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ABSTRACT

The economic role of counties is changing profoundly because of a revolutionary restructuring of the world economy and related changes in federalism. Three major forces are restructuring the economy: overcapacity in traditional industries, the emergence of new technologies that are creating new service and knowledge-based industries and transforming old industries, and globalization in production and technology. These forces are transforming the economic role of federal, state, and local governments in the following ways: (1) the United States' economic dominance in the world has lessened; (2) the federal government's traditional macroeconomic tools of fiscal and monetary policy are not as effective in guiding national economic performance in an interdependent world economy; (3) the ability of the federal government to shape the country's economic future is constrained by huge budget and trade deficits; and (4) states and localities will have greater responsibility and greater opportunity to shape their own economies in a competitive world. As geographical building blocks of the new political economy, counties should build the foundations for economic vitality in the new economy; strengthen the process of economic development; develop the regional economy; advocate sound economic policy at the state and federal levels; strengthen management to become proactive in managing events; and confront the key political choices that will affect the country's economic future. (KC)

The Future Economic Role of Counties

By R. Scott Fosler

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Director of Government Studies
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Prepared for the
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America's Counties
350 Years of Service to People

Employment and Training Issues

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THE FUTURE ECONOMIC
ROLE OF COUNTIES

TABLE OF CONTENTS

THE FUTURE ECONOMIC ROLE OF COUNTIES

PREFACE

The National Association of Counties (NACo) is very pleased to publish this *Issue Paper* entitled "The Future Economic Role of Counties" by R. Scott Fosler, vice president and director of government studies of the Committee for Economic Development, a private non-profit research organization based in Washington, DC. We, at the National Association of Counties, believe very strongly that counties do and can continue to play a major role in the economic development of this nation. Mr. Fosler makes a strong and convincing argument in support of this position. We also believe that job training programs can and must play a major role in local economic development activities by providing employers with a well trained and motivated workforce.

This paper does not focus on job training issues. Rather, it examines the much larger and diverse issues surrounding economic development. Nonetheless, NACo's Training and Employment Programs have chosen to publish this paper because we believe it identifies the major issues surrounding economic development, and because it sets the tone for future papers which we will be publishing on job training and economic development.

This paper is sponsored by the National Association of Counties and is published by NACo's Training and Employment Programs under a grant from the US Department of Labor. This paper does not reflect, necessarily, the views of the National Association of Counties, the Training and Employment Programs or the US Department of Labor. It does reflect, however, the views of its author, R. Scott Fosler.

This paper is meant to stimulate discussion within the training and employment community. We would appreciate your comments. Please address your comments to Neil E. Bomberg, National Association of Counties, 440 First Street, NW, Washington, DC 20001.

THE FUTURE ECONOMIC ROLE OF COUNTIES

EXECUTIVE SUMMARY

The economic role of counties is changing profoundly due to a revolutionary restructuring of the world economy and related changes in federalism.

Three major forces are restructuring the economy:

o Overcapacity in traditional industries.

o The emergence of new technologies and processes that are creating new service and knowledge-based industries, and transforming old industries.

o Globalization in production, marketing, finance, and technology.

These forces are transforming the economic role of federal, state, and local governments in the following ways:

o The United States' relative economic predominance in the world has dropped sharply as other nations have caught up to American levels of productivity.

o The federal government's traditional macro-economic tools of fiscal and monetary policy are not as effective in guiding national economic performance in an interdependent world economy.

o The ability of the federal government to shape the country's economic future is all the more constrained by huge budget and trade deficits.

o State and local governments can expect no significant new revenues from the federal government, but to the contrary, will bear a greater burden due to the United States' huge national and foreign debts.

o States and localities will have greater responsibility and greater opportunity to shape their own economies in a competitive world.

As geographical building blocks of the new political economy, counties will have the following economic roles:

o Build the foundations required for economic vitality in the new economy.

o Strengthen the process of economic development, not just in business relocation, but in start-up, expansion and regeneration.

o Develop the regional economy of which the county is a part.

o Advocate sound economic policy at the state and federal levels.

o Strengthen strategic management to anticipate economic changes and become proactive in shaping events.

o Confront the key political choices that will affect the county's economic future.

