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Time for a Federal-State National Economic Development Partnership

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A key component to any national advanced industry strategy—and one that should receive welcome bipartisan agreement—should be to help all 50 states expand their state development strategies and better align them to the overall mission of outcompeting China.

KEY TAKEAWAYS

- Neither of the prevailing ideological approaches of Republicans and Democrats in Washington will do much to spur the national economic development and competitiveness that the country needs.
- Economic development tends to be nonpartisan at the state level, because state officials face the reality of having to compete economically every day. They can't afford to let ideology get in the way of what works.
- Most states have effective and often innovative development programs, but they are limited in their ability to fund them adequately—especially at the level necessary to serve as part of a national development strategy.
- While it is critical to continue pressing for a robust federal development strategy, it's also time for Congress to use the bipartisan support of state development efforts to establish and expand federal-state development partnerships.
- Designed thoughtfully, a federal-state economic development initiative can produce results that are greater than the sum of its parts.

INTRODUCTION

Two different U.S. states: Each has economic development programs for "opportunity zones," grants, or tax credits for companies that create jobs; investment capital for new tech-based companies; and industry-based job training programs. One state, Alabama, is the most conservative in the country.[1] The other, Vermont, is the most liberal. One state voted for Trump and the other for Biden. One loves NASCAR and the other Ben & Jerry's ice cream.

But when it comes to economic development policy there is virtually no daylight between the two. And we see the same thing within these states, where Republicans and Democrats generally support the same economic development policies. That's because many state officials, at least when it comes to figuring out how to make sure their state economies thrive, are pragmatists. A key reason is that, unlike in Washington, where ideologically driven policies almost never get tested against reality, state officials face the harsh reality of having to compete economically every day. They can't afford to let ideology get in the way of what works.

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What a difference from Washington—which is odd, because a majority of members of Congress have previously held elected positions in their states and presumably had the same generally bipartisan, pragmatic views about government's role in spurring economic development. But something strange happens when Mr. or Ms. Smith goes to Washington. Republican Mses. Smith subscribe to the Heritage Foundation newsletter and start arguing that the federal government has no role in national economic development, other than to just get out of the way by taxing and regulating less.[2] And Democrat Messrs. Smith pick up Center for American Progress reports and start claiming that a higher minimum wage, a more generous Earned Income Tax Credit and universal health care are the keys to economic growth.[3]

But as Michael Lind and I have argued, neither approach will do much to spur the economic development and competitiveness that the country needs.[4] The unfortunate reality is that while there are some recent signs of hope that Congress finally might be taking national development more seriously, including through the recent bipartisan CHIPS Act and Endless Frontier Act, such pro-growth, developmental measures still face a hard road in a town dominated by partisan ideology.

FOUR BIPARTISAN STEPS TO FORGE A FEDERAL-STATE PARTNERSHIP FOR ECONOMIC DEVELOPMENT

While it is critical to continue pressing for a robust national development strategy—particularly one focused on countering China's rise in the advanced industries at the heart of the high-tech economy—it's also time for Congress to use the bipartisan support of state development efforts to establish and expand federal-state development partnerships.[5] To accomplish this, Congress should do four things:

1. Establish a Grant Program for States to Attract Foreign Direct Investment or Reshoring (or Retaining) Advanced Technology Production to the United States

Attracting more foreign "greenfield investment" and reshoring more U.S. investment is key to expanding advanced technology production. Yet, in 2019, less than 1 percent of all foreign direct investment into the United States involved new manufacturing facilities; almost all involved foreign companies purchasing U.S. companies.[6] And while U.S. reshoring has increased somewhat since then, it is still relatively anemic.[7]

The United States needs to do more to attract foreign greenfield facilities and to reshore advanced technology sectors. To do that, Congress should establish a program to be managed by Select USA (a program of the U.S. Department of Commerce), whereby each state would be able to submit for matching funds one project a year that could be greenfield FDI, reshoring, or a project that without incentives would locate outside the United States. Congress should allocate $5 billion a year for such a program and provide grants to states based on their share of U.S. population. States should be able to qualify for one project a year, and should have to match federal funds at a rate of at least 50 cents on the dollar. Projects that qualify should be in traded-sector, advanced technology sectors not based on natural resources.[8]

2. Significantly Expand the Regional Innovation Strategies Program

The Regional Innovation Strategies program, operated by the Economic Development Administration, provides matching funds for private and state or local investment into programs that address regional gaps in the commercialization of innovation. The program supports a variety of efforts, including access to a continuum of investment capital, appropriate physical infrastructure (which might include affordable laboratory space, co-working environments, or science and research districts), a system of mentoring that matches industry-seasoned talent with emerging technologies and entrepreneurs, and a diverse and well-trained workforce.[9] But, at less than $50 million, funding is insufficient for the task. Congress should appropriate at least $500 million per year for the program and include requirements that state and local activities align where possible with overall national advanced industry development goals.

