ECONOMIC DEVELOPMENT IN AMERICAN CITIES:

THEORY, PRACTICE, AND IMPACT

By

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M.B.A., Indiana Wesleyan University, 2000
B.A.A.S., Dallas Baptist University, 1995

A Doctoral Dissertation
Submitted to the Faculty of the
Graduate School of the University of Louisville
in Partial Fulfillment of the Requirements
for the Degree of

Doctor of Philosophy

School of Urban and Public Affairs
University of Louisville
Louisville, Kentucky

May 8, 2004

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A dissertation approved on

April 15, 2004

by the following Dissertation Committee:

Dissertation Director

ACKNOWLEDGEMENTS

I would like to acknowledge the faculty and staff of the School of Urban and Public Affairs for their support and assistance. I am especially thankful to my major professor Dr. Steven G. Koven for his diligent guidance and advice. I would also like to recognize the students in the School of Urban and Public Affairs for their inspiration and camaraderie. For the joy they have brought me during my doctoral studies, I am grateful to my sons, Nicholas and Nathaniel, who are starting their student careers, just as mine is ending. I am most thankful to my editor Barbara who has read every draft of this dissertation. She is living proof that the Biblical proverb is correct, "Whoso findeth a wife, findeth a good thing."

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ABSTRACT

This dissertation is a study of the theory, practice, and impacts of economic development policy and practice in American cities, in an effort to answer the age-old question, "To what extent can government influence markets?" City governments face the classic economic problem of resource scarcity, and they experience the dilemma of having to choose how to allocate scarce resources among numerous competing interests. In the name of economic development, local governments assign public resources and employ various strategies and tactics, all designed to encourage economic growth. This study seeks to determine whether the economic development practices employed by local governments in U.S. cities are positively correlated with measures of economic growth in those cities. The major hypothesis of this study states, "The level of public sector economic development activity in U.S. cities is positively correlated with local economic growth." It is thought that cities that are more proactive in their economic development activity will have more economic growth, all other things being equal. A quantitative data set of 412 American cities was built from multiple sources, and multivariate correlation

and regression analysis is conducted to discover whether there is a statistically significant relationship between the economic development programs in U.S. cities and economic growth in those cities. The analysis reveals that economic development policy only has a weak correlation with growth, suggesting that economic growth is determined by market conditions rather than government intervention. City leaders are nonetheless still expected to continue to employ numerous economic development policies, largely due to political pressures. The final chapter of this dissertation offers policy recommendations that are based in these economic and political realities.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER I

AN OVERVIEW OF THE PROBLEM AND AN INTRODUCTION TO THE STUDY

This dissertation is a study of the theory, practice, and impacts of economic development policy and practice in US cities, in an effort to answer the age-old question, "To what extent can government influence markets?" For centuries scholars like Adam Smith and John Maynard Keynes have argued about the place of government in capitalist economies. Their theories, and the theories of others, have led to a vast array of economic development policies, practices, and programs employed at every level of government in the U.S. This study analyzes the theoretical perspectives driving economic development policy, examines current economic development practices, then empirically evaluates the impacts of the practices.

The primary questions of this study are, "To what extent is local government currently trying to influence local economies?" and "How successful is local government in influencing local economies?" Using a quantitative data set of municipalities created from multiple sources, inferential statistical techniques are used to address these questions. Multivariate regression analysis is conducted to explore correlations between the economic development efforts of local governments in 412 U.S. cities economic development efforts and indicators of local economic growth. It is believed that certain

economic development practices will prove positively correlated with economic growth, while other practices will have no correlation with economic growth.

An Overview of the Problem

City governments face the classic economic problem of resource scarcity, and they experience the dilemma of having to choose how to allocate these scarce resources among numerous competing interests. In the name of economic development, local governments assign public resources and employ various strategies and tactics. The efforts of economic development officials focus both on supply-side economics (attracting, retaining, or expanding local firms) and demand-side economics (redistributive policies, and human capital development). It is thought that these efforts result in positive growth in the local economy as measured by jobs, firms, tax revenue, and incomes (see, for example, Ahlbrandt and DeAngeliz, 1987; Bowman, 1988; Bartik, 1991, Eisenschitz, 1993; Eisinger, 1988; Reese and Fasenfest, 1997; and Schwarz and Volgy, 1992). Some of the literature indicates, however, that certain economic development efforts yield no results, or possibly even negative results (Schmenner, 1982; Feiock, 1991; Lynch, 1995; Green, Fleischmann, and Kwong, 1996; Dewar, 1998; Hinkley and Hsu, 2000). If economic development practices are ineffective, public resources have been wasted. Public funds earmarked for economic development could have potentially been put to better use elsewhere.

Scope of the Analysis

The phrase "economic development" takes on different meaning in different bodies of scholarly literature. At the macroeconomic level, "economic development" typically refers to national government intervention in markets resulting in an outward

shift in the production possibilities curve, or, simply put, economic growth. At the international level, "development economics" refers to the activities of wealthier nations who provide aid to "developing" countries. A third definition of "economic development" concerns subnational governments. Bartik (1994) offers a definition of this third type of "economic development" as state and local government programs "that assist individual businesses with tax or financial subsidies, or special public services, in order to increase local jobs or improve local businesses' competitiveness" (p. 847). "Local" economic development refers to public and private sector actors on the local level, but the phrase more often describes the activities of community based organizations rather than local governments. Separate distinct bodies of literature exist that represent the macroeconomic, international, subnational, and local perspectives of economic development. This dissertation focuses on the economic development policies and programs of subnational city governments in the U.S.

Primary Research Hypothesis

This study seeks to determine whether the economic development practices employed by local governments in U.S. cities are positively correlated with measures of economic growth in U.S. cities. The major hypothesis of this study states, "The level of public sector economic development activity in U.S. cities is positively correlated with local economic growth." It is thought that cities that are more proactive in their economic development activity will have more economic growth, all other things being equal. This hypothesis is addressed using inferential statistical analysis and a quantitative data set that was built from multiple sources.

The Current State of the Literature

Much of the literature of urban economic development is theoretical and anecdotal rather than empirical. In the past three decades, few quantitative empirical studies were identified in ProQuest, JSTOR and Ebsco database searches of the literature that examined the effects of local economic development policy at the city level. More of the studies identified have relatively small data sets (less than 100 cities). Other studies focus on a single industry (i.e. manufacturing; Feiock, 1991), or focus solely on employment growth (Green, Fleischmann, and Kwong, 1996). Certain studies investigate impacts of indirect policy measures such as tax rates and general government expenditures, or more direct economic development initiatives at the local level. The scant empirical research generally contend that government economic development efforts relate to economic growth of polities. A common theme throughout the empirical literature, however, as Dewar (1998) points out, is that government development programs do not "develop" as much as was hoped.

A Contribution to the Literature

This study follows previous research by using cities as the unit of analysis (as did Feiock, 1987, 1988, 1991; Koven and Shelley, 1989; and Green, Fleischmann, and Kwong, 1996), and by analyzing economic growth from one period to another (as did Feiock, 1988; and Green, Fleischmann, and Kwong, 1996). This study also follows previous research by using survey data as independent variable measures of economic development activity (as did Feiock, 1987, 1988, 1991; and Green, Fleischmann, and Kwong, 1996).

This study adds to the existing body of research in three significant ways. First, unlike most of the previous studies, this study uses a large set of U.S. cities ($n = 412$) to represent all U.S. cities with populations over 25,000 ($N = 1,070$). Second, because economic development policy is designed to have wide impacts on a local economy, this study considers growth in the number of firms, jobs, and income, as evidence of economic growth. All three of these measures of economic growth are considered here in the same analysis. Previous studies have only considered a single industry (i.e. manufacturing, Fieock, 1991), focused solely on job growth (Green, Fleischmann, and Kwong, 1996), or used proxy measures of economic growth including capital investment (Feiock, 1987), migration (Koven and Shelley, 1989), or housing and other prices (Bartik, 1991). The third way this study adds to the existing body of research is by comparing whether firms or individuals benefit more from economic development policy. This is accomplished by exploring policy impacts on both private firms and personal incomes. Generally speaking, this study augments the current body of empirical research by incorporating germane elements of previous research into a single comprehensive study of urban economic development policy impacts.

Methodology

Quantitative inferential techniques are employed to discover whether there is a statistically significant relationship between the economic development programs in U.S. cities and economic growth in those cities. Multivariate correlation and regression analysis are the statistical techniques used to explore these correlations. The basic multiple regression equation used in the analysis can be represented by the simplified formula:

$$E = a + \Sigma b_n ED_n + \Sigma b_n C_n + e$$

where the dependent variable E represents a measure of a city's economic growth, the a represents the y-intercept in the equation, the b_n represents the regression coefficients of the independent variables, the ED_n represents economic development independent variables, the b_n represents the regression coefficients for the control variables, the C_n represents the control variables, and e is the error term. This basic equation is used in numerous regression models.

Measures of economic growth are used as dependent variables in the analytical models. Three models are posed: 1) the firm growth model, 2) the job growth model, and 3) the income growth model. The firm growth model examines the relationship between local economic development policy and the change in the number of businesses. The job growth model examines the relationship between policy and overall job growth, manufacturing job growth, and retail job growth. Similarly, the income growth model considers growth in corporate income (represented by manufacturing value-added), and personal income.

Measures of the economic development activities in U.S. cities as well as control variables serve as independent variables. Some of the economic development variables are economic development staff size per capita, per capita government spending on economic development, the number of economic development initiatives (for attraction, retention, development and "equity"), the use of incentives, and the use of innovative loan programs. For simplified analysis scale variables are created that represent the level of proactivity of economic development activity. For example, data is available on the number of attraction techniques used in each city. The scale variable is created by adding

the number of techniques. A city that utilizes more techniques is considered more proactive and will therefore have a higher score in that variable.

Control variables that represent factors that affect city economies are also used. Some of these control variables include population, type of economic base, tax rates, government expenditures, form of government, crime rates, education levels, and climate. Perhaps the variation in economic growth will be more accounted for by the control variables rather than the economic development independent variables.

An Introduction to the Study

Chapter I offers an overview of the problem, describes the research design, and introduces the rest of the study.

Chapter II chronicles the history of federal, state and local government economic development intervention in U.S. cities. Distinct eras of federal government urban polices are described. The "retrenchment" of the federal government from urban affairs and structural changes in the U.S. economy are offered as partial explanations of why state and local governments have become more active in economic development policy and practice.

Chapter III explains theories of economic development. The chapter discusses three economic perspectives relevant to economic development: classical economics, neoclassical economics, and Keynesian economics. Next, the chapter discusses three distinct political perspectives that influence economic development practice: conservative, neoconservative, and liberal. Location theories of economic development are also discussed. The chapter concludes that no single theory fully explains economic development.

Chapter IV describes specific economic development practices undertaken by U.S. local governments. The first four broad categories of economic development practice are grouped according to their intent: 1) business attraction, 2) business retention, 3) business development, and 4) "equity" practices. The fifth section of this chapter describes the various fiscal tools used by economic development officials. The sixth section describes public-private partnerships for economic development. The final section of the chapter is a case study reporting the innovative techniques used by local government officials to retain Kentucky's largest employer, United Parcel Service, in the city of Louisville.

Chapter V reviews the empirical literature related to the impacts of economic development policy and practice in U.S. cities. Due to the paucity of empirical literature on urban economic development policy impacts, this chapter also includes empirical studies of economic development at the state level, regional level, and firm level. More than seventy empirical studies on the topic of the impacts of economic development policy are reviewed in this chapter.

Chapter VI describes the overall data set. The data set is created from two data sources: the International City/County Management Association (ICMA) and the U.S. Census Bureau's *County and City Data Book*. The descriptive statistics in this chapter offer an insightful summary view of which economic development policies and practices are most prevalent in U.S. cities.

Data regarding the economic development practices of U.S. municipalities comes from the 1999 "Economic Development" survey conducted by the International City/County Management Association. The 1999 data set includes 912 municipalities.

The ICMA data sets include over 100 variables in these categories: General Information, Business Retention, Business Attraction, Small Business Development, and Local Government Profile. The first three categories include numerous measures of economic development including budget, staff size, strategies (retention, attraction, development), and the level of local business participation.

Data regarding the general economic conditions of U.S. cities in 1994 and 2000 are gleaned from the 1994 and 2000 *County and City Data Books* from the U.S. Census Bureau. This data source includes numerous demographic variables related to population, education, and housing. This data source also contains economic variables such as manufacturing value-added, retail sales per capita, city government taxes per capita, and rate of unemployment.

Chapter VII describes the statistical methodology of this study. Correlations between economic development practices and economic growth are explored using multivariate regression analysis. The firm growth model, job growth model, and income growth model are described here.

Chapter VIII describes the results of the analysis. The findings are consistent with previous research that control variables explain much more of the variance in economic growth than do economic policy variables.

Chapter IX is a normative discussion of the policy implications the findings in this study and a conclusion to this dissertation.

CHAPTER II

HISTORICAL BACKGROUND OF URBAN ECONOMIC DEVELOPMENT

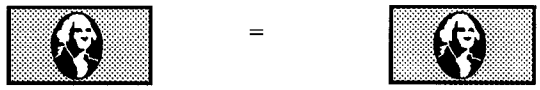
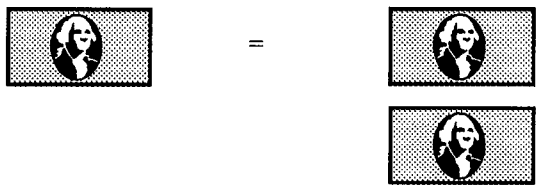
This chapter chronicles the historic intervention of federal, state, and local governments in the economies of U.S. cities. The U.S. system of federalism is currently characterized by major decision-making at the federal level, while implementation is carried out at the state and local levels. Koven and Lyons observe, "The national level of government often supplies the funding and defines the rules, but it relies upon the state and local levels to implement the policy" (2003, p. 4). After a brief explanation of three different public policy models, this dissertation chapter describes the historic involvement of federal, state and local governments in urban economic affairs.

Models of Public Policy

Public policies that drive government intervention in economic markets take on three forms: allocational, redistributive, and developmental (Peterson, 1991). Through allocational policies, public funds are spent on public goods such as parks, sanitation, and police and fire protection. Redistributive policies spend public funds on private individuals through programs such as welfare and subsidized housing. Developmental policies are designed to attract private sector development and investment, so public funds are spent on projects such as airport expansion, convention centers and waterfronts. Table 2.1 illustrates these three policy types.

Table 2.1

Public Policy Models

Policy Type	Examples	Public Investment and Return
Allocational	parks, sanitation, police and fire protection	 $1 tax = $1 return to average taxpayer
Redistributive	welfare, subsidized housing	 $1 tax = less than $1 return to average taxpayer
Developmental	convention centers, education, waterfront development	 $1 investment = greater than $1 return to average taxpayer

Based on Peterson, 1991.

During the late 1960s and 1970s, government involvement in urban economies was largely driven by redistributive policies, such as transfer payments (Nathan, 1977; and Peterson, 1991). But recent years have seen a shift in public policy away from redistributive policy (as evidenced by welfare reform) toward developmental policy. Another notable change is the "retrenchment" of the federal government out of urban affairs, and the increasing role of state and local government involvement in urban economies.

