
Y O U R

P O R T

AND ECONOMIC GROWTH



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Ports are proud to announce new industrial park tenants, increased cargo movements, and expanded fish landings. Ports think that economic growth is important—to them, to the port community, and to the region.

Economic growth has many facets. It may mean more jobs, higher personal income, increased construction, more port revenues, increased tax base, or greater economic diversity.

Why do some ports grow more than others? Is it because of more natural resources, a better geographic location, more industrious people, a favorable economic climate, or a more attractive social/cultural environment?

What's the best way to grow? Should ports try to attract large new enterprises? Should ports help local enterprises grow? Should ports encourage the creation of local enterprises?

Finally, what's the role of the port in economic growth? Should the port assure the basic infrastructure and leave the rest up to the marketplace? Should the port become a full-fledged economic development agency that offers subsidies and promotions? Should the port strike some happy medium between these two extremes? Answers to some of these questions are found in this publication.

What is economic growth?

There are two kinds of economic growth. Economic growth takes place when more people, more capital, and more natural resources are being put to productive use. This kind of economic growth usually results in a growing local population and increased economic activity.

However, economic growth can occur without a population increase, or increased capital and natural resource use. When there is more output per person, per unit of capital, or per unit of natural resource, a different kind of economic growth takes place. This kind increases economic activity, but it may not increase local population. It also produces a higher standard of living for the entire community.

More input and more output

In reality, the two types of economic growth are inextricably intertwined. One seldom occurs without the other. When ports or communities attempt to grow economically, they usually think about increasing population, more capital, and more natural resources—more input to produce more output.

The evidence is found in the way ports publicize their impact:

- “The port has added 30 new jobs to the community payroll last year,”
- “The port played a major role in the construction of the new \$3 million industrial park warehouse,”
- “The port will realize a 15% jump in revenues because of new container traffic,” and
- “According to a recent study, port activities increased community personal income by 6% last year.”

An index

An economic model used by the Oregon State University Extension/Sea Grant program includes a growth index comprised of three measurable factors:

1. employment by job classification,
2. value of newly created capital, and
3. direct revenue to the port.

When they use this model, port administrators must give weights to each of these three factors. The resulting index is a measure of economic growth benefits derived from potential new port tenants. This exercise forces port administrators to specify their own measure of economic growth.

Economic diversity

Economic dependence on one or two industries, especially if these industries are vulnerable to swings in the general economy, has caused much suffering. Small port communities often depend on natural resource industries such as agriculture, timber, petroleum, fisheries, and tourism. These industries are subject to boom and bust cycles. However, dependence on one large high-tech firm, on one large defense contractor, or even on a high-rise office building can also cause economic hardship.

The high-tech firm’s board of directors can decide to move their entire operation overseas—and suddenly local unemployment rises to 35%. The U.S. Congress can cut defense budgets—and suddenly the defense contractor’s doors are shuttered. Real estate speculators can throw up an even higher office building in the next town—and your vacancy rates jump to 60%.

Therefore, economic diversity and stability is an important component of economic growth. Some communities may even place more emphasis on economic stability than growth, recognizing that growth does not always lead to improved quality of life.

The measures

This brings us back to the distinction between growth based on increased use of people, capital, and natural resources versus growth based on increased output per person or unit of capital and natural resource. It's only through the latter that quality of life can be improved in the long run.

Nevertheless, the most popular quantitative measures of economic growth are:

1. number of jobs created,
2. employment rate (not necessarily related to the number of jobs created),
3. personal income,
4. capital base,
5. tax base (not necessarily related to capital base),
6. direct port revenue,
7. number of distinctly different enterprises (diversity),
8. enterprise sales volume, and
9. number of years the enterprise has operated on port property.

Some measures of economic growth are more closely related to the quality of life, but they're less popular:

1. per capita income,
2. return on investment,
3. cost per unit of product, and
4. output per person or unit of capital.

