Economic Development: A Regional Challenge for the Heartland

By R. Scott Fosler

The past few years have seen a revival of regional cooperation among the states in every major region of the United States except the Heartland. The states of the South, the Northeast, the Midwest, the Great Lakes and the West have all either revitalized old regional institutions or created new ones. In the Heartland, they have done neither.

The lack of interstate regional action is probably the result of the fact that the 13 states that constitute the "Heartland" do not have a strong regional identity or set of regional institutions, compared with other regions of the United States.[1] Ironically, the regional identity of the 13 Heartland states is diluted by the fact that most of them identify more closely with other regions on whose periphery they border.

Is there a need for regional action to address common economic concerns in the Heartland, and if so, how should leaders in the region proceed? Let me suggest a three-step approach to this question. First, consider the factors that favor regional cooperation. Second, consider the obstacles to regional cooperation. And third, on the basis of this assessment, lay out an agenda of practical approaches for regional action that would seem to be both beneficial and feasible.

Factors favoring a regional approach

Several forces favor regional economic approaches in the United States in general, and in the Heartland in particular.

Economic restructuring

First, economic forces are increasing the importance of regional economic dynamics. The integration of the United States with the world economy has exposed regions such as the Heart-

[1] For the purposes of this conference, "The Heartland" includes: Arkansas, Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota and Wyoming.

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land to both the negative and positive aspects of global economic change. Parts of the Heartland that have been dependent on agriculture, natural resources and traditional manufacturing have been hurt by this change. These industries have been characterized by excess capacity, intense foreign competition, and a shift from mass production to more specialized markets. For firms in these industries, growth is slow or negative and competition is fierce, causing many firms to contract, fold, or radically restructure. Some of the large urban areas with bases in advanced technology, new or restructured manufacturing, and services, on the other hand, have tended to benefit from relatively stronger growth. The performance among the urban economies of the Heartland is nonetheless mixed. The Twin Cities area of Minnesota, for example, is doing quite well, while Denver is still feeling the loss of energy-related business.

New Federalism

A second factor favoring regional approaches is the political shift of responsibility from the federal level to the state and local levels. While President Reagan's formal "New Federalism" proposal that the federal and state governments "swap" programs was never put into effect, a de facto New Federalism has resulted from the federal cutback in grants to state and local governments, and from the fact that the federal government ceased taking the initiative in domestic affairs. As a consequence, states and localities have had to rely more strongly on their own revenue sources and on their own wits to deal with pressing problems, including economic stress.[2] The relative importance of state and local economic initiative has been further heightened by the weakened ability of federal macroeconomic policy to guide the U.S. economy.

The federal government has also virtually abandoned any interest in regional policy. There was a time when the federal government took a direct interest in establishing interstate regional institutions. Title V of the Public Works and Economic Development Act of 1965 set up regional planning institutions that were composed of the state governors and federal cochairmen. Eight commissions were established with a total of 34 states involved as members in one or more of them. Under Title II of the Water Resources Planning Act of 1962, river basin commissions were established by the president at the request of the Water Resources Council, a federal interagency coordinating committee.[3] Both the Title V and Title II commissions suffered from lack of state support, and withered when federal support for them ended.

Since the 1970s, there has been relatively little federal interest in regional institutions. Interstate regional organization is now a bottom-up operation, as opposed to being imposed from the top down. Since regional institutions are now established or revitalized by the states, it is much more likely that they will have the interest and support of the states.

State economic powers

A third factor favoring regional approaches is that states have considerable potential for affecting their economies. The key to economic vitality continues to be a market-driven private sector. But the private sector can only flourish on foundations that require effective government action.

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2 R. Scott Fosler, editor, *The New Economic Role of American States: Strategies and Institutions for a Competitive World Economy*, Oxford University Press, New York, 1987.

3 The federal government also created the Tennessee Valley Authority in 1933 and the Appalachian Regional Commission in 1965.

And as it turns out, the states, in combination with their local governments, have the constitutional powers and the geographical positioning to affect many of the foundations required in the new economy.

