

# Homemade

Economic development efforts focus on locals



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It's not unusual to see bikers, farmers and tourists dining alongside each other at the Elyria Canning Company restaurant, munching on bruschetta burgers, savoring triple squash soup or attacking chocolate bread pudding.

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**T**he more unlikely sight may be the establishment itself, with its dining, catering and canning business; adjacent gardens; 10 greenhouses; and, well, not much else for miles. Named after the town in central Nebraska where it sits, the busy restaurant's capacity nearly equals the town's population of 54.

"We're upscale dining in the middle of nowhere," says Roy Farrens, owner and chef, who prepares all menu items using fresh ingredients his family grows. "This was my thesis in culinary school 20 years ago. ... I finally got the courage to do it."

And, some enticement from Valley County Economic Development.

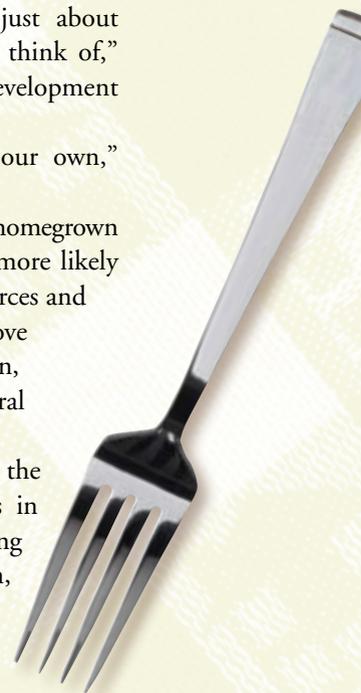
Prompted by a decline in the county's population in recent years, the organization now distributes proceeds from a new 1 percent

sales tax to businesses in the form of low-interest loans and grants. Other offers include reduced taxes, cheap land and "just about every financial incentive we could think of," says Nancy Glaubke, business development coordinator.

"We're focusing on growing our own," she says.

Contrary to popular belief, this homegrown economic development strategy is more likely to be successful than focusing resources and efforts on luring large firms to move into a community, says Kelly Edmiston, a senior economist at the Federal Reserve Bank of Kansas City.

Edmiston recently explored the role of small and large businesses in economic development, researching traditional recruitment, job creation,





LISA FARRENS, RIGHT, WITH DAUGHTER, and husband, Roy, recently opened the Elyria Canning Company restaurant in rural Nebraska. Roy cooks with the fresh ingredients from Lisa's garden; she also tends to the adjacent greenhouses where customers can shop. The couple's eight children often help out.

job quality and innovation.

"Recruiting large firms is often costly, both in direct expenditures and lost opportunities for other forms of economic development," Edmiston says. "In many cases, communities could arguably receive greater returns by investing the same resources to create a more conducive environment for their existing businesses, both large and small."

Many regional communities, such as in Valley County, Neb., and Boulder, Colo., believe in this approach—developing an attractive environment for workers and their families as well as other incentives important to a strong business climate.

"The quality of life is so good here," Glaubke says. "They can live here and still work here. They don't have to have a large corporation to come in here to (be able to) work."

That, Glaubke says, is what keeps residents in Valley County and prompts others to come, and why the population is on its way back up.

## **Traditional development, job creation**

Research shows when comparing pay, perks and turnover, it makes sense that communities

would want to recruit large companies—and why historically they have done so.

"Simply put," Edmiston says, "large firms offer better jobs than small firms."

**Earnings:** Large firms pay higher wages than small firms, and smaller businesses are much more likely to employ low-wage workers.

**Benefits:** Employees of large companies are more likely to be offered retirement and disability benefits; life, health, dental and vision insurance; and paid holidays and vacation days.

**Stability:** As firm size increases, both voluntary and involuntary job separation decreases, which can be attributed in part to higher wages.

While large firms directly spur local economic growth through significant gains in employment and personal income, the indirect effects—the impacts on other businesses in the area—often carry the greatest economic weight, Edmiston says.

Recent studies show the location of a new large firm can hinder the growth of existing enterprises or discourage others from locating there, especially if the firm is given tax incentives and those costs are passed on to the public.

