

Explanations for Economic Growth

Various theories have been advanced to explain the growth of state or regional income and employment. These theories have been used to justify economic development-related state and local policies.

Export base and traded industries

Some have suggested that exports are a key contributor to economic growth. Goods and services sold outside the state (whether to another state or internationally) bring in dollars that can be used to purchase other goods and services. Traditionally, the agriculture, mining, and manufacturing sectors were commonly recognized as export industries. Recently, several services-producing industries are increasingly recognized as export capable. Also, international trade economists suggest that increased trade, both exports and imports, may lead to income growth.

Local specialization and a high-tech economy

Some suggest local specialization through large-scale employment or production might result in faster economic growth. This specialization may be in a single similar grouping of industries or in several industry clusters. Clustering may result in faster economic growth for several reasons including:

- Increasing face-to-face communication by employees from nearby businesses (e.g., exchanging information on innovative products)
- Fostering collaboration or increasing competition
- Attracting input suppliers and thereby lowering transportation costs

Discussions on local specialization often include high technology and biotechnology industries. Silicon Valley and other regions that specialized in highly skilled economic activities might have produced higher increases in income. However, there is some evidence, at least for Minnesota, that a diverse set of industries resulted in greater economic growth. This does not imply that Minnesota regions would not benefit from more employment in high-skill, high technology production. It does suggest that too much specialization may not result in sustained economic growth.

Global cities and the changing role of central places

Geographers have long discussed the interconnected roles of larger and smaller cities. Larger urban cities provide goods and services to smaller cities. Larger cities cover a broader market area and can sell those rare, hard-to-find goods and services. Smaller cities distribute more commonly consumed items.

Recent discussions suggest that the role, at least for the largest cities, may be changing. *There may have been an emergence in economic activity for world-class cities.* Cities like New York, Chicago, and Los Angeles that trade with one another across the globe and provide goods and services over a larger market area. Companies actively engaged in international trade locate in these cities because they have access to a large number of highly skilled workers. To the extent that these global cities are developing, there may be implications for smaller cities as well. Trade of a different type may be occurring in these smaller cities.

Skilled occupations and career ladders

Some suggest that public policies should focus on increasing the number of highly skilled workers based on trends in the economy, including:

- The increased demand for skilled workers
- Growth in services-producing employment
- Growth in high-technology employment which cuts across goods and services
- Large cities with large pools of skilled labor may have a prime economic advantage
- Evidence that the proportion of highly educated workers within a region results in a faster rate of economic growth.

Also, persons with higher educational attainment rates usually have higher incomes. However, research is needed to identify cost-effective ways to increase the skills of workers already in the labor force.

The rise of the creative class

Some prominent economic development scholars have suggested that it's not just knowledge, but creativity that is needed for economic growth. The creation of innovative ways to manufacture a good, manage a team, or produce a new product is what generates income and jobs. Some suggest that communities that foster creative efforts in the arts and other endeavors will more likely adopt creative innovations in business. This is a relatively new idea, which is beginning to be researched by economic development experts.

Colleges and universities

Universities and colleges may serve as centers for research, private-sector collaboration, and labor training. Research conducted within a university might result in new production processes, or new products, which generate income and jobs for the local economy. Some of this research might even be done in collaboration with private sector businesses. Labor training might also increase income by increasing the productivity of workers. There is evidence, although somewhat contested, that the benefits of research may first go to local areas.

Roads, telecommunications, and other infrastructure

Historically, many cities grew at the intersection of transportation routes. Minneapolis served as a useful intersection between railroad and barge traffic. Duluth is the westernmost port of the Great Lakes. More recently, the interstate highway system may have enhanced growth in some Minnesota cities. Today some suggest that besides roads, access to telecommunications may enhance economic growth. There is some evidence that roads can increase productivity, but more research is needed for how telecommunications affects productivity.

Amenities—Making the area an enjoyable place to live

Access to parks, restaurants, musical events, casinos, theatres, museums, and festivals may make a difference. Some suggest that persons migrate because of the amenities offered in the area. Also, such amenities may help bring tourists into the region. As in other policies, the benefits of creating and maintaining these amenities must be weighed against their costs.

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