The key economic foundations and the role that state and local governments play with respect to each (noted in parentheses) include the following:[4]

- *A capable and motivated work force* (primary, secondary, and higher education; training; employment security; labor relations);
- *Sound physical infrastructure* (transportation, water supply, energy, waste disposal);
- *Well-managed natural resources* (air, land, water, wildlife, forest, and mineral management);
- *Knowledge and technology* (universities, research institutions, public information systems);
- *Enterprise development* (capital, regulation, technical assistance, financial assistance, export promotion, recruitment);
- *Quality of life* (public services, environmental quality, amenities, aesthetics, social and political institutions);
- *Fiscal soundness* (tax structures and levels, user charges and fees, spending policy, transfer payments).

Awareness of regional potential

Fourth, there is a growing awareness of the potential value of regional cooperation to deal with common economic needs. To date, this awareness has been much more keenly appreciated in other regions of the United States than in the Heartland.

[4] *Leadership for Dynamic State Economies,* Committee for Economic Development, New York, 1986.

The Southern states were among the first to develop strong regional institutions in modern times, recognizing in the process the common interest each had in dealing with their shared status as the nation's poorest region. They established the Southern Growth Policies Board in 1971, to provide a focus for research, strategy development and joint action for the South. Recently, a Commission on the Future of the South, established under the auspices of the board, published a report entitled *Half-Way Home and a Long Way to Go,* widely hailed as a blueprint for joint regional action.[5] The board recently created a new institution, the Southern Technology Council, to pool state resources in determining how better to strengthen the South's position in technology.

The Northeast began to develop a stronger regional identity and new regional institutions in the 1970s, in response to growing economic stress. The Council of Northeastern Governors, for example, is active today in identifying economic issues of common interest to its member states and developing joint action programs. Current interests include a more precise identification of the demographic trends affecting the economy of the Northeast, and the potential for developing a high-speed passenger train for the Northeastern corridor.

The Center for Clean Air Policy, an organization created in 1985 by several states, recently proposed a plan to construct a 540-mile power line to carry 1,000 megawatts of electricity from coal-fired plants in Ohio and West Virginia to New England. The plan is estimated to preserve 1,000 coal mining jobs and save New Englanders $2 billion over three decades by replacing expensive oil- and gas-generated electricity.[6]

[5] Commission on the Future of the South, *Half-way Home and a Long Way to Go,* Southern Growth Policies Board, 1987.

[6] "Study Suggests New England Building Power Line to West Virginia," *Washington Post,* November 11, 1987.

In recent years there has been a revival of the Great Lakes regional institutions, as governors and other leaders in the states bordering the Great Lakes have recognized the common interests they share in both environmental protection and economic revitalization. Such organizations as the Great Lakes Commission and the International Joint Commission (which includes Canada) have been in existence for some time, focused on the joint resources of the Great Lakes. New institutions have also been created, including the Council of Great Lakes Governors, the Center for the Great Lakes, Great Lakes United, and the Great Lakes Economic Policy Council. The establishment of the Great Lakes Charter in 1985, and the Great Lakes Toxic Substance Control Agreement of 1986, is further evidence of the growing interest and vitality of regional issues and institutions in the Great Lakes area.

The Western states have also become more active, revitalizing the Western Governors Association and creating a new Western States Strategy Center (WSSC), a public-private partnership to promote regional approaches to economic development. The WSSC initially will focus on six areas: international trade, capital formation, commercialization of new technology, new enterprise formations, the revitalization of traditional industries, and human capital.[7]

Most of the Heartland states identify with one or more of these other regions, and are members of various regional organizations. We will return to this point momentarily.

Regional knowledge

A fifth factor favoring regional approaches is the growth in knowledge about the importance and potential management of regional resources. Improvements in knowledge have been especially impressive with respect to natural resources. For example, the Great Lakes institutions have developed sophisticated approaches to the management of the Great Lakes ecosystem. They have also made substantial progress in synthesizing the environmental and economic interests of the Great Lakes that once were seen as being in conflict. Research in the fields of economics, geography and institutional management is also yielding keener insight into the changing nature of regions under the impact of advanced technology and global integration.

