PLACE-BASED ECONOMIC DEVELOPMENT: CREATING GROWTH IN THE HEARTLAND
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Professor Feldman was a winner of the Global Award for Entrepreneurship Research for her contributions to the study of the geography of innovation, the commercialization of university research and the role of entrepreneurial activity in the formation of regional industry clusters. Feldman is a prolific and highly cited author. She received the Distinguished Scholar award from the Technology and Innovation Management division of the Academy of Management.

Her recent research focuses on place-based economic development and the factors that promote economic restructuring and resilience.

Minoli Ratnatunga
Minoli Ratnatunga is an economist dedicated to helping communities prosper, and serves as a fellow with Heartland Forward. Her work at think tanks, non-profits, and local government has focused on the tools and policies that create outcomes that matter.

Minoli’s research at Heartland Forward continues her pursuit of pragmatic and effective policies to spur economic renewal, including exploring the role of research institutions and entrepreneurship in economic development. She draws on both an in-depth local perspective from her time crafting regional development policy in Pittsburgh, and her knowledge of national best-practices built as the director of regional economics research at the Milken Institute.

Minoli helps mission-driven organizations better understand and address critical issues to increase their community impact with Star Insights, a strategic advisory firm based in Los Angeles. She holds a bachelor’s degree in Philosophy and Economics from the London School of Economics, and a Master of Science in Public Policy and Management from Carnegie Mellon University.

Avery Nims
Avery recently joined Heartland Forward while in pursuit of her bachelor’s degree in Statistics from the University of Illinois at Urbana-Champaign with a minor in Political Science. As a lifelong resident of Chicagoland, she is invested in maximizing the well-being of heartland residents in evidence-based ways. She is passionate about the arts and served as a director of her school’s branch of The Fashion Network, a fashion-centered magazine and social organization. She has also worked extensively in community outreach for local leaders.
Heartland Forward’s mission is to improve economic performance in the center of the United States by advocating for fact-based solutions to foster job creation, knowledge-based and inclusive growth and improved health outcomes. We conduct independent, data-driven research to facilitate action-oriented discussion and impactful policy recommendations.

The views expressed in this report are solely those of Heartland Forward.
INTRODUCTION

Three relatively new federal acts constitute nearly $2 trillion of investments aimed to bolster U.S. competitiveness by stimulating innovation, tech commercialization and domestic manufacturing, while stabilizing and enhancing domestic supply chains. Such a place-based, capacity-building approach would seem to dovetail nicely with the heartland’s traditional strengths and work ethic.

The Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA), and the CHIPS and Science Act all fit into a national strategy to leverage regional growth in key sectors — such as semiconductors and green energy — while ensuring that post-industrial and historically disinvested regions can benefit. Passage of these bipartisan initiatives marks an evolution in federal policy from relying on the free market to recognizing government investment as critical to international standing and supply chain resilience, as well as addressing regional income inequality.

These federal investments allow state governments to apply for these funds and enact complementary policies that harness and supplement those dollars. This is especially true across the heartland, which has endured deindustrialization and loss of high-paying jobs. To make the best use of federal investments, states need to develop complementary, place-based strategies.

Place-based economic development uses an area’s unique identity and sense of place as a competitive advantage for creating and sustaining growth, and involves policies tailored to regional characteristics. Many people are unwilling to uproot from the places they grew up and where their families live. A place-based, capacity-building approach builds on a region’s traditional strengths and work ethic — with the help of federal aid. Some Americans move for work every year, but more by far stick close to their roots, embracing the history and traditions of their hometown or region. The rising costs of housing and child care can also discourage mobility, along with concerns about finding suitable employment.

Without jobs, cities and towns experience high unemployment and diminished prospects. They become places of despair, where crime and substance abuse often fill the void of meaning that comes from gainful employment.

Place-based economic development offers a better way to invest in and create jobs where Americans choose to live. It is certainly needed, as half of the nation’s high-paying jobs are in just 30 (1%) U.S. counties.