Federal Government Intervention in Urban Economic Development

The history of federal involvement in urban affairs can be understood by grouping the events into five major eras: dual federalism, cooperative federalism, suburban

development, The War on Poverty, and new federalism (Kleinberg, 1995). Table 2.2 illustrates the different eras of federal involvement in urban affairs.

Table 2.2

Major Eras of Federal Involvement in Urban Affairs

Era	Time Frame	Key Characteristics
Dual Federalism	1776-1933	limited federal influence states viewed as independent sovereigns
Cooperative Federalism	1933-1945	FDR responds to Great Depression with New Deal federal government cooperates with local governments to deliver services massive federal government "safety net" programs: social security welfare unemployment FDIC public housing job programs
Suburban Development	1945-1964	guaranteed home loans for veterans Ike develops U.S. highway network suburban sprawl urban decay Urban Renewal (a.k.a. "Negro Removal")
War on Poverty	1964-1969	LBJ declares war on poverty massive redistributive federal programs Community Action Programs Model Cities
New Federalism	1969-present	federal retrenchment decentralization federal spending cuts block grants (UDAG) replace categorical grants

Dual Federalism

Dual federalism has its roots in colonial times, when states were viewed as independent sovereigns, and the national government only regulated a few issues. Under this system, "all powers not explicitly designated as federal were reserved to the states"

(Kleinberg, 1995, p. 95). Federal influence on states was limited. Although the nation was rapidly urbanizing, there was "no substantial federal involvement until the 1930s" (Kleinberg, 1995, p. 95). The only exception is, perhaps, the federal government's land grant program in which cities could secure federal land for public schools, railroads, and other similar public building projects.

Cooperative Federalism

National, state, and local governments cooperated to meet the new economic challenges posed by the Great Depression. The federal government bailed out many municipal governments that otherwise would have been bankrupt (Kleinberg, 1995). At this time FDR launched the New Deal, which was a moment of vast federal expansion into urban affairs. The Great Depression and resulting poverty represented a challenge to urban areas. The New Deal provided a huge "hand up" for urban dwellers through programs such as social security, welfare, unemployment, FDIC, public housing, numerous job programs such as Works Progress Administration, and an aggressive Public Works Administration (PWA) program that began massive construction projects. Many of these programs were administered through categorical grants from the federal government to states and localities. As is usually the case with those who control the money, the national government also influenced the development, design, and implementation of many urban policies and programs. For some programs such as public housing the federal government provided funds and direction, but left the administration of the program up to lower level jurisdictions. This intergovernmental relationship is a prime example of "cooperative federalism."

The New Deal is characterized as a mixture of redistributive policies. The organizational milestones of the New Deal are the creation of the "big four" agencies that are "the core of the urban policy system," PWA, WPA, USHA (United States Housing Authority), and the FHA (Federal Housing Authority).

Suburban Development

After World War II the nation's attention again turned to domestic issues, and the American urban landscape dramatically changed because of housing and transportation. The two most important national urban policies that define this era are found in the Federal Housing Authority (FHA), and Eisenhower's 1956 Highway Defense Act.

Although the FHA was created in 1934 as part of the New Deal, the significant impact of the FHA was not felt until immediately after World War II, and throughout the 1950s. The FHA guaranteed mortgages for homebuyers, and supplied funds to banks, which induced banks to once again invest in home mortgages. Banks were previously less willing to invest in mortgages after millions of homeowners defaulted on their loans during the Great Depression. Guaranteed VA loans for veterans contributed to rising rates of home ownership because veterans were only required to pay a down payment of as little as 3%. By contrast, buying a home in Western Europe often requires a 30% down payment. Today over 67% of Americans own their own homes. These policies were initially intended to spur an economic recovery in the construction industry, but the unintended consequence was the birth of the suburbs (Kleinberg, 1995). But suburban sprawl would not be possible without new roads, and more automobiles.

Cities used to "cluster develop" along rail lines, which guaranteed density, but the 1956 Highway Defense Act enacted under Eisenhower's administration allowed for

"fluid development." People could now build anywhere. The Highway Act established the Highway Trust Fund, which received funds from a federal gasoline tax. If states and cities came up with the first 10%, the Trust Fund would supply the remaining 90% of the cost of building new roads and highways. The interstate highway network that resulted gave city dwellers ready access to new suburban developments. The middle class out-migration to the suburbs left a vacuum behind them that "clearly contributed to the decline of central cities" (Kleinberg, 1995, p. 130). Thus urban development from the late 1940s through the 1960s is characterized by both suburban development, and urban decay.

The War on Poverty

Poverty was "rediscovered" in the 1960s and LBJ declared a War on Poverty in 1964. The "War" reflected a shift from previous programs in which the federal government cooperated with locals to provide services, to a top-down hierarchical organization. This period saw a massive effort to redistribute wealth via federal social programs through CAPs (community action programs). These programs were basically a duplication of existing efforts. CAPs ran such programs as Head Start, College Bound, health, rehab, manpower training, neighborhood conservation, and Model Cities. CAPs were, in a sense, designed to empower the poor as communities, not just as individuals. But in 1964, and for the next four years, massive urban riots occurred across the country and LBJ lost faith in the Poverty War. The War on Poverty had been dubbed "creative federalism," but the programs and the coinciding riots perhaps only served to "create" a significant conservative opposition to liberal social policies. Also created at this time were civic-business-labor organizations such as the Urban Coalition and the National

Alliance of Business, who focused their activity on "providing job opportunities to the urban disadvantaged" (Colman, 1989, p. 174).

Urban Renewal policies (also known as "slum clearance" or "negro removal"), in effect since the late 1950s were also having a negative impact on cities. These policies, from Washington DC, mandated that cities should deal with "blight," and that cities had the permission to clear blighted land. In fact, the federal government would pay two-thirds of all clearance and development costs. This resulted in cities buying land, clearing land, rebuilding land, and then selling it to developers who started new development. Corrupt city officials manipulated the system and made money by declaring a neighborhood "blighted" based on the appearance of the physical environment. As a result of these "windshield assessments," entire communities were destroyed with no regard for the people who lived there. Jane Jacobs argues that the people make up a community, not the environment, but, nonetheless neighborhoods such as Cabrini Green in Chicago, Brownsville in New York, and Pruit Igoe in St. Louis were razed, later to be replaced with sterile public housing projects. The official name for this was Urban Renewal, but many called it "negro removal" because the federal bulldozers displaced thousands of African-Americans from their homes.

New Federalism

In response to the urban failures noted above and rising poverty, federal urban policies were reorganized under the Nixon administration. From Nixon to Clinton "the federal government began a systematic disengagement from efforts to revitalize cities" (Cummings and Killmer, 1997, p. 308). President Carter admitted that, "A unified and coherent national urban policy designed to solve the problems of nation's communities

and those that live in them is not possible" (Cummings and Killmer, 1997, p. 308). The big-government urban policies pushed by the liberal left lost their credibility.

A significant organizational change associated with New Federalism is that the federal government, in some ways, "washed their hands" of urban problems. Instead of micromanaging the 100-plus categorical grants, they consolidated them into six large block grants. This change marked a new trend of decentralized implementation, which was believed would stimulate greater participation by local citizens. A disadvantage of decentralization is that local administrators of grants can target the money toward developmental objectives favored by business rather than needed social services.

The final phase of New Federalism, sometimes called Federal Retrenchment, is characterized by deep spending cuts that might totally defund the grants and turn the responsibility over to the states, who often proved inept at addressing urban problems. At this point, Kleinberg suggests, "cities must expect to proceed with relatively little help from higher levels of government" (1997, p. 253). This local self-reliance is evidenced by a new wave of "local" economic development efforts, and the initiation of new public-private partnerships between local government and the private sector.

Current Federal Economic Development Programs

The current economic development efforts of the federal government are administered by the Economic Development Administration (EDA), which is part of the Department of Commerce in the executive branch. The EDA was established by the Public Works and Economic Development Act of 1965, and is designed to "generate jobs, help retain existing jobs, and stimulate industrial, technological, and commercial growth in economically-distressed areas of the United States" (Economic Development

Administration [EDA], 2002, p. ii). Putting a positive spin on federal retrenchment from urban affairs, the EDA admits, "Distressed communities must be empowered to develop and implement their own economic development and revitalization strategies" (EDA, 2002, p. ii). David Sampson, Assistant Secretary of Commerce for Economic Development, cites wealth creation and poverty alleviation as the end goals of economic development activity. He explains "it is not the public sector that creates wealth and minimizes poverty, but the private sector," therefore the role of government in general, and the EDA specifically, is "to foster a positive environment where the private sector will risk capital investment to produce goods and services and increase productivity" resulting in high skill/high wage jobs (EDA, 2002, p. iii). Therefore the EDA no longer has a "processor of grants philosophy" but an "investment philosophy." This philosophy is at the root of the EDA's eight major investment programs listed below:

Public Works Program

Through the Public Works Program distressed communities receive grants to upgrade physical infrastructure necessary for attraction of new businesses, and retention and expansion of existing businesses. Sustainable development is encouraged by upgrading or redeveloping existing infrastructure, including brownfield reclamation projects. Projects eligible for this program include water and sewer facilities, roads, rail spurs, ports, and training facilities.

Economic Adjustment Program

The Economic Adjustment Program provides support to states and localities whose economies are structurally declining. Communities that have lost major employers, had a military bases close, or suffered a natural disasters participate in this

program. Grants are given to support strategic planning or project implementation, and revolving loan funds are also used.

Research and National Technical Assistance Program

This program has two objectives: 1) develop a comprehensive body of information about economic development practices through research and evaluation grants, and 2) disseminate the information to economic development practitioners through newsletters, web sites, and conferences.

Partnership Planning Grants* and *Short Term Planning Grants

These two programs provide grant funding to local and regional economic development planning agencies, including a focus on Indian tribes, for the purpose of preparing, implementing and maintaining a Comprehensive Economic Development Strategy (CEDS). Long-term grants are renewable each year, while short term grants are limited to twelve months.

Technical Assistance Program

Grants provided under this program are designed to fund feasibility studies of possible new projects such as industrial parks and business incubators. Potential projects are analyzed according to their economic, financial, and social impacts.

University Center Program

This program makes university resources available to economic development practitioners. The university centers provide technical assistance, perform feasibility studies and conduct impact analyses. Technical assistance might involve engineering, management, or marketing expertise.

Trade Adjustment Assistance Program

This program, authorized by the Trade Act of 1974, helps firms that have been negatively impacted by increased imports of cheaper foreign goods that have eaten into their market share. Bureaucrats at twelve nationwide Trade Adjustment Assistance Centers help businesses apply for EDA assistance, which, if granted, normally pays 50% of a firm's cost to restructure.

It is evident in these eight programs that the federal government has chosen to offer assistance to communities in need. These grants invest federal money in distressed areas with the intent of spurring development. In the case of the Trade Adjustment Assistance Program, efforts are made to increase the global competitiveness of specific firms.

National Urban Policy

Some argue in favor of an integrated national urban policy, while others see benefits in the decentralization of governance to lesser governments. The federal government has been involved in urban affairs since FDR's New Deal, but rarely has there been a clear policy that articulates the roles of different levels of government in forming and implementing urban policies and programs (Vogel, 1997, p. 410). Numerous obstacles such as institutional barriers and political barriers preclude the issuance of an actual policy; presidents have tended to focus on more pressing domestic issues such as healthcare, education, and recently homeland security. In light of the global trends of decentralization it seems unnecessary to have a national urban policy. Taxpayers do not appreciate bigger government, and local city leaders would not readily give up their autonomy. It seems unlikely that a national urban policy will be anything more than it has

been since the Nixon era—an expression of the point of view of the administration, rather than specific policy directives.

In general, there is consensus that if a national urban policy was politically practical, then the policy should include housing, labor laws, health, public transportation, roads, welfare, crime control, education, land use, and economic development. Without being officially named "urban policies," housing, labor, welfare, and roads are heavily regulated by the federal government. Of the other categories, cities could benefit from a national urban policy on land use and economic development. Tighter federal regulation could perhaps prevent localities from creating more urban sprawl, but more importantly the federal government could help the competitive position of the U.S. in the global marketplace by implementing national economic development practices. The zero-sum game, where foreign firms put U.S. cities in bidding wars against them might be managed better on the national level.

There is currently no consensus on what the federal role should be in urban affairs. Most urban theorists would agree which issues comprise "urban affairs," but the extent to which the federal government should be involved in such affairs it seems there are two major camps. The liberal camp is in favor of more government involvement and control over local urban affairs. Regarding urban policy, the liberals had national influence from the 1930s up to 1968, but it seems that more conservative views gained favor since the New Federalism of the Nixon era. Conservatives prefer smaller government, less federal involvement in local affairs, and decentralization of power. National security is one exception to this generalization, but the absence of any serious national urban policy is evidence enough that decentralization is the order for the day.

State Intervention in Urban Economic Development

Beginning with Mississippi's Balance Agriculture with Industry Program in 1936, states aggressively attempt to retain existing businesses and attract new businesses into their borders. Numerous incentives are offered to attract, retain or create jobs, and thereby protect a city's tax base. These incentives include tax-abatements, grants, loans, tax-exempt bonds, equity financing, exemptions or credits, regulatory relief, customized training, and infrastructure development (Blakely 2002; Bland 1989; Butler 1981; Eisinger 1988; Hamlin and Lyons 1996; Luke et al., 1988; Matz and Ledebur 1986; Mikesell 1995; Sbragia 1996). Many states create complex programs designed to attract, retain, or expand individual firms. All the states have an official economic development agency, and an economic development plan that prioritizes job retention and creation. State governors typically work closely with the economic development agency.

From a fiscal perspective, economic development programs are not a major focus of the states. Most of the states' expenditures are for infrastructure and social services—the top five expenditure areas are education, welfare, health, hospitals, and highways. These are typically not classified as "economic development" programs, but they do contribute to the overall "business climate" of a region (Colman, 1989). Fisher (1997) alleges that a state's investment in public safety is a strong determinant of economic growth. States also directly contribute funds to local governments. A less direct way that states influence economic development is by restricting local governments' ability to tax, spend, and borrow.

The degree to which states have been involved in the private sector has largely depended upon the industrial composition in each state. Natural resources, such as gold in

California and oil in Texas, often drive state economic development policy (Colman, 1989). During the Dual Federalism era of American history, the U.S. states were more active than the federal government in economic regulation and economic development. State governments actively tried to increase overall production in their regions through investment in public works and investment in major industries such as railroads (Koven and Lyons, 2003). During the era of "big government," beginning with FDR's massive New Deal, the federal government became more involved in urban affairs. But since the federal retrenchment, associated with new Federalism and Nixon's withdrawal from urban affairs, states became more responsible for economic development in their cities and within their borders. State involvement in urban economic development is often described as three different "waves" of activity, which are described below and illustrated in Table 2.3.

First Wave

The "first wave" of economic development was aimed at the attraction of new firms into a state, or local economy (Blakely & Bradshaw, 1999). First wave attraction techniques, often called "smokestack chasing," include the use of grants, loans, tax-exempt bonds, equity financing, tax abatements, exemptions or credits, regulatory relief, and infrastructure development. An example of first wave efforts include the luring of old industrial firms to the South and West (Blakely & Bradshaw, 1999).