Obstacles to regional approaches

While all of the above factors tend to favor regional approaches, there are also powerful obstacles and disincentives.

The boundary mismatch

First, there is a fundamental mismatch between regional economic geography and political boundaries. States are the major regional governments of the United States. But they are political institutions, and their boundaries rarely correspond to economic geography. Today, the boundaries of regional economies—from small urban areas and rural enclaves to large metropolitan areas and vast urban-rural systems—crosscut the various state political boundaries. Any given state may include all or a piece of any number of different regions.

This, of course, is precisely why interstate cooperation is required for most forms of effective regional action. And while the recent growth of interstate regional activity is encouraging, especially because it has been initiated by the states instead of by the federal government, there is a limit to what interstate agreements and organizations can accomplish. Their biggest obstacle to effective action is that they lack their own independent political base, but are com-

[7] "Western States' Strategy Center: A Public-Private Partnership for Regional Economic Development," WSSC, Denver, Colorado, October 6, 1988.

pletely dependent on the power centers that are organized according to state boundaries and institutions.

The regional maze

A second obstacle to regional cooperation is that there are numerous overlapping "regions." This problem plagues all of the major regions of the country. Even the Great Lakes states, which are comparatively compact and have a strong and visible integrating focus in the Great Lakes themselves, have numerous overlapping regional identifications and institutions with varying state membership. The Great Lakes Commission is comprised of eight states, including New York and Pennsylvania. The Great Lakes Council, on the other hand, is composed of six states, excluding New York and Pennsylvania. The Great Lakes states also belong to the Northeast-Midwest Institute, which is composed of 18 states, as well as the Midwest Governors Association. Great Lakes institutions have the added complexity of dealing with the binational division between the United States and Canada.

But the problem of overlapping regions is all the more difficult for the Heartland states, most of which border on other major regions. For example, following are a few of the regional institutions to which the 13 states of the Heartland belong:

- *Midwest Governors Association:* Iowa, Missouri, Nebraska, North Dakota, South Dakota
- *Great Lakes Commission Compact:* Minnesota
- *Western Governors Association:* Colorado, Missouri, Nebraska, New Mexico, North Dakota, South Dakota, Wyoming
- *Western Corrections Compact:* Colorado, Missouri, New Mexico, Wyoming
- *Western Interstate Energy Compact:* Colorado, Missouri, Nebraska, New Mexico, North Dakota, South Dakota, Wyoming
- *Western Regional Education Compact:* Colorado, Missouri, New Mexico, Wyoming
- *Southern Growth Policies Board:* Arkansas
- *Southern Interstate Energy Compact:* Arkansas

The states of the Heartland, in short, are pulled in every direction—west, north, east, and south.

Lack of regional focus

A third obstacle is that while the Heartland is pulled in numerous directions, it has no clear focus as a region.

While all of the major regions face the problem of overlapping regional definitions and multiple regional institutions, the Heartland is unique in lacking even a single regional institution that includes most of its states. As the list of membership in regional institutions demonstrates, a majority of the Heartland states are associated with regional institutions in the West, and in many ways probably identify more strongly with the West than with the Heartland. The lack of an institutional base or strong regional identity among these 13 states reflects the absence of a compelling economic, political, geographic, or historical force that has distinguished them as a region.

The strongest geographic linkage among the 13 states is their general location in the Plains. However, they also reach into the mountains to the west, and into the prairie and Mississippi Valley to the east. The fact they are located in the central part of the country offers some common identity, especially given the talk of a bicoastal economy of booming regional economies in the West and the East and declining economies in the middle of the country. But this geographical caricature is overblown, ignoring as it does the problems afflicting some coastal economies such as the San Francisco Bay area and Atlanta, and the impressive advances in such central economies as Chicago, Minneapolis and Phoenix.