For example, the location of a new plant with 1,000 workers adds a net of only 285



workers, on average, during a five-year period. The other 715 jobs offset those not generated or retained by other firms as they would have been if the plant had not located there, according to Edmiston's research. Another study suggests the net employment impact of large firms may actually be closer to zero.

"Locating a large firm isn't bad for a community," Edmiston says, "it just may not be as beneficial in terms of employment as the community thought. Communities generally don't get what they pay for when they lure a large company."

**Positive spillovers of new large firms include:**

- links with suppliers,
- increased consumer spending,
- transfer of knowledge and
- shared pools of workers.

**Negative spillovers include:**

- constraints on the supply of labor and other inputs,
- upward pressure on wages and rents,
- congestion of infrastructure, and
- budget pressures from increased public spending without an increase in revenue (if prospective tax revenues are given as incentives).

these costs and neither community gains an advantage. The likelihood of a community using tax abatements to lure a firm increases by 41 percentage points if its neighbors are doing so.

"Because of these typically large, indirect effects and the costs of incentives and competition," Edmiston says, "economic development strategies aimed at attracting large firms are unlikely to be successful, or only so at a high cost."

Meanwhile, data show that the small business sector is a significant source of new jobs. The bulk of new jobs are generated by small firms, according to data from the U.S. Census. From 1990 to 2003, small firms (those with less than 20 employees) accounted for nearly 80 percent of new jobs. Midsize firms (20 to 499 employees) accounted for about 13 percent of the new jobs, and large firms (500 or more) accounted for about 7 percent.

These numbers are affected more strongly by relatively large gross job losses among larger firms, rather than massive job creation by smaller firms.

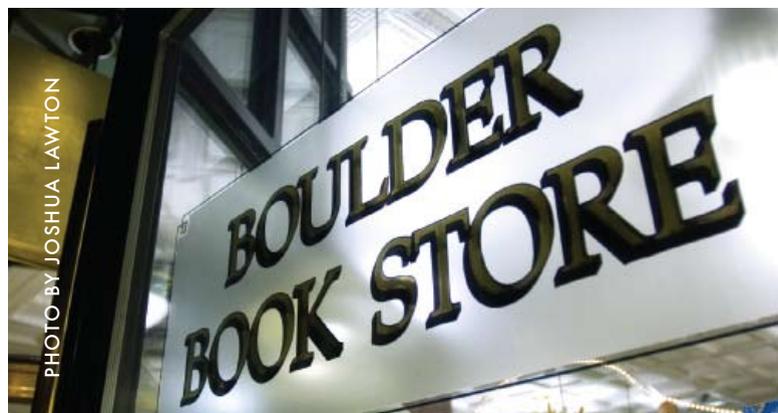
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Costs are often substantially underestimated during the recruitment stage, he says. For example, if a city gives \$20 million in incentives to an enterprise creating 1,000 new jobs, the cost per job is \$20,000. However, if the net job impact is actually 285, the true cost per job is \$70,175.

Additionally, recruiting a firm will generate costs for infrastructure, such as roads, sewers and other public services. If a community gets into a bidding war with another community, fewer resources will be available to absorb

**A new approach**

Perhaps the most effective economic development strategy doesn't focus on just one entity but rather encourages multiple firms



to come to an area, Edmiston says. It's an environment that can be created by homegrown businesses, like in Boulder, Colo.

In an effort to preserve Boulder's identity and support local commerce, David Bolduc and Jeff Milchen started the Boulder Independent Business Alliance (BIBA) in 1998 to strengthen homegrown businesses—and the community.

With Bolduc providing the initial funding and 10 businesses signing on as members, the nonprofit was the first of its kind in the country. Today, membership is made up of more than

100 locally owned businesses, including Bolduc's bookstore he opened 35 years ago in the lively four-block pedestrian Pearl Street Mall downtown. The area is home to an eclectic mix of art galleries, shops and eateries, and a favored spot for street performers, musicians and people to mill about.

This type of environment can act as an incentive, attracting other businesses to the community.