THE FUTURE ECONOMIC ROLE OF COUNTIES

INTRODUCTION

A world economic revolution is underway, and counties are at the center of it. The forces restructuring the economy will place greater importance on roles that state and local governments are best suited to play. At the same time, the federal government's ability to shape economic events has declined sharply. For both of these reasons, state and local governments will be increasingly exposed to the direct impact of powerful world economic forces.

The county role is especially important in the intergovernmental context, because counties are the new geographical building blocks of America's political economy. Whereas municipalities exist only in urban areas -- and yet do not encompass all urban areas -- counties (with a few exceptions) cover the entire territorial expanse of the United States, urban and non-urban alike. States, on the other hand, have a geographical scope greater than the counties. But the states' broader geographical scope is a weakness as well, in that they cannot give the detail of attention to local areas that counties can.

The building block potential of the counties will only be fully realized, however, to the extent that individual counties develop the vision of their new economic role, and work in concert with one another at the regional, state, and national levels.

Before the 1970s, few counties -- and few municipal and state governments, for that matter -- believed they had a significant economic role to play. The prevailing view was that economic policy was the exclusive responsibility of the federal government.

Beginning in the early 1970s, some states, cities, and counties found themselves losing firms and jobs, and began looking for ways to replace them. By the mid-1980s, the desire to promote economic development had spread to nearly every jurisdiction, even those enjoying rapid growth.

At first, counties relied on the traditional "economic development" tools of financial incentives, tax abatements, and promotional activities to attract new firms. But over the past decade, the most effective jurisdictions have learned that attracting new business is a limited and frequently inefficient way to strengthen local economies. They have expanded their approaches to include a wide range of strategies and tools to strengthen their economies from within.

How durable is the county role in economic development likely to be, and what form should it take? This paper addresses that question by highlighting the underlying forces shaping the new economy, and considering how economic responsibilities are being redistributed throughout the federal system. It then suggests an economic role for counties suitable to the new economic and political environment.

THE NEW WORLD ECONOMY

Three powerful forces are reshaping the economy.

Overcapacity

First, industries which provided the main source of growth in the past have reached a point of overcapacity.

In some traditional industries, like automobiles, demand continues to grow. But because the numerous large automobile producers now in existence can so easily satisfy demand, the automotive industry is not likely to be the engine of growth in the future that it has been in the past.

In other traditional industries, such as steel, producers face not only abundant capacity but decreasing demand. For example, lighter, cheaper, and more durable materials, such as plastics and ceramics, are replacing steel components in automobiles and many other products.

Overcapacity also characterizes many natural resource industries, such as agriculture, oil and forestry, as well as some service industries such as ocean shipping and, more recently, some types of financial services.

Companies in high capacity industries face especially stiff competition because there are so many suppliers chasing a limited number of customers. The result has been a high incidence of business cutbacks, employee layoffs, plant closings, and mergers and acquisitions. The severity of impact has varied from place to place, according to how dependent a community is on industries that find themselves in such markets. In recent years, the hardest hit areas have been those dependent on traditional manufacturing, agriculture and natural resources.

New Technologies and Processes

A second powerful force is the emergence of new industries -- and the transformation of existing industries -- as a consequence of new technologies, processes, and changing consumer tastes.

Some of the new technologies -- in such areas as microelectronics and information, biotechnology, ceramics and composite materials -- have created whole new industries. In turn, some of these --such as robotics, microelectronics, and information processing -- are transforming other industries, including many in the traditional sectors.

These new economic forces have been partly responsible for the enormous growth in service employment to support business and to satisfy new consumer demands generated by rising incomes. Between 1983 and the first quarter of 1987, U.S. employment increased by 15.6 percent -- or 14 million jobs. More than 70 percent of the new service jobs have been in the managerial and technical categories which include doctors, lawyers, physical therapists, sales occupations, and administrative support. They are not, by any means, all hamburger flippers[1].

