

# LOCAL ECONOMIC DEVELOPMENT

## AEC/PA 653

### Fall 2013

**Instructor:**

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400 Agr. Engineering Building

**Class Time:**

Monday 6:30 – 9:00 p.m.  
CEB 227

Occasionally the class might have to be rescheduled, but we will discuss this as the events occur.

If my door is open I am generally happy to see you. I do not have regular office hours, but you can either take your chances on finding me in, or schedule an appointment. Unless you don't mind disappointment, call before coming to my office. Please be warned, I can be hard to find so do not leave questions to the last minute.

**General Objectives:**

The subject of this class, local economic development occupies a fairly small part of the larger discipline of regional economics. In general regional economics deals with relatively large geographies and populations - urban metropolitan agglomerations or sub-national political units – states and provinces, where there are clear scale economies, complex economic systems, strong agglomeration effects and the concepts of macroeconomic theory prevail. By contrast, local economic development deals with small economies, but which can occupy large geographies in the case of sparsely settled rural regions. These local economies are small, open and specialized and the tools of microeconomic analysis are more relevant.

The topic is sometimes called community economics or rural development, but local economics seems to better capture the idea that we are examining why and how some small, semi-autonomous economies in the OECD countries grow and others do not. Most importantly, this is not a course in traditional development economics, which mainly focuses on the national economies of developing countries. There are however, important overlapping concepts, including theories and models of economic growth, but the main distinguishing feature is that the economies we discuss are embedded in a larger advanced market economy that conveys important advantages and disadvantages in growth opportunities and strategies.

The primary geographic focus of the course is the rural United States, although development issues and practices employed in other OECD countries, will also be studied. By rural we will mean both the open countryside and small urban centers. What constitutes a small urban center is an arbitrary decision, but in North America it typically will include all free-standing cities smaller than 50,000. The course mainly relies on the basic paradigms of economics, but includes theories drawn from public policy, sociology and other disciplines to develop a more coherent picture of the problems and opportunities in small regions outside major urban centers.

A central element of the course is an assessment of the role of public policy in the development process. Students will have the opportunity to examine the potential for development for a particular locality in Kentucky and develop a research paper that discusses how the opportunities and problems can be addressed.

**Audience:**

The intended audience is students in the graduate program in agricultural economics, or public administration and public policy who have an interest in the local economic development of more rural areas.

**Prerequisites:**

Graduate standing in Agricultural Economics, Economics, The Martin School or permission of the instructor. A good understanding of intermediate microeconomic theory or a prior course in public policy are desirable preparation for the course.

**Methodology:**

The course will be structured as a mix of lectures and student led presentation/discussion. Lectures will be used to develop an initial conceptual base and to present key methods and practices. Discussions will be used to develop a greater understanding of policies and their success and failure.

The underlying theme of the course is that economic development is fundamentally an investment process. Thus it involves the process of capital formation and decisions about how to best use that capital. There are multiple types of capital in local places including, natural capital (land, scenery, minerals), built capital (infrastructure, housing, resort facilities), human capital (the education level and skills of the work force including entrepreneurial capacity), business capital (the investments of large and small private firms), social capital (the institutions and associations among the members of the community) and obviously financial capital (access to money in the form of retained earnings, debt and equity funds). Successful economic development happens when individuals and groups find ways to make sound investments in enhancing their various forms of capital. Different places choose different mixes of capital

depending on their starting conditions, the opportunities and constraints that they face and their objectives.

## **Readings**

Each week there will be one or two required readings that everyone will have looked at before class. I plan on using Dropbox to distribute readings. In addition there are a number of useful supplemental readings that you may want to look at. To provide some additional information two people each week will prepare a 2 page typed summary of a supplemental reading for distribution to the class. To be useful this paper has to be handed out the week before the reading is to be considered. In order to get the papers balanced I will assign topics if you do not sign up for one on a timely basis.

## **Research Project**

### Option1

Each group of 3-4 people will select a nonmetropolitan county in Kentucky for analysis. The first part of the assignment will be to develop an understanding of the county. This will require building a file of basic economic, social and demographic information. Most of the information can be obtained from the Internet. It may however be valuable to try to get some more qualitative information that may require telephone conversations with local government officials or searching local newspaper records. For the first phase of the project each group of students will submit a 7-10 page paper that describes the county they are studying to the class. The description should cover basic economic, demographic and social information such as recent trends in earnings, education levels, types of industry, number and size of cities and towns, crime and health indices and other material that will provide a full description of the county. It will also be appropriate to employ analytical techniques such as location quotients to examine the economic structure of the county. Another way of describing this step is that it should provide a description of the initial level of the various forms of capital present in the county. A useful source to consult before embarking on your data gathering is the publication by Ron Hustedde, Ron Shaffer and Glen Pulver, *Community Economic Analysis: A How To Manual* available Aug. 31, 2013 at: <http://www.epa.gov/greenkit/pdfs/howto.pdf>

The second phase of the assignment involves analysis of existing local development strategies that affect the county, including city, county and regional plans. This will require more careful and difficult collection of information. In particular it will require the group to make at least one trip to the county to see what it looks like. If you have a digital camera take some pictures. As part of the assessment you will have to determine why specific strategies were chosen, what the goals were, what elements of the county population endorsed or opposed the plan, how well the strategy was implemented and how much success resulted. Looking at back issues of the local newspaper will be helpful. A joint five page paper and a 15 minute class presentation will be required from each group.