Second Wave

The "second wave" began in the 1980s (Blakely & Bradshaw, 1999). The goals of "second wave" economic development efforts are retention and expansion of existing businesses. Second wave strategies also include "indirect firm-level assistance, such as

creating new businesses, increasing investment capital, developing incubators or providing technical assistance to help local businesses grow or expand" (Blakely & Bradshaw, 1999). Clarke and Gaile (1992) state that second wave strategies are consistent with a strong investment and entrepreneurial approach. This approach includes the use of revolving loan funds, below-market loans, enterprise zones, and tax increment financing. Ross and Friedman (1990) identify second wave strategies as efforts to accelerate technology transfer, expand work-force training programs and increase capital for small to medium size business.

Third Wave

Rather than simply offering direct payments to firms, in third wave economic development practices, states seek to create a fertile business climate that will of itself be attractive to businesses (Fosler, 1992). Consensus is lacking in terms of the exact parameters of "Third Wave" development. It has been recognized, however, that such development can shift the focus from the state-led activity onto local development "by creating the context for economic growth through public-private partnerships, networks that leverage capital and human resources to increase the global competitiveness of a group of strategically linked firms" (Bradshaw & Blakely, 1999). Literature also describes third wave economic development strategies as oriented to building "institutional and human capacity to create a competitive environment" (Fitzgerald & Leigh, 2002, p. 45). Another key characteristic of the "third wave" is an emphasis on developing specific industrial clusters, rather than general smokestack chasing (Porter, 2000). Equitable job opportunities for the poor is another element of this new "third wave" (Fitzgerald & Leigh, 2002).

First and second wave economic development efforts have been primarily led by the states, but third wave strategies shift the focus onto localities. First wave strategies were "place-based" in the sense of attracting firms to places while second wave strategies were "firm-based" since they relied upon retention and expansion of existing businesses. First and second wave techniques are now "giving way to the third wave" primarily because businesses have greater mobility and their location choices have become less predictable (Blakely & Bradshaw, 1999). This is clearly true for large multinational corporations such as United Parcel Service. The Post-Fordism "techno-economic paradigm" described by Ruigrok and van Tulder (1995), also contributes to mobility. Free trade, globalization, and cheap labor are significant factors that have motivated domestic and international relocation choices for firms (Hill, 2002). Therefore states can no longer count on a single industry or firm to generate economic activity. According to Fosler, "states are now more concerned with the overall performance of the state economy" (1992, p. 5). The third wave does not replace earlier techniques, but more importantly uses first and second wave techniques within a larger strategic context.

Using data from a national survey of state development agencies, Eisinger (1995) notes three seemingly contradictory trends in the 1990s: 1) states are losing interest in economic development, 2) states are regressing from entrepreneurial policy, favoring industrial recruitment strategies instead, and 3) "third wave" policies are being embraced. Eisinger suggests that these changes are not driven by research, but program survival driven by political pressure.

Numerous empirical studies have examined the effectiveness of direct state economic development activity. Other studies have examined the general business

climate of states as a predictor of economic growth. These studies are discussed in the summary of empirical literature of economic development in Chapter Five.

Table 2.3

Three Waves of State Economic Development Policy

	Time Frame	Policy Objectives	Key Actors	Focus	Typical Tools
First Wave	up to 1980s	business attraction	states	place-based strategies	free (or low cost) land, grants, loans, tax-exempt bonds, equity financing, tax abatements, tax exemptions, tax credits, regulatory relief, and infrastructure development
Second Wave	1980s	business attraction, business retention, expansion of existing firms	states	place-based strategies, firm-based strategies	*all the above, and* incubators, increasing investment capital, individual firm level assistance, technical assistance to local firms, export assistance to local firms, revolving loan funds, below-market loans, enterprise zones, tax increment financing
Third Wave	1990s onward	business attraction, business retention, expansion of existing firms	states, cities, private organizations	place-based strategies, firm-based strategies	*all the above, and* create a fertile business climate, public-private partnerships, human capital development, cluster strategies, equity strategies

Based on Blakely & Bradshaw, 1999.

Local Government Intervention in Urban Economic Development

Like the states' economic development activities, cities also followed the "waves" of economic development practices. Economic development practitioners in U.S. cities have actively sought to attract and retain businesses (first wave); expand existing firms (second wave); and participate in creative new programs and partnerships to boost the economy and create a pro-growth business climate (third wave). Over the past three

decades public and private city leaders have implemented numerous programs and policies in the name of economic development "to create jobs and enhance their tax base" (Feiock, 1991, p. 643). To summarize the economic development activity of local government in U.S. cities, this section first explains why locals have become more directly involved in economic development activity; and second, this section identifies specific local actors who are getting involved in the economic development process.

Increased Local Economic Development Activity

Over the past three decades, "local development activity has intensified dramatically" in response to numerous economic and political changes (Feiock, 1991, p. 643). Three major changes that have driven local city leaders, public and private, to become more involved in economic development activities are the urban crises of the 1970s, federal retrenchment, and structural change in the macro economy.

1970s Urban Crises

The urban crises of the 1970s are typically characterized by stories of concentrated poverty; welfare dependency; crime; high unemployment; derisory housing; inadequate public transportation; disrepaired streets and highways; pollution; urban sprawl; spatial mismatches of jobs and workers; and fiscal crises experienced by local governments. While these problems have always existed to some extent, it is in the 1970s that they worsened and compounded. A recession developed in 1974, resulting in fewer jobs in the private sector and fiscal stress faced by states and localities. In some cases, funds earmarked for the poor were diverted to other uses. Local governments used funds provided through Comprehensive Employment and Training Block Grants to "fund existing public service positions" rather than training the poor (Kleinberg, 1995, p. 196).

In the 1991 book, *America's Ailing Cities*, Ladd and Yinger explain that cities have an increasing lack of ability to raise revenue to meet service demands because they have low revenue-raising capacity and high service costs. They argue that local economic development techniques such as industrial revenue bonds and enterprise zones do not work, and that the crisis can only be resolved with more federal support and state support, such as taking on delivery of basic services.

The problems of the urban crises of the 1970s exacerbated and manifested in what Rusk called "America's real urban problem," which is the "racial and economic segregation that has created an underclass in many of America's major urban areas" (1995, p. 1). William Julius Wilson, in his book *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, explains that the rise of the urban underclass (defined as "the most disadvantaged segments of the black urban community," including the long-term unemployed, the unemployable, the poor, the welfare-dependent, and street criminals (p. 8) is not caused by racial discrimination, but is a result of complex demographic and economic changes including the mechanization of agriculture in the South, the migration of blacks to Northern cities, the spatial mismatch caused by jobs moving to the suburbs, and overall industrial restructuring from manufacturing to services. The convergence of these multiple "urban crises" of the 1970s got the attention of city leaders and is one cause of increased economic development activity by local city leaders.

Federal Retrenchment

Another reason why the economic development activity of local city leaders has increased in recent years is the federal government's withdrawal from urban affairs, often

called "retrenchment." In the U.S. political system of federalism, municipalities are the lowest-order governments and have "little capacity to directly intervene in a new globally based economic structure" (Blakely and Bradshaw, 2003, p. 24). According to Dillon's Rule of 1872, lower-tier governments, such as cities and counties, are subservient to state and federal governments. So cities have typically assumed a reactive posture to higher-order governments (federal and state), rather than a proactive posture.

The urban policies of the Nixon and Reagan administrations drove local government officials to be more involved in economic development. The premise of the Community Development Block Grant (CDBG) program was to "decentralize" decision-making power from the federal level to the local level. It was thought that locals could more effectively use the funds, and the Nixon administration was eager to distance itself from direct involvement in urban problems. After Nixon took office in 1969, the federal government "quickly acted to minimize the role of citizen participation" in Federal urban programs such as Model Cities (Kleinberg, 1995, p. 206), which put CDBG funds squarely in the hands of local government. The position of the Reagan administration was that "urban development was best left to the processes of the market and of social voluntarism" (Kleinberg, 1995, p. 226). So Reagan's "nonurban urban policy" provided a strong impetus for local city leaders to take economic development matters firmly in their own hands.

Economic Restructuring

A third reason that local government leaders have become more involved in economic development is in response to structural changes in the global economy. According to Robert Reich (1991), U.S. Secretary of Labor during President Clinton's

first term, the economic problems in U.S. cities, such as unemployment, have their basis in the competitive position of the city in the national and world economies. The recent structural change in the world economy has it roots in both industry and politics.

In the past thirty years, the industrial mix of the U.S. economy has changed from being dominated by manufacturing to services. According to Fitzgerald and Leigh, "manufacturing jobs are important to a local economy because they pay higher wages overall than service industries for people with comparable skills" (2003, p. 103). But many cities have lost much of their manufacturing base as firms have moved to the suburbs and many "Rust Belt" cities have seen many of their manufacturing firms move to the "Sun Belt" (Rusk, 1995; Fitzgerald and Leigh, 2003). With national borders becoming increasingly more open, many U.S. firms have moved their production facilities to other countries. After NAFTA many U.S. firms opened shop in *maquiladoras* across the border in Mexico, but the latest shift in manufacturing jobs has been to Asia. White collar service jobs are also being moved offshore to places such as India where there is no language barrier. "U.S. companies are expected to send 3.3 million jobs overseas in the next 12 years" declares *Time* magazine (August 4, 2003, p. 36). City leaders have noticed this new expanded mobility of firms and actively seek to retain businesses who consider leaving. Savitch and Kantor (2002) suggest that, in the face of global restructuring, deliberate planning by city leaders combined with national urban policies can help cities engage the international marketplace.

Besides globalization, Wyly, Glickman, and Lahr (1998) suggest other macro trends that affect national growth (technological change, demographic trends, and selective flows of people, jobs, and wealth) are also magnifying inequality in

opportunities for individuals and communities. According to Wyly, Glickman, and Lahr (1998) these processes are creating numerous problems such as income inequality, social polarization, uneven urban growth, inner city neighborhood decay, housing unaffordability, and fiscal shortfalls faced by large cities.

Politicians like Bill Clinton who embrace free trade have opened U.S. borders through agreements like NAFTA that reduce trade barriers such as tariffs and quotas. U.S. participation in multi-national institutions such as the International Monetary Fund (IMF) and the World Trade Organization (WTO) has contributed to "greater interdependence with the rest of the world" (Litan, 2000, p. 35). This interdependence is characterized by the "globalization" of production and the globalization of markets. Because of trade deregulation and advances in transportation and telecommunications, firms can now produce their goods virtually anywhere, and sell those goods in any market. But globalization has its pros and cons. In simple terms, U.S. consumers benefit from cheap imports, U.S. firms and labor benefit by having access to new foreign markets, but U.S. labor also suffers by not being able to compete with cheap foreign labor. Bernstein observes, "It's a paradox that while globalization brings big gains at the macroeconomic level, those pluses are often eclipsed in the public eye by all the personal stories of pain felt by the losers" (2000, p.39). A major effect of globalization is that the economies of U.S. cities are suddenly more dynamic and volatile—capital and labor are more mobile than ever, making it difficult for city leaders to keep up with the changes. According to Blakely and Bradshaw, "American communities can no longer depend, if they ever could, on a participating local business base that will pledge long-term loyalty to a community or to its workers" (2003, p. 25).

These structural economic changes bringing about global interdependence are compelling sub-national governments, including cities and counties, to be more active in local economic development. In fact many U.S. state and local economic development agencies do not limit their economic development efforts to local actions only; many interact directly with foreign firms and governments (Fry, 1998).

Local Economic Development Actors

Government officials and agencies, business elites, and community-based organizations all participate in the efforts to develop and expand a city's economy. In the *Economic Development 1999* survey, the International City/County Management Association (ICMA) found that of 1,042 municipalities that responded, 92.6% of the municipalities had city governments actively involved in economic development; 48.3% had county governments involved; 76.5% had chambers of commerce involved; 54.9% had private business involved and 15% had ad hoc citizen groups involved. These groups can be broken down into three main actors: government, business, and community-based organizations (ICMA, 1999).

Government

City government leaders have two primary objectives: 1) make their city competitive in the world economy, and 2) ensure the social needs of the region's citizens are satisfied (Savitch and Vogel, 1996). While these two objectives remain the same among all cities, each city has its own economic complexities which yield different modes of political response from city government.

One such response is for city leaders to focus economic development activity on specific niches. Blakely (2002) suggests that each city should know its own unique

resources and challenges, and city leaders should favor economic development techniques that develop human capital and develop high tech industries. Blakely explains this "local" economic development is crucial because cities cannot count on help from federal, state, or even metropolitan governments. Eisinger agrees that cities are "increasingly cut off from federal aid and program initiatives," and as this federal devolution continues, city mayors must "focus more and more on making the most of the resources they control" (1998, p. 309). Eisinger suggests that in these tough times, mayors have abandoned their former moral crusades (racial, economic, social) and are now concentrating on employing public management techniques to make the most of their scarce resources.

Another economic development response by government officials is to form a metropolitan government that can represent the entire region, especially for the purpose of business attraction. In the 1996 book, *Shaping Suburbia: How Political Institutions Organize Urban Development*, Lewis suggests that political institutions influence the location decisions of firms and developers. Therefore centralized metropolitan government should manage land-use planning, control traffic congestion, downtown decay, and sprawl. Lewis avers that fragmented metropolises are more likely to have sprawl, weak downtowns, and spatial mismatches of jobs and housing. Some, such as Tiebout, encourage a multiplicity of decentralized governments. Others note the limits of structural analysis. Careley explains "distribution of authority and legal powers as reflected in a city government's formal structure is not equivalent to the distribution of actual influence..." therefore "...no simple change of governmental structure, such as adding a metropolitan area-wide layer, was magically going to eliminate these (urban)

problems" (1977, p. 122). Nonetheless, the ability to attract new firms to a region remains one of the key arguments in favor of metropolitan government.

Business Elites

Non-governmental private sector actors often involve themselves in economic development policy and practice. Most notably in the literature is the case of the "urban regime" in Atlanta described by Stone (1989). In an urban regime, business leaders and elected officials cooperate to exploit institutional resources for sustained decision-making that benefits both sides. For example, in Atlanta white business leaders pushed for relaxed restrictions on business development, and black businesses benefited from the contracts they were awarded by the white developers as a result of the relaxed restrictions. A fraternal bond is formed as the elites cooperate across institutional sectors and community life. According to Stone regimes are capable of development, but less capable of addressing social problems.

Others have built upon Stone's regime theory, such as Flores (1999) who delineated four distinct types of urban regime: machine city, reform city, entrepreneurial city, and international city; and Imbroscio (1998) who offered three other urban regime types: community-based, petty bourgeois, and local statist. The regime characteristics are largely based on who dominates the business sector, government operations, and the electoral structure (Reese and Rosenfeld, 2002).

