

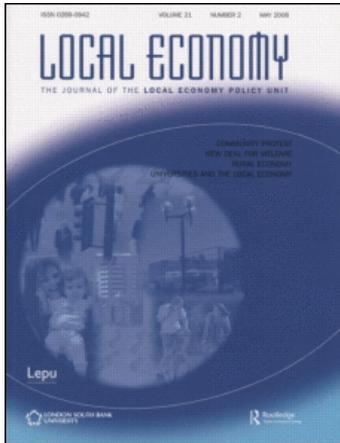
This article was downloaded by: [Pages, Erik R.]

On: 9 March 2009

Access details: Access Details: [subscription number 909305990]

Publisher Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



Local Economy

Publication details, including instructions for authors and subscription information:

<http://www.informaworld.com/smpp/title-content=t713705644>

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Online Publication Date: 01 March 2009

To cite this Article Pages, Erik R.(2009)'Policy Making in a Time of Transition: Economic Development in the New Obama Administration',Local Economy,24:2,178 — 182

To link to this Article: DOI: 10.1080/02690940902717188

URL: <http://dx.doi.org/10.1080/02690940902717188>

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IN PERSPECTIVE

Policy Making in a Time of Transition: Economic Development in the New Obama Administration

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It has been a difficult year for the American economy. The current economic downturn is the worst in recent memory. Unemployment is at historically high levels, bankruptcies and home foreclosures are rising, and stock market values are in the tank.

America's economic downturn happened to coincide with one of the more consequential elections in recent history. The election of Barack Obama has brought a tremendous sense of optimism to many Americans – and Europeans. Yet the Obama Administration enters office at time of tremendous unrest and uncertainty. Economic recovery will clearly need to be job one for the new President.

While campaigning, Obama provided an extremely detailed set of proposals for how he would redesign and refocus Washington's programs and policies toward economic development.¹ For example, Obama's economic platform called for the creation of several new funds, including an Advanced Manufacturing Fund, a National Infrastructure Bank, and a Clean Energy Investment Fund, designed to invest billions of dollars in new technologies and new infrastructure. He also proposed funding for a new national network of business incubators, and a national initiative to promote microenterprise in rural communities.

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¹ <http://www.barackobama.com/issues/economy/#small-business>

As Obama enters office, all these well-meaning proposals may face the reality of emergency economic needs, ongoing wars in Iraq and Afghanistan, and a general budget situation that was already dire thanks to years of overspending in the Bush Administration. As such, the prospects for dramatic new programs may be limited. Instead, Obama will be forced to introduce his new ideas in a way that promotes new thinking without breaking the bank.

The Obama Administration must walk a fine line as it seeks to pursue three goals at once: (1) to respond effectively to the current economic crisis; (2) to try to do no harm in terms of America's long-term fiscal health; and (3) to introduce new thinking into domestic programs and investments that have been neglected for years.

When it comes to economic development, the new Administration will need to operate with a Band-Aid to help reverse the economic downturn, a scalpel that cuts unnecessary programs or reverses policy directions in key areas, and a laser beam that provides very targeted programs that address very specific needs and challenges.

The Band-Aid (or the Tourniquet?)

The Band-Aid is a typical metaphor for efforts to help patch up the effects of economic downturns. A tourniquet might be a better metaphor for the proposed responses to America's current economic troubles. Job one in the Obama Administration is to orchestrate a massive response that aligns with the massive scale of America's present economic distress. At the time of writing, Obama had appointed his economic team and had provided some hints to the details of his proposed economic stimulus package. While we are yet unable to provide all of the details, we know that it will be big and it will be here soon. In late November, President-elect Obama announced a major economic stimulus plan that could cost anywhere from \$150 billion up to a high estimate of \$700 billion. Obama has suggested that his proposal could generate 2.5 million new jobs over the next two years. At present, this package is moving through Congress as the American Recovery and Reinvestment Act, and its total price tag has now jumped to \$825 billion.

The plan envisions an unprecedented expansion of Federal economic development investments – at least over the short term. Big ticket items will likely include major new infrastructure investments, aid to fiscally challenged state and local governments, and some new investments in energy technology.