The growth in service employment has not replaced manufacturing jobs so much as it has added to them. The United States in 1987 had 90 percent as many manufacturing jobs as it did in 1979, and about the same number as it did 20 years ago. Manufacturing employment has stayed relatively constant in actual numbers of jobs, but has fallen as a proportion of total jobs as service employment has soared. There also has been dramatic change in the composition of manufacturing employment, with many old manufacturing jobs giving way to new manufacturing jobs. This change has had a geographical impact, since much of the traditional manufacturing was in the Northeast and Midwest, while the new manufacturing has shifted to the South and West.

Many of the new jobs are being created in the newer, medium-sized and expanding businesses. Over the past five years, 93 percent of the new jobs were created by the top 10 percent of companies ranked by growth[2]. This in part reflects the growing advantage of specialized products and services based on innovation, flexible production, and heavy reliance on knowledge, skill and technology.

Globalization

A third major force is the globalization of production, markets, finance, and technology.

Multinational firms now produce products throughout the world, often drawing on suppliers in numerous countries.

Firms sell products throughout the world, so that virtually every country is a potential sales target for producers from any other country. Merchandise trade among the industrial countries has grown from 12.7 percent of goods produced in 1960 to nearly 30 percent today. The total value of world trade in goods and services now exceeds $3 trillion per year.

Capital and financial markets are closely linked through worldwide traders, as the ricocheting effect of collapsing stock markets in October, 1987 in New York, London, Frankfurt, and Tokyo so dramatically revealed. The total volume of all domestic and foreign payments which are processed through New York's Clearinghouse Interbank Payment System totals $1.5 trillion per day. And contrary to conventional economic theory, the flows of capital seem to be increasingly detached from international trade.

Technology (including knowledge and information) now flows freely and quickly from country to country.

This growing global interdependence has been facilitated by rapid advances in transportation and communication technology, making the international movement of goods, people, and information fast, reliable, and inexpensive. For example: although California boasts a huge orange-growing industry, residents of San Francisco are just as likely to start their morning with orange juice from Newark, New Jersey, processed from oranges shipped through the Port of New York and New Jersey from Brazil.

All of these trends toward globalization have been evident for many years. But each has been accelerating and interacting with the others in an ever more complex fashion. The cumulative effect of these changes has now reached a point where they constitute a significant change in character as well as quantity.

The Convergence of Trends

This is not the first time that the United States has gone through a major transition from traditional to new industries. For example, during the 1920s, the New England economy sank slowly into depression as its apparel and shoe industries atrophied, at the same time that the automobile industry was emerging as a powerful new economic force and turning the Midwest into the manufacturing center of the country.

Such transitions are always turbulent, and are especially painful for the companies, workers, investors, and regions that have a large stake in shrinking industries. The degree of pain varies according to whether these stakeholders decide to transform the industries on which they depend, associate themselves with more promising industries, or simply resist the trends by attempting to protect or cling to what they have[3]. Today, however, the transition is even more challenging for the United States because it is occuring in the context of economic globalization. For example, American automobile manufacturers would have faced the problem of over-capacity even without international competition. But with aggressive and skillful foreign producers competing in markets that were already saturated, the competition has been fierce. In these circumstances, even a slight advantage in cost, quality, marketing or exchange rates can result in a major loss of market share.

But the foreign competition has not been confined to the traditional industries. It also has had a major impact in the new technology and service areas, where Americans believed they had a clear advantage. For example, the video cassette recorder (VCR) was invented by the American firms Ampex and RCA in the 1960s. But by 1986, all 13 million VCRs sold in the United States were made in Japan or Korea. The U.S. enjoyed a trade balance in high technology goods of $27 billion surplus in 1981; by 1986, it had deteriorated to a $2 billion deficit. The total American trade deficit reached a record $171 billion in 1987[4].

THE NEW ECONOMIC FEDERALISM

How will these developments change the economic role of government generally in the United States, and what effect will they have in shifting economic responsibilities among the federal, state and local levels?

The Federal Economic Role

The federal government's economic role will be radically altered for three reasons.

The World Economic Standing of the U.S. First, the United States' relative share of world economic output has declined from its historically high levels.

