

# THE TORTOISE AND THE HARE: ECONOMIC COMPETITIVENESS IN THE AMAZON ERA



Throughout the United States of America, Canada and Mexico, more than 230 communities crafted their shiniest proposals extolling the strengths of their communities, offering robust incentive packages and promising an environment that offers incomparable talent and amenities in hopes of alluring Amazon's second headquarters. The project promises up to 50,000 new jobs with wages averaging around \$100k/year, \$5 billion in capital investment, and oodles of tertiary impacts. In this economy of moderate sustained job growth without wage growth, the potential for this project to transform and shift the long-term trajectory of its future home is undeniable. Politicians, business leaders and economic developers in communities of all types face tremendous pressure to position their cities to win this catalytic investment and have responded by offering millions in tax abatements, discounted properties, workforce development programs, and infrastructure investments. That said, many still ponder; "Do all of these proposed incentives makes sense? Why should public tax dollars be spent to induce private investment? Is the attraction of one company really worth it? Are there other things that communities can do to position themselves for private corporate growth?" These are important questions and many of the right ones to ask.

Historically, local communities and, to some extent, the economic development industry have placed an inordinate amount of emphasis on recruiting companies and leveraging incentives to spur private investment. This article does not rebuff the importance of incentives as deal-closing tools nor does it argue that communities should not aggressively seek external investment from new companies. Rather, it posits that the more important work is for communities to grow their economy from within leveraging local assets and a clear competitive position established over time. This approach ensures

that the local economy is optimally positioned for new industry investment. That is, communities will shore up their long-term economic bases by making strategic investments in core assets and infrastructure, implementing sound policies that facilitate business transactions and harnessing their existing corporate bases. Furthermore, by cultivating local talent, leveraging technology and focusing on microeconomic indicators, communities can increase stability and increase employment, private sector investment and wages.



Simply put, competitiveness is the mix of factors that impact the attractiveness of a market as a place for investment, corporate growth, and quality of life. Competitiveness is the foundation on which economies are built. To some extent, the concept of competitiveness also captures a market's ability to pivot, rebound, and recover. Seemingly, communities everywhere would be focused on increasing their competitive position given this frame, but most fail to focus on this strategy for a host of reasons. Chief among them, achieving competitiveness is a long-term commitment that often takes years to generate returns. It frequently requires costly and

sustained investment and tends to run counter to the immediate wins that politicians and economic developers need to maintain their popularity and positions. According to the Beacon Hill Institute's adaptation of Harvard Business School Professor Roger Porter's framework for competitiveness, key competitiveness indicators include:

**FISCAL POLICY** – Are tax rates sensible and does the public sector demonstrate financial discipline?

**SECURITY** – Low crime and a lack of corruption;

**INFRASTRUCTURE** – From the gamut of public works, utilities, and logistics infrastructure to real estate options, businesses need assurances that the physical public and private infrastructure on which they rely functions predictably and is appropriately maintained.

**HUMAN RESOURCES** – Talent is arguably the most important factor in a community's competitive position as a healthy, industrious, innovative and well-trained workforce is the lynchpin that drives productivity and profitability for companies.

**TECHNOLOGY** – The development and application of technology encompassing tech and innovation activity, and a critical mass of scientists and engineers in the marketplace is essential for economic development and market dynamism.

**BUSINESS INCUBATION** – Local startup and scale up activity in conjunction with the ability of a local ecosystem to support firms across the plethora of needs including financing, real estate, industry value chain, and other support services.

**OPENNESS** – Open economies are those that have strong trade linkages, a high percentage of foreign-born residents, and greater global connectedness. This measure exposes a market's level of access by and reach to external markets.

**ENVIRONMENT** – Environmental policy matters to varying degrees by industry. States that tend to be heavy-handed with their policies inhibit growth of certain industries. In the same vein, states that do too little to regulate environmental issues ultimately suffer from pollution and other challenges that significantly lower their quality of life and limit the types of companies they can effectively help start up, incubate, recruit and grow.

These competitive components serve as the foundation for regional and local economies and represent the most secure way to ensure sustainable steady economic growth.

Returning to Amazon—the announced expansion and request for proposals shows substantive alignment with the competitiveness framework.

### THEY PREFER:

**Metropolitan areas with more than one million people;**

**A stable and business-friendly environment;**

**Urban or suburban locations with the potential to attract and retain strong technical talent; and**

**Communities that think big and creatively when considering locations and real estate options**

They also prefer a site location within 30 miles of the population center, within 45 minutes of an international airport, not more than 1-2 miles from major highways and arterial roads, and access to mass transit at site. Amazon lists the drivers of their decision as: site/building, capital and operating costs, labor force, logistics, time to operations, cultural community fit and community/quality of life. One need not do much analysis to recognize that these are variations on or subsets of key competitiveness factors.



Left to Right: Mayor Mitch Landrieu, Rodrick Miller, Mayor Dave Bing

Incentives are specifically called out in the RFP and will be a major consideration in the site decision. However, incentives cannot transform a community that, historically, has not made smart investment and policy decisions into a formidable contender for this investment. Experience shows that communities must first vie for projects based on their respective competitive positions, while incentives tend to serve as a differentiator amongst top candidates. By design, incentives serve the purpose of offsetting competitive disadvantages communities face. As communities make the needed strategic investments, quality of life improvements, and policy decisions new investment projects should require less inducement over time. Furthermore, these decisions should yield greater native productivity, innovation, and investment.

So, do all of these proposed incentives makes sense? Why should public tax dollars be spent to induce private investment? Is the attraction of one company really worth it? Are there other things that communities can do to position themselves for private corporate growth? Incentives are a vital part of proposals to lure the most attractive ventures to communities. Projects such as Amazon's second headquarters are rare and yield extraordinary benefits. These benefits include all manner of market growth including an influx of talent; professional growth opportunities; high wage jobs; increased procurement opportunities for regional firms; and expansion of the local tax base, to name several. It is absolutely appropriate for public tax dollars to be spent to induce private investment provided that

threshold returns on public dollars are met, public benefits are ensured, and the project aligns with community economic development strategies. As the global economy continues to transition, there will be a flurry of M&A activity, corporate expansions and failures, and tremendous opportunities for communities to compete for and build new industries. When projects such as Amazon's emerge, it's worth it to fight and put your best options forward; however, the biggest winners will be those communities that have invested in their competitiveness over time. As the saying goes, "slow and steady wins the race."

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