

# 11.945 Springfield Studio

## Session 3 Notes

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### Economic Development Theories: Neighborhoods as Economic Units

#### Overview

To provide a theoretical foundation for our work, this class will review literature on regions as economic units, the relationship between regional and neighborhood economic development and theories that seek to explain why and how economies develop.

#### Introduction

This class should be more of a discussion/exploration than a full lecture. The issue of what is regional economic development is and what are the forces that drive it is a huge subject. We are not going to do the issue justice here, but it is valuable to think about some of these theories and how they might be helpful to us as we try to understand what it means to do neighborhood economic development. It is also important to think about how these ideas might help us accomplish some of the goals in Springfield more specifically. One of the advantages we are bringing to the neighborhood through this course is the opportunity to consider more theoretical content. They have good ideas that are rooted to the neighborhood context and a theoretical perspective can help them develop those thoughts. We want to get to the core ideas of these theories and think about what they imply about economic development strategies. Ultimately we will come back to these issues again.

#### Slides

- I. Geography of Economic Development (Larry Ledebur's book *The New Regional Economies*)
  - a. The book is a polemic against national economic development policy.
  - b. Current economists' thinking is that metropolitan areas are the primary basis for economic regions.
    - i. 95% of economic activity is organized around metropolitan areas, typically around a central city (though its role is getting smaller).
    - ii. Looking at economic performance, metropolitan areas differ, i.e. they are distinct economic units.
    - iii. Whatever we do in the North End, Springfield is in the context of this metropolitan economy.
- II. Springfield, MA Economic Geography
  - a. Massachusetts Metropolitan Area Map
    - i. Map of metro areas in MA.

- ii. Different federal bureaucracies define them differently. This once comes out of NECMA.
      - iii. The Springfield Metro Area is geographically the second-largest in the state.
      - iv. Springfield is the central city of a large metropolitan area that extends far.
    - b. Map of Labor Market Areas
      - i. Focused on commuting patterns, primary metropolitan areas where residents get jobs.
      - ii. Almost the entire state is broken into labor market areas.
      - iii. The Springfield metropolitan area and labor market areas are pretty much the same.
    - c. Census Map
      - i. Springfield is at the southern end of the region.
      - ii. The Connecticut River Valley is the defining geographic feature of area.
        - 1. The first major industry that developed was firearms, and you see that all along the River Valley.
        - 2. That river as a transportation corridor has been replaced by I-91, which is the major regional transportation route.
      - iii. Even though this is a large area, most of the economic activity is centered in Springfield and surrounding areas.
        - 1. The only other centers are Amherst – center of UMass, educational institutions – and Northampton, which has become a regional destination around entertainment, dining, and has sort of displaced Springfield as the place to go.
- III. Employment
  - a. Springfield had 254,000 jobs in 2004.
  - b. The largest sectors are Health Care, Education (UMass is probably included), Retail, and Manufacturing.
- IV. Major Economic Theories:
  - a. Economic Base Theory
    - i. 2 Major Ideas:
      - 1. That neighborhoods have “export” (base) industry is an underlying assumption of many economic development practitioners.
      - 2. The Multiplier Process:
        - a. Income flows through and supports economic development in the region through supplier relationships;
        - b. People in local industries are earning/spending income that can either be invested back into the local economy or go outside of it.