Following World War II, the United States held a commanding economic lead over the rest of the world, accounting for 40 percent of world Gross National Product (GNP). But other countries caught up to American levels of productivity, and by 1985, U.S. relative share of GNP had fallen to 22 percent. During that same period, Japan's share soared more than four- fold from two to nine percent. There is nothing inherently wrong or threatening in the fact that other nations have improved their economic position relative to the United States. During this same period, after all, the American economy grew threefold.

Nonetheless, with only 4.5 percent of the world's population and a smaller share of world economic production, the United States is not likely to have the same degree of influence as it once did.

The Constraints of World Interdependence. Second, the United States' latitude in shaping its economy will be further constrained because it is increasingly integrated with the world economy.

The United States ratio of exports and imports to GNP grew from 10.1 percent in 1960 to 21.6 percent in 1984. Because the U.S. is on longer a "closed economy," the federal government's macroeconomic tools of fiscal and monetary policy no longer have the same effect in guiding the national economy.

In an integrated world economy with flexible exchange rates, the domestic impact of the fiscal stimulus intended through tax cuts or expenditure increases (or both) is diluted if consumers increase their purchase of imports. American producers lose would-be customers to foreign producers, and the trade deficit grows[5].

Monetary policy is also more limited as a policy tool, but for the opposite reason: it might have a stronger impact than intended. Higher interest rates intended to counter inflation, for example, could raise the value of the dollar and hurt American exports. Lower interest rates intended to be expansionary, on the other hand, could lower the value of the dollar thereby increasing the price of imports and potentially fueling inflation[6].

We have seen the consequences of these international effects over the past few years. An expansionary fiscal policy and tight monetary policy combined in the early 1980s to drive up the dollar and worsen the trade deficit. The dollar has since fallen to below its 1981 levels. This reduced the trade deficit in volume in 1986, but only began to reduce the value of the trade deficit in late 1987.

Meanwhile, because American producers cut back their domestic capacity during the years when the high dollar reduced American competitiveness in high capacity world industries they are in a weaker position now to take advantage of the lower dollar to increase their exports. The capacity utilization of American plants is approaching 85 percent, a point that could squeeze resources and accelerate inflation.

The U.S. as Debtor. The third constraint is that the United States is saddled with debt. It would have been a challenge to adjust to the first two constraints -- the smaller relative size of the American economy and global integration -- but now the United States will have to manage this transition from a weakened fiscal and trade position. The President and Congress are told that they must reduce the budget deficit. But reducing the deficit also risks cooling the economy. Meanwhile, the Federal Reserve Bank is cautioned against a tight money policy. But a loose monetary policy risks fueling inflation at a time when the capacity utilization of American producers is already high, and may also drive away the foreign investors the United States needs to finance its trade and budget deficits. This puts macro-economic policy in a dilemma.

The chronic federal budget deficit, currently at about $160 billion per year, has produced a national debt of over $2 trillion dollars that requires $150 billion or 15 percent of the budget just to serve every year. And the US foreign debt now exceeds $400 billion and could reach $1 trillion by the mid-1990's even if the trade deficit continues to decline.

Implications for State and Local Government

What does all of this mean for state and local governments? There are four important implications.

First, the forces restructuring the economy will place greater importance on roles that state and local governments are best suited to play. That means more responsibility for factors that will determine economic vitality and competitiveness. It also means a new opportunity for counties to take a far greater role in determining their own economic future. We will return to this momentarily

Second, state and local governments should expect no substantial new financial assistance from the federal government. The real cutbacks in federal grants to state and local governments that began in 1978 are not likely to be reversed. If anything, federal assistance will be curtailed even further, as Congress and the president seek ways to cut the budget deficit.[7]

The political forces shaping the budget battle leave little room for maneuver by state and local officials. About 30 percent of the federal budget goes for defense, about 30 percent to support the elderly (including both Social Security and medical care) and about 15 percent to pay the interest on the national debt.

Since the number of elderly is growing, and the number of "old elderly" who account for the highest proportion of medical costs is growing rapidly, the outlays for elderly programs will continue to rise unless benefit levels or the number of eligible recipients are reduced.

