

# Place Based Economic Development

Small Business Capital  
Formation Advisory Committee

Maryann Feldman  
Arizona State University  
School of Public Affairs



# Place Based Economic Development

Debate about investing in **people** vs. **places**

Government efforts:



Build Back Better



NSF Regional  
Innovation Engines



CHIPS & Science

# Clusters vs. Ecosystems

- Old wine in new bottles?

## Three Distinctions

Scope	Focus	Policy
Clusters are bounded by one industry, technology or sector.	Clusters focus on relationships among firms.	Clusters provide: <ul style="list-style-type: none"><li>• deterministic relationship &amp; development path</li><li>• Policy as background condition</li></ul>
Ecosystems are defined across industries.	Ecosystems focus on the environment: <ul style="list-style-type: none"><li>• entrepreneurs and entrepreneurship at the center</li><li>• allow for the emergence of new activity</li></ul>	Ecosystem focus <ul style="list-style-type: none"><li>• adaptability and adjustment</li><li>• addresses region-specific dynamics</li><li>• emergence through agency &amp; collection action</li></ul>

# The Limits to the Silicon Valley Recipe

Venture Capital remains geographically concentrated -  
VC comments – I'll never go there again!

Lerner (2010) *Boulevard of Broken Dreams*

Universities – necessary but not sufficient

Do we really want to replicate Silicon Valley?





Source: Kauffman Foundation

# The Ecosystem Policy Imperative

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# Understanding Ecosystems

## Stages of ecosystem development

- How do ecosystems emerge?
- Do ecosystems decline and die?

## Archetypes, with phase changes

- Evolution is possible
- But limited and takes a long time
- Somethings are just not possible

Appropriate policy depends on **archetype** & **phase**

# Archetypes



## High-tech Urban Ecosystems

- Our focus
- the usual suspects



## Rural and Small Town Ecosystems

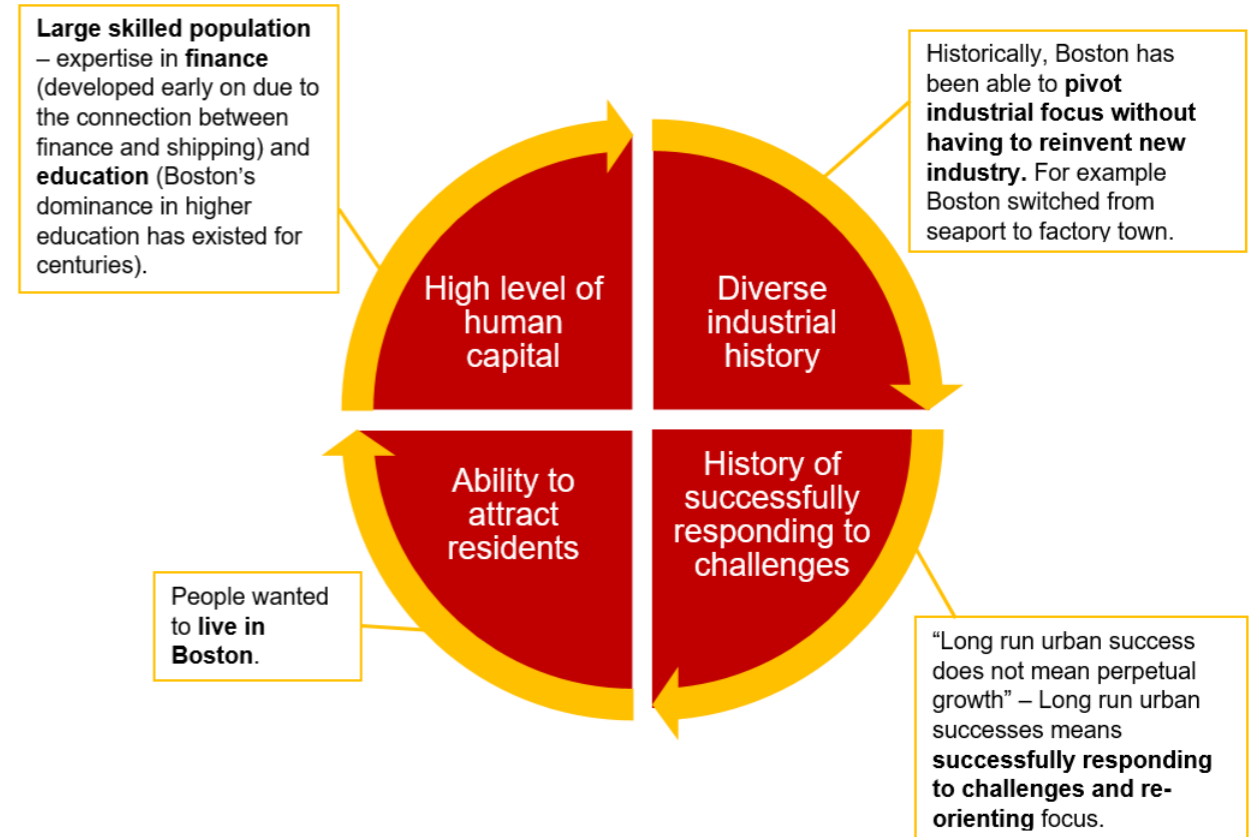
- Small Businesses
- Remote or connected lifestyle choices



