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Harvard Business Review: Landing Amazon HQ2 Isn't the Right Way for a City to Create Jobs. Here's What Works Instead

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Landing Amazon HQ2 Isn't the Right Way for a City to Create Jobs. Here's What Works Instead

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Amazon's highly visible search for a second headquarters has offered one tremendous public benefit: it has raised public awareness of what bad economic development is. Even Saturday Night Live satirized the lengths to which local officials will go to woo a major company, which include offering massive amounts of taxpayer subsidies, despite dubious economic returns.

But if attracting Amazon and other companies is not the right way to create jobs, then what is?

To start, it's easy to understand why local leaders pursue these business attraction deals: economic development is routinely mayors' top policy priority, as new jobs can boost local employment rates, raise residents' incomes, stabilize city budgets, and revitalize distressed neighborhoods. Landing a flashy new business headquarters is great PR, a highly visible way to show that leaders are directly helping local economies. This leads state and local governments to spend an estimated $45 billion on economic development subsidies and incentives each year, even when they rarely factor into corporations' final decisions.

All this attention lavished on business recruitment overstates their importance to total job creation. One study by the Center on Budget and Policy Priorities estimates that attracting out-of-state businesses accounts for just 3% to 14% of all jobs created in a state each year.

Furthermore, evidence suggests that the pipeline of corporate relocations is drying up, leading to spiraling subsidies for the few mega deals that do emerge.

Meanwhile, a mountain of research suggests that the bulk of job creation happens elsewhere. The Kauffman Foundation notes that fast-growing startups play an outsized role in job creation. Economist Gary Kunkle emphasizes the importance of "sustained growth" companies of all sizes, which add jobs steadily over several years, rather than in a single massive expansion. Other researchers, including Enrico Moretti, Michael Porter, and my colleague Mark Muro, point to the power of clusters — especially in tech-based advanced industries — for regional job creation. They note that close proximity to competitors and suppliers allows companies to share talent, supply chains, and infrastructure, leading to more innovation, growth, and spillover benefits in the form of new local jobs.

In short, the bulk of job growth comes from empowering existing people and businesses in a community to grow, innovate, and start new ventures. Local leaders and voters should demand this kind of good economic development, which then attracts other firms that want to be part of a dynamic local business environment.

Broadly speaking, here are three ways to grow jobs from within:

1. **Invest in a start-up ecosystem**. With economic dynamism on the decline in recent years, local leaders have been launching efforts to support early-stage companies. This can include investments in startup accelerators, which can provide resources and mentors to aspiring entrepreneurs, or efforts to build a more diverse pipeline of entrepreneurs within a region's start-up ecosystem, as is taking place in San Diego and Atlanta.

2. **Help small- and middle-market firms scale**. Beyond start-ups, local leaders can also help existing small- and mid-sized establishments survive, innovate, and grow. Some communities, including Chicago, are helping small businesses expand their supplier relationships among a network of universities, hospitals, and other private sector institutions. Others provide customized services to small and mid-sized manufacturers. And some have focused on middle-market firms, which have the size and proven products to invest in continuous improvement, yet face unique challenges. Helping these companies find skilled workers, enter global markets, and access capital, as can be seen with one promising initiative in Philadelphia, can facilitate job growth.

3. **Deepen industry specializations**. San Diego's life sciences specialization, Milwaukee's water tech cluster, and Indianapolis's bio health tech ecosystem were hardly the result of dumb luck. Instead, a series of strategic moves by private and public leaders helped create competitive advantages in these sectors, as described in a recent Brookings report. This included bringing firms together, linking industry and university expertise to make the most of commercial opportunities, and making key public investments.

These economic strategies benefit directly from a broader array of investments that matter to global competitiveness, such as transit-accessible job centers, modern air and logistics infrastructure, and industry partnerships with technical schools and colleges to help workers gain valuable credentials.

Meanwhile, since economic development incentives will not be going away anytime soon, local leaders should at least use them to reward firms that create quality jobs, locate in underserved neighborhoods, or commit to community benefits.

As the competition for Amazon's second headquarters heats up in the remaining months, the real winners will be the cities that play in the game that counts—growing an inclusive, sustainable economy that invests in homegrown people and businesses.

Nathan Arnosti contributed research to this post.

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