

# centerlines



# State OF THE Region

Economic Crisis

A PUBLICATION  
FROM THE  
CENTER FOR  
REGIONAL  
DEVELOPMENT  
AT BGSU



# Economic Crisis

## FROM THE DIRECTOR

We all know the bad news. The stock market suffered its worst annual loss since 1931. Housing prices have fallen through the floor triggering significant increases in foreclosures. Plants are closing and unemployment is now above 10% in many areas of NW Ohio. Budget shortfalls have curtailed many city and state services. In short, we have been in a recession for all of 2008 and 2009 does not look much better.

Why is this economic downturn different than others? First it comes after a decade of consumer spending spurred by cheap money. Relatively low interest rates coupled with reduced rigor in consumer and mortgage credit screening drove spending. Banks made loans they knew in all likelihood could never be repaid. Good business? It is if you can quickly sell the loans to cash rich insurance companies or pension fund managers looking for returns over government T-bill levels. Cheap money permeated our culture. Two mortgages? No problem. Credit card limit reached? Get another card.

This recession is hitting when interest rates are already low, effectively eliminating the usefulness of monetary policy, our most popular policy tool. In the 1990-91 and the 2001 recessions that weakened economy responded well to cuts in interest rates (primarily the federal funds rate). The rate cuts induced borrowing, consumer and business spending increased, and the economy rebounded. At the time of this writing, the federal funds rate has been effectively lowered to zero and still people are not spending. This consumer pessimism is reflected in the recent consumer confidence index release. The index fell to an all time low in December 2008. The index is now at 38.0, down from 44.7 in November.

Monetary policy was quick, painless, and inextricably linked to pro-business ideology that permeates both sides of the aisle. It was a clean and elegant solution to most any economic problem. The Fed reduced interest rates and banks saw this as a profit opportunity. They made loans to businesses and consumers who were enticed by the reduced financing costs. Business expanded and hired

*"All communities, regardless of size, need to have a strategic plan."*



more workers, realtors sold houses, and auto dealerships moved inventory. Minimum government intervention and results showed American capitalism was alive and well. Now it isn't. Monetary policy was not able to mobilize our \$14 trillion dollar economy.

The truth is monetary policy is more effective at slowing an economy than jump starting one. Former Federal Reserve Chair, Paul Volker, was able to push interest rates to record levels in the early 1980s effectively choking off growth and curbing inflation. It is possible to push interest rates so high that people simply cannot afford to borrow.

If monetary policy is not working, is it possible to use fiscal policy? Can the federal government spend itself out of this recession? The answer is yes. It is possible for the federal government to create a successful stimulus package. There is, however, a fine line between a stimulus and a handout. The trick will be to decide what to spend it on. There will

be no shortage of industries looking for funds. In fact, most publicly traded companies with profit responsibility to their shareholders will likely wish to share in the funding. They will be at a competitive disadvantage if they do not. Exceptions to this will be smaller privately held companies whose owners believe it is wrong to take the money.

What can we do locally? In terms of spending or stimulus packages, the options are limited. Most state or local agencies simply do not have the funds. Stimulus policy is the purview of a national government. That said, we are not helpless at the local level. Significant economic change creates an opportunity for restructuring and collaboration. People are much more likely to let petty political differences slide in times of crisis. It may now be possible to orchestrate a true regional development strategy.

Northwest Ohio has been facing economic change to its manufacturing base for years. The odds are good that many local second tier suppliers and support business will not survive this recession. This type of change is an opportunity for large manufacturing to reassess their supply chain. Marginal firms will be purged and now is the time for all firms to reassess their core mission. They need to ensure their quality and service commitments can compete in the global marketplace. Now would be the time to explore strategic alliances with other local firms. Firms can compete and cooperate.

Now is also the time to redirect political commitment to economic development. All communities, regardless of size, need to have a strategic plan. They need to know their economic assets and need to know how to most effectively

deploy them. For economic development (ED) agencies, the need for retention calls has never been greater. ED professionals need to coordinate the information gathered with other local development agencies. It is possible that a number of firms are facing the same problems. It may be more cost effective to address the issue collectively. It could be as simple as collective purchasing agreements or perhaps even sharing production capacity.

Local governments need to be ready for an increase in public service demands. Healthcare and social services always experience increased demand during an economic downturn. Retraining will likely be the key issue. We will see a significant increase in structural unemployment. There will be a large number of production workers who lack the skills necessary to compete in the workforce. Repetitive manufacturing jobs will never return to their previous levels. We need to retrain a large number of forty-something workers who lack any higher education. Finding suitable employment options for them will be the key to our region's short run problems.

An economic downturn may stop the region's gradual decline. Many parts of the region have already experienced a protracted decline. This economic downturn may help clarify our needs. Swift decisive action is required by all institutional players: private firms, government agencies and higher education facilities. The global economy of the future is a knowledge-based economy and not a system based on lowest cost solutions. Successful regions will have clear goals and a strategic mission detailed to achieve success.

Michael C. Carroll  
Center for Regional Development

## 2008 - In Review

- **Stock market suffered its worst annual loss since 1931.**
- **Local unemployment rates in many counties have reached the double digit range.**
- **Consumer confidence currently at its lowest level.**

## Comprehensive Economic Development Strategy: Planning Your Future

■ As is common with most professions, economic development has its own language, comprised of a myriad of acronyms. One of these acronyms is a product as well as a process. The Comprehensive Economic Development Strategy (CEDS) is a planning tool developed with the help of a locally appointed and representatively diverse steering committee. The steering committee is required to have over one half its members from the private sector, providing a “real world” approach to a government directed process. The planning process is a vital part of the project and is collaborative, by nature of the steering committee, and therefore the document needs to be actively implemented. The CEDS is not a plan that should sit on a shelf and collect dust. It must be the guiding force behind the critical economic development funding decisions. A CEDS is a requirement for communities looking to tap into federal grant assistance from the US Department of Commerce, Economic Development Administration, and contains the following:

- *An analysis of economic and community development problems and opportunities including incorporation of any relevant material or suggestions from other government sponsored or supported plans;*
- *Background and history of the economic development situation of the area covered, with a discussion of the economy, geography, population, labor force, resources, and the environment;*
- *A discussion of community participation in the planning efforts;*
- *A section setting forth goals and objectives for taking advantage of the opportunities and solving the economic development problems in the region;*
- *A plan of action, including broad project suggestions, to implement the goals and objectives set forth in the strategy;*
- *Performance measures that will be used to evaluate whether and to what extent goals and objectives have been or are being met.*

The regionally based CEDS will be a critical piece of the future funding puzzle. As the new administration proposes a new economic stimulus bill for economic development related infrastructure projects, the most likely funding agent will be the Economic Development Administration (EDA). All funding provided by EDA requires that the applicant county or district have an EDA approved CEDS. CRD is continuing efforts to create a regional CEDS for Defiance, Fulton, Henry, Paulding and Williams counties that make up the Maumee Valley Planning Organization service area. It will enable them to access funding through EDA and possibly apply to be designated an Economic Development District, which would further strengthen this existing collaboration.



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