There are, to be sure, some important common economic features among the Heartland states. In particular, most have depended heavily on natural resource industries: agriculture, oil and gas, and tourism. But these common concerns have been muted by a historical pattern of economic and political development that tended to divide the Heartland into three wide horizontal bands in the north, central, and southern sections. As the country was settled from east to west, the northern band was dominated by Minneapolis-St. Paul, the central band by St. Louis, and the southern band by Dallas. Transportation, communication, and commercial connections tended to flow along these horizontal lines; there was little north-south contact by comparison.[8] Even today, Minnesota has few clear regional ties with New Mexico, nor does Oklahoma with North Dakota.

State-centeredness

A fourth obstacle is that most of the political energy of the states is focused on their own internal economies. The states have made enormous progress in dealing both with a relatively greater burden in the federal system and with radically changing economic circumstances. Some of the Heartland states are considered to be among the leaders in developing new institutional relationships and economic strategies. For example:

- The establishment of "Kansas Inc." and "Oklahoma Futures" is being watched with keen interest around the country to see if these sweeping forms of statewide, public-private partnerships can work.
- Minnesota has been experimenting with strategies that range from promoting public services and the quality of life as key economic assets, to the creation of substantially new organizational forms such as the Greater Minnesota Corporation.[9]
- A private sector group in Nebraska is in the midst of a far-reaching reassessment of that state's economic future in the context of the changing fortunes of agricultural economies.

But the energy and intensive focus required of such efforts may limit the time and attention that states can or are willing to give to regional enterprises.

The states' competition with one another can also be an obstacle to regional cooperation. Economic development programs focused on recruitment of firms from outside the state often pit neighboring states against one another. At times this takes the form of raiding the industries in adjacent or nearby states, not the type of behavior designed to pave the way for cooperation.[10]

Given the absence of traditional regional ties in the Heartland, moreover, any initiative for

8 Discussion with Ted Kolderie, Hubert Humphrey School, University of Minnesota.

9 The Greater Minnesota Corporation is a quasi-public organization whose purpose is to promote the state economy through the development of technology. It will be governed by a board originally appointed by the governor, and thereafter will be self-appointing. The Corporation will be entitled to one-half of the state surplus, as determined by the governor, each year.

10 While the absence of federal regional initiatives has paved the way for more aggressive and creative state action, it can also be a negative. There are instances in which federal action could curb destructive state competition and/or encourage interstate cooperation where state interests alone are insufficient to motivate cooperative efforts, even if the states or the nation would benefit.

interstate regional action is likely to require an extraordinary effort to build the base of relationships and nurture the habit of regional cooperation. A state may conclude that such efforts cannot be justified by the potential gain in regional cooperation, especially if there is a high risk that another state in the cooperative venture may stand to gain a comparative advantage. Consequently, the states are likely to limit their cooperative interstate activities to selective projects and agreements that clearly serve specific state interests.

Regional pluralism

A fifth obstacle to regional cooperation is the large number of actors that are involved in regional economic issues. In addition to the states, there are thousands of local governments including counties, municipalities, townships, and special districts. There are also numerous nongovernmental institutions, many of which are organized on an interstate basis. Among these are businesses that operate on a multistate basis, providing goods and services to subregions throughout the Heartland and influencing it in other ways, e.g., through employment, purchases, resource use, and various forms of corporate public involvement. Nonprofit organizations, labor, property owners, civic organizations, and various other social and political groups are increasingly organized to address concerns that range across state boundaries, especially in the multistate metropolitan areas.[11]

One of the principal challenges to state economic development has been to establish closer institutional linkages among these groups. Many states have been successful in creating public-private partnerships, university-business linkages, and state-local cooperative ventures. These efforts are difficult even within the confines of the state, which has an established institutional base; they can be even more challenging on an interstate level.

An agenda of regional approaches

This enumeration of forces favoring and opposing regional cooperation adds up to a mixed picture. On balance, and from a totally economic perspective, there would appear to be substantial advantage for the states of the Heartland to identify and pursue joint projects that could benefit each of the participants. This does not necessarily suggest that all 13 states need be involved in each undertaking. There is a grave question as to whether this group of 13 genuinely reflects a community of interest that is worthy of the substantial effort that would be required to enlist their effective cooperation. Smaller clusters of the 13 states would appear to have a clearer community of interest among them.