Wealth and opportunity are concentrated in a handful of coastal cities. Lucrative jobs in the heartland have been depleted both by international trade and lack of investment, both public and private. A preoccupation with cutting business costs, meanwhile, has resulted in diminished wages and empty state coffers. And government incentives have subsidized larger firms at the expense of small and medium-sized employers, who employ half of American workers and often are deeply rooted in their communities. Fewer opportunities mean that people are unable to realize their potential and those communities struggle to pull out of their downward economic spiral.

We need to think differently. Investing in places and competing on advantages — like a skilled workforce or an abundance of related supplier firms — provides an alternative to offering incentives to firms, factories and warehouses for relocating to an area. This practice of “buying” employment growth, job quality and tax revenue rarely works out well. Firms can move again when incentives expire, as demonstrated by cross-border relocations between the Kansas and Missouri sides of Kansas City. It is time for a moratorium on states relying on industrial recruitment incentives as a competitive strategy.
The logic of place-based economic development builds on lessons from successful places such as California’s Silicon Valley and San Diego, and Boston, as well as smaller heartland cities and regions like Boise, Idaho; Provo, Utah; Boulder, Colorado; Chattanooga, Tennessee; and Central Indiana. Federal programs may provide the funds, but states can learn from successful peer regions, then apply what fits while crafting their own customized economic development strategy.

Place-based policy recognizes that suppliers, customers and workers alike benefit when similar firms are located near each other. These dynamic entrepreneurial environments become self-reinforcing, leading to greater productivity and enhanced innovation. Ultimately, U.S. industries gain stature globally while providing a foundation for vibrant local economies. Harnessing the power of places, if done effectively, can herald a new era of prosperity.

The universal concern is how to best secure a region’s economic future. This means pursuing lasting economic development — i.e., seeking a sustained increase in prosperity and quality of life rather than a short-lived increase in output.

A place-based approach lets state government leaders lay the foundation for an atmosphere where local communities, universities, entrepreneurs and corporations can help build and maintain thriving communities in which others will want to invest.

This can be realized through increases in four dimensions of capacity:

- **Community capacity**: These are the physical and human capital assets that influence economic development. They include physical infrastructure like roads and bridges, digital infrastructure like broadband access, and the skills/knowledge in the workforce.

- **Firm and industry capacity**: These are the firms’ assets in a location, including their workforce, facilities, equipment and supply chains. Economic development requires partnerships with these firms and depends on their resources and networks.

- **Entrepreneurial capacity**: This focuses on the potential for generating new small businesses, including a risk-taking culture, networks, financial capital and a skilled workforce. This capacity includes startups and entrepreneurs who would like to start firms.

- **Innovation infrastructure capacity**: This refers to the resources required to support new products, processes and organizations. Resources include facilities, support services and risk-taking ability. This capacity extends to research and development activity in existing firms, universities and other organizations.

Each of these is considered in greater detail below.
COMMUNITY CAPACITY

Community capacity is the ability of a community to identify, plan and implement projects that address local needs and opportunities. It involves building the skills, knowledge and resources of community members and organizations to work toward common goals.

States can invest in community capacity by providing resources, training and technical assistance in at least three areas that will help communities build the skills and knowledge they need:

• Provide funding and technical assistance: Grants, loans, matching funds and other forms of state-funded financial support help communities start and sustain their projects and initiatives. For example, the Michigan Neighborhood Enterprise Zone (NEZ) Program provides tax incentives to businesses and residents in designated areas to encourage economic development and revitalization. The program also offers technical assistance to community-based organizations working to improve their neighborhoods.

• Build networks and partnerships: States can help communities build networks and partnerships with other organizations and communities to share resources, knowledge and best practices. The Texas Volunteer Connections Program pairs volunteers with opportunities and provides training to help them serve their communities effectively. The program also helps fund volunteer programs and encourages collaboration among nonprofit organizations, government agencies and other stakeholders in addressing community needs.

• Support infrastructure development: States can invest in infrastructure — such as broadband, transportation and community facilities — that can support community-driven projects and initiatives. For example, New York state’s Broadband for All initiative ensures that every resident has access to high-speed internet to bridge the digital divide in remote and rural communities.

