Spotlight on: SB Friedman

Creating a More Prosperous and Resilient Economy

Caren Kay, AICP, SB Friedman

The term "economic development" is multifaceted and quite broad. The pursuit of economic development can be used to justify infrastructure improvements, public assistance packages to private developers, public acquisition and disposition of land, and more. The Economic Development Administration (EDA), which provides regular funding for economic development initiatives, targets local efforts which "build, improve, or better leverage economic assets that allow for businesses to succeed and regional economies to prosper and become more resilient." To capitalize on EDA grant programs, the question then becomes, which efforts are most likely to result in a prosperous and resilient economy?

Taking an Economic Cluster Approach

Thoughtful economic strategic planning begins to address this core question through analysis and identification of target economic clusters. Economic clusters are collections of businesses in related industries located in close proximity to one another. As economic clusters grow within a region, synergies develop which tend to spur additional growth and innovation across the economy. Economic clusters are categorized as either "traded" or "local." Traded clusters are those which serve markets beyond the region in which they are located. Industries within traded clusters may choose their location of operation and therefore can be highly concentrated (e.g., auto manufacturers near a major intermodal and a research university). These traded businesses should be the focus of economic development initiatives, as they are often the most competitive segments of the economy, having the freedom to choose amongst multiple expansion locations. Proper identification of target clusters within a region helps municipalities understand where to focus economic development energy as it reveals which businesses are most inclined to locate locally.

Identifying Regional Economic Clusters

Economic development strategic plans should focus a region's or municipality's efforts on a shortlist of high-impact traded economic clusters. Identification of target clusters requires analysis of performance indicators (existing local employees, local growth trends, national growth trends, location quotient, etc.) along with a robust qualitative assessment of existing industries and assets. The rapid return to low unemployment after the pandemic has also reinforced the need to prioritize economic clusters that are most attractive to employees – those with higher

wages, pathways for growth over time, and relatively lower educational requirements. A final major factor in cluster identification is real estate availability. Particularly in built out communities, availability of development-ready land or buildings to accommodate growth becomes critically important in attracting businesses.

Crafting an Impactful Strategy

Identification of target clusters is the starting point for economic development strategic planning, not the end. Preparing impactful strategies requires intensive stakeholder engagement to identify the existing gaps within a region that compromise economic competitiveness and brainstorm creative solutions to address those gaps. Strategic plans should include a combination of entirely new strategies, recommendations for improving coordination between existing economic development entities, and strategies which enhance existing niche programs.

Implementing a cluster-based strategy can optimize economic development by making efficient use of government resources and focusing on business development – both expansion and attraction - for the most competitive segments of the economy. Growth within clusters has a multiplier impact on the economy, resulting in knowledge spillovers, job and wage growth across all sectors, additional private investment, and tax growth. Creating an environment where specific economic clusters can thrive not only benefits that cluster but also results in a more prosperous and resilient economy as a whole.