The final phase involves the most creativity. You should assume that you have been engaged by the local government to develop a new development strategy that will help the county become a functional part of the “New Economy” of the twenty-first century. You are free to determine what the “New Economy” means in this exercise but you should describe your vision. Describe what role the county can play and how it has to evolve in order to play that role. This time each student will submit an individual 5 to 8 page paper that builds upon the prior work of your group but is your own plan of action. Obviously there will be overlap among ideas but I expect you to produce an independent paper.

In your papers I do expect citations where they are appropriate, but for the most part I am interested in seeing how you apply the information discussed in class with the material that you collect yourself to approach each part of the assignment.

### Option 2

This option is more conceptual. It will involve you identifying a specific local development strategy, for example renewable energy, and examining both the strategy in conceptually and how it has been applied in two different locations. One location should be a situation where the strategy has made a significant contribution to the local economy. In this case you will describe the specific approach and why it appears to be successful in this location. The second example will be a case where the strategy was not successful. Similarly, you will attempt to account for the lack of success. The final part of the paper will be a synthesis of factors that contribute to the success of the strategy and factors that contribute to its failure. In this section I will expect you to identify some minimal necessary conditions for success for the strategy.

For this option I will expect a research paper of 20 to 30 pages with full citations. Your strategy will have to be approved by me and I will try to make sure that multiple people do not follow the same strategy. If people do choose the same strategy you will each have to identify distinct case studies.

**Major Texts:** There is no assigned text, but there are numerous sources of ideas and analysis, some of which are listed below.

Randall Arendt. *Rural By Design* Chicago, IL: American Planning Association, Planners Press. 1994.

Harvey Armstrong and Jim Taylor. *Regional Economics and Policy*, 3<sup>rd</sup> edition. Blackwell: Malden MA. 2000.

Richard Bingham and Robert Mier (eds.). *Theories of Local Economic Development*. Sage Publications: Newbury Park, CA 1993.

- John Blair. *Local Economic Development: Analysis and Practice*. Sage Publications: Newbury Park, CA 1995.
- John Blair and Laura Reese. *Approaches to Economic Development* Sage Publications: Newbury Park, CA 1999.
- Edward Blakely. *Planning Local Economic Development*. second edition. Sage Publications: Newbury Park, CA 1994.
- Steven Brakman, Harry Garretson and Charles van Marrewijk. *The New Introduction to Geographical Economics*. Cambridge: New York 2009
- William Browne. *The Failure of National Rural Policy*. Georgetown University Press: Washington D.C. 2001.
- Emery Castle ed. *The Changing American Countryside: Rural People and Places* University Press of Kansas: Lawrence KS, 1995
- William Galston and Karen Baehler. *Rural Development in the United States*. Island Press: Washington, D.C. 1995.
- Paul Krugman *Development, Geography and Economic Theory*. MIT Press: Cambridge MA. 1999.
- Scott Loveridge and Randall Jackson, editors. *The Web Book of Regional Science* available: <http://www.rri.wvu.edu/regscweb.htm>
- Thomas Lyson and William Falk. (eds.) *Forgotten Places: Uneven Development In Rural America* University Press of Kansas: Lawrence, KS 1993.
- Emil Malizia and Edward Feser. *Understanding Local Economic Development* Center for Urban Policy Research, Rutgers University: New Brunswick, NJ 1999.
- Philip McCann. *Urban and Regional Economics*. Oxford University Press: New York. 2001.
- Cecily Neil and Markku Tykkylainen (eds.) *Local Economic Development: A Geographical Comparison of Rural Community Restructuring*. United Nations University Press: Tokyo. 1988
- Andy Pike, Andres Rodriguez-Pose and John Tomaney. *Local and Regional Development*. Routledge: New York, 2006
- Ron Shaffer, Steve Deller and Dave Marcoulier. *Community Economics* 2<sup>nd</sup> edition. Blackwell Publishing: Ames IA. 2004.

**Grading:**

The grades in the course will be based upon the following criteria:

- class participation 10%
- mid-term 15%
- article review 10%
- final exam (take home) 30%
- major project – Option 1 3 segments – 10% segment 1, 35%  
10% segment 2, 15% segment 3
- Option 2 2 segments – 5% strategy  
discussion paper, 25% final paper 100%

## DETAILED COURSE OUTLINE

- Sep. 9 Introduction – Space, Regions and Localities
- Sep. 16 Basics of Investment Theory  
– time value of money, net present value, optimal capital stock, marginal efficiency of capital, portfolios and risk, depreciation, role of capital in conjunction with other inputs, capital stocks and flows
- Sep. 23 no class
- Sep. 30 Theories and Models of Economic Growth
- Oct. 7 Hierarchies of Regions – Core-Hinterland models
- Oct. 14 Location Decisions of the Firm
- Oct. 21 Midterm
- Oct. 28 Productivity, Viability and Economic Growth
- Nov. 4 Local Economic Development Strategies
- Nov. 11 Hot Topics 1 – Tourism, Renewable Energy, Retirement Communities
- Nov. 18 Hot Topics II – Innovation, Clusters, Wal-Mart Effect, Local Food
- Nov. 25 Local Labor Markets
- Dec. 2 Group presentations
- Dec. 9 Natural Resource Based Development and the Resource Curse