Labor unions represent another private sector entity involved in local economic development. Their actions tend to influence elections (Fitzgerald and Leigh, 2002), and their progressive policies might include city minimum wage laws that exceed state minimums, requirements for employers to provide benefits such as health insurance or

pay higher wages, and workers' rights to form unions (Meyerson, 2001). A city whose politics are dominated by labor unions would more likely invest resources in human services, and be less ideologically committed to offering incentives to businesses such as tax breaks for new firms.

Community-Based Organizations

A third type of actor in urban economic development is the community-based organization (CBO). Many religious and civic groups are considered CBOs, including churches, neighborhood associations, philanthropic organizations, charities, political groups, religious parachurch organizations, fraternal organizations, clubs, and youth groups. While individual CBOs are often concerned with a single issue such as affordable housing or education, CBOs have been involved in just about every aspect of economic development policy. CBOs are not only involved in the local government political process, but they are also "assuming functions formerly undertaken by local governments" such as helping the poor and elderly (Van Dusen Wishard, 1999, p. 94).

Community Development Corporations (CDC), a broad category of CBOs, sprang out of the 1960s War on Poverty. CDCs differ significantly from business-led development efforts because they operate in low-income communities, and they encourage grassroots community involvement in the economic development process (Kleinberg, 1995). The National Congress for Community Economic Development 2003 Community Revitalization Policy Agenda boasts that CDCs have generated 247,000 jobs, created 550,000 units of affordable housing, developed or rehabilitated over 71 million square feet of commercial space, and secured over $1.9 billion in small business loans over the past thirty years (Pitcoff & Widrow, 1998).

Due to federal retrenchment from urban affairs, overall restructuring of the U.S. economy, and the urban crises of the 1970s, the past thirty years have seen a myriad of local actors get involved in economic development planning, policy, and practice. These diverse local actors include local government, business elites, and community-based organizations.

Chapter Summary

For most of the twentieth century, government intervention for the purpose of economic development in U.S. cities was characterized by massive federal government programs. After the federal government discontinued many of these programs, state and local governments took economic development matters into their own hands. Their efforts have followed three "waves," (1) business attraction, (2) business expansion, and (3) entrepreneurial programs. Certain major decision-making still occurs at the federal level, while implementation is carried out by various public and private actors at the state and local levels. The next chapter of this dissertation describes various theories of economic development that inform and influence economic development policies, programs, and practices.

CHAPTER III

THEORIES OF ECONOMIC DEVELOPMENT

This chapter provides the theoretical foundation of this dissertation. Classical and contemporary economic and political theoretical sources are drawn upon. The chapter begins with a discussion of the "economic problem" of resource scarcity, and discusses three economic perspectives relevant to economic development: classical economics, neoclassical economics, and Keynesian economics. Next, the chapter discusses three distinct political perspectives that influence economic development practice: conservative, neoconservative, and liberal. Many of the contemporary theories of economic development described in this chapter have both economic and political implications. The chapter is therefore organized such that the various contemporary theories relevant to economic development are included in the economic and political sections according to the most salient characteristics of the theory.

Economic Theory

A key assumption of economics is that people make rational decisions, which means they always seek to improve their own welfare. In a local economy, government, private firms, households and individuals all benefit from overall economic growth of the local market. In theory then, all of these stakeholders desire increased output in the basic resources: land, labor, and capital. The classic economic dilemma, however, suggests that resources are scarce. We never quite have enough of what we want. Not enough

resources, money, jobs, firms, etc. Public and private sector leaders respond to the economic dilemma with numerous programs and policies commonly dubbed "economic development" activities. The goal of these programs is to increase output resulting in economic growth and higher living standards for all in the region. Numerous ideas exist about the best way to increase output.

Capital resources are mobile, and many local economies suffer when resources leave, such as when an employer closes a manufacturing facility and reopens in another city. Over the past few decades American cities have been losing manufacturing jobs to cheap overseas labor, but within the past five years, service jobs have also started to shift overseas. Low telecommunications costs have paved the way for U.S. call centers to relocate to such places as Bangalore or New Delhi. From 2003 to 2005, "U.S. companies are expected to send 3.3 million jobs overseas...primarily to India" (Thottam, 2003, p. 36). As national labor forces are blended into a single world labor force, the price of labor is a key variable in determining future economic prospects of cities. More than ever, U.S. city leaders are actively employing a variety of economic development strategies to attract and retain firms, whose capital is increasingly more and more mobile.

Like capital, the labor resource is also mobile. Certain regions experience "brain drain" where workers with the highest skills leave the area, making it difficult for local firms to meet staffing needs. In the previously cited ICMA *Economic Development 1999* survey, 45% of the respondents reported that a lack of skilled labor is a barrier to economic development in their city.

Economic markets in cities, suburbs, towns, counties and regions have much in common with the "macro" national economy where goods and services are exchanged.

Some goods and resources are privately owned such as land, cars, homes, and businesses. Other goods and resources are publicly owned such as parks, highways, airports and schools. Likewise, enterprises are either private (U.P.S., Coca-Cola, Joe's Car Wash), or public (U.S. Postal Service, the U.S. Army, kindergartens). Local economies therefore experience competition between government, private firms, and individuals all competing for a scarce amount of resources, goods and services.

Every economy faces "the economic problem" that resources are scarce and people can only get a fraction of the goods and services that they want (Sievert & Dodge, 2001, p. 4). The way resources are allocated determines how efficient a market will be. Market participants must decide what to produce, how to produce it, and for whom to produce it, sometimes called the "Three Economic Questions" (Sievert & Dodge, 2001, p. 11). Of the three basic economic systems, traditional, market, and command, U.S. cities most closely follow the market system. The presence of government regulation, however, illustrates it is not a pure market system—there are elements of the command system at work also.

In a pure system of capitalism, decisions about resource use are determined by buyers and sellers through competition in a free market. Resources are privately owned and private enterprises produce all goods and services. In a command system, resources are publicly owned, and government authorities dictate how resources will be used. The system of pure capitalism and the command system represent extreme opposite ends of the spectrum of economic systems. Most nations in the world today have adopted various forms of capitalism, while a few communist, socialist, or totalitarian nations have adopted command economies.

U.S. cities have elements of both command and market economic systems. Local governments influence where private firms can locate through zoning laws. Local governments charge firms taxes to pay for police and fire protection, both of which are monopoly services. This is an example of the command philosophy because private firms are required to pay for the service, even if they never use it, or even if they already provide that service for themselves, such as employing private security guards to protect a business's property in lieu of the police. On the other hand, U.S. local governments do not dictate what goods or services businesses should produce, and local governments can reduce or waive taxes as an economic development strategy; both examples of the free market system. Thus, both command and market principles are at work in local economies. The extent to which a local government favors the command or the market philosophy largely depends on the economic paradigm held by government officials. The evident trend in the U.S. seems to be more market and less command as evidenced by the recent deregulation of major industries such as airlines, telecommunications, and utilities.

While the U.S. national economy and U.S. local economies mostly follow the capitalistic market system, an argument can be made that the economic thinking of mercantilism is seeing a resurgence. In mercantilism, nations limit their imports and encourage exports so that cash will accumulate in the nation. The contemporary "protectionism" movement at the national level could be seen as a form of new mercantilism. The economic base theory used to analyze urban economies also has elements of new mercantilism in that cities try to keep resources from leaving the local market.

The economic theories currently influencing economic development practices in U.S. local economies are grouped in this dissertation according to three major schools of economic thought: Classical economics, neoclassical economics, and Keynesian economics. These three foundational schools of economic thought are described in the next section with an emphasis on how they inform and influence contemporary theories of economic development. Table 3.1 offers a comparison of these three major economic theories.

Table 3.1

Comparison of Major Economic Theories

Economic Theory	Goals	Key Scholar	Key Characteristics	Solutions to Market Failure
Classical	economic prosperity full employment increased production	Adam Smith	focus on supply (supply creates demand) free markets limited government intervention in markets	market failures are short-term the "invisible hand" of competition supply and demand
		David Ricardo	labor theory of value adversarial class relations comparative advantage	deregulation reduced corporate taxes government action to spur production
		Joseph Schumpeter	creative destruction innovation drives growth	
Neoclassical	economic prosperity full employment increased profits	Menger, Jevons, Walrus Alfred Marshall	focus on demand theory of marginal utility demand determines equilibrium	market failures are short-term the "invisible hand" of competition supply and demand deregulation reduced corporate taxes government action to spur consumption
Keynesian	economic prosperity full employment increased spending	John M. Keynes	government intervention in markets Keynesian multiplier	market failures might be long-term regulation counter-cyclical fiscal policies deficit budgets

Classical Economics

Classical economics is a school of thought that values a free market economic system with limited government involvement. The goals of economic prosperity and full employment are thought to be achievable through the market forces of supply and demand, dubbed "the invisible hand" by Adam Smith. The focus is on production—it is thought that supply creates its own demand (known as "Say's Law"). Recessions and inflation are thought to cure themselves. Whatever "leakages" occur (savings and taxes), will reenter the market as "injections" (investments and government spending). Therefore government intervention is unnecessary. This section discusses the roots of classical economics with a focus on two of the most influential economists in the Classical school, Adam Smith and David Ricardo.

Mercantilism

The classical economic school of thought has its roots in the mercantilism system and the Physiocrat movement. By the 16th century the mercantilism system had taken root in many nations. Mercantilism is a system where government policies limit imports and encourage exports, which would allow the accumulation of gold and silver.

Adam Smith

The 18th century, with its Enlightenment, Industrial Revolution, and American Revolution, was a century of discovery and new ideas. During this time the Physiocrats appeared, who believed in the laws of nature, and that all wealth sprung from the land. Consequently, only "husbandmen," such as farmers, miners, trappers, etc, were the only true producers; and tradesmen, craftsmen and industrialists were not productive. The Physiocrats argued that government should not interfere in economic affairs. Their

mantra was *laissez faire et laissez passer*, literally "let make, and let pass," meaning "don't interfere, for the world will take care of itself" (Sievert and Dodge, 2001, p. 25). The Physiocrats set the stage for the father of modern economics, Adam Smith.

In his 1776 book, *The Wealth of Nations*, Smith makes his argument for a new economic system based on free markets and limited government intervention. These two arguments are the pillars of classical economics. Smith claimed that government intervention created inefficiency, and he argued that mercantilist policies should be stopped. Government should no longer subsidize private firms; government should no longer grant monopolies to private firms; trade restrictions should be removed; products should not be regulated; and minimum wage laws should be repealed. Smith's core belief was that competition would act as an "invisible hand" to create proper pricing in the market. Free market competition would result in economic growth that would benefit all members of society. Capitalists would have greater profits, and labor would experience higher wages.

From an international trade perspective Smith argued that free trade will lead to economic growth because of absolute advantage. Absolute advantage is the "situation in which one country is more efficient at producing a product than any other country" (Hill, 2002, p. 129). In Smith's day, the English were the best at producing textiles because of their advanced manufacturing processes, and the French were the best at producing wine because of their climate, soil and expertise. Countries should specialize in products where they have an absolute advantage then trade for other goods. Through free trade, the English and the French can both enjoy the best textiles and the best wine.

In Smith's analysis, an economy has unlimited upward growth potential. Smith's optimistic outlook appears to be shared by economic development officials in the U.S. who also expect increased economic growth each year. Although they share Smith's positive outlook, often their numerous policies and actions contradict Smith's ideal of a free market without government intervention.

David Ricardo

David Ricardo, was a contemporary of Adam Smith's and another Classical economist. He believed that "economic freedom led to maximum profits, that profits were the source of investment capital, and that a competitive economy would lead to profit-maximizing investments" (Fusfeld, 1999, p. 41). Ricardo was therefore a staunch supporter of pro-business policies because he believed that free markets lead to economic growth. Ricardo extended Smith's original work three ways: by offering the labor theory of value; by describing adversarial class relations; and by explaining the law of comparative advantage.

The labor theory of value suggests that the market price of a good is ultimately determined by the amount of labor time embodied in the production of the good. Thus goods that are more labor-intensive to produce have higher prices. The value of a good is then measured by the number of man-hours or "person-years." According to Ricardo's Iron Law of Wages, the wages of workers naturally trend to a minimum level that allows workers to only meet their basic subsistence needs. Wages are expected not to rise above this "iron" limit. This idea is attractive to factory owners because labor remains dependent on the firm, yet labor remains economically powerless.

Unlike Smith, who believed in unlimited economic growth potential, Ricardo believed that economies generally move toward a standstill, because natural resources are limited, and because capitalists will exploit workers. Ricardo's ideas about labor and the propensity for adversarial class relations influenced Karl Marx in his pessimistic views about the opportunity for workers to benefit from capitalism. Ricardo himself admits that a free market untouched by government intervention is not perfect, but is nonetheless the best economic system.

In the context of an imperfect market system, Ricardo's law of comparative advantage emerged which built upon Smith's theory of absolute advantage. The theory of comparative advantage suggests that a country should specialize in the production of goods that it produces most efficiently and to buy from other countries goods that it produces less efficiently. For example, U.S. firms in the 1970s had an absolute advantage in producing computer hard drives—we could make them more efficiently than foreign firms. But if we continued to invest our land, labor and capital resources into making computer hard drives in the U.S. today, we would have less of those resources to invest in another good where the U.S. has absolute advantage over foreign countries: aerospace products. Although U.S. firms can probably still produce goods such as computer hard drives more efficiently than foreign firms (absolute advantage), the opportunity to invest those resources in another, perhaps more profitable, venture are lost. Because the "opportunity cost" of making computer hard drives in the U.S. is so great, we can choose to import them, and invest our resources producing other goods such as aerospace products. Following the theory of comparative advantage, countries specialize their

production, and import what they do not produce. It is thought that such specialization and trade lead to greater economic benefits for all countries.

Other economists who contribute to the classical school include Thomas Malthus, Leon Walras, and Alfred Marshall. Malthus deviated from Smith's optimistic opinion of economic growth, and instead predicted "perpetual misery" caused by food shortages. Population will grow geometrically, while food output will only grow arithmetically. Walras and Marshall contributed to classical economics by suggesting that mathematics, such as Cournot's supply and demand curves, would add precision to economics.

Contemporary Theories of Economic Development Rooted in Classical Economics

Classical economic thought is still widely influential in current economic development practices. Many cities have very limited official economic development activity, preferring instead to allow market forces to determine their economic fortune which evinces the presence of *laissez-faire* policy. Of the 1,042 cities and municipalities that responded to the ICMA survey, 45.7% report that they have no written economic development plan. Coupled with the fact that 2,266 cities and municipalities ignored the survey altogether (31.5% response rate), we might speculate that these cities ignored the survey because they had no economic development "officials" to complete the survey. In these cities it could be that local government officials agree with Smith that the "invisible hand" of competition will bring prosperity, not government intervention.

The cities that did respond to the ICMA survey report that most of their economic development efforts favor supply-side economic policies designed to increase the attraction, retention and expansion of businesses which is a characteristic of classical economics. In general terms then, cities and municipalities exhibit classical economic

theory that either have no official economic development activity, or have only what Koven and Lyons (2003) call "top-down" activity that focuses on the supply-side.

Certain theories of economic development have their roots in classical economics, including Schumpeter's theory of economic development, Tiebout's public choice theory, economic base theory, product cycle theory, and Friedman's monetarist theory.