The defense budget (plus international affairs expenditures), meanwhile, despite its growth during the 1980s, is now at 6.6 percent of GNP, smaller proportionately than it was at 11.1 percent of GNP in 1958. So, unless county officials are prepared to advocate lower benefits for the elderly or still further reductions in defense during a period of declining relative American strength in the world, they will have to look for whatever additional federal assistance they may seek in the remaining 25 percent of the federal budget. This includes essentially all other executive branch programs and assistance to the non-elderly poor, not to metion grants to state and local governments.

Third, the federal government can no longer be counted on to guide the domestic economy of the United States as it once did. The nation's economic future will be directly and powerfully affected by foreign governments and world market forces. State, county, and municipal governments increasingly are on their own in assisting their local economies to compete directly in the world economy.

Regions of the United States used to see themselves in competition with other regions of the country. Now, they are also in competition with regions throughout the world. In time, the federal government should learn how to make better use of the formidable capability it does have to improve American competitiveness. But it is unlikely the United States will ever again have the enormous economic advantage it has enjoyed for the past half-century.

Fourth, because states and localities enter this new era of heightened economic responsibility at a time when the U.S. is saddled with huge debts, their burden is likely to be all the greater. The ability of the U.S. to contend with the new world reality has been seriously undermined by the huge American trade and budget deficits. There is no escaping the burden of dealing with those debts; the only question is how severe the burden will be and who will bear it.

THE ECONOMIC ROLE OF COUNTIES

In these new circumstances, I foresee no fewer than six important economic roles for county government.

Economic Foundations

The first role is to build the foundations required for economic vitality in the new economy.

The key will continue to be a market-driven private sector. However, the private sector will only be able to function effectively on foundations that are affected by government policy[8]. It so happens that many of those policies are the kind for which counties are particularly well suited.

Following are the key foundations with their associated county activities shown in parentheses:

o a capable and motivated work force (primary, secondary, and higher education; training; employment security; labor relations)

o sound physical infrastructure (transportation, water supply, energy, waste disposal)

o well-managed natural resources (air, land, water, wildlife, forest, minerals)

o knowledge and technology (universities, research institutions, public information systems)

o enterprise development (capital, regulation, technical assistance, financial assistance, export promotion, recruitment)

o quality of life (public services, environmental quality, amenities, aesthetics, social and political institutions)

o fiscal soundness (tax structures and levels, user charges and fees, spending policy, transfer payments)

County governments play some role in providing each of these foundations, and a major role in some of them. The extent of that role, of course, depends upon the scope of responsibility given to each county by the state. Home rule counties have the greatest degree of responsibility, because they have the widest latitude of authority. But even small counties with limited powers have some effect on these critical economic foundations.

The first priority should be for counties to provide high quality services at minimal cost in those areas of governmental responsibility that affect these economic foundations. In a competitive world economy, small advantages can spell the difference between success and failure. Consequently, sound, effectively managed county government that provides good schools, good transportation, and a high quality of life at reasonable tax rates is the first step county government can take toward making the local economy competitive[9]. But there is more counties can do to bolster the individual foundations. For example, in the new economy, a priority will be placed on highly skilled people who can innovate to keep pace with rapidly changing markets that feed on new technology and technological applications. Counties can take extra steps to improve the quality of their workforce and to increase the level and accessibility of technology[10].

The Process of Economic Development

The second role for counties is to nurture the process of economic development.

Local government officials are inclined to think of economic development as attracting business, a function that is assigned to an office of economic development.[11] In reality, economic development is a process by which resources are transformed into higher value uses.

The process of economic development involves constant change that is reflected in the typical life cycle of a firm. A business is started, it expands, matures, may relocate, regenerates or contracts, and may eventually fold. In any given year, numerous firms may be started and numerous others may terminate; some firms will expand and others will contract; a few businesses will come into the county and a few will leave. It is the net sum of this churning -- not simply how many firms are attracted to the county -- that will determine the overall economic vitality and the number and quality of new jobs.