3. Expand NIST's Manufacturing Extension Program

The NIST Manufacturing Extension Program (MEP) is a model federal-state economic development partnership. Focused on helping small and mid-sized manufacturers adopt better technology and undertake other modernization efforts, it is co-funded by NIST and states (and companies), but is operated locally. For every $1 dedicated to MEP there is a return of $34 in firms sales.[10] Yet despite being a highly successful program, MEP funding has steadily declined as a share of GDP—and funding is significantly lower (as a share of GDP) than similar programs in competitor nations like Japan and Germany.[11] As such, Congress should increase funding for MEP over the next few years from the current level of around $140 million to at least $600 million. And it should charge MEP with focusing more on helping U.S. manufacturers adopt "smart manufacturing systems."[12]

4. Expand Support to Communities for Manufacturing Initiatives

Policymakers clearly need the ability to analyze industrial competitiveness at the national level, and states need to think holistically about their manufacturing capacity, strengths, and weaknesses. Similarly, assessments need to take place at the regional or cluster levels.[13] This was the objective of the Investing in Manufacturing Communities Partnership (IMCP), initially launched during the Obama administration, which provided grant awards to communities that demonstrate best practices in attracting and expanding manufacturing by bringing together key local stakeholders and using long-term planning that integrates targeted public and private investments across a community's industrial ecosystem to create broad-based prosperity.[14] The IMCP program invested more than $23 million to support 49 IMCP projects across 26 states, and it's estimated that IMCP-supported projects to date have saved more than 1,080 jobs and generated nearly $855 million in private investment.[15] The proposed Made In America Manufacturing Communities Act would extend the success of IMCP by authorizing a public-private program to enhance the way the United States leverages federal economic development funds to encourage American communities to focus not only on attracting individual investments one at a time, but also on transforming themselves into globally competitive manufacturing hubs.[16] While the current administration has not carried the IMCP program forward, The FY 2019 National Defense Authorization Act allocated $20 million for a Defense Manufacturing Communities Support Program (DMCSP) that seeks to "make long-term investments in critical skills, facilities, research and development, and small business support in order to strengthen the national security innovation base by designing and supporting consortiums as defense manufacturing communities."[17] Congress should allocate at least $100 million to support both the DMSCP and IMCP initiatives.

WHY SUCH A FEDERAL-STATE PARTNERSHIP WOULD BE GREATER THAN THE SUM OF ITS PARTS

Some will argue that states can do all of this on their own. But the reality is that while most states have effective and often innovative development programs, they are limited in their ability to fund them adequately, especially if we want a federation of 50 state development programs that collectively approximates at least part of a national development strategy.

Others will argue that any federal initiatives to help states should provide all the funding precisely because states have limited fiscal capabilities. But the risk with this is that states will have less "skin in the game," leading to suboptimal project selection. As such, while it makes sense for the federal government to provide most of the funding for these partnership initiatives, it shouldn't provide all the funding.

Finally, some advocates of federalism will argue that the federal government should provide support with few strings attached: It should encourage "laboratories of democracy." This can be good when the federal government is seeking to encourage domestic policy innovations, but in this case it's clear what the national goal is—to establish a robust advanced technology strategy to counter China. If the federal government were to do this all on its own, it would ensure alignment with the national goal, but it would limit the kind of local and regional programs and efforts that can complement national efforts. Enlisting states and localities as partners will make the overall effort more effective, but only if their actions are aligned with national goals. As it stands, state and local economic development efforts sometimes are aligned, but often are not. States and localities spend much of the efforts to attract economic activity from one state to another. And many programs do not focus on advanced industries. Given the national priority of strengthening traded-sector, advanced industries nationwide, states need to be partners in this. This means that if Washington is going to help support subnational efforts, it gets to help align state and local actions to national goals.

At the same time, Congress should continue to push for important advanced technology industry policies, such as a more robust R&D tax credit, expanded funding for the Manufacturing USA Institutes, reestablishment of NIST's Advanced Technology Program, and increased funding for R&D in critical technology areas. Where appropriate, such as with the Manufacturing USA Institutes, the federal government also should continue to work with states to engage them more deeply. And of course, Congress should enact and fund initiatives such as those in the Endless Frontier Act and the Innovation Centers Acceleration Act to spur the creation of more self-sustaining technology hubs in the heartland.

Hopefully, Congress can continue to make bipartisan, bicameral progress when it comes to a national advanced industry strategy to respond to China's rise. But one key component to any strategy, and one that should receive welcome bipartisan agreement, is to help all 50 states expand their state development strategies and better align them to the overall mission of outcompeting China.

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About the Author

Robert D. Atkinson (@RobAtkinsonITIF) is the founder and president of ITIF. Atkinson's books include *Big Is Beautiful: Debunking the Myth of Small Business* (MIT, 2018), *Innovation Economics: The Race for Global Advantage* (Yale, 2012), and *The Past and Future of America's Economy: Long Waves of Innovation That Power Cycles of Growth* (Edward Elgar, 2005). Atkinson holds a Ph.D. in city and regional planning from the University of North Carolina, Chapel Hill, and a master's degree in urban and regional planning from the University of Oregon.

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