Schumpeter's Theory of Economic Development. Schumpeter's theory of economic development (1934) is characterized by the phrase "creative destruction," which refers to the process of new technology replacing old technology. Through innovation, entrepreneurs create new products, services, institutions, processes and markets. These new creations have a destructive impact on the old. The inventions of word processors and mobile telephones, for example, have wreaked destruction on the typewriter and payphone industries. The Brother company was a medium-sized manufacturer in the city of Bartlett, Tennessee. When the market for Brother typewriters evaporated, 227 Bartlett workers lost their jobs ("Manufacturing Jobs Disappearing," 2001). Schumpeter would argue that this job loss is a painful yet necessary process towards growth in the overall economy. According to Schumpeter capitalism is grounded in principles of adaptation to change, the possibility of bankruptcy, and responsiveness to market demand. For example, Bartlett would prosper if the typewriter manufacturing company was replaced by a company producing high speed computers or word processing software for those computers.

Unlike Adam Smith, who thought competition drives economic growth, Schumpeter alleged that innovation is responsible for economic growth. So the Shumpeter theory of economic development views business cycles as a necessary

component of growth. From an urban economic development perspective, Schumpeter's theory influences government officials to encourage innovation within its polity. Technology business incubators can be used to aid the development of new high tech firms, and partnerships between researchers and businesses can also encourage innovation. If Schumpeter's "creative destruction" is an accurate portrayal of a market economy, then economic development officials would do well to ensure that their polities experiences the "creative" rather than the "destructive."

Tiebout's Public Choice Theory. Political science often assumes that people (especially elected officials) generally act in the public interest, while economics assumes that people act in their own interest. Public choice economics is "the application of economics to political science" (Mueller, 1989, p. 1). One of the seminal works in public choice theory is Tiebout's (1956) "Pure Theory of Local Expenditures" wherein Tiebout argued that people "vote with their feet":

> "The consumer-voter may be viewed as picking that community which best satisfies his preference pattern for public goods... at the local level various governments have their revenue and expenditure patterns more or less set. Given these revenue and expenditure patterns, the consumer-voter moves to that community whose local government best satisfies his set of preferences." (p. 418).

If a person (or firm) is dissatisfied with the municipality he resides in, he can simply move to a more advantageous locale. This illustrates the economic principle of rationality—individuals (and firms) make decisions based on their own interests. City government officials, noticing the rationality and mobility of individuals and firms, must compete to attract and retain residents and firms. They do this through their revenue and

expenditure policies. Through expenditures, cities provide a "basket" of public goods, such as infrastructure, parks, schools, colleges, utilities, beaches, police, and transportation. To pay for these expenditures, cities charge its residents and firms taxes. Tiebout observed that consumer-voters have certain preferences for services, and they do not mind paying reasonable taxes so long as their preferences for public goods are met. When the allocation of municipal resources is unsatisfactory, or the tax burden is too costly, consumer-voters will move on to other communities. A government's objective is to ascertain the consumer-voters' wants for public goods and tax him or her accordingly.

In Tiebout's model, revenue and expenditure patterns are "more or less set," but in reality, city leaders have discretion to change revenue and expenditure policies. The model also assumes that consumer-voters are fully mobile and have full knowledge about different municipalities. While these were constraining elements of the 1956 model, full mobility and full knowledge are no longer simple theoretical constraints, but quite realistic in the New Economy.

So, the public choice theory articulated by Tiebout is relevant to urban economic development policy in that it illustrates competition between municipalities for firms and individuals. When local government recognizes the preferences of the businesses in its area, and provides a "basket" of public goods that satisfies those preferences, those businesses are less likely to move away. Also, by providing a desirable bundle of public goods, new firms might be attracted to move into the area.

The Economic Base Theory. In a sort of "new mercantilism," economic base theory suggests that economic growth occurs only through exports, therefore cities should encourage exports and limit imports. Just as mercantilism advocated accumulating gold

and silver through exportation, the economic base theory suggests a city can accumulate wealth from other cities when its firms sell goods and services to residents of other cities. Orlando, Florida and Ocean City, New Jersey are two cities whose economies are almost totally export-based—tourism is the primary industry in these two cities.

The multiplier effect is the most essential component of the economic base model. The export of goods starts a chain reaction where money is both reinvested in the means of production and paid to labor through wages. Thus a multiplier effect is at work in this model, where each dollar of export income generates more than a dollar in economic activity. Maki and Lichty argue that "A leading measure of the size and viability of a local economic base is the value of its exports" (2000, p. 133).

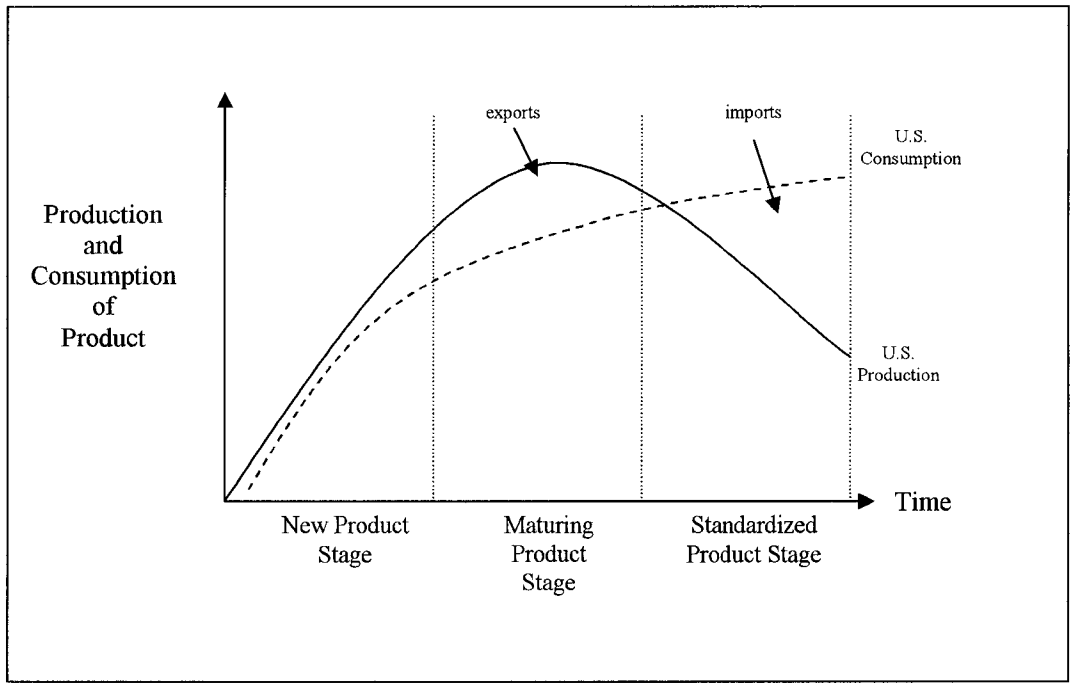
Local government officials who buy into economic base theory place high value on developing the "basic sector," which includes firms that rely on external markets more than the local market. General Motors, for example, sells some cars to Detroit residents, but most of its sales are in external markets. Determining which industries are basic is often done with shift-share analysis using employment proportions, or firm income as the unit of analysis (Maki and Lichty, 2000; Hoppes, 1991).

Not only should exports be encouraged, but imports should be limited. In economic base theory, imports are viewed as "leakages," so import substitution is advocated. Local governments and local firms are encouraged to "buy local," to keep the dollars within the local economy. However, only 2.4% of the ICMA respondents indicated their local governments replace imports with locally supplied goods.

Product Cycle Theory. Product cycle theory is typically considered a component of the economic base theory (Blakely & Bradshaw, 2002). This theory contends that a product has three distinct stages (see Figure 3.1).

Figure 3.1

The Product Cycle



Source: Vernon, 1966.

In the first stage, new products are created and utilized in the same region. This occurs in wealthy regions because they possess the resources necessary to create new products, and they have consumers wealthy enough to purchase the products (Vernon, 1966). Personal computers illustrate the product cycle. During the "new product phase" of the 1970s and 1980s, the Apple II, Radio Shack TRS-80, Atari 800, Commodore 64, and the IBM 5150 PC, were all invented, produced and consumed in the U.S..

In the second stage, the "maturing product stage," the region produces more of the good than it consumes in order to meet new demand from consumers in other regions. Thus the product is exported as was the case of personal computers during the 1980s.

In the final stage, the product is standardized. Today only two personal computer standards are available: the Macintosh and the IBM PC. Standardization allows for mass production (rather than batch-production) resulting in lower costs and prices (Sievert and Dodge, 2001, p. 92). With lower prices, profits are also often lower, so firms seek new innovative products and shift the production of mature standardized products to less wealthy areas. This is the case with personal computers as the U.S. now imports more computers than it exports.

The relevance of product cycle theory to economic development is that city leaders should be aware of the product cycles for goods produced in their locales, and innovation should be encouraged because it contributes to economic growth. The first color television sets were built in 1954 at an RCA factory in Bloomington, Indiana (Browning, 1993). Bloomington possessed relatively cheap labor and was centrally located in reference to the national market for televisions. Bloomington developed economically largely because of major innovative employers such as RCA and GE. But televisions are now in the latter phase of the product cycle. RCA has since been sold to Thomson Consumer Electronics, a French company, that has closed U.S. factories and moved the production to China where labor is cheaper ("Thomson Will Cut 820 Jobs," 2003).

Friedman's Monetarist Theory. Nobel laureate Milton Friedman, is a staunch advocate of free market economics. He claims the three societal goals of political

freedom, economic efficiency, and shared economic power are "best realized by relying, as far as possible, on a market mechanism within a 'competitive order' to organize the utilization of economic resources" (1948, p. 246). In Friedman's view, the market system most efficiently allocates resources; and government intervention only aggravates economic problems. Friedman's "monetarist" theory suggests that government should only try to influence business cycles by controlling inflation and recession by managing the money supply rather than through more government spending.

Inflation occurs when the overall price level of an economy increases. Inflation has numerous compounding negative effects including decreased purchasing power, redistribution of wealth, a reduction in productive work, a reduction in the savings rate, and an increase in interest rates (Sievert and Dodge, 2001, p. 345). The most common type of inflation, called "demand-pull" inflation, occurs when the supply of money in circulation increases—more money is available to buy the same amount of goods, so prices rise, similar to the effect of bidding at an auction. Increased demand for goods "pulls" prices up. To prevent demand-pull inflation, the federal government, through the Federal Reserve Bank, tries to control the supply of money. The Fed controls money supply in many ways, but most notably through interest rates. When interest rates are raised, banks are less likely to borrow from the Fed, and therefore less likely to loan money to firms and individuals. Thus higher interest rates limit the total amount of credit available in the economy, so the supply of money climbs at a slower rate, therefore limiting inflation.

Another fiscal tool used by the Fed to reduce inflation is to sell more securities such as Treasury bills and Treasury bonds. The cash that investors pay for these debt obligations reduces the amount of money in circulation, which also reduces inflation.

Recession is when "total spending or aggregate demand falls below the amount needed to bring about full employment and potential GDP" (Sievert and Dodge, 2001, p. 342). A drop in spending is caused when individuals and firms pay more of their money towards taxes and savings combined with decreases in government spending and/or investment spending. Thus recession is the opposite problem of inflation—not enough money is in circulation. Fiscal policies that combat recession are those policies that encourage more money to circulate. The Fed lowers interest rates, thus making more money available through credit, and the Fed buys back its Treasury securities—replacing debt obligations with cash.

Today the federal government attempts to control the money supply by adjusting interest rates just as Milton Friedman suggested—a stable money supply creates an environment for investment and growth. This focus on monetary policy rather than fiscal policy is what separates Friedman from Keynes. In the post-September 11 recession, Friedman was quick to criticize governments for intervening in the distressed airline industry, and for returning taxes to stimulate the economy (Ashtead, 2001). Friedman's influence is apparent in the last thirty years in the movements toward downsizing government, reducing taxes, and the greater use of market mechanisms to provision and provide public goods and services. Local government officials who ascribe to Friedman's theory are likely to ignore specific urban problems in hopes that the mechanics of the market system will eventually solve those problems.

Neoclassical Economics

Neoclassical theories of economics largely follow the same logic and arguments of classical economics. The economic problem is again seen as the study of allocation of resources that are scarce, and competition in the market economy is still seen as the best path to economic growth. Neoclassical economics is not as neatly defined as classical economics, and is largely seen as an improvement upon, rather than a departure from, the classical economic school of thought. Some of the major emphases of neoclassical economists include marginal utility, equilibrium, profit maximization, and microeconomics. This section briefly explains these emphases and describes how neoclassical thought is influencing economic development practice.

The theory of marginal utility, developed in the 1870s, states that the value of a good or service is largely determined by the amount of utility it provides to the consumer. "Marginal" utility refers to the additional satisfaction received from consuming one more unit of the good or service (Seivert and Dodge, 2001, p. 408). This marks a significant change from the view of the classical economists that the value of a good or service was determined by the amount of labor resources devoted to its production. In his 1890 textbook, *Principles of Economics*, Alfred Marshall explains that this shift in emphasis from supply to demand infers that consumers, rather than producers, exert more influence on determining equilibrium in the marketplace. Economic development officials ascribing to this view would then be likely to implement programs that help local firms benefiting from a high demand for their products. This logic is at the root of economic development programs that target the expansion of local businesses. If consumers (demand-side) are seen to have more control over the labor market than amount of labor

to produce the good (supply-side), which appears to be true in market economies, then economic development officials are likely to implement programs that aid employers deemed likely to produce products in high demand.

Equilibrium is the stated goal of neoclassical economists. When equilibrium is not present in a regional economy, shortages or surpluses of resources occur. Market forces are expected to move the economy back into equilibrium. For example, if wages are too high, firms hire less workers, resulting in a labor surplus, usually dubbed, "unemployment." High unemployment is just one of many situations that lower labor costs—ultimately equilibrium is achieved.

Unlike classical economics that values increased output, neoclassical economics emphasizes increased profits. In classical economics, a firm increases production output through increased resource inputs, especially labor. In neoclassical economics, firms attempt to find their optimum scale of plant, where profits are highest, which might not be at the maximum production point. Workers also make decisions according to profit maximization; weighing income, benefits, time off, etc., against the personal costs of working a job. The individual maximization decisions of firms and workers are thought to move the market into equilibrium. Therefore the macroeconomy is explained by the aggregate economic decisions of microeconomic actors such as firms and workers. This emphasis on microeconomics is evident in current economic development practices that target certain industrial clusters, individual firms (such as the efforts to attract new auto plants), or practices that target certain types of individuals (such as skills training for unskilled workers).

Contemporary Theories of Economic Development Rooted in Neoclassical Economics

Some of the contemporary theories of economic development that seem to have their roots in neoclassical economics include Porter's clustering theory, Birch's small business theory, and Peterson's City Limits theory.

Porter's Clustering Theory of Economic Development. Michael Porter, a Harvard professor, is another economic theorist whose ideas have proved relevant to urban economic development. Much of Porter's work is characterized by a call for corporations to abandon short-term goals, and focus on long-term strategic planning to increase competitive advantages. These same concepts apply to the private sector also. Porter (2000) suggests nations, regions, and cities can increase their competitiveness in economic markets by investing in their core industries, or "clusters." Inner cities, for example, can experience economic growth by exploiting certain competitive advantages such as labor supply, proximity to interstates and other infrastructure, rather than solely relying on redistributive social programs.