By investing in community capacity building, states can help communities become more resilient, self-reliant and better equipped to generate their own place-based solutions to their challenges.
FIRM AND INDUSTRY CAPACITY

Firm and industry capacity is the ability of businesses to produce goods and services efficiently and effectively, and the ability of industries to compete and innovate in the marketplace. States can invest in this capacity by providing resources, training and incentives to help businesses and industries flourish. Here are some specific place-based investments states can make:

• **Provide funding:** State funding of business development can include grants, loans and other forms of financial support like direct funding of the required match for Small Business Development Centers. For example, the Maryland Technology Development Corporation (TEDCO)\(^\text{10}\) is a state-funded organization that provides seed funding, mentoring and networking opportunities to entrepreneurs. The organization has helped launch successful companies in areas like cybersecurity, biotech and software development. Such programs can help businesses access capital to invest in new technologies, expand operations or enter new markets.

• **Offer training and technical assistance:** States can provide training and technical assistance to help businesses build the skills and knowledge they need to compete in the marketplace. This can include training in lean manufacturing, supply chain management and digital marketing.

• **Support innovation, as well as research and development:** States can invest in R&D and technology transfer programs to help businesses develop new products and services, and to compete in high-growth industries. For example, Indiana 21st Century Research and Technology Fund\(^\text{11}\) provides grants and investments to businesses and universities engaged in R&D activities in the state. The research it has funded has helped launch successful companies in biotech, advanced manufacturing and information technology.
• **Support industry clusters:** States can support the development of specialized resources that enable firms to share knowledge, gain expertise and build supply chains. For example, the California Innovation Hub (iHub) program connects entrepreneurs, investors and academics to create new businesses and jobs in industries such as clean technology, life sciences and advanced manufacturing.

• **Leverage federal policy:** States can apply for federal funds to improve capacity of firms and industries. The Economic Development Administration (EDA), for example, has supported competitively awarded geographic cluster-based programs for more than a decade. Notable successes have included the Milwaukee Water Industry project and the St. Louis Ag Tech Initiative. And the 2021 American Rescue Plan Act created the EDA’s Build Back Better Regional Challenge, which funded projects in 21 emerging industries and encouraged bottom-up problem-solving in diverse locations. Similarly, the National Science Foundation launched the new Directorate for Technology, Innovation and Partnerships to enhance the commercialization of innovation and research outcomes; its inaugural program, the Regional Innovation Engines program, launched in 2022.

By investing in capacity building, states can create a more competitive business environment, promote place-based economic growth, and help businesses and industries in their state adapt to changing market conditions.
Entrepreneurial capacity is the ability of individuals and organizations to identify and pursue new business opportunities, take calculated risks and innovate to create new value. States can help in these ways:

- **Provide funding:** State funding through grants, loans and other means can help entrepreneurs access capital to start or expand their businesses. For example, Texas’ Technology Commercialization and Innovation Program\(^\text{18}\) provides funding to help startups and small businesses bring their products to market. And the New York State Innovation Venture Capital Fund\(^\text{19}\) provides early-stage funding to high-growth startups in the state.

- **Offer training and technical assistance:** This assistance includes training in business planning, financial management and marketing. Small Business Development Centers provide counseling and training to small businesses. Small businesses work with the federal Small Business Administration (SBA)\(^\text{20}\) and the Minority Business Development Agency (MEDA)\(^\text{21}\) to support business startups and expansion. The MEP National Network\(^\text{22}\) has locations in every state and has equipped small and medium-sized manufacturers with the resources needed to grow and thrive.

- **Foster a supportive ecosystem:** A supportive ecosystem includes networks of mentors, advisors and investors, as well as access to business incubators and accelerators. This environment can help entrepreneurs access the resources and support needed to start and grow businesses. For example, Network Kansas\(^\text{23}\) introduces youth to entrepreneurship and small-business ownership as a career path.

- **Streamline regulatory processes:** Streamlining regulations makes it easier to start and operate a business by reducing red tape and bureaucracy, simplifying licensing requirements and creating a more business-friendly environment.

- **Provide policy support:** States can provide policy support, such as procurement preferences, to encourage entrepreneurship and help small businesses compete in the marketplace. The Kentucky Proud\(^\text{24}\) program, for instance, provides financial incentives for businesses that purchase local food. The University of Kentucky has a local procurement initiative through Aramark, which provides dining services for the University of Kentucky. In 2020, this initiative directed more than $3 million to local producers and businesses.