The Scalpel

During his Senate career and as a candidate, Obama was always conscious of the need to maintain fiscal discipline. He is not simply, despite

the claims of opponents, a 'tax and spender'. In fact, he has also made a strong case for cutting unnecessary programs while at the same time announcing a major set of new investments (see Allen, 2008). Most cutbacks are likely to focus on reversing prior Bush Administration decisions. President Bush's major tax cuts, many of which are set to expire in 2010, may be high on the chopping block. Other large scale programs, such as major investments in new fighter aircraft and naval vessels, will also receive tight scrutiny.

The Laser Beam

The Obama team has been rightly fixated on addressing immediate economic challenges, but they also hope to introduce more long-term changes in how Washington supports local economic development. After several decades of neglect, Federal economic development programs are in disarray. The Clinton Administration succeeded in introducing a few new initiatives, such as the New Markets Tax Credit and the Federal Empowerment Zone program, but most of these efforts were soon cut back in the face of opposition from a Republican-led Congress. Instead, programs have been neglected and downsized to the point where they have become what some observers refer to as 'Uncle Sam's rusty toolkit' (LeRoy & Mattera, 2008).

Because of this history, Obama's positive views about the Federal role in support of economic development will, by themselves, serve as a refreshing change of direction. Instead of starting each budget year with plans to eliminate Federal programs (as occurred in the Reagan, Bush I, and Bush II Administrations), the Obama team will be committed to effective program implementation.

Two high priority focus areas are likely. First, Obama has made a strong commitment to support urban development, and has made the unprecedented move of creating a White House Office of Urban Policy. As one of the few urban Presidents to hold office in the 20th century, Obama will bring a different perspective to these issues. While the details of new policy directions are still to be determined, the Obama–Biden campaign platform proposed a host of new programs, such as:

- new funding for Regional Innovation Clusters,
- expansion of existing urban development programs such as the Community Development Block Grants and funds for Community Development Financial Institutions,
- building a new nationwide network of business incubators,
- creation of 'Promise Zones'² in areas of concentrated poverty.

² 'Promise Zones' are modeled on the highly acclaimed 'Harlem Children's Zone,' a concentrated campaign to fight poverty in New York City's Harlem neighborhood (see Tough, 2007).

It is unlikely that this entire package will survive to final implementation, but these ideas do offer good indications that new policy directions will be attempted.

Obama is also expected to support new innovation policy investments. He has had no shortage of recommendations on this front, as advocates for a robust innovation policy have been quite vocal.³ Much current debate is focused on creating new organizations to manage innovation policy. For example, advocates have called for establishing a National Innovation Foundation or a Department of Innovation (see Atkinson & Wial, 2007). These reorganizations may be unlikely over the short term due to other pressing economic challenges. A more likely organization change will come in the form of a new Chief Technology Officer (CTO) for the entire US government. While the CTO is expected to be a major player in terms of steering Federal technology investments, he/she will also be expected to lead Federal discussions of leading issues such as broadband deployment, net neutrality, and the like.

In terms of other innovation policy initiatives, Obama's campaign statements offer the best guide for future action. Obama clearly envisions a more activist government role. He has proposed major increases in Federal R&D investments as well as targeted investments in leading industries, such as green energy and advanced manufacturing.

Rural development policy may be one area where major changes are not introduced early in an Obama Administration. Several small-scale initiatives, such as a new Rural Microenterprise program, have been proposed, but no major shifts in direction are expected. Instead, the Obama team will likely focus on improving execution and implementation of existing programs.

Final Thoughts

Even in the face of the current economic downturn, the ascent of the new Obama Administration is good news for economic development advocates. The early part of his term will be consumed with crisis response related to the economic recession, but these decisions will likely set strong directions for economic development policy making.

Regardless of the specific policy and program reforms he advocates or is able to implement, Obama's biggest impact will likely be attitudinal. Unlike his predecessor, he believes that Washington has a constructive role to play in supporting local and regional economic development. This simple change in attitude is already generating enthusiasm among economic developers at the Federal, state, and local levels.

³ For examples of recommendations, see Atkinson (2008); Block & Keller (2008); Council on Competitiveness (2008).

If efforts to provide a Band-Aid (or tourniquet) to the ailing economy begin to succeed, they will generate positive momentum that could trigger a major reorientation of Federal economic development policies.

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