



ELEVEN MYTHS

OF ECONOMIC DEVELOPMENT

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*"A bad statistic is harder to kill than a vampire."
Joel Best*



MYTH # 1

- **Myth:** Economic Development is primarily about creating “jobs”
- **Reality:** Economic Development focuses on “improving the local standard of living” through:
 - business investment
 - higher wage and more skilled employment
 - a favorable business climate
 - adequate infrastructure
 - an attractive quality of life



MYTH # 2

- **Myth:** Economic Growth and Economic Development are one and the same
- **Reality:** Economic Development focuses on improving the community or area; economic growth is about “more” rather than “better”
- **Reality:** Growth can lead to local problems that produce additional costs to communities without raising the standard of living for current residents



MYTH # 3

- **Myth:** 80 % of new jobs are created through the expansion of existing businesses
- **Reality:** Less than half of U.S. jobs are from business expansions
- **Reality:** Almost all new jobs in the U.S. and its communities are created by entrepreneurial and innovative firms (“high impact”) that:
 - Average 25 years in business
 - Come in all sizes



MYTH # 4

- **Myth:** 80 % of new jobs are from small business start-ups
- **Reality:** The average high growth firm is *not* a new start-up, instead averaging 25 years in business
- **Reality:** The proportion of jobs in the U.S. in the smallest companies has been stable since 1985
- **Reality:** Economic growth typically drives start-ups, which tend to respond to population growth and which have relatively high failure rates
- **Reality:** Most small business owners aren't entrepreneurial and are likely to remain small



MYTH # 5

- **Myth:** Jobs in manufacturing in the U.S. are declining because plants are moving offshore
- **Reality:** Most jobs lost in U.S. manufacturing are because of the application of technology (computers and automation)
- **Reality:** Many of the manufacturing operations that go offshore either serve new overseas markets or provide parts and equipment for U.S. manufacturing plants
- **Reality:** Low wage assembly jobs will seek out low cost locations on a global scale



MYTH # 6

- **Myth:** Communities need to pursue the “creative class” if they hope to flourish in the New Economy
- **Reality:** The young and entrepreneurial members of the “creative class” congregate in relatively small areas of a select number of metro areas; they often move away in a few years because of limited job opportunities
- **Reality:** A focus on attracting the creative class can lead to policies that are detrimental to low and middle income families, such as high housing costs
- **Reality:** A number of cities are experiencing a resurgence in their core areas focused on quality of life improvements, urban housing developments, and public investment in infrastructure and amenities that has only a little to do with the creative class
- **Reality:** Many of the communities that experienced job growth (prior to the recession) were not characterized as creative cities



MYTH # 7

- **Myth:** Incentives drive the location of new manufacturing
- **Reality:** Publicity surrounding automobile assembly plants gives the impression that incentives are all-important
- **Reality:** Attractive incentive packages do not overcome a community's locational weaknesses
- **Reality:** Smart location decision-makers consider incentives as just a part of the overall package
- **Reality:** Many communities don't consider the opportunity costs of the incentives versus the benefits received from the new or expanding facility



MYTH # 8

- **Myth:** Economic development organizations should use economic changes (e.g., number of new jobs) to demonstrate their performance
- **Reality:** The ED organization does not control most of the economic change in a community; most is due to national business conditions
- **Reality:** ED organizations tend to overlook the need to be held accountable for “how well programs and activities are implemented”



MYTH # 9

- **Myth:** Communities need to pursue “green” jobs because of their future growth potential
- **Reality:** Many Alternative Energy companies are heavily dependent on subsidies, and many “commercial-scale” projects would be cancelled if the subsidies were cut off
- **Reality:** Green jobs projections count “Energy Efficiency” jobs in existing industries (e.g., Construction) and therefore don’t reflect new jobs in basic industries
- **Reality:** The current definition of “green” jobs excludes industries and occupations with high quality jobs and more growth potential than some currently included



MYTH # 10

- **Myth:** The shift of the U.S. economy to service jobs will result in lower wages and a lower standard of living
- **Reality:** Most of the growth in service jobs is in technology-related occupations that pay high wages
- **Reality:** Many production jobs formerly in manufacturing, such as technicians, plant maintenance, logistics, etc. are now outsourced to other firms and are considered service jobs
- **Reality:** Investment in manufacturing will be primarily in increasing productivity, resulting in fewer but higher paying jobs and continued production of goods



MYTH # 11

- **Myth:** All ED organizations should focus on “clusters” in their marketing and development efforts
- **Reality:** Clusters are a useful way to define concentrations of related industries, but efforts to create clusters through government intervention or ED organization activity haven’t been very fruitful
- **Reality:** Competitive clusters are not likely to be created unless the essentials for that cluster are in place; clusters are not likely to be created from “scratch” without considerable investment
- **Reality:** “Globalization” is reducing the need for many industries to be proximate



CONCLUSIONS

- **These myths are only partially untrue --** *The truth is always a compound of two half-truths, and you never reach it, because there is always something more to say*
– Tom Stoppard
- **If something is said often enough, it becomes fact in people's minds**
- **Misinformation and misunderstanding of reality can lead to bad and expensive decisions by policy-makers and ED organizations**