- **Leverage federal policy:** The highly competitive Small Business Innovation Research (SBIR)\(^\text{25}\) and Small Business Technology Transfer (STTR)\(^\text{26}\) programs have funded many promising technologies in diverse and underserved communities, especially when compared to venture capital. While venture capital seeks high rates of return and focuses on only a few locations and sectors, evidence from the SBIR and STTR programs suggests that investments in companies in “flyover states” outperform similar firms in other states.\(^\text{27}\) To broaden access to SBIR and STTR awards, especially among founders from underrepresented groups and heartland areas, the SBA’s Federal and State (FAST) Partnership\(^\text{28}\) funds state and regional entrepreneurial support organizations. The program provides technical and business assistance that helps small businesses prepare to apply for these awards. Many states also offer matching funds for SBIR and STTR awards.

By investing in entrepreneurial capacity building, states can create a more vibrant business environment tailored to their state’s values and advantages that helps individuals and communities build wealth and create new opportunities for the future.
INNOVATION INFRASTRUCTURE CAPACITY

Innovative infrastructure refers to physical and digital systems that support economic growth and innovation — including transportation, energy, telecommunications and information technology. In contrast to innovation support services that cater to the needs of individual innovators, innovation infrastructure helps all businesses operate more efficiently, connects people and communities, and creates new opportunities for innovation and growth. Innovative infrastructure examples include high-speed internet access, localized funder networks and a community culture that accepts risks and understands that failure is a learning opportunity.

Here are some ways states can invest in innovative infrastructure to support place-based economic development and improve quality of life for residents:

- **Provide funding:** Grants, loans and other forms of state financial support aid in the development of new infrastructure projects and upgrades to existing infrastructure. Michigan’s Information Technology Investment Fund (ITIF), for instance, invests in cybersecurity and data exchanges.

- **Support public-private partnerships:** Getting states to finance and operate infrastructure projects helps leverage private-sector resources and expertise to create innovative solutions. In Massachusetts, the Public-Private Partnership Oversight Commission helps establish public-private partnerships to improve transportation infrastructure.

- **Invest in digital infrastructure:** Investing in digital infrastructure, such as broadband and wireless networks, improves connectivity and supports innovation. Digital infrastructure helps businesses and individuals access new markets and available resources and learn about new processes and materials for creating products.

- **Support energy innovation:** States can invest in clean-energy infrastructure and support energy innovation, including energy storage and renewable-energy technologies. The California Energy Commission invests millions of dollars into finding innovative practices for using electricity, natural gas and other sources of energy. Such efforts help reduce energy costs and support the growth of clean-energy industries.
**Invest in transportation infrastructure:** State investments into public transit, highways and airports not only improve mobility and connectivity, but also help businesses access new markets and lowers their operating costs. For example, Indiana has launched a program to invest $4.7 billion in road and bridge infrastructure over the next five years. The initiative will fund construction of new highways and the repair of existing ones, improving mobility and connectivity in the state.

**Leverage federal policy:** The new Regional Technology and Innovation Hub (Tech Hubs) program, administered through the federal EDA, aims to have a broader impact using a place-based approach. Funds will be awarded to consortia across the U.S. that can implement programs to foster “technology development, job creation, entrepreneurial development and expanding U.S. innovation capacity.” The program design recognizes the importance of local collaboration and the potential to bolster economic development in small cities and rural areas. It is authorized to award $10 billion over five years, starting in 2023.

Investing in innovative infrastructure allows states to support place-based economic growth, improve quality of life and create new opportunities for innovation and development. Infrastructure can also help states attract and retain businesses and talent — positioning the state as a leader in emerging industries.
RESTORING MANUFACTURING

Restoring manufacturing is a critical priority for many states and should certainly be considered in a place-based economic development approach. Here are several programs that support this goal:

1. **Manufacturing Extension Partnership (MEP) centers**: This national network of centers provides technical assistance, training and consulting services to small and medium-sized manufacturers. Most states have MEP centers and provide funding to support their activities.

