foundation

prices in already traffic-clogged metro areas such as New York, Washington, D.C., Los Angeles, and San Francisco, there surely is a chance for economic development marketers in smaller and inland communities to seek new migrants, both corporate and individual. This is only one example of the kinds of opportunities that continually emerge in a dynamic North American economy.

In short, there’s a place in economic development for both “making” (community building) and “selling” (marketing the community for corporate expansions and relocations). Either can be done well or badly. Chambers have a significant role to play in cost-effective, private-sector-led community building. And many, perhaps more, will also engage in selling what they’ve helped make. There are few better tests of the value of one’s product than actually finding buyers for it.

Chris Mead is Vice President of Member Relations at ACCE. He can be reached at 703-998-0072 or cmead@acce.org.