- ii. Is Economic Base Theory relevant to thinking about the North End?
    - 1. Depends on the base industry and the demand for that product. Is there an external market in the North End? If people can sell products to people outside the North End, that will bring people into the community,
    - 2. What is the neighborhood's competitive position?
  - iii. In the way the neighborhood is thinking about economic development, how much are they integrating economic base theory into their thinking?
    - 1. They are thinking that because there is so much flow of people at the edge of the neighborhood, there is an opportunity to capture spending through tourism. They want to become a destination that attracts people into the neighborhood.
      - a. These are non-basic activities, however, from the regional point of view.
    - 2. How does the North End fit into the regional multiplier process?
      - a. That will probably be a bigger set of economic issues for the neighborhood.
      - b. Is the neighborhood capturing as much of the multiplier impact from its own residents as possible?
      - c. You do have a large institution in Bay State with components that are export-oriented.
      - d. It is worth exploring what are the major base-industries in and around the neighborhood in which the residents could participate as suppliers.
- b. Regional Growth Theory
- i. This theory is much more supply-side oriented. It emphasizes thinking about growth being driven by the nascent inequality of regional resources.
  - ii. Major issues:
    - 1. What are the quality and productivity of regional assets?
      - a. Improving the quality and productivity of the labor force.
      - b. Improving access of the labor force to labor markets.
    - 2. Regional spillover and externalities: if a region is successful in becoming a major center for some industry, it will get increasing returns to scale, able to expand, increase productivity to get sustainable competitive advantage:

- a. Develop a specialized workforce
  - b. Exchange of knowledge among workers, owners, I
  - c. Local institutions develop to support the industry
- iii. Benefiting from base industries:
  - 1. Locate them in the neighborhood
  - 2. Ensure residents have access to employment opportunities in regionally located industries.
- iv. Relevance to Springfield, MA:
  - 1. Massachusetts is the only state that lost population in the last census;
  - 2. The growth in labor was entirely due to immigration, so
  - 3. There are labor force constraints.
  - 4. Human development should be more focused on the labor market than on the residents.
- v. Relevance to the North End?
  - 1. You might be more successful at filling gaps at supply chain by working collectively with firms rather than by looking at individual firms. Might be able to bid collectively, share knowledge,
    - a. North End has focused on getting businesses to work together – form an association – not from a supply-chain perspective, but rather in terms of serving the local market.
  - 2. Organizational implications:
    - a. There is important organizing work in getting firms to understand and invest in that strategy.
  - 3. Opportunities relate to: do the businesses have the skills, resources, access to credit to take advantage of these opportunities.
  - 4. Challenge: Theories assume that businesses can respond to the market.
- c. Product Life Cycle
  - i. Basic notion:
    - 1. Economic activity follows the process of development of new products through a life cycle:
      - a. Innovation
      - b. Product diffusion and maturity
      - c. Standardization – relocation to low-cost regions
      - d. Decline/Obsolescence – loss of production/employment

- ii. Raises 2 issues:
  - 1. Where the North End should be trying to place itself in the product life cycle: innovator vs. producer, etc.
  - 2. Should we be thinking about a set of industries that diversify the income of the neighborhood since every product will eventually move toward obsolescence?
    - a. Right now the area is overly dependent on government support
    - b. Healthcare may be an obvious sector to focus on, but are there any others?

d. Entrepreneurship

- i. Someone who sees opportunities where others don't and has the drive to act on it.
  - 1. Is it something that can be learned?
  - 2. Entrepreneurs don't just succeed from their own efforts:
    - a. It is a social process supported by social relationships:
      - i. Access to lawyers to help form the firm,
      - ii. Access to consultants to help develop it, etc.
- ii. Innovation: growth is a creative/destructive process and entrepreneurs are driving that process.
- iii. Entrepreneurship is a developmental strategy:
  - 1. How can we develop business opportunities and manage business opportunities?
    - a. This aspect of economic development is lost in supply-side theory.
  - 2. Although only about 5% of people developed through an entrepreneurship strategy might become business owners, that 5% might become very important to the economic development and sustainability of a community.
  - 3. Lyons: Entrepreneurship can be taught: If you invest in the skill set over time, you would come out with a set of entrepreneurs.
- iv. Relevance to the North End:
  - 1. Even if some of what we do is to identify gaps, it is important to identify people in the North End who are willing to act on that information as entrepreneurs
  - 2. It takes skill to develop and sustain a firm.
  - 3. Is this a useful way to think about the North End?
    - a. What skills/infrastructure exists to help people develop into entrepreneurs?