Foundations of economic growth

Perhaps your port is located on the only navigable water within 200 miles and is only 20 miles from the major metropolitan area of your region. You might argue that geography is the most important factor in economic growth.

Perhaps your port has the only undeveloped industrial property within 300 miles and is located directly onshore from a growing petroleum field and rich fishing grounds. You might argue that natural resources are most important.

Perhaps your port is located at a rail and interstate highway junction, and you have invested heavily in channel deepening, breakwaters, and terminal facilities. You might argue that facilities and services are most important.

Perhaps your port is located in a small urban area with a large university, two technical schools, an industrious work force, and a mild Mediterranean climate. You might argue that the economic, social, and cultural environment plus work force characteristics are most important.

In each case, you'd be right. Each port has some comparative advantage.

Geography

Ports involved in handling cargo exist because of geographic factors. They're located on navigable waterways and on trade routes between (or close to) population centers, or near sources of cargo. It's not necessary that all these geographic factors exist at the same time.

For example, Ocean Falls, British Columbia, is located on a waterway as navigable as Elliot Bay or San Francisco Bay, but cargo movements at sparsely populated Ocean Falls are only a fraction of those in the densely populated Seattle or San Francisco area. Valdez, at the end of the Alaska pipeline, has a low population density, but cargo handling is many times that of the densely populated, but harbor-poor, city of Daytona Beach.

Geography may also be an important factor for ports primarily involved in industrial development. Closeness to a large population or commercial center increases the potential use of port industrial property.

As populations and trade between population centers increase, geographically well-located ports may experience greater economic growth than those with poor geographic locations.

Natural resources

Timber products, agricultural products, fishery products, petroleum products, mining products, and other natural resource based products tend to have low value relative to their bulk. Transportation costs become an important factor in the successful exploitation of these natural resources. Bulky products can be transported more cheaply by water, giving a port located near these natural resources a comparative advantage. Often this means some primary processing of the product, on or near the port.

As demand for natural resources increases and as we learn more about managing those resources for long-term productivity, economic growth opportunities for nearby ports will expand.

Facilities and services

Ports with well-developed streets, water systems, navigation channels, boat moorages, fish receiving facilities, terminal areas, access roads, and rail connections will enjoy some advantages when growth opportunities arise. Potential new clients will be certain of facility availability and won't have to make facilities investments themselves. They'll be more attracted to ports that are fully developed.

Economic, social, and cultural environment

These are especially important for industrial development ports. The living and working environment for industrial park employees often determines a port tenant's success. In a survey of the densely developed Inland Bays area of Delaware, respondents indicated that rapid development with little regard to the environment was one of the most critical issues in the area. Additional development will be difficult without increased attention to the living and working environment (Jotham O. Munda and S.E. Hastings, *An Analysis of Community Attitudes Toward Growth and Development in the Inland Bays Areas of Delaware*, Bulletin No. 468, University of Delaware, April 1987).

Sources of economic growth

There are three basic sources of economic growth at your port:

1. new enterprises move in,
2. new enterprises are created, and
3. existing enterprises grow.

Understanding how and why enterprises might move in, might be created, or might grow at your port is important to your economic growth. Movement, creation, and growth of enterprises depends on the particular characteristics of the enterprise, the characteristics of your port, and outside economic forces.

In a healthy economy, economic growth occurs with little or no assistance from your port. A range of spontaneous innovation occurs that results in the creation of new enterprises, the expansion of some existing enterprises, the contraction or death of other enterprises, and a limited number of enterprise relocations.

The substance of economic growth is innovation. This can be a new product or service, a new way to package an existing product or service, a new process for doing something, a change in the cost of a good or service, or the identification of new markets.

Research indicates that approximately 90% of the new jobs generated in a typical local economy come from existing companies and new company startups. This is a compelling argument for most ports to base economic growth programs on enterprise retention and expansion, rather than attempting to convince new enterprises to move in.