But even in those instances in which a clear community of economic interest can be identified among all or some of the states, one must judge how practical it may be to get them to work together, and at what cost. The fact that the Heartland states have little tradition of regional cooperation might be taken as a sign that there is even greater potential, or that even more energetic efforts must be made to catch up with other regions. On the other hand, it may also suggest that the bases for regional cooperation are so weak, or the political and institutional obstacles so strong, as not to justify the effort that would be required to show results. In the end, these are judgments that the leaders and the people of the Heartland states can only make for themselves.

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11 Many of these actors are organized along functional lines, thereby adding to the fragmentation. State governments have difficulty coordinating related functions—such as education, training, research, technology development, and business recruitment—within their own borders. It is all the more difficult to do so on a multistate basis.

Based on the experience of other states and the apparent mix of pros and cons in the Heartland, an agenda for possible constructive regional action might consider the following types of priorities.

The state as a regional institution

First, each state in the region should develop an effective economic strategy. States themselves are the principal regional government in the United States, even if their political boundaries do not correspond to *de facto* economic regions. Together, the states comprehensively cover the territory of the Heartland. Individually, they possess the political and legal power required for action. If each state were to develop and follow through on an effective strategy to improve its own internal economy, that would be a major step toward general regional improvement.[12]

Avoiding negative actions

Second, states should agree to terminate beggar-thy-neighbor policies. Competition among the states to strengthen their economies from within on the basis of effective foundation-building is probably healthy for the region as a whole, and in the long run should be positive for each of the states both by promoting the general economic health of the region and by encouraging lagging states to catch up. However, recruitment policies that attempt to raid neighboring states of their industry by offering special financial incentives, or that compete with neighboring states in attracting business from outside the region through expensive financial inducements, are likely to be counterproductive for all concerned.

The states are in a situation that is quite similar to foreign countries having to deal with protectionist or nationalist trade practices. Narrowly self-interested practices that are directly harmful to trading partners are not only likely to be expensive and inefficient for one's own economy, but they also invite retaliation. In the end, everyone is worse off.

Border issues

Third, states should address special border issues that involve adjacent states. The most visible and often the most pressing interstate issues are those that involve states with common borders that bisect economic regions or natural resources. One of the simpler interstate regional strategies would be for two states that share a common urban area—such as Kansas and Missouri in the Kansas City area—to work jointly to strengthen the basic economic foundations common to that urban region, especially education, infrastructure, and technology.

The states of the Heartland are accustomed to dealing with common water resources, especially rivers. There are several interstate compacts that determine water rights and management responsibilities for rivers that run through two or more states. An initial focus on border issues would not only bring joint effort to bear on specific common needs; it would also help nurture the habit of interstate cooperation.

Joint research

Fourth, states should identify opportunities for mutually beneficial research. There are economies of scale to be gained by pooling resources for research on common problems. These might include problems that cross state boundaries, such as water resource use, pollution, and shared infrastructure. Or they might be problems that each of the states has individually, but that are

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12 The key, of course, is to develop an effective strategy. That was the subject of the Committee for Economic Development policy statement, *Leadership for Dynamic State Economies.*

of a similar nature that could benefit from joint research. Much of the new state economic agenda outlined earlier falls into this category.

One of the principal benefits of interstate cooperation in other regions has been the opportunity for state leaders to compare notes on similar experimental programs individually pursued in different states. The Southern governors, for example, take advantage of regional meetings with their peers to compare notes on education reform efforts each of them is pursuing individually. Here again, research can be useful not only in its own right, but also as a relatively nonthreatening way to establish ties and nurture the habit of cooperation.

Regional strategy

Fifth, the Heartland states should consider framing a common regional strategy. The first step in such a venture would be to consider what community of interest exists among which clusters of states with regard to key economic issues. It would be useful to survey in a general way the region's needs and priorities, and to determine the extent of agreement on key issues.