2. **Workforce training programs**: States use federal funding to deliver workforce training programs in the manufacturing sector, particularly in occupations that are in high demand. These programs help develop the skilled workforce needed to support manufacturing growth. Examples include the Workforce Innovation and Opportunity Act (WIOA) and Dislocated Worker Grants (DWG).

3. **Tax incentives**: Many states offer tax incentives to manufacturers to encourage investment and job creation. These perks include tax exemptions or credits for equipment purchases, property tax relief and tax credits for job creation. In some cases, like Oklahoma’s Quality Jobs Program, incentives come in the form of payroll tax reimbursements or cash payments.

4. **Grants and loans**: State grants or low-interest loans support expansion, research and development, and innovation, and help manufacturers overcome financial barriers and accelerate growth.

5. **Public-private partnerships**: Partnerships that bring together industry, government and academia can help align resources, leverage expertise, and drive innovation and growth in the manufacturing sector.

Overall, these programs aim to build the capacity of the manufacturing sector, support job creation and economic growth, and position participating states as leaders in manufacturing.

The CHIPS Act (Creating Helpful Incentives to Produce Semiconductors) and the Science and Engineering Research Act (SEAR), meanwhile, are federal laws that support innovation and technology development in the U.S. States, however, can use them to support their own place-based innovation and technology goals. Here are a few examples:

1. **Attracting semiconductor manufacturers**: The CHIPS Act helps with construction of semiconductor fabrication facilities. States can use this funding to attract semiconductor manufacturers, which can create jobs and stimulate economic growth.

2. **Supporting science and engineering research**: The SEAR Act provides funding for science and engineering research, which can help states build research capacity and support innovation in key industries. This funding can support research initiatives that align with states’ economic development goals.

3. **Developing talent pipelines**: To fully benefit from the CHIPS and SEAR acts, states need a skilled workforce in the fields of science, engineering and technology. States can use the funding provided by these laws to support workforce development programs, such as training programs for high-demand occupations, including apprenticeships and internships.

4. **Promoting innovation ecosystems**: States can use funding provided by the CHIPS and SEAR acts to promote ecosystems that support technology development and commercialization. This can include funding for incubators, accelerators and other programs that support the growth of startups and small businesses in key technology sectors.
THE OPPORTUNITY FOR STATE GOVERNMENT

With a suite of place-based policy tools within their control and access to new and established federal programs, states can foster dynamic and flexible economies by investing in community, firm, industry, entrepreneurial and innovative capacity. Tailoring their policies and programs to the values and unique characteristics of their places and people will also position states to leverage the federal programs to fund appropriate place-based economic development policies.

Since small and medium-sized firms have stronger ties to their communities, focusing state policy on supporting the success of these firms can help build economic resiliency in these times of near-constant change.

As states in the heartland have always known, people care about place and value the communities they have built. Some may travel to large cities in search of higher wages and urban amenities; however, many others choose to stay in the heartland.

Federal programs increasingly seek to invest in the heartland to leverage existing assets and previous federal investments, such as research facilities (e.g., the National Center for Toxicological Research, transportation infrastructure like the McClellan-Kerr Arkansas River Navigation System, and land-grant universities like the University of Minnesota).

Place-based federal programs also seek to invest in states and regions that have built collaborative cross-sector partnerships to boost economic development. Heartland states can build strong partnerships to leverage these federal programs and attract funds that help them reinforce their economies with policies that draw from local expertise and fit their community values.

Over the coming months, Heartland Forward will provide case studies that highlight examples of states leveraging federal place-based development policies. These case studies will provide concrete examples of the community, firm/industry, entrepreneurial and innovative support capacities required to implement place-based policies efficiently and effectively, while also exhibiting the creativity and vision that community and state leaders have to build tomorrow’s economy. Additionally, Heartland Forward is developing tools to help heartland communities and states assess their current capacities and understand how investments in various policies might benefit them. Collectively, these resources provide heartland states with a comprehensive guide for place-based economic development.
Remaining in the same residence as one year prior was 86%.

The proportion of the U.S. population based upon calculations using U.S. Census Bureau data, the five-year average (2016-2019, 2021) proportion of the U.S. population remaining in the same residence as one year prior was 86%.

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Information about the Small Business Technology Transfer (STTR) program is also found at https://www.sbir.gov.