Birch's Small Business Theory of Economic Development. David Birch, an MIT physicist, radically influenced economic thought with his 1987 book, *Job Creation in America: How Our Smallest Companies Put the Most People to Work.* As the subtitle suggests, Birch found that small businesses create 82% of all new jobs. Birch's empirical findings shifted attention to firms of all size, large and small, while before the 1980s much macroeconomic thought, and therefore policy, solely concentrated on large companies. Congress and local economic development officials then spawned many new policies that favored and encouraged entreprenuership (Case, 1989). In a study similar to

Birch's, University of Minnesota researcher, Paul Reynolds, found that 42% of the net new jobs in Minnesota were added by new businesses (Reynolds, 1999).

Peterson's City Limits Theory. Peterson's (1981) City Limits thesis posits that the limited resources available to local governments prevent them from addressing all of the needs in their locality. City governments never have enough tax revenue to pay for all the services that citizens demand. Because of these "city limits," government leaders must choose which of the numerous distributional, allocational and redistributive policies and programs to implement.

Peterson recommends that suburbs should favor developmental policies. "Because of their limited size, (suburbs) can modulate their local policies to suit the particular preferences of a relatively small number of residents" (1981, p. 104). Using zoning laws, suburbs can control how their land is used, keeping out undesirable firms and individuals, "thereby minimizing interresident variability in the benefit/tax ratio...all residents pay roughly the same amounts for the services" (1981, p. 104). Peterson concludes that "redistribution is kept to a minimum" in suburbs (1981, p. 104).

Regarding central cities, Peterson observes, they "cannot escape from engaging in a considerable degree of redistribution" (1981, p. 104). A central city has traditionally been able to "exploit the great wealth their location generated to provide a level of public services that far outstripped the outlying communities" (1981, p. 105). But due to advances in transportation and communication systems, people and firms are now more free to choose where to live and do business. Today Tiebout's public choice model is more reality than theory. Since World War II, central cities have been losing both firms and residents to the suburbs. Suburbs compete more evenly with central cities for firms

and residents. "The luxury of redistribution which was once possible is becoming increasingly difficult to sustain" (1981, p. 106), therefore, central cites should focus attention on the economic base. Somebody else (i.e. state and federal governments) should worry about social issues such as housing and poverty.

Keynesian Economics

In his influential 1936 book, *The General Theory of Employment, Interest, and Money*, John Maynard Keynes argues that government should intervene when markets fail. Keynes' argument laid the foundation for increased government intervention in economic markets, and government intervention in many other parts of society.

The neoclassical economists before Keynes believed that market equilibrium is produced by supply and demand alone. So-called "market failures" were only short term and required no government intervention. Market-driven adjustments in prices and interest rates were thought to eliminate disequilibrium in markets. For example, in response to high unemployment (such as during the Great Depression), neoclassicals suggest reducing labor prices, which reduces prices of manufactured goods, which increases buying, which should lead to economic recovery.

Keynes argues that these causes do not always have the desired effects; therefore market equilibrium is not automatic. So Keynes suggested "counter-cyclical" fiscal policies. When a nation's economy was in recession, government could pump money into the economy through deficit spending. During prosperous times, government can suppress inflation through increasing taxes or cutting government spending. The Works Progress Administration and the Public Works Administration, both part of FDR's New Deal, are examples of Keynesian ideas put into practice. These programs, which provided

numerous jobs in massive public construction projects, illustrated that government spending can have positive impacts on the overall economy.

Keynes observed that production increases are affected more by increases in public spending, rather than increases in private consumption. This phenomenon, dubbed the "Keynesian multiplier," led to the conclusion that increased government spending might exponentially increase production. This idea appears to have been widely accepted as local government capital investment has dramatically increased throughout the twentieth century. Keynes' ideas are also the basic foundation of liberal politics that favor higher taxes and government spending.

Many American city leaders espouse the virtues of free market capitalism, which if it truly was the primary model, we would see very little government intervention in the marketplace. The fact that state and local governments have established official mechanisms to promote economic development suggests that the Keynesian approach is alive and well in local markets across the country. But neoclassical economic theory has not lost its influence. The coupling of free market capitalism with limited government intervention, often called the "Neoclassical-Keynesian Synthesis," characterizes the current U.S. economy, and is the dominant school of thought in mainstream economics.

Contemporary Theories of Economic Development Rooted in Keynesian Economics

Equity planning theory, the new markets theory, and the labor force theory of development are three contemporary theories of economic development that seems to have their roots in Keynesian economics.

Equity Planning Theory. Many of the theories of economic development policies noted above can be labeled "pro-growth," or "corporatist." The corporatist label refers to

a system of governance wherein government and business maintain a close relationship that benefits both parties (Schmitter, 1974). An opposite perspective is referred to as "progressive," or, in the urban scene, "equity planning." Both camps share the same objective—economic growth, but they see different paths to that end. The pro-growth camp takes a supply-side economic approach to growth; the economy is stimulated by investing public funds into private firms. The "equity" camp favors economic growth through demand-side redistributive policy (Goetz, 1994). The two groups battle each other in local political arenas. Since the mid-1980s, the growth machines "have declined in vigor" in many U.S. cities and the equity planners have gained more traction (Goetz, 1994, p. 88). This reflects a shift toward more progressive policies that "redistribute public and private resources to the poor and working class" rather than directly to firms (Metzger, 1996, p. 112). In response to the urban societal problems of the 1970s, Goldsmith and Blakely (1992), suggest government funds should be invested in education and programs that result in increased family support.

New Markets Theory. The new markets theory considers "ghettos and declining rural areas as economic opportunity zones" for retail investment (Blakely & Bradshaw, 2002, p. 61). While many retailers focus on a "big-box" suburban strategy, the $85 billion inner-city retail market is often overlooked. Boston Consulting Group research found that more than 25 percent of inner-city retail demand is unmet. Retail firms might experience burdensome operating costs due to crime and vandalism, but the BCG claims the rewards outweigh the risks: "High volume and preferences for certain high-margin goods translate into attractive bottom-line results" (BCG, 1998, p. 2). Areas that are typically underserved include grocery, apparel, pharmacy, and fast food. The influence of the new

markets theory drives city economic development officials to try to attract retail back into central cities so that the vast purchasing power of city residents is kept in the city.

Labor Force Theory of Development. The labor force theory of development, "stresses the importance of an educated, skilled, and dependable workforce for attracting and growing businesses" (Koven & Lyons, 2003, p. 189). An educated workforce contributes to a "good business climate," making a city more attractive to firms looking for new locations (Fitzgerald & Leigh, 2002, p. 194). Development of a city's labor force can also be instrumental not only for business attraction, but also for business retention. The case of Metropolitan College in Louisville illustrates how economic development officials developed a unique part of their labor force (third-shift package handlers) to retain United Parcel Service, the largest employer in the state (Koven & Strother, 2002).

The Workforce Investment Act of 1998 consolidated the more than 160 federal government job-training programs under one system. Previous research indicated the federal job-training system was inefficient (Fitzgerald & McGregor, 1993), perhaps because institutions of education and employment training, such as schools and community colleges, are structurally separate from official economic development entities. Local economic development officials typically work with developers and businesspeople, rather than poor individuals in need of skills training (Fitzgerald & Leigh, 2002). Effective labor force development therefore requires effective linkage between development and education and includes not only a focus on training, but also on placement, retention, advancement, and mentoring (Kodrzycki, 1997).

Political Perspectives Relevant to Economic Development

Conservatism, neo-conservatism, and liberalism are the political perspectives most relevant to economic development in the U.S. Conservatives, neo-conservatives and liberals both agree that political and social life should be built on the following principles: 1) individual equality, 2) prosperity replacing poverty, and 3) democratic rule (Weinberger, 2001 p 39). They agree these are worthwhile ends, but the means to accomplish these ends are disputed. The rest of this section explains the general ideas and principles of the political philosophies of conservatism, neo-conservatism, and liberalism, and how these philosophies influence economic development practice. Table 3.2 offers a comparison of these three major political perspectives.

Conservatism

The conservative political philosophy is characterized by a preference for limited government, and a resistance toward rapid change. Traditional norms are valued and should be "conserved" while radical changes are to be avoided. In general terms, the word, "conservative" describes an attitude that values the way things are, and resists the "liberal," "radical," or "progressive" philosophies and movements. Reacting to the radical new utopian ideas associated with modernism and the Enlightenment towards the end of the eighteenth century, English political philosopher, Edmund Burke, articulated conservative thought. Burke argued that it would be disastrous to try to remake society's established order—an order based in religion, tradition, and aristocracy—into a new society based on the abstract principles of individual rights and equality. Paradoxically, conservatives today agree that, "Change is inevitable, that democracy is inevitable, that democracy is good, and that all human beings are born as moral equals" (Weinberger,

2001, p 38). So, conservative thought today is mainly characterized by the general idea that radical societal change should be avoided. Conservatism's general ideas, politics, and influences on economic development practices are described below.

Typical of most political philosophies, conservatism values individual equality, prosperity, and democratic rule. Conservatives believe individual equality is achieved when all members of society have "equality of opportunity," and they admit this does not guarantee "equality of outcome." A conservative might be content if an economic development program, such as job skills training, is made available to society's poor, even if the poor choose not to participate in the program. Similarly, conservatives might "judge inequalities in mature democratic societies to be legitimate and not the result of rigid, and thus unfair advantages" (Weinberger, 2001, p 40). Since conservatives like Russell Kirk (1978) reject utopian ideals, societal inequalities are tolerable—at least in the short term. Prosperity is a long term prospect. Since conservatives value individual responsibility, the assumption is made that irresponsible people might live in poverty. It is this notion of individual responsibility that drives conservatives to oppose the welfare state, transfer payments, and big government. Conservatives would rather, as the proverb states, "teach a man to fish and feed a man for life" than "give a man a fish and feed him for a day." Most conservatives, like the Catholic theologian, Michael Novak (1982), are opposed to centralized economic and political planning and prefer to let free market capitalism solve societal problems. In fact, many conservatives consider government to be the cause of many societal problems. Conservative ideas about politics and government are characterized by the idea of limited government, largely in response to

the liberal "big government" redistributive social programs that have prevailed in the twentieth century.

Table 3.2

Comparison of Major Political Theories

Political Theory	Goals	Key Scholars	Key Characteristics
Conservative	equality of opportunity prosperity replacing poverty democracy	Edmund Burke	traditional societal order should be conserved focus on big business
		Russell Kirk	social inequalities are tolerable individual responsibility and morality "irresponsibility" drives poverty prosperity is a long-term prospect
		Michael Novak	opposition to centralized economic and political planning free market capitalism deficit government spending
Neoconservative	equality of opportunity prosperity replacing poverty democracy	Irving Kristol	balanced budget spending democratic capitalism to be exported abroad focus on small business development public-private negotiation to manage development equity social programs in moderation
Classical Liberal	democracy liberty checks and balances freedom individual rights	Montesquieu John Locke	plurality in government toleration social justice intervention equity economic development techniques
Modern Liberal	equality of outcome social justice government intervention	John Stuart Mill Herbert Croly Woodrow Wilson	equity justice communal ends protection of the weak

In the U.S. the Republican Party is the home for conservative ideology. Conservatism appeals more to rural and suburban-dwellers, and less to central city residents and members of the "chattering classes" (intellectuals, journalists, educators, and public administrators) (Weinberger, 2001, p. 41). Regarding certain social issues, contemporary political conservatism favors traditional values of personal responsibility, support for moral values, and opposition to programs that reward broad classifications of people such as affirmative action. Regarding certain economic issues, conservatism favors limited taxes, limited regulation of business, reduced size of government, and opposition to the welfare state. The influence of these conservative ideals can be seen more in the economic development practices that favor business attraction and retention, and less in economic development practices dubbed "community development."

Neo-Conservative

A neoconservative is "a liberal who has been mugged by reality," says the "godfather" of neoconservatives, Irving Kristol. Early neo-conservatives were socialist-leaning liberals. But they began to despise the anti-Americanism of the 1960s liberal counterculture, and so began to break away from liberalism. Not fully liberal, and not fully conservative, the neo-conservative political philosophy could be described as a synthesis of the two. Neo-conservatism's general ideas, politics, and influences on economic development practices are described in this section.

Like conservatives, neo-conservatives believe individual equality is achieved through "equality of opportunity" rather than the "equality of outcome" favored by liberals. They supported the civil rights movement, but grew disillusioned with massive social programs such as Johnson's Great Society. In his 1999 book, *Neo-Conservatism:*

The Autobiography of an Idea, Kristol describes U.S. welfare programs as "the best of intentions, the worst of results." Unlike liberals who favor massive social welfare programs, and unlike conservatives who largely prefer free-markets and supply-side economics to alleviate social problems, neo-conservatives prefer social welfare programs on a small-scale.

Regarding the pursuit of prosperity, neo-conservatives believe that economic growth is driven by the supply side of the economy. Therefore, cutting tax rates is a reasonable policy to "stimulate steady economic growth" (Kristol, 2003, p. 23). But unlike conservatives, they think government should be "far less risk averse" and that government should avoid "reckless" budget deficits and be "more sensible about the fundamentals of economic reckoning" (Kristol, 2003, p. 24). So neo-conservatives are content to tighten their belts today in order to achieve a more affluent tomorrow. However, they recognize that society's "egalitarian illusions and demagogic appeals" drive politicians to spend tomorrow's money today (Kristol, 2003, p. 24).

Regarding democratic rule, neo-conservatives "are comfortable in modern America" (Kristol, 2003, p. 24), but would like to see democratic capitalism implemented across the globe. Neo-conservatives appear more vocal regarding foreign policy issues, rather than domestic issues. They have historically been opposed to communism and are hawkish admirers of Teddy Roosevelt's "big stick" interventionist foreign policy.

Neo-conservatives are more likely to prefer "developmental" policies designed to attract new businesses or retain existing businesses, rather than "equity" redistributive programs. But they recognize that "development alone is not reducing poverty and unemployment," and that government should use market mechanisms to plan, design, and

implement programs. "Public-private negotiation" is seen as a way to manage development in a way that balances the needs of both firms and individuals (Frieden, 1989, p. 85-86).

Politically, neo-conservatives have been ostracized from the Democratic Party and have only been allowed into the Republic Party as "parasites," according to staunch conservative Pat Buchanan. Buchanan (2003) says they are influential only because they attach themselves to powerful hosts such as Ronald Reagan. But not everyone agrees. Kristol argues that the moderate views of neo-conservatives have converted the Republican Party "into a new kind of conservative politics suitable to governing a modern democracy" (2003, p. 23). Regarding urban economic development, Siegel (1997) embodies the neo-conservative view that most urban problems have been caused by the policies of liberal politicians.

