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How the States Can Do a Better Job Promoting Economic Development in the Twenty-First Century

Murray L. Weidenbaum
Washington University in St Louis

In order for states to be able to compete in the global economy, government obstacles facing new enterprises need to be examined. States need to create a positive and competitive business climate for new and expanding companies.

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Contact: Robert Batterson
Communications Director
(314) 935-5676

How the States Can Do a Better Job Promoting Economic Development in the Twenty-First Century

by Murray Weidenbaum

A Presentation to the
Annual Meeting of the
National Governors Association
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Each state possesses a unique array of assets as well as liabilities in attracting and maintaining economic development in an increasingly competitive and global marketplace. I have no boilerplate approaches to offer, but I do have some ideas that may be useful in improving your state's economic prospects.

If anyone still needs convincing about the continuing globalization of business, let me make two points: (1) around the world, international trade is growing twice as fast as domestic production and (2) cross-border investments are increasing twice as rapidly as international trade. That process of globalization will continue well into the twenty-first century.

Every state is part of the global marketplace, even if its citizens never leave home. In one decade, we have gone from a world dominated by two superpowers to one characterized by many super markets. The American economy, of course, is the strongest and most dynamic of these super markets.

We should not overlook the many important and unique assets possessed by the American economy and most of our states. These powerful pluses include a strong entrepreneurial spirit generating an unparalleled flow of new enterprises, a "small cap" stock market available to new firms seeking capital, rapidly advancing technology to draw on, and a world-class higher education system to train the next generation of highly-skilled workers and managers.

Nor should we overlook the liabilities that many states suffer in the competition for economic development. These weaknesses range from burdensome regulation to arbitrary taxation to a large underclass of people who have dropped out of the modern economy. Some of these shortcomings

can only be dealt with via a very long-term strategy, including revamping elementary and secondary education and promoting the role of the family.

However, let us focus on the shorter- and medium-term possibilities for improving the economy of any state. What can a state government itself do to give its state an edge or leg up? Basically, you can and should help to create a positive and competitive business climate conducive to setting up new enterprises and expanding existing businesses. That is the most basic way of encouraging job formation and raising income levels. However, this is not a plea for a new round of subsidies or a veiled request to favor any particular category of business. That approach is neither fair to your existing businesses nor effective as a long-run strategy.

Of course, the dismal record of government subsidy programs does not prevent some companies and even whole industries from requesting handouts and resorting to all sorts of heartrending rhetoric for justification. As someone who has served as a government official in a variety of circumstances, I know how difficult it is to say “No.” But, ladies and gentlemen, that’s a big part of the job.

A basic part of the task of promoting economic development is to examine carefully the unique array of government obstacles that face any prospective new enterprise considering locating in your state. Of course, I do not urge dismantling environmental and safety protections for your citizens. Economists breathe the same air and drink the same water as other people.

But the hard truth is that the bureaucratic approach too often accompanies the execution of governmental programs, be they regulatory, tax, or procurement. The disregard for the economic consequences of governmental action is epitomized by the boast of one housing official describing how he tries to protect the environment, “I just bounce each developer from office to office to office.”

Most governmental agencies—federal, state, and local—can do much to reduce the uncertainties, delays, and paperwork burdens that unnecessarily complicate and discourage any new business initiative. It is hard to underestimate the cost to a prospective new business in dealing with government. But there is something even more compelling to a new enterprise, particularly the

high-tech and service businesses that comprise a major share of future growth prospects. They need the flexibility to adapt quickly to the rapid changes that occur in the modern global economy. Too many governmental jurisdictions unwittingly place a bureaucratic straitjacket on business.

Under these circumstances, it is heartening to see the interest of the National Governors Association in enhancing the ability of the states to attract and nurture the forward-looking businesses that will characterize the twenty-first century. As it turns out, the most important actions that you can take will not involve spending money or diverting potential revenues.

I know it's fashionable to present long lists of the services and amenities that states can provide. My advice, very frankly, is don't try to spoon-feed too much to new or growing firms. The most successful ones make it on their own.

I can sum up my advice by repeating the conclusion of my testimony to a congressional committee awhile ago: "Don't just stand there, undo something."

Murray Weidenbaum is chairman of the Center for the Study of American Business at Washington University in St. Louis.