REGIONAL IMPACTS AND RESPONSES TO GLOBAL COMPETITION

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The Western New York Economic Development Corporation (WNYEDC) was formed in 1985 as a subsidiary of the New York State Urban Development Corporation (a public authority) to help the region recover from the devastating impacts of foreign competition in the automobile and steel industries, and to initiate and coordinate economic development programs. Unlike the rest of the state, the area showed no signs of coming out of the recession of the early 1980s, and had little hope of generating a new round of growth.

This case study describes the relationship between the globalization of capital and the general decline of a deindustrializing region, and relates this dynamic to the particular conditions of the region's rural communities. It reviews several approaches that have been used to slow the trend of disinvestment and to create a foundation for long-term growth, and suggests the types of support needed for their more effective application in rural areas.

The Western New York region comprises five counties in the western part of New York State--Erie, Niagara, Chautauqua, Alleghany, and Cattaraugus. The area borders Canada, two great lakes, Erie and Ontario, and the state of Pennsylvania.

The region, with the City of Buffalo as its hub, initially grew in the early and mid-1800s as a transshipment point, with links to eastern markets via the Erie Canal, and to the midwest through the great lakes system. The region first grew with its grainmilling industry, and later with the expansion of durable manufacturing sectors, e.g., metal, food, machinery, etc. Its comprehensive infrastructure and intraregional transportation system facilitated further development as a regional manufacturing center in the late nineteenth and early twentieth centuries. Manufacturing provided three out of every four jobs until 1970, dominating the economy of the region, including not only the Buffalo metropolitan area, but the more rural communities of Jamestown, Dunkirk, Olean, etc. as well.

The homegrown companies that fueled the area's economy, however, did not develop into headquarters of national corporations through either market expansion or acquisition. Rather, many of them were sold to growing national corporations, and were not replaced by new local entrepreneurs. Examples include: Lackawanna Steel's sale to Bethlehem; Freezer Queen's sale to United Foods, and Fisher Price to Quaker Oats. This resulted in a branch plant economy in which investment decisions were made outside the area in the context of national considerations. As Beverly McClean and David Perry demonstrate, outside owners controlled the lion's share of the major manufacturing facilities by the late 1960s.

Later these national corporations began to locate an increasing share of their new investment in southern and western states, with their lower costs, and right-to-work laws. The furniture industry relocated from Jamestown to southern states that are close to raw materials and offering much lower costs. National corporations built new facilities elsewhere, rather than maintaining and expanding investment in their WNY facilities. Westinghouse and Bethlehem, for example, did not invest in equipment, technologies, skills, and products, or introduce new manufacturing methods here. They were saddled by a myriad of perceived liabilities: large plants with long-run production lines that allowed little flexibility, a high wage, unionized labor force, high taxes, etc.

It is not surprising, therefore, that the region was among the first victims of global competition in heavy manufacturing--first in auto and steel. Corporate responses to their declining market share included closing, downsizing, and shifting work away from WNY facilities on the basis of age of the plants and equipment, low productivity, high wage work force, and distance from new growing markets. From the mid-1970s to the mid-1980s, the region lost over 90,000 manufacturing jobs, about one-fifth of its total employment.

By the mid to late 1980s, the impact of global competition was repeated in all other manufacturing sectors and firms on the basis of noncompetitive products costs, quality, service, and flexibility. National corporations responded by restructuring their own operations to meet the competition, and investors looked to acquisitions and mergers for huge profits. At the same time foreign capital purchased companies and divisions for market share and ready access to the market. The trend toward sales to multinational corporations continues, and now includes the service and retail sectors.

By the mid-1980s, the region had little ability to replace manufacturing employment or stimulate investment in newer technologies. Only growth in the services sector was able to maintain the level of employment, and three out of every four jobs were in government, fire, and health and education. The services sector, dominated by public spending, however, was not sufficient to generate a new round of private sector growth.

The rapid growth of Toronto (less than two hours from Buffalo) as a world class city and the rapid expansion of manufacturing in its metropolitan region began to benefit the economy of WNY in the early 1980s. Canadian investors and businesses, who were driven by the inflated costs of the overheated markets in metropolitan Toronto and needed access to U.S. markets, were willing to consider a location in the WNY area.

The WNY Canada Council, managed by WNYEDC, looked to the U.S. Canada Free Trade Agreement (FTA) as an opportunity to strengthen its economic relationships with the

Province of Ontario--particularly Toronto and south to the border. The Council's long-term vision was formation of an economic corridor between Toronto and Western New York counties. The Council and member agencies focused on: (1) attracting Canadian firms and companies from other parts of the U.S. that needed a location to serve market in Canada, and the northeast, midwest, and mid-atlantic states in the U.S.; (2) increasing export by small and medium-sized regional companies; and (3) facilitating public and private joint ventures in the long term with Canadian companies and organizations to increase the participation of the whole region in the international economy.