Liberalism

The political philosophy that is currently labeled "classical liberalism" values the personal liberty of the individual as the end goal. In general terms, liberalism is a reaction to political oppression and official abuse. Individual freedom is therefore more important than the state. Liberalism's foundation was laid by the French philosopher, Montesquieu (1748), who articulated the ideas of constitutionalism and the separation of powers to avoid official corruption and abuse. James Madison, in *The Federalist Papers* (1780s), argued that civil liberties would be protected in a pluralistic civil society (instead of an aristocratic society), and the government should be representative in its composition, and limited in its power and scope. Locke's, *The Second Treatise of Government* (1689), a warning against powerful government, also informs classical liberalism. Because

personal liberty is paramount, liberalism is characterized by the ideals of plurality, toleration, justice, and intervention. Liberalism's general ideas, politics, and influences on economic development practices are described below.

Classical liberalism also values work, private property, checks and balances, and rule of law. In the late nineteenth century, John Locke's classical liberalism had evolved into reform liberalism. Reform liberals "are noted by their desire to use governmental power to remedy the inequalities of the marketplace" (Koven, 1988, p. 66). Reform liberalism focused on issues of equity and assistance for the "little people." Reform liberals found that to achieve greater equality, "redistribution of social resources and opportunities may be necessary," although liberals disagree about the "degree of equality necessary for realizing full liberties" (Rosenblum, 2001, p 116). Prosperity is society's objective, but consensus lacks in the liberal camp on how to define prosperity, and how to achieve it. Regarding democratic rule, liberalism values plurality, toleration, justice, and intervention. This is evident as liberals were the driving force behind women's suffrage, the civil rights movement, and affirmative action. Powerless minority groups should be protected in a democracy, and "not at a disadvantage in the public distribution of social goods" (Rosenblum, 2001, p 118).

Therefore modern liberals favor "equity" economic development programs and practices that benefit the poor and minorities. Business incentives should be avoided, and city leaders should invest instead in targeted disadvantaged areas (Kleniewski, 1989). In their 1992 book, *Separate Societies*, Goldsmith and Blakely argue that government economic development policies and programs should be implemented that redistribute public and private resources from larger society to the forgotten and isolated urban poor.

Liberal political ideology is mostly at home in the Democratic Party in the U.S. Liberalism appeals to the poor, blue-collar workers, central city residents, and the "intelligentsia." Liberals support affirmative action, environmental protection, regulation of business, and most government social programs including welfare, unemployment benefits and retirement programs. Because classical and reform liberals see poverty and inequality as an affront on personal liberty, they are more likely to follow the Keynesian economic school of thought, which advocates government intervention in the marketplace. This intervention is demand-side focused—people should be pulled out of poverty into "liberty." Because liberalism focuses on personal liberty, economic development is viewed from the perspective of microeconomics. Thus, social programs that use redistributive transfer payments to help individuals are preferred over programs designed to help firms. Liberals also fear that big business leads to exploitation of common people and big government is needed to balance the power of big business.

Location Theories of Economic Development

Central place theory, the theory of market areas, and the theory of agglomeration illuminate economic development in cities because these two theories attempt to explain the location decisions of individuals and businesses.

Central Place Theory

Central place theory suggests that cities emerged as places where society's needs for defense, worship and trade were met (Maki & Lichty, 2000). Central place theory assumes transportation is a major factor in economic decision making, therefore as the agrarian economy changed to an industrial economy people began to locate in cities for proximity to industrial work, and entertainment. This theory is a "purely market

explanation for the emergence and location of cities" (Maki & Lichty, 2000, p. 85). People from the hinterlands gathered in a central place, and cities were born.

Theory of the Market Area

The theory of the market area simply suggests that firms want to locate near their customers. The market area is the region in which a firm sells its product. Alonso observes, "Since the median of the distribution of customers will tend to be in large cities, this is one of the reasons why big cities tend to grow bigger" (1972, p. 18). Firms achieve profits through economies of scale, so firms seek to enlarge their market area or simply locate in the middle of the market area (Lösch, 1964). This creates an increased demand for land which in turn drives up the price of real estate in the city center. Paradoxically the customer base in an urban economy exerts a centripetal force pulling firms inward, while higher rents exert centrifugal force pushing firms outward.

Similar to the theory of the market area, a "theory of the resource area" could be explained. Firms whose natural resources are expensive to transport will probably locate near those resources (Maki & Lichty, 2000). This explains why oil companies are headquartered in Texas, and limestone companies are headquartered in Indiana.

Agglomeration Theory

The theory of agglomeration suggests that similar firms tend to locate near each other to benefit from shared technology, and to be nearer to suppliers and specialized labor (Marshall, 1920). For example, firms in the garment industry have tended to agglomerate in New York City to be near the pool of labor that specializes in garment-making. Houston, Texas is home to many chemical companies whose leaders understand

the value of locating near their needed natural resources (oil), but also in proximity to other firms in their industry.

Growth Pole Theory

Unlike the concept of equilibrium that suggests growth flows to less costly areas, the growth pole theory suggests that geographic "poles" exist that attract growth (Perroux, 1983). Many cities in Silicon Valley, for example, are growth poles that have attracted numerous high-tech firms.

Chapter Summary

Various classical and contemporary economic and political theories inform the economic development policies and practices in U.S. cities. From a broad perspective, it appears that no single theory fully explains economic development, yet neoclassical economic theory (with its focus on reduced taxes for business, and limited government action to spur production), conservative political theory (with its focus on business development and public-private negotiation to manage development), and various location theories seem to yield the most influence on contemporary economic development practice in American cities. The next chapter describes typical economic development practices, and especially those employed at the local level.

CHAPTER IV

ECONOMIC DEVELOPMENT PRACTICE

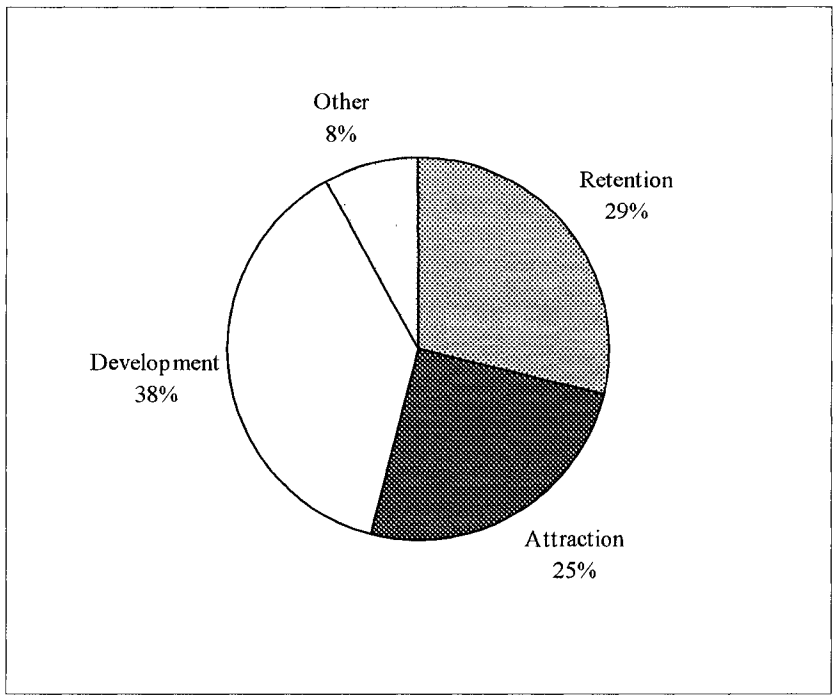
Numerous economic development practices are utilized in U.S. cities. An immense body of literature exists in the scholarly, trade, and popular presses disclosing the latest economic development methods, programs and practices. Some of the recent literature include books by Koven and Lyons (2003); Blakely and Bradshaw (2002); Reese and Rosenfeld (2002); and Fitzgerald and Leigh (2002). Three primary objectives of economic development practice are the attraction, retention, and development of businesses. The percentage of time the typical economic development agency spends in these three categories is shown in Figure 4.1. In addition to attraction, retention and development techniques, this chapter also describes commonly employed location techniques, human capital development techniques, "equity" techniques, fiscal tools, and public private partnerships. The chapter concludes with a description of the Metropolitan College case wherein local leaders employed numerous innovative economic development practices to retain and expand the job base in Louisville, Kentucky.

Bartik (2002) explains the practices differ according to their purpose. Some economic development initiatives offer selective firm assistance, wherein only one firm, usually a major employer, is the targeted recipient of the benefits of the program. Other economic development techniques offer distressed area assistance, where a specific geographic area, such as an Enterprise Zone, is the targeted recipient of the program

benefits. A third type of economic development technique targets whole areas and attempts, for example, to improve the business climate or human capital of a region. Alonso (1972) points out that economic development effort not only targets private firms, but public organizations also. Economic development officials consider government enterprises valuable assets in a local economy. In fact, a growing body of literature exists that explores local government strategies to develop their local economy in the face of a military base closing.

Figure 4.1

Percentage of Time Spent on Various Economic Development Activities



Source: International City/County Management Association, 1999.

This chapter provides a description of the most prevalent economic development practices utilized in U.S. cities today. Many of the practices described here are used for multiple purposes, but the chapter is organized according to the typical objective of the

economic development techniques. The major sections of the chapter are business attraction, business retention, business development, location techniques, human capital development, equity development, fiscal tools and public-private partnerships. The chapter concludes with a short case study in Louisville, Kentucky that illustrates many of these economic development techniques in action.

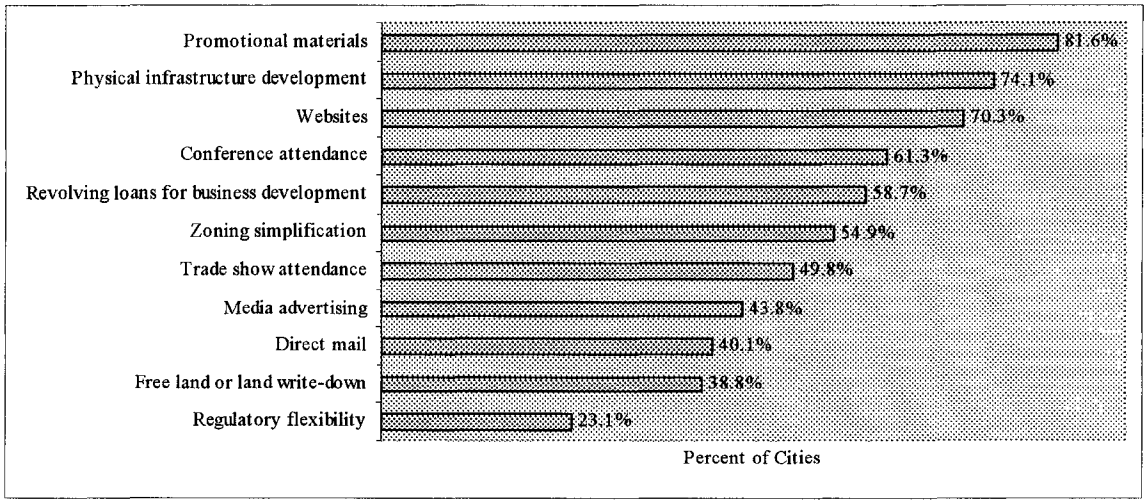
Business Attraction Techniques

After the Great Depression, states and localities began competing against each other "to lure firms to their jurisdictions" (Koven and Lyons, 2003, p. 59). They employed many "smokestack chasing" techniques including tax incentives, loan guarantees, and real estate assistance. In recent years local governments have been criticized for offering overly generous incentives to private firms. What the public sector gives up by way of incentives offered to businesses is not received back in terms of job growth and tax revenue, resulting in inefficiencies and a "zero-sum" game where some win at the expense of others. Many scholars have called for the federal government to intervene and end this economic war between the states (Reed, 1996; Burstein and Rolnick, 1995). This seems like an especially reasonable approach when U.S. municipalities give away public funds and resources in their bidding wars to attract foreign firms to U.S. soil. Although controversial, business attraction techniques are still widely practiced, and can yield positive benefits for individual U.S. cities. Survey research by Levy indicates that practitioners concentrate on "sales activity" primarily because the good publicity generated from new business attraction "helps the economic developer to keep his or her job" (1990, p. 156). The prevalence of certain business

attraction techniques is illustrated in Figure 4.2. The rest of this section describes typical business attraction techniques practiced in U.S. cities.

Figure 4.2

ICMA Cities Utilizing Certain Business Attraction Techniques



Source: International City/County Management Association, 1999.

Free Land is perhaps the most infamous economic development technique. In the case of Alabama attracting a new Mercedes factory in 1993, over $17 million of land was "sold" to Mercedes for only $100 (Koven and Lyons, 2003). To attract the Toyota Camry plant to Georgetown, Kentucky in 1984, the company secured free land from the Commonwealth of Kentucky. The region has been richly rewarded, as Toyota has built an industrial cluster that includes manufacturing facilities in Princeton, Indiana and Buffalo, West Virginia; and the company's North American headquarters in Erlanger, Kentucky. Respondents to the ICMA survey reported that 38.8% offer free land or land write-downs.

Land Write-Down is the practice of offering land to a business at a price lower than market value, so that a specified type of new development can be encouraged. In a typical

scenario, the economic development agency acquires "blighted" land then invests in the improvement of the property. The land is then offered for sale to a business at a price lower than the fair market value. In exchange for the good price, the business agrees to follow stringent redevelopment requirements. The stringent redevelopment requirements are often the result of the local government's specifically defined use for the land. For example, the developers of the Broadway-Spring Center shopping center in Los Angeles received below market land in exchange for agreeing to build Biddy Mason Park adjacent to the shopping center.

Physical Infrastructure Development is one of the perennial tools of economic development officials for business attraction. This includes electricity, natural gas, telecommunications, water lines, sewage lines, public transportation, roads, railroads, waterfronts, and even airports. In the ICMA survey, 74.1% of the cities reported that they offer physical infrastructure incentives. Firms that are comparing potential sites for relocation prefer sites with existing functional infrastructure over undeveloped sites that require the firm itself to build and pay for its own infrastructure. To remain competitive, city economic development officials frequently offer infrastructure incentives to potential firms. "In almost all instances, the instrument is in the form of a direct grant" (Fisher and Peters, 1998, p. 42). Local government officials often secure the funding, on behalf of the private firm. State funds are often secured through Departments of Transportation, and federal funds are often secured through Community Development Block Grants.

Old Economy firms were more concerned with roads and utilities, while new economy firms consider telecommunications one of the most important infrastructure assets. In the ICMA survey, 74.8% of the cities reported that they consider their

telecommunications infrastructure to be an economic development tool or asset. The city of Cedar Falls, Iowa recently granted four acres of land worth $400,000 for the new Cedar Valley Data Center, which will serve as a Network Access Point (NAP). NAPs serve as connection points for Internet service providers. Most NAPs are in California or the East Coast (Palmer, 2003). "Because it's cheaper to transport data with a nearby NAP, new economy companies have, for the most part, avoided Iowa, and opted for places like Silicon Valley, Seattle and Austin, Texas" (Palmer, 2003, p. 1). The new telecommunications infrastructure provided by the Cedar Valley Data Center is expected to help lure high tech industries to the area.