A regional strategy might serve no other purpose than to help individual states develop their own strategies. It could also be useful in establishing priorities for joint action among the states, working in smaller groups of two or three to focus on regional problems that break down along narrower geographical lines. A regional strategy may also help to identify more precisely where specific institutions or institutional adaptations are required. A useful model here is the "regional futures" exercise that the Southern states followed that produced the "Half-Way Home" document mentioned earlier.

Targets of opportunity

Sixth, the states should identify and negotiate specific targets of mutual opportunity. The other regions have already begun to do this. The Midwestern states, for example, have established a Midwest Technology Institute for the purpose of developing technology that would be beneficial to the region as a whole. Recent targets of regional cooperation being considered by the Great Lakes states include the development of a biomass facility, action to deal with the toxic waste that has been dumped into the Great Lakes, and expansion of the sea lamprey control program that was undertaken by the Great Lakes Fisheries Commission.[13]

Targets of opportunity that might engender mutual interest in the Heartland include:

- Development of "centers of excellence" in higher education by pooling resources currently spread among numerous institutions to bolster a more limited number of specialized schools;
- Creation of regional technology strategies that would concentrate resources in key institutions and locations;
- Strengthening interstate financial institutions that correspond to *de facto* economic regions;

13 The Great Lakes Fisheries Commission (GLFC) offers a case of a regional commission that was successful in focusing on a specifically defined mission. The U.S. General Accounting Office (GAO) in 1985 "found the GLFC has generally carried out its responsibilities effectively and contributed significantly to improving the Great Lakes Fishery." The GAO cited the commission's sea lamprey control program as its "single greatest accomplishment." The commission also has a clearly stated responsibility for the maintenance and enhancement of fish stocks. The GLFC was also instrumental in developing a joint strategic Plan for Management of Great Lakes Fisheries, a plan signed by 12 fishing agencies among the Great Lakes jurisdictions. Although the GLFC is essentially a binational agency of the governments of the United States and Canada, since its members are all appointed by those governments, it included representatives from the states and provinces, as well as from the private sector. The commission works on a consensus-only basis, requiring agreement by both national governments.

- Joint regional marketing strategies;
- Development of a common policy on agriculture and rural areas.

Institutional capital

Seventh, the states should nurture and develop their regional institutional infrastructure. There is little purpose in establishing regional institutions unless they are intended to serve a specific purpose. The history of regional organization in the United States demonstrates that unless there is a sound political base and clear purpose, regional institutions will atrophy.

By the same token, it is worth nurturing regional relationships to store away "institutional capital" that can be drawn upon when regional needs arise. As the Heartland states are now discovering, the absence of regional institutions and traditions makes it all the harder to even contemplate interstate cooperation at times when it may be useful to pursue them.[14]

Conclusions

Both economic and political forces are converging to favor regional approaches to economic development. But there are formidable obstacles as well. Chief among these is defining the "region" in the first place. The 13 states defined at this conference as the Heartland have a special problem in this regard, because their tradition of regional cooperation and institutional base is weak compared to other regions in the United States.

This comparative weakness may in part reflect the lack of a clear community of interest among the 13. Or it may suggest that achieving effective action will be so difficult as not to justify the effort, even if there is a community of interest. It may, however, also suggest that the states of the Heartland simply have a greater task ahead of them if they desire to gain the full measure of advantage that other states find derives from regional cooperation. The tentativeness of the Heartland regional posture suggests the desirability of proceeding in an incremental manner in exploring the potential for greater regional cooperation for economic development.

[14] The Great Lakes Basin Commission is an example of a regional institution that suffered from the lack of an effective political constituency. It made the mistake of thinking that, by taking credit for its actions, rather than by giving credit to its member jurisdictions, it would justify its existence and ensure its endurance. In fact, it thereby antagonized its member jurisdictions, which were its ultimate source of political support. When a presidential executive order disbanded the commission, along with all other Title II commissions, the member jurisdictions took no action to preserve it.