While Canadian investment helped the area maintain a lower unemployment rate than the rest of the state during the recession of the early 1990s, the potential benefits of linking with Canada have dimmed. Industry in Southern Ontario is undergoing the restructuring and downsizing experienced by U.S. firms, and new investment had decreased substantially. The emergence of Mexico, with its potentially huge markets, and low cost production factors is pulling investment southward, mitigating much of the strategic activities and successes gained in the first few years of the FTA. There is a widespread concern that WNY's "gateway" function between Canada and the U.S. will be a hollow dream.

The current challenges facing regional economic development are embodied in new trends of corporate downsizing at the regional, national, and multinational levels, and their spatial impacts. Regional economic development policies are focusing primarily on retaining and modernizing existing industries, and more recently, identifying potential for developing indigenous "engines" of growth (products, technologies, sectors, and exports). Meanwhile, business associations are attempting to unencumber the business climate which they judge to be overly burdened with taxes and fees, regulations, bureaucracy, and federal/state mandates. They are reluctant to market the region to business outside the area because they say that we simply can't compete.

<u>The Function of WNYEDC</u>

WNYEDC's objectives have focused primarily on retention and modernization of the region's manufacturing base. Its activities and programs have evolved in response to specific company needs, the institutional environment, and the results of its own experiments, or pilot programs.

From an initial analysis prepared by the Center for Regional Studies at SUNY Buffalo, in 1985, WNYEDC concluded first that while the region had lost a significant portion of its mature manufacturing base, it would continue to be the core of the economic base, providing the major portion of export dollars, multipliers, high wage jobs, etc. At the same time it was highly vulnerable to closures, disinvestment, etc.

The CRS report also found that the region contained a large number of economic development agencies providing an inordinate range of loans for plant, property, and equipment, and for the retraining of dislocated workers. These efforts, however, were fragmented and at that time duplicative and conflicting. WNYEDC therefore concentrated on coordinating, linking, and leveraging these disparate development resources, and on exploring new approaches to modernization of the manufacturing process, labor management relations, and skills.

1. Business Retention--Short Term

The most immediate thrust of WNYEDC's retention activities has been to coordinate intergovernmental responses to announcements of potential closure or expansion of WNY facilities. Many of these are prompted by corporate decisions to consolidate one or more facilities to address problems of overcapacity, outmoded products, high cost structures, a critical need for capital, a declining market share, shrinking markets, a need for new production lines, etc. Examples include: regional divisions and plants of such manufacturers as General Motors, Armstrong, Westinghouse, Allumax, Nabisco, Acme Electric, Ralston Purina, American Brass, Motorola, Altech Steel, SKF, etc.

These decisions may require WNY facilities to compete with others to remain open and expand or close. The major considerations in such a process include:

* corporate needs and strategies;
* productivity of the plant, costs of operations, age and character of machinery, technology, and facilities, and quality and type(s) of products;
* location and transport costs to markets and suppliers;
* marginal costs related to the location (utilities, taxes, fees, regulations, labor);
* work force--skills and capacity of the plant's and region's work force, management-labor relations, training, and research services in the region; and
* infrastructure--quality and cost of infrastructure including transportation, water, sewer, power, telecommunications, etc.

Our short-term, sometimes emergency response, to the competitive process usually involves preparation of incentive packages to assist local management offset the costs of investing in WNY. Incentive packages may include the following: low cost financing for new machinery and equipment, and rehabilitation or new construction; lower cost electricity, property tax exemptions on improvements to the real estate; investment tax credits; technical assistance in plant redesign, etc.

WNYEDC's role is to work with plant management, and frequently labor representatives to determine an appropriate and feasible package of incentives and then to coordinate the various state and local program resources. Seven to nine participants in a package is not unusual, and may comprise, but not be limited to the state, county, an industrial development agency, a municipality, one or two utilities, a training agency, a community college, a labor union, and the federal government. Our link to state agencies is especially important in large firm restructuring, where the size of the "deal" demands the mobilization of resources that far exceed local capacity.

The ability of all of these agencies to provide a package of incentives that makes the WNY region compete successfully in these situations is becoming more difficult, particularly in rural communities. Key features of the spiraling structure of noncompetitiveness in such deindustrializing regions include the following:

a) As indicated above, WNY's older facilities frequently must compete with newer, modern facilities, in growing market regions with lower operating costs, the absence of organized labor, etc. Our competitive disadvantage can be exacerbated by costs of cleaning up hazardous waste, and introducing new pollution control devices.

b) Local governments face the double bind of aging, inadequate utilities and services (e.g., water, sewer, roads) and shrinking tax bases. The burden of supporting the system falls on those few remaining plants, raising their costs at a time when cost competitiveness is a condition of survival.

c) The location with respect to markets, international transportation, and suppliers is becoming more marginal as the entire region deindustrializes.

d) Resource limitations of economic development agencies limit the size of the incentive packages and make it difficult for the region to compensate for higher costs, and to compete with resources promised by other regions.