## Micropolitan Ecosystems

- Resilient - often sites of universities, government labs
- Decline - victims of external shocks

## Example: evolution of Boston (Glaeser, 2003)





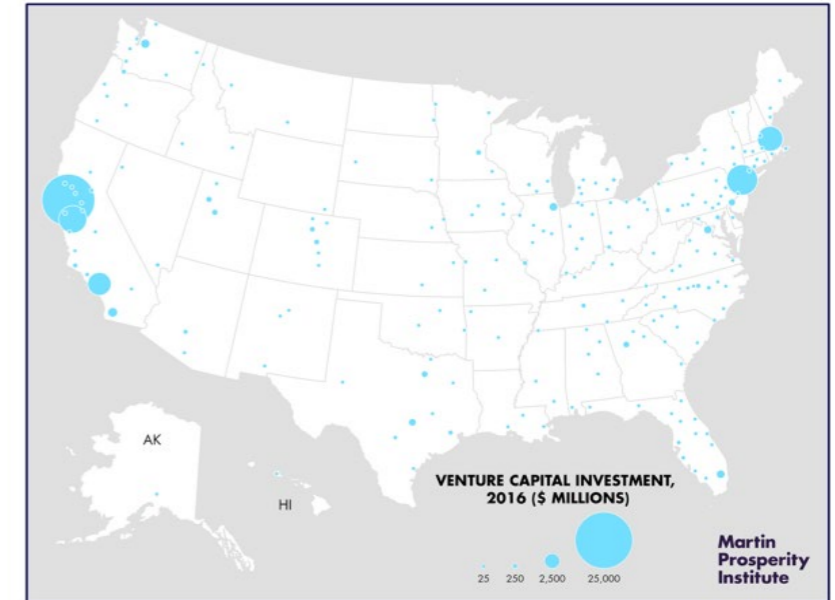
# Marshallian externalities meet monopoly power

## Places left behind

- Digital industries are accessible
- Places are good at generating start-ups
- But firms are not able to grow
- To scale relies on funding

## Chokehold of Venture Capital

- Difficult to replicate – Lerner's *Boulevard of Broken Dreams*
- No other funding sources available
- Network effects
  - Control funding
  - Serve up investments to tech giants



## Perverse outcomes of Place-based Tech Development

- Our model of start-up financing promotes exit rather than growing in place
- Places that attempt to replicate Silicon Valley serve up their homegrown efforts

# What determines being acquired by Big Tech?

Feldman , Guy, Iammarino & Ioramashvili (2020)

Being **located in Silicon Valley** is an important predictor

- being acquired by a Big Tech
- experiencing an IPO

**VC investment** (from any location) has a negative impact

Strong **network effects** confirmed

- Start-ups that received funding from one of the VCs that also invested in the Big Tech are highly likely to be acquired by a Big Tech themselves
- no effect for IPO





Are places  
**left behind**  
or  
**kept behind ?**

# Fix the System – Not the Place

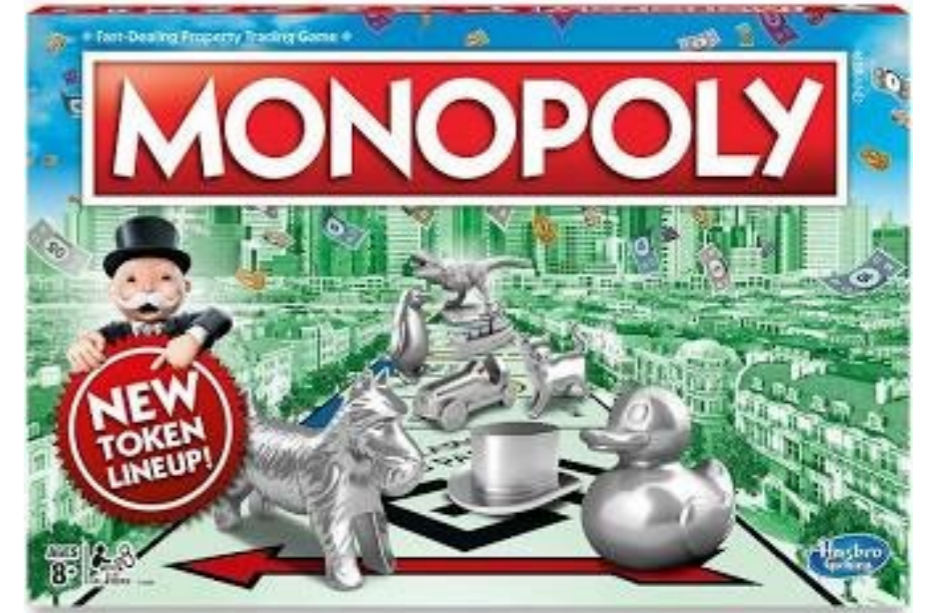
New Era of Place-Based Policies with **US Investments**

**Competition** policy?

- White House initiatives
- European Commission
- The State of California

Need new mechanisms for **financing small firms**

- Duruflé et al. (2019)
- Quas (2022) - Tackling the Scale-up Gap



Thank you

Comments appreciated