- i. Government and policy supports/impedes development of entrepreneurs
    - ii. There might not be a strong enough environment so that it would be a fruitful strategy
  - b. Do small businesses in the North End have the ability to employ enough people to expand?
    - i. Small business aggregated employment is not an insignificant number
    - ii. Might need to look at the quality of the jobs – many in retail/service industries.
  - c. Is there a potential set of entrepreneurs?
  - d. What is the nature of their businesses, what opportunities do they represent?
  - e. Are there people with ideas/skills that they could convert into a larger business?
    - i. Yankee Candle (Western Mass),
    - ii. Stacy's Pita Chips (Jamaica Plain incubator)
- 4. Tara Kumar found in her thesis that there is some interest in formalizing immigrant businesses
- e. Flexible Production

## Discussion

- V. What is Economic Development (and how do we measure it)?
  - a. Measure by poverty alleviation.
  - b. Measure by distribution of income and assets
  - c. Measure by productivity (output/capital investment).
  - d. Distinction between growth vs. development:
    - i. Expansion of output/expansion of input.
    - ii. If the North End attracted a major new employer to the North End and gave everyone who was poor in the North End a new job and we eliminated poverty in the neighborhood, is that economic development?
      - 1. It achieved the poverty alleviation goal, it redistributed income and assets, BUT
      - 2. Economic development should also increase the well-being of the individuals.
        - a. If that industry was heavily polluting and increasing incomes but decreasing health-outcomes, the residents might not be better off.
        - b. What is another limitation of that scenario?
          - i. Sustainability: that is a one-time solution/improvement. That company may be gone in the future.

- ii. Are you on a growth path?
    - 3. Economic development encompasses the conditions that produce economic and social well-being.
      - a. How does the strategy enhance developmental resources of the neighborhood?
      - b. Income: improving immediate economic well being; vs.
      - c. Assets: improving long term ability to improve community economic and social well-being over time.
        - i. Physical assets
        - ii. Human assets
        - iii. Capital assets
- VI. Linking Neighborhoods to Regions: Practice
  - a. Novak, "Neighborhood Initiative and the Regional Economy":
    - i. The North End is very close to the economic/employment center of the region
      - 1. You could draw a 5 mile radius circle around the North End, and that would encompass almost the entire employment center.
    - ii. Issues:
      - 1. Who are the employers being targeted? (by industry/occupation)
      - 2. Which of those are accessible?
        - a. An important task of the class will be to get a good picture of the demand side.
      - 3. What skill sets to people need to access the jobs in the region?
      - 4. How do you get people to the jobs?
      - 5. What institutional connections allow you to develop that type of relationship?
        - a. A big piece of implementing this type of practice is those institutional relationships.
          - i. Who is out there now?
          - ii. How can we connect them to the North End?
        - b. The assumption of normal operations of the market might not always hold true in lower-income neighborhoods.
  - b. Economic Roles of Urban Neighborhoods
    - i. Labor market connections
    - ii. Neighborhood as a location for businesses
      - 1. Community-oriented retail/services
      - 2. Is the neighborhood part of a regional center destination?

- a. Much of what is going on in Springfield is regional tourism rather than a regional center destination.
      - b. The health center is the biggest anchor.
    - 3. Producers and suppliers in key export industries.
  - iii. Source of developmental assets
    - 1. What are the capacities and needs of the neighborhood?
  - c. We will be prioritizing which strategies/set of economic relationships that we want to focus on.
- VII. Public Safety:
  - a. Matter of perception and reality – there is a high perception of crime, but not a lot of crime in the neighborhood. The public safety issue may apply to the neighborhood as a retail district for the region because there is that negative perception of the neighborhood.
    - i. Drag-racing. Can get up to 1,000 – 1,500 people watching drag racing on the street.
      - 1. Vendors present,
    - ii. The North End is comparatively safer than other neighborhoods in Springfield.