Many counties have made the mistake of focusing on only one stage in the life cycle: relocation. They have spent almost all of their energies and considerable resources on attempting to attract firms to the county. Many spend more on subsidies to the firms than the firms return in tax revenue, employment, payroll, or business purchases. What's worse, they often compete among themselves and permit businesses to play them off, one against the other.

But many counties are getting smart about recruitment. They are more selective in who they recruit, at what cost, and for what benefit. More importantly, they recognize that the firms recruited to the county may be far less important than those that are already there. As one economic developer noted, "We found that businesses were going out the back door faster than we could bring them in the front door". Most counties are now concerned with business retention as well as attraction. And a growing number are asking: how can we facilitate new business starts and the expansion of businesses we already have?

In the future, counties will have to concern themselves with each stage of that life cycle.

The Regional Economy

A third role is to develop the economic region of which the county is a part.

Counties are political jurisdictions whose boundaries rarely correspond to real economic regions. And yet their economic vitality is determined fundamentally by the health of the wider regional economies of which they are a part.[12]

One of the most striking changes in today's economic geography is the emergence of vast urban agglomerations that do not conform with our conventional notion of a "metropolitan area". In the conventional mindset, a metropolitan area consists of a central city with a suburban fringe surrounded by rural countryside. Today's urban agglomerations, however, are characterized by multiple nodes of high density office, retail, residential, and industrial development interspersed among a low density sea of residential, rural, and other assorted land uses. The "central city" is no longer the only "downtown" high density business district; there are numerous business districts throughout the "outer city", or what is otherwise called suburbia.

These expansive, lumpy, and amorphous regions are the principal units of economic geography in the new global economy. With the waning of the federal government's ability to shape the national economy, the regions of the United States stand more directly exposed than ever to global economic forces. Governing them will require a degree of ingenuity and cooperation among jurisdictions far surpassing the rather modest attempts at regional cooperation that have gone before.

Many counties in rural and non-urban areas confront the painful challenge of contraction or rejuvenation. In such circumstances, working cooperatively with other governments of the region may not simply be a matter of overcoming provincial differences in order to provide better public services; it may be a matter of economic survival.

Advocates for Sound Policy

A fourth role for counties is to be advocates for sound economic policy at the state and federal levels.

Despite its more constrained potential, the federal government will continue to play the central role in overall fiscal, monetary, exchange rate, and trade policy. Federal defense expenditures, research and development and other domestic programs also have important economic impact. There is a key role here for NACo to press for sound national economic policy that is compatible with the changing distribution of economic responsibilities in the federal system.

But the intergovernmental relationship that is likely to have the greatest direct economic impact on counties in the near future will be with the state. States play an important role in all of the economic foundations noted above. County officials need to assure that the state is pursuing economic policies that are cognizant of the important new economic role that states themselves have. They should insist that county and state officials work closely together in the formulation and implementation of economic strategy.

Counties have always been aware of the importance of the state, because it is from the state that local powers are derived. NACo has always been a strong advocate of home rule, by which counties are given the full range of legal, administrative and financial powers they need to do their jobs properly. Home rule is all the more important in this age of heightened county economic responsibility.

But there is now much more to the state-county relationship. Both because of the federal government's retrenchment in domestic policy, and because of the growth of complex regional economies, states will play an increasingly direct role in the governance of local communities in such economically important functions as education, transportation, water supply, waste management, and land use. As a consequence, the counties will find that one of their growing roles will be to act as political advocates in the state house and legislature to assure that state policy serves the citizens of their region and county, even if it does not directly affect the legal, administrative, or financial powers of county government per se.

This evolving state-county relationship could provide a novel opportunity for counties, or it could prove to be a major problem for them. All depends upon how skillfully counties can adjust to the new economic and political circumstances, and work together at the state and federal levels to assure that state and county economic strategies are effectively formulated and cooperatively implemented.

Strategic Management

A fifth role for the counties is to develop a strategic orientation in dealing with the forces shaping the county economy.

The new global economy is fast-paced, turbulent and uncertain. It will not treat kindly those who cling to passive, reactive, and narrow economic perspectives. In such an environment, counties will need to think and manage strategically.