Furthermore, existing enterprises are the core of the local economy. When they begin to fail and leave, the economic structure begins to break down. When existing enterprises are not successful, potential new enterprises will find out and will be reluctant to come to your port.

What can you do?

You can learn more about the economic growth process. You're already doing that by reading this publication. You can learn more about the structure of your local economy. You can do that by reading other publications in this series. And you can follow a logical and practical process for bringing about economic growth.

Assess resources

The importance of resources in economic growth can't be overemphasized. Begin with an assessment of the natural resources or assets you possess.

First, what geographic advantages do you have? Are you fortunate enough to be located on a natural waterway, or at least one that's maintained regularly? The U.S. Army Corps of Engineers is dredging less and cutting back on channel maintenance programs. Perhaps your navigation channel maintenance is in jeopardy. If maintenance is questionable, your navigation channel may not be an asset for certain types of economic growth.

Are you well located with respect to population centers, fishery resources, timber resources, petroleum resources, tourist attractions, trade routes, and/or commercial/industrial centers? What's the future of these resources? Are they managed for long-term benefits? Which offer comparative advantages over competing ports?

Plan

Many ports are so anxious to get to the business of growing that they forget to plan. The evidence is overwhelming: Planned growth is pleasant; unplanned growth is painful.

Setting specific goals is the first step. Get help from those who live in the port community, including entrepreneurs already at the port. Working with port commissioners, staff, and consultants, the citizens might decide that the goals of the port are to:

- broaden the economic base of the community by bringing in more non-natural resource based enterprises;
- enhance the quality of life by encouraging smaller, nonpolluting enterprises; and
- increase the tax base by attracting capital-intensive enterprises.

The plan must specify how these goals will be accomplished. These are your objectives. You can measure objectives with numbers. For example, objectives might include:

- increase output value of current port enterprises by 50% in the next 3 years,
- attract two new, small assembly plants in the next 3 years,
- complete all improvements at the 22-acre waterfront industrial site within 5 years,
- add 30 new slips at the recreational marina within 1 year,
- finish new fish receiving dock within 4 months, and
- complete development of marina resort complex within 6 years.

Success with these clearly stated objectives will be easy to measure.

Next, specify how these objectives will be accomplished:

- appoint port staff as liaison with current port enterprises, to identify growth opportunities;
- send commissioners to industry and trade conference in Boston, Atlanta, and Chicago;
- develop new finance plan for small enterprises in conjunction with State government;
- obtain grant and loan from State government for marina;
- establish facilities development fund and detailed plan for facilities improvements;
- stockpile materials and retain new contractor for fish-receiving dock; and
- retain new contractor for resort complex.

Assess facilities and services

What do the port, the community, and the region have in place? What's the quality and capacity of these facilities and services?

street system	professional services
water system	financial services
sewage system	accounting services
power supply	technical services
highway system	retail facilities
rail system	private housing
air transport	office facilities
waterway	industrial parks
communication system	warehouses
education system	public entertainment
medical services	public recreation

Facilities and services are rarely a problem in larger communities, but in many smaller coastal communities they're often inadequate for large new enterprises. Many small communities simply can't support important facilities and services economically. Building an \$8 million access road from your industrial park to the freeway is a major undertaking for a community of 15,000 inhabitants, but a routine matter to a city of 3 million.

Identify enterprise opportunities

Identify what services and products area residents are purchasing outside the port area. For example, do they obtain their legal services from the next State? Do they have to go out of town to purchase hardware at a reasonable price? Are there enough plumbers, electricians, carpenters, and bricklayers available in the port community? These small service enterprises are the breeding grounds for larger industries.

Next, identify the raw resources that are leaving the port community for further processing outside. For example, are locally harvested fish being transported to the next port for processing? Are locally harvested trees being transported to the next port for shipment overseas? Much of the processing and many of the services required for these raw resources could be provided in the port community, perhaps at lower cost.

