

# GOVERNMENT'S ROLE IN ECONOMIC DEVELOPMENT

By using its resources and powers to reduce the risks, uncertainty and costs which could prohibit investment, the public sector can set the stage for job-generating investments by the private sector. Government can support a variety of initiatives that encourage private sector investments that benefit the community, including:

- **Adopt policies and programs to provide services and infrastructure that benefit businesses**, such as a street system that provides mobility, water systems and police and fire protection. Infrastructure represents those types of community capital investments that serve many industries including streets, communication networks, schools, water and energy supplies – that all support base employers by increasing the productivity of labor and capital, thereby reducing the costs of production and raising profitability, production, income and employment.<sup>12</sup>
- **Prepare the labor force.** This includes primary and secondary education, higher education and post-secondary training programs.
- **Adopt policies and programs explicitly directed at improving the business climate** through business finance, marketing, business retention and expansion, commercialization of university research, real estate development and others. Selective and targeted industry investments offered by local government can provide the community an opportunity to reward job development within specific categories while offering greater accountability of performance when correctly designed.<sup>13</sup>

- **Support economic development marketing efforts.**
- **Allow market forces to function without undue interference.**

Economic development public policy matters because it impacts the quality of the community, the standard of living of residents and taxpayers' pocketbooks. Good-paying jobs are a top issue for most state legislatures and city councils because of voters' tendency to evaluate public officials by how well their state or local economies are faring. If jobs are being generated, incomes are growing, and high profile companies are being attracted or retained, the public views politicians favorably.<sup>14</sup> Obviously, this is not completely fair because many factors are beyond the control of politicians. However, it evens out, because in addition to receiving undeserved blame, they sometimes get credit for fortuitous economic development that happens outside their direct influence.

Economic development activities and outcomes are also shaped by public policies that influence the environment for investment and commerce. Called "business climate," this term refers to the extent to which the political and policy environments of a particular state or locality, compared with other jurisdictions, are seen to be supportive or burdensome to businesses. The implication is that any area whose business climate is not "competitive" will be shunned by the corporate sector and will find it difficult to attract or grow new firms and the jobs they provide.<sup>15</sup>

The business climate is affected by both major cost factors (e.g., land, labor, taxes, regulations) and non-cost factors (e.g., quality of life, attitudes toward business).

**Government can support a variety of initiatives  
that encourage private sector investments  
that benefit the community ...**

<sup>12</sup> California Association for Local Economic Development

<sup>13</sup> Ibid

<sup>14</sup> Ibid

<sup>15</sup> "ED Reference Guide," International Economic Development Corporation

Government has a significant impact on business climate, for it is that combination of services provided by the public sector, such as education, infrastructure, taxation, and regulation, which creates the context within which companies operate. Moreover, government delivers other direct services to companies.<sup>16</sup>

Public rhetoric by government officials also impacts business climate in a couple of important ways. First, public officials, by how they talk at meetings and in the press, can help influence the public's perception of business in general and support of economic development. Second, those public statements influence business decisions. As noted above, communities that are deemed to have a bad business climate are avoided.

The use of incentives to induce business relocations is another role governments play. Economic development incentives are a deliberate set of policies designed to make a location more attractive to base employers. The use and misuse of incentives has a long history in America. Properly used, incentives can help communities compete for base employers that fit the community's resources and values and can have a long-term positive economic impact. Often the term is used as a pejorative by people on both extremes of the political spectrum. Some conservatives see incentives as inappropriate manipulation of market forces, while some liberals attack incentives as 'corporate welfare' that takes scarce public resources away from social needs.

Like most issues, the truth lies somewhere in between. The careful, thoughtful strategic use of incentives can advance the objectives of a community.

For its part, Fort Collins has not been inclined to provide many incentives, nor has the State of Colorado, at least not at the level of many communities and states. The basic philosophy of both is to cite the location-based attractions of Colorado and the Fort Collins region as incentive enough.

This mindset prevents thoughtful conversation and intelligent examination of incentives as a tool for accomplishing desirable state and community economic objectives. It also ignores the competitive reality as other neighboring states and communities are happy use incentives to induce Colorado and Fort Collins companies to relocate.

Fort Collins has information on its website that indicates it offers 'incentives.' There are a handful of incentives targeted for base employers, the rest of the items cited are financial and energy efficiency 'incentives.' These so-called incentives actually amount to nothing more than reducing artificial barriers erected by City policy in the name of making business 'pay its own way.' The most often cited example is Fort Collins' manufacturers use tax. This tax is not imposed in surrounding communities. Fort Collins makes a big show of doing companies a favor by considering to reduce or eliminate it and then call it 'business assistance.' It's an absurd approach and will cost the community good paying jobs to other communities.

By comparison, Loveland does not charge a use tax on manufacturing and annually budgets money that goes into a fund used to waive some development fees, which gives it an advantage when competing for some projects. A comparative study of Fort Collins' incentive program versus other communities is currently underway. It is an important step to for a data-driven discussion about economic development. Incentives in targeted industry clusters can provide an opportunity to encourage job development within specific categories while offering greater accountability of performance when correctly designed.

One way the City of Fort Collins supports business development is through the funding of various associations such as Be Local, the Northern Colorado Bioscience Initiative, the Colorado Clean Energy Cluster, the Northern Colorado Economic Development Corporation and the Rocky Mountain Innosphere.

**The key to remaining an attractive, livable community is to not become blinded by our successes to the point of complacency.**

<sup>16</sup> Ibid