In its simplest form, strategic management means developing the ability to regularly anticipate changes that will affect the county wherever they may occur; to be flexible and proactive in adjusting policy to account for those changes; and to integrate related policies that bear on the economy.

Many counties have planning offices, but most have followed the historical pattern of municipal planning in the United States, focusing narrowly on land use and engineering considerations to the neglect of economic and social factors. While land use and growth management planning has become highly sophisticated in many counties, it may nonetheless overlook important forces affecting the county economy. For example, counties experiencing rapid growth frequently fail to anticipate and prepare to deal with increasing traffic coming from other jurisdictions. Counties with declining populations and tax bases often fail to consider how this will affect their ability to maintain their capital stock and service levels in such critical functions as road maintenance, health clinics, and waste management.

Failure to re-examine traditional planning formulas can produce costly surprises. For example, most planners failed to account for the increase in two-worker families that has generated substantial increases in automobile commuting. And most failed to anticipate the rapid increase in "cross-suburban" commuting, a radical departure from traditional downtown commuting patterns.

Some counties have attempted to strengthen and expand their planning staffs, creating offices of strategic planning, or establishing broadly based task forces on strategic planning and alternative futures. It will also be important to forge more collaborative relationships among government, business, labor, and civic groups. All of these efforts should be seen as part of the more fundamental need for a restructuring of the county's ability to anticipate and prepare for change. The paradigm shift in world economic forces requires a commensurate paradigm shift in county government thinking and management.

Political Choice

A sixth role for counties is to make the key political choices that will affect the county's economic future.

Skillful adoption of the first five roles can help provide a more vital economy. It will not resolve the hard political choices that are inescapable elements of economic policy.

One choice is whether to focus on short-run economic gain or to invest for the long run. Will elected officials resist the temptation to focus only on projects that will show results (or the appearance of results) at the next election, or will they invest in the long-run interest of a solid economic base? On the other hand, an exclusive concern with the long term, or failure to act decisively to correct problems or seize opportunities in the short run, can be just as costly. What is required is a balance between the two that is based on an assessment of risks for the county as a whole, not on narrow political considerations.

A second political choice has to do with the extent to which a county should focus its efforts on developing particular technologies, firms, industries, or sectors. Diversification reduces the vulnerability of dependency on any one industry and increases the likelihood of developing industries that will emerge as strong growth sectors in the future. But it may also spread resources too thinly, thereby risking the loss of competitiveness in any one industry. Focusing development, on the other hand, may enhance competitive advantage by specializing and targeting market niches that provide an edge. But it may also create dependency on a limited number of industries that will be vulnerable to superior competition or changing consumer tastes or technologies.

A third choice has to do with the relationship between the quality of life and economic growth. A sound economy is the basis of a high quality of life. However, some types of economic growth can erode the quality of life by placing stress on public services (especially roads and schools), polluting the air and water, consuming recreational and environmentally important land, and driving up land values faster than income gains. Deterioration of the quality of life, in turn, can undermine the economy by driving away top quality people and businesses.

A fourth political choice has to do with equity. What responsibility does a community have to assure a minimal standard of living to its poorest citizens? Other levels of government share in that responsibility, but counties have learned as a practical matter that it is they who are likely to be the caregiver of last resort. Given the severe fiscal constraints on the federal government, and the growing responsibility of state governments, the next economic downturn could place a heavy burden on counties to provide for the poor and unemployed.

CONCLUSION

Counties face unprecedented change: a major restructuring of industry; an increasingly interdependent world economy; a much reduced U.S. economic role in the world; limitations on the ability of the federal government to guide the national economy; cutbacks in federal assistance; radically changing regional economic geography; and an increasingly important role for state government. Any one of these changes would have required significant adjustment for counties. Taken together, the cumulative and dynamic effects of these changes spell a transformation in the county economic role.

These new circumstances offer both new burdens and new opportunities. For those counties with vision, skill, political ability, and good economic fortune, the new economic role can lead to abundant benefits for its citizens. For others, especially those already hard-pressed by the changes, the times ahead could be especially painful.

