Economic Development Defined: EDA’s Mission

The U.S. Economic Development Administration (EDA) of the U.S. Department of Commerce is the lead agency responsible for the Nation’s economic development.

Rationale: Nobel Laureate Robert Lucas notes (1988:13) “we think of growth and development as distinct fields, with growth theory defined as those aspects of economic growth we have some understanding of, and (economic) development defined as those we don't.” Whereas economic growth is a simple increase in aggregate output, Joseph Schumpeter (1942) in the Theory of Economic Development argues that a higher quality growth trajectory can be achieved through innovation and entrepreneurship. Yet we lack an accepted definition of economic development.

Amartya Sen’s (1999) Development as Freedom argues that economic development requires increasing the capabilities of economic agents so that they can realize their full potential to participate in economic and social life. A modern view of economic development requires creating the preconditions or capacities that support creativity, collaborative problem solving and information sharing, and lowering the costs of engaging in innovation. American cities and regional economies are restructuring in light of dramatic global economic integration and increased competition. There is a need to not only lift less prosperous places but to also ensure that the full range of communities can actively achieve their potential. Economic development is essential to creating the conditions for economic growth and ensuring out economic future.

Definition: Economic Development is the expansion of capacities that contribute to the advancement of society through the realization of individual, firm and community potential. Economic Development is measured by a sustained increase in prosperity and quality of life through innovation, lowered transaction costs, and the utilization of capabilities towards the responsible production and diffusion of goods and services. Economic Development requires effective institutions grounded in norms of openness, tolerance for risk, appreciation for diversity, and confidence in the realization of mutual gain for the public and the private sector. Economic Development is essential to creating the conditions for economic growth and ensuring our economic future.

Application: EDA was founded in 1965 with the mandate to address substantial and persistent unemployment and underemployment by making investments in infrastructure to support private sector job creation. EDA has been a vital resource for distressed communities striving to overcome sudden and severe economic dislocations and long-term decline. Now, however, every region across the nation is vulnerable due to international competition and rapid technological change. The cycle of diminished capacity feeds upon itself as a declining tax base reduces the local ability to finance the improvements in infrastructure and resources needed to attract new industry, retain workers and create opportunity. Sustained investment in building capacity that is locally initiated and utilized by the private sector will result in higher quality jobs, greater investments, export growth and ultimately increased prosperity and higher quality of living.

EDA’s role extends beyond investing in physical infrastructure to include: 1) facilitating innovation – generating new ideas about products and processes and taking advantage of the good ideas of others by investing in mechanisms of knowledge transfer; and 2) promoting capacity to take advantage of new ideas, such creating an ecosystem to support starting entrepreneurial firms or expanding existing companies. As a consequence, EDA’s mission is more important than ever in preparing American regions for growth and success in the worldwide economy where regional competitiveness drives national economic performance.

EDA is well-positioned to serve a vital role to catalyze economic development through its mission and to lead the federal economic development agenda by focusing its investment priorities on promoting innovation and competitiveness and preparing American regions for growth and success in the worldwide economy.