2. Business Retention--Modernization and Competitiveness

We recognize that short-term incentive packages are not sufficient to reverse the conditions of structural decline, and therefore have developed mid-term responses to business retention. WNYEDC initiated its Industrial Effectiveness Program (IEP) in 2987 in an effort to assist companies and branch plants to modernize their manufacturing methods, strategy, operations, management, and work force. The IEP provides assistance to teams of management and labor in: assessing their manufacturing strategies (if they have one); identifying their core competencies and competitive strengths and weaknesses, and preparing and implementing programs to address weaknesses and build on strengths. Its design embraced several premises:

a. The CEO must be committed to the process of change, and be willing to commit time, resources, and staff to the effort, and all levels of labor and management must be involved in the process;

b. The scope must be comprehensive so that it encompasses all components of the operation, including cross functional relationships;

c. The fundamental goal of the IEP effort must be to retain as much employment in the region as possible, and to provide a basis for increasing investment and employment in the long term;

d. The technical assistance team must be interdisciplinary, and be able to work with and gain the trust of labor and management (WNYEDC helped to establish a Center at SUNY Buffalo to provide such services in the early years of the program, before they were available in the private sector); and

e. Multiple public agencies, organizations, utilities, etc. must be involved to provide the appropriate assistance.

The results of this program vary. The most dramatic successes have been in smaller firms, which have a greater proportion of local ownership and more flexibility, and available resources can go farther. The successes in larger companies take two general forms. First, the program can act as a catalyst for change through the initial assessment formation of management and labor, and cross functional teams to create a readiness for change. Second, the critical knowledge of the plant's operations and products, preparation of a plan for modernization, and strong, supportive relationships with the public sector can empower local management vis-a-vis headquarters. They are more prepared to compete for new investment, and to argue for survival.

3. Long-term Development

WNYEDC's approach to the region's long-term development is manifest primarily through assistance to organized groups or clusters of companies. The approach is based on the assumption that long-term regional development is dependent on a realignment of the relationships between and among the private and public sectors. The flexible manufacturing networks in Europe provided an initial model, which has continued to evolve to fit the specific needs of particular groups in the region. In this context, WNYEDC's goals are to establish special production niches in WNY for targeted sectors through creation of a proactive, supportive infrastructure of services, policies, and suppliers.

WNYEDC's program objectives are to:

a. understand the common competitive issues, needs, and growth opportunities (i.e., new products or markets) for firms within targeted sectors or clusters;

b. provide opportunities for networking that may lead to joint ventures, increase local sourcing, shared research, etc.;

c. determine how regional services and resources may be realigned or programmed to more specifically respond to the needs of individual groups, thereby creating a more flexible public sector to match the increasing flexibility of firms;

d. identify and initiate programs and projects that may generate growth; and

e. build an image of excellence to attract new firms.

WNYEDC's services range from developing an organization, network, or cluster of firms, identifying strategic and competitive issues of change, to assisting with specific projects and programs, including:

a. Manufacturing Competitiveness--development of a supplier effectiveness and networking program in the automobile and defense industries and preparation of a Total Quality Management Assessment Tool and shared training program for the printing industry, development of a method for assessing flexibility in the defense and aerospace industry, and technical assistance in making critical changes.

b. Marketing/Export--preparation of an Index of Firms Products and Capacity, and ISO 9000 Training for the Medical Products Industry; organization of a Trade Exchange for the Forest Products Industry.

c. Environmental Compliance--preparation of a Self Diagnostic Tool for the printing industry.

d. Feasibility Studies--exploration of the feasibility of creating a shared warehouse and distribution facility for the medical products industry, a computer-aided design center for the automobile industry, a research, development, and testing facility for medical products.

It is still difficult to predict the potential long-term effectiveness of the approach. While macroeconomic trends toward disinvestment in the region are expected to continue, we believe that a proactive response at the regional level can strengthen the capacity of firms and branch plants to confront the particular challenges in their industry. For example, regional General Motors plants have, for the first time, crossed corporate divisional lines to develop a joint relationship with both regional institutions and headquarters. Evidence of regional support for the industry may have a positive impact on GM investment policy. Further, the proposed formation of a supplier network in the automobile industry may become a vehicle to develop greater flexibility in products, processes, and intrafirm relations.

On the other hand, the structural imperatives of location and cost continue to fuel disinvestment. There is substantial concern that if the base falls much further, the foundation for long-term growth will be woefully inadequate.

The Need for Federal Support

WNYEDC's experience demonstrates various methods that can help retain and modernize aging, largely antiquated facilities in mature manufacturing sectors. The rate of success is highest in the suburban communities with direct access to larger, more diverse bases of business, labor market and services or the urbanized portions of the region. On the other hand, the general competitive disadvantages facing the entire region are far deeper in its rural communities. These areas must confront additional problems related to their geographic isolation, shrinking base of suppliers, declining pool of skilled labor, and weaker institutional capacity to provide reasonably priced services and utilities. Therefore, their record of plant closures and downsizing is greater than in the more urban and suburban communities. Consequently, they are becoming even more marginal in the regional, national, and international economies.

Rural areas will require targeted assistance to mitigate the disadvantages in infrastructure and services. Clearly, there are insufficient resources at the state and local levels to create a more equal playing field. The rural tax base in declining regions such as Western New York are simply too weak to support the necessary maintenance, repair, and modernization of existing infrastructure, and to expand into newer service areas, e.g., telecommunications, fibre optics, etc. Without basic levels of support, the very survival of rural communities in declining regions will be problematic.