But whatever the condition of individual counties, there will be no escaping the greater economic responsibility they will bear in the future. The only question is whether they will embrace and master their new economic roles, or be unnecessarily buffeted by the volatile economic forces that will rock them in the future.

THE FUTURE ECONOMIC ROLE OF COUNTIES

ENDNOTES

1. The net sum of these changes to date is that the United States currently has a higher proportion of its population employed than any other industrial country, and a lower unemployment rate than any country except Japan.

2. David L. Birch, "The Booming Hidden Market", *Inc. Magazine*, October 1987, p. 15.

3. The clash of these two major forces is probably reflected in the fact that, by 1980, "70 percent of all private economic activity was controlled and operated by eight hundred conglomerate firms, while the remaining 30 percent was shared by 14 million firms". Edward M. Bergman and Harvey A. Goldstein, "Dynamics, Structural Change, and Economic Development Paths", *Local Economies in Transition: Policy Realities and Development Potentials*, Edward M. Bergman, Ed., (Durham, N.C.: Duke University Press, 1986), p. 88.

4. In essence, the United States has been consuming more than it has been producing, and making up the difference by importing from abroad. Americans have financed both the national debt created by the budget deficits and the foreign debt created by the trade deficits by borrowing. And a substantial part of that borrowing has been from foreigners.

Now the bills are coming due. America's creditors, both foreign and domestic, are beginning to be wary of continuing to finance the United States' big borrowing ways. Not only does this mean that it may be difficult to continue the habit, but that it may be harder as well to finance the interest on the debt that we have already incurred. In other words, we may now have to begin paying the debt back. The question is who will bear what share of that burden.

The stockmarket crash was in part a correction for the speculative pressure that had taken markets to unreasonable levels. But it can also be seen as a sudden drop in investor confidence in the ability of these economic and political forces to continue without negative consequence. The crash itself will have consequences in financial markets and the economy more generally. But the volatility of the markets -- both their dizzying rise and precipitous fall, and the current wide swings on a daily basis -- are a reflection of the deeper turbulence being caused by the convergence of the three major forces described above.

5. Fiscal policy (as conceived by Keynsians) essentially entails generating budget deficits during periods of recession in order to stimulate economic demand, and building budget surpluses during periods of economic growth in order to keep the lid on inflation.

6. Before the October 1987 stock market crash, the Federal Reserve had tightened money in order to curb inflation. But when markets crashed, and the country found itself confronting a major financial crisis, the "Fed" promptly reversed position, and started pumping money into the financial system in order to prevent a liquidity crisis.

7. No doubt there will be promises of further assistance, as members of Congress attempt to demonstrate their concern with the pressing issues that confront state and local government: education, day care, infrastructure, health, etc. But state and local officials should be wary, because the most likely form of such assistance would be negligible new funding accompanied by ponderous new regulatory requirements.

8. The economic foundations are further defined in *Leadership for Dynamic State Economies*. New York: Committee for Economic Development, 1986.

9. Much can be done to strengthen the management of county government. For example, the National Civic League is currently revising the Model County Charter, and is also drafting model ordinances or laws for non-charter counties to provide for professional management.

10. R. Scott Fosler, Ed., *The New Economic Role of American States* (New York: Oxford University Press, 1988).

11. While many economic development programs focus on job creation, others have turned to "wealth" creation. See Roger A. Vaughan, Robert Pollard and Barbara Dyer, *The Wealth of States: Politics for a Dynamic Economy*, (Washington, DC: Council of State Planning Agencies, 1985).

12. Most counties encompass a part of several larger regions. For example, an urban county may be part of a larger urban or metropolitan region, such as New England, the Great Lakes, the South Atlantic or the Northwest. These broad regions then form part of the still larger national and international regional economies.

The functioning of each of these regional economies is of interest to the county, because it is a part of all of them. Of course, the county's most direct concern is with the economic activity that falls within its borders. But in this age of highly interdependent economic forces that reach quickly across political boundaries -- be they local, state or national -- the county cannot but help be concerned with the political forces beyond its borders that could affect the economic forces that will eventually reach within its borders.

THE FUTURE ECONOMIC ROLE OF COUNTIES

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