In Ord, Neb., Valley County Economic Development—the same organization that

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**ROY FARRENS, FAR LEFT**, opened a restaurant that's one-of-a-kind for the area. "You get up into the middle of Nebraska and restaurants, I hate to say it, are drab," he says. "It's steak and fried shrimp. There's nothing wrong with steak and fried shrimp, but my goal is to give customers something different ... and they really like it."

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PHOTO BY BOB GREENSPAN

assisted the Elyria Canning Company restaurant—recently built an industrial park in its county seat, Ord.

Zane Dexter's Cornerstone Manufacturing, Inc., which produces electrical components, was the first to locate in the industrial park a few years ago. The community climate is conducive to not only working, but also living, he says.

"Ord has enough things for people," Dexter says, listing off the affordable housing, good schools, and shops and restaurants, plus the utilities, infrastructure and roads in this town of 2,269 round out the total package. "We had some nice offers from other cities. I can honestly say I would've gone somewhere else if Ord hadn't offered me what it did."

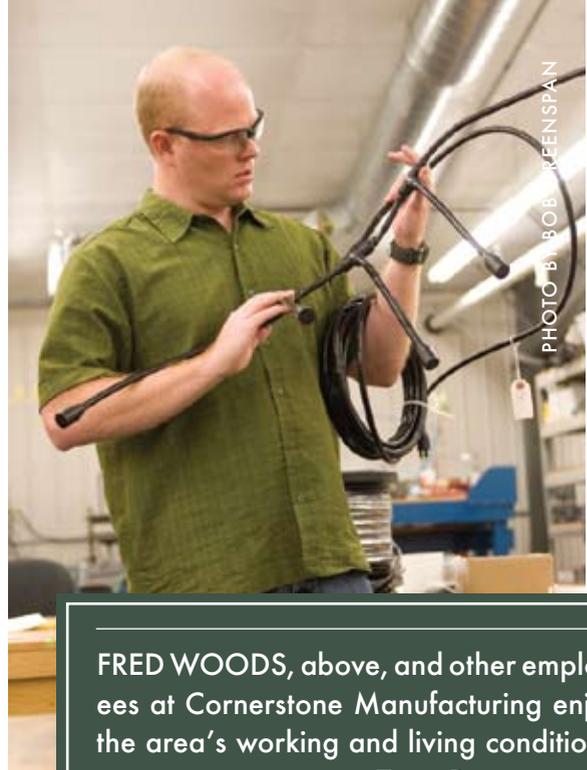
Valley County Economic Development offered Dexter some monetary incentives, similar to what it has offered other new or existing businesses there.

"If a community is focused on creating the right environment for everyone, it won't have to offer monetary incentives to anyone," Edmiston says. "But if a community is going to offer incentives, they should be broad-based and available to firms of all sizes. Communities shouldn't pick and choose who relocates there."

By creating a business climate for large and small business alike, Glaubke, of Valley County Economic Development, says, "We're helping our own and we're attracting outside business."

This shift from solely recruiting large enterprises is one many communities are taking, says Don Macke, co-founder of the Nebraska-based RUPRI Center for Rural Entrepreneurship, which supports the development of entrepreneurship through research.

Better incentives will always be somewhere else, maybe even overseas, Macke says, adding, "The attraction has gotten harder and the payoff is less. So you don't get out of the attraction game; you attract entrepreneurs."



FRED WOODS, above, and other employees at Cornerstone Manufacturing enjoy the area's working and living conditions, says company owner Zane Dexter.

Edmiston says these efforts can create jobs in the local community, but through innovation, some of the small businesses will grow rapidly, and quite possibly become industry leaders.

Cornerstone Manufacturing has more than doubled in size since opening, Dexter says. He predicts further expansion, in Ord, of course.

"They not only got me here," Dexter says, "they're also keeping me here."



BY BRYE STEEVES, SENIOR WRITER

## FURTHER RESOURCES

### "THE ROLE OF SMALL AND LARGE BUSINESSES IN ECONOMIC DEVELOPMENT"

By Kelly D. Edmiston

[www.KansasCityFed.org/TEN](http://www.KansasCityFed.org/TEN)

COMMENTS/QUESTIONS are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).