Pursue the opportunities

Can you demonstrate that a new or expanded enterprise can succeed in your port community? If you convince the entrepreneur that the new enterprise will be more profitable, will incur lower costs, will produce

greater volumes or will be more stable in your port community, nine-tenths of the pursuit is completed.

However, it may not be necessary to go to the considerable effort of demonstrating direct economic advantages. Many enterprises will move because of factors unrelated to greater profits. For example, you may be able to demonstrate that your port community offers a much better quality of life—away from traffic, air pollution, and crime common in more urban areas.

Understand the foundations of your port's economic growth, community characteristics, natural resources, assets, and amenities. Know exactly what you have to offer, and you'll be more successful in converting opportunities into reality.

Ice the cake

After evaluating all your assets and strengths, it may be obvious they're not enough. And the taxpayers may not want to wait for the economic growth process to take place naturally, at its own pace. You may want to speed the process.

A port subsidy is the most common tool for enhancing the economic growth process. You subsidize new and growing enterprises when you tell their owners your port is a great place to set up or expand. You subsidize them when they use facilities and services financed by predecessors. These subsidies are subtle.

You can be more explicit with subsidies. The techniques are well known:

- tax exemptions or grace periods;
- low-cost loans;
- grants;
- exemption from rules and regulations;
- free or low-cost facility improvements;
- low tariff, lease, and rental rates; and
- free or low-cost services (water, sewage treatment, promotion, etc.).

You might justify explicit subsidies if other ports that don't otherwise have a comparative advantage also offer explicit subsidies. You might justify explicit subsidies to help infant enterprises reach their "economies of size." You might justify explicit subsidies to help enterprises survive a temporarily negative economic situation. Subsidies are not justified if there is no potential success without the subsidy.

Inform your community

Your port is an integral part of the community, and economic growth of one can't be separated from the other. Involve citizens in the planning, implementation, and the benefits of the port's economic growth. Keep them informed about your economic growth plans, activities, and successes.

Summary

Economic growth is the increased employment of people and the increased use of capital and natural resources. It's also increased production from the same number of people, and the same quantity of capital and natural resources. Most ports measure economic growth in terms of increased employment of people (jobs created), increased use of capital (new plants built, increased tax base, new docks and warehouses), and land used (15 acres developed, industrial park leased). Economic growth may also be measured in terms of economic diversity and stability.

Economic growth is based upon your port's geographic location, natural resources of the region, available facilities and services, and environment (economic, social, and cultural). Your port may be located close to an urban center, an industrial center, a good waterway, or on an important trade route. Your port may be located near important petroleum fields, near a rich agricultural region, close to productive forests, or adjacent to productive fishing grounds.

Your port may be fully developed, with excellent transportation systems, public utilities, commercial facilities, and professional services. Your port may be located in a community with rich cultural attractions, good educational system, and pleasant natural environment. All these will favor economic growth.

There are three basic sources of economic growth:

1. enterprises move to the port,
2. enterprises are created at the port, and
3. enterprises already at the port grow.

The latter two are often overlooked, but research indicates that these are the major sources of economic growth in our country.

Your port has an important role in economic growth. Understand your comparative advantage. Start by assessing your resources—geographic location, natural resources, community resources, public resources, and human resources.

Use this information and develop your goals, then your objectives and activities. Identify those opportunities that exist within your port community and pursue those opportunities. What products and services are not (but could be) provided in your port community? What natural resources are exported in raw form that could be further processed in your port community?

Provide extra assistance for existing enterprises to grow, for new ones to be created, and for new ones to move to your port community. Provide tax incentives, financial incentives, exemptions from regulations, favorable lease and rental rates, and low-cost utilities. However, don't use these subsidies to sustain an enterprise that's better left to a natural death.

Finally, port taxpayers must be involved in the process, from the beginning to the end. *Use* input from citizens; *tell them* about plans, activities, successes, and—yes—even failures.

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