Speculative Buildings are built by cities in an effort to attract firms by reducing the firm's start-up time. Speculative buildings are typically built as "shells" with the interior mostly unfinished. Many of these buildings end up being used as business incubators. Blakely and Bradshaw (2002) recommend the use of speculative buildings by communities that have adequate labor forces, transportation and public services; yet lack a sufficient amount of industrial space.

Zoning Simplification is used because private firms prefer to operate in areas with minimal government intervention and regulation. Overly restrictive zoning can be a deterrent to economic growth in a city. Rather than fight city hall, new firms might just choose to build in a municipality with less restrictive zoning. Economic development practitioners can use zoning policy to promote development by setting aside sufficient land for commercial and industrial use and by using flexible zoning rules. Incentive zoning, overlay zoning, and special districts are three types of flexible zoning practices. Respondents to the ICMA survey reported that 71.8% use "zoning/permit assistance" and

46.0% of them use flexibility in special zoning. When land use is more flexible, a city is potentially more attractive to businesses.

Regulatory Simplification is another technique that cities have used in their efforts to attract new firms. Government officials in the Pittsburgh area have established a "One-Stop Shopping," website which is designed to expedite development by providing a single point of contact to multiple federal, state, and local government agencies. Developers and businesspeople can quickly find information on permits, grants, and regulations in one place. Respondents to the ICMA survey reported that 39.1% of them offer one-stop permit issuance and 23.1% use regulatory flexibility as an incentive.

Promotion of a city to outside firms, shoppers, and tourists is a widely used attraction technique. The cities in the ICMA survey reported using the following tools to promote their community to outsiders: websites (70.3%), promotional materials (81.6%), promotional videos (44.6%), media advertising (43.8%), direct mail (40.1%), trade shows (49.8%), and attendance at conferences (61.3%).

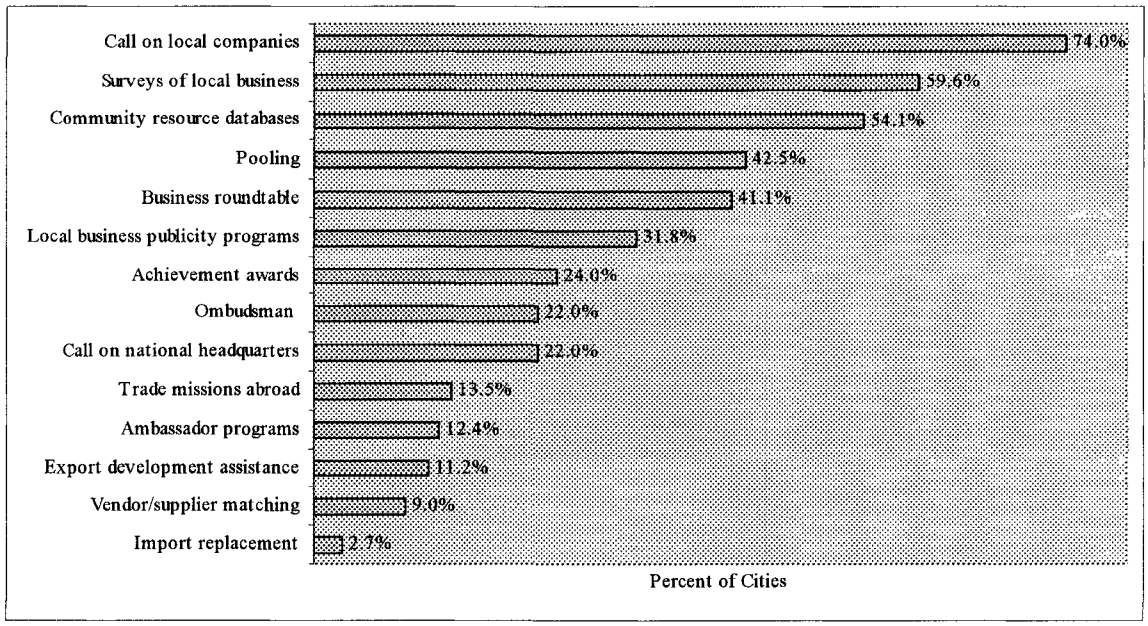
Business Retention Techniques

The so-called first wave economic development policies focused almost solely on business attraction. Firms have become increasingly more mobile and more willing to relocate for cheaper land and labor inputs. Local government officials have realized that development of their economy not only depends on attracting new firms but preventing the exodus of existing firms. Municipalities are now offering generous financial and non-financial incentives to existing businesses. These incentives include those discussed in the previous section. This section describes some typical economic development

initiatives that are designed to help retain existing businesses. Figure 4.3 illustrates the prevalence of certain business retention techniques.

Figure 4.3

ICMA Cities Utilizing Certain Business Retention Techniques



Source: International City/County Management Association, 1999.

Outreach to the Business Community Officials from many branches of local government have numerous opportunities to interact with the local business community, yet the ICMA survey reveals that local government officials who work in economic development are going out of their way to proactively outreach to the business community. The survey revealed that 74.0% of the cities sent local government representatives to call on local companies and 22.0% sent representatives to call on national headquarters of certain local firms. Surveys of local business were conducted in 59.6% of the cities; 41.1% host business roundtables, and 54.1% create and make available community resource databases.

Ambassador Programs establish an executive type single person whose sole purpose is to communicate to the private sector regarding all of the various public sector programs that are available. Of the ICMA surveyed cities, 12.4% reported they use an ambassador program.

Achievement Awards are used to recognize outstanding local businesses by 24.0% of the surveyed economic development agencies.

Local Business Publicity Programs are used to help advertise local businesses in 31.8% of the surveyed cities.

Ombudsman Programs put an economic development manager to work for a firm as a consultant. Ombudsmen add a personal touch to economic development and can greatly help new or existing businesses navigate all sorts of public processes relevant to development. The ICMA respondents indicate that 22.0% of U.S. cities use ombudsmen in their economic development.

Import Replacement is a simple concept—convince local businesses to buy from each other to create a multiplier effect in the local economy. To attract the Mercedes plant, the state of Alabama agreed to purchase Mercedes vehicles. The "Buy Oregon" project, in Eugene helps local contractors, because they alone are allowed to bid for regional manufacturing subcontracts. This can be an effective economic development technique, but only 2.7% of ICMA survey respondents confirmed that they use import replacement as a business retention tool.

Vendor/Supplier Matching is a component of import replacement. Local businesses are assisted in locating vendors and suppliers within the same city. Of the ICMA survey respondents, 9.0% indicated that they use this technique.

Export Development Assistance occurs when government helps businesses locate overseas markets for their products. Federal and state governments are more active in international trade, but 11.2% of the ICMA survey respondents affirmed that their local government provided export assistance to local firms. Besides the federal and state agencies located in the city, St. Louis firms can also gain export assistance from these local agencies: the St. Louis Regional Chamber and Growth Association (a private organization), the St. Louis Center for International Relations (a non-profit organization established by city and county government), and the World Affairs Council of St. Louis (another not-for-profit organization).

Trade Missions Abroad are used to locate additional markets for local goods, as well as attract additional capital and additional firms to a city. Of the ICMA survey respondents, 13.5% indicated that they go on trade missions abroad.

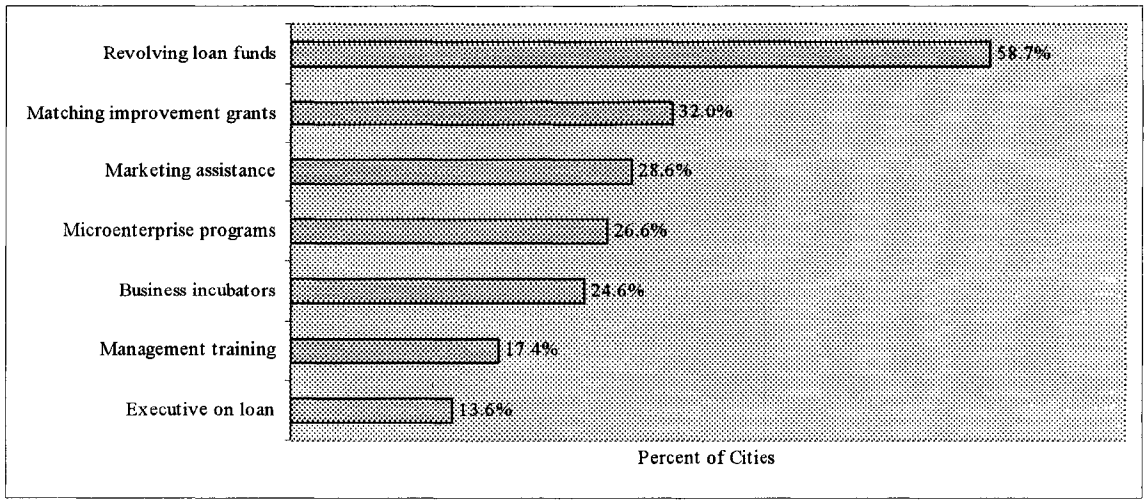
Pooling is the process of many smaller organizations working together as a single entity. Small businesses often pool together to take advantages of volume pricing from suppliers and pooling can also occur in securing state and federal grants.

Business Development Techniques

Besides attracting and retaining businesses, the development of new businesses is essential in a prosperous economy. Some typical techniques used for business development are described in this section. Figure 4.4 illustrates the prevalence of certain business retention techniques.

Figure 4.4

ICMA Cities Utilizing Certain Business Development Techniques



Source: International City/County Management Association, 1999.

Small Business Development Centers serve as one-stop centers to communicate with local government. Centers typically contain information of interest to small businesses, such as local regulations, local development plans, local economic indicators, local labor market statistics, land availability, building permits, and miscellaneous regulations. Businesses benefit from these centers because they can interact with government in a single place cutting through the red tape of dealing with multiple agencies, and government benefits by having a greater involvement and understanding of small businesses in the community.

Business Incubators often share facilities with small business development centers. Business incubators are speculative buildings that are used to house start-up businesses. The start-up firms rent space in the incubator and receive "shared business services, management training and assistance, financial assistance, and an opportunity to network

with each other" (Koven and Lyons, 2003, p. 186). The ICMA survey indicates that 24.6% of U.S. cities use business incubators as a small business development tool.

Microenterprise Programs are characterized by small loans or grants made to "micro" enterprise entrepreneurs such as self-employed persons and those starting home-based businesses. The loan is usually no more than $1,000, and the entrepreneur is required to complete a business training course. The *MicroEnterprise Journal* defines microenterprises as "small businesses employing fewer than five people and needing less than $35,000 in initial capitalization costs." Of the ICMA survey respondents, 26.6% indicated that they use microenterprise programs to promote economic development.

Executive on Loan programs allow small businesspeople to be mentored by corporate executives or retirees. SCORE, a non-profit organization consisting of retired business executives often partners with local economic development agencies to provide mentoring to small businesses. Score has active chapters in 389 U.S. cities. Of the ICMA survey respondents 13.6% relate that they use executive on loan programs.

Marketing Assistance is offered to small businesses by economic development agencies in 28.6% of the ICMA cities.

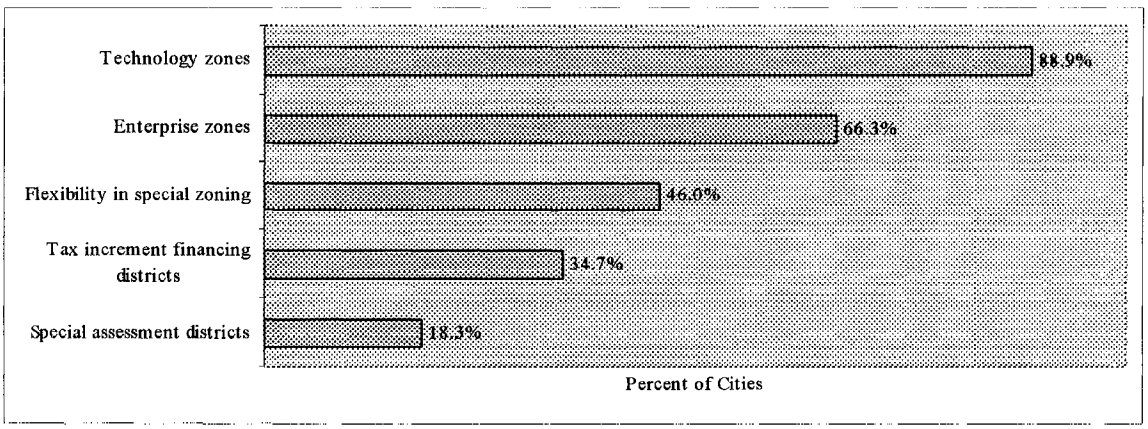
Shopsteading encourages the development of new retail businesses in urban areas undergoing revitalization. In a typical shopsteading situation, entrepreneurs rent or purchase dilapidated retail property. Like homesteading, shopsteaders take possession of the property and make improvements at their own expense. The shop keepers benefit by having low rent, and the city benefits from a new firm added to the local economy. In order for shopsteading to work, a retail market must exist and the shopsteaders must follow an agreed upon property rehabilitation schedule.

Location Techniques

While the major goals of economic development policy are attracting and retaining businesses, these goals are often only accomplished through policies related to physical space. Local government economic development agencies often maintain databases of all industrial and commercial land and existing buildings in the community. Information on zoning, land availability, building costs, and utilities are in the database. Using this information and the location techniques described in this section, cities can have more success in their economic development efforts. Figure 4.5 illustrates the prevalence of certain location techniques.

Figure 4.5

ICMA Cities Utilizing Certain Location Techniques



Source: International City/County Management Association, 1999.

Economic Development Zones, also called Enterprise Zones, are defined areas "where planning controls are kept to a minimum and attractive financial incentives are offered to prospective developers and occupants" (Blakely and Bradshaw, 2002, p. 234). The basic concept of the zone follows classical economic theory that economic growth is more likely to occur when government intervention is minimal. The zones are usually

established in "depressed areas, with the goal of encouraging investment and job creation" (Koven and Lyons, 2003, p. 188). Geographically-based programs, such as enterprise zones, "likely would assist low-income families who live in, or migrate to, the growing area" (Bish, 1971, p. 146). Enterprise zones were first introduced in the United Kingdom in the 1970s modeled after Hong Kong where regulations are minimal and economic growth is booming. As of 2002, thirty-seven U.S. states had enterprise zones, and in some cases, virtually entire cities are declared enterprise zones such as Toledo and Cleveland (Blakely and Bradshaw, 2002).

Louisiana has 750 enterprise zones. Distressed areas are defined as places with "high unemployment, low income, or a high percentage of residents receiving some form of public assistance" (Louisiana Department of Economic Development, 2003). A typical business is eligible for the benefits of the program if it increases its statewide workforce by 10%, or creates at least five new jobs. Of these new jobs, 35% must be filled by a member of "the Program's targeted groups" including enterprise zones residents, those receiving public assistance, people without basic skills, or physically challenged people. The benefits of the program for the business include a $2,500 tax credit per employee to be applied to the firm's state income or franchise taxes, and state sales tax rebates for purchases made during the construction period. The $2,500 tax credit is doubled if the new jobs are in the automotive or aerospace industries.

One criticism of enterprise zones is that they encourage existing businesses to relocate into the zone solely for the incentives, while no new jobs are added to the area. So government ends up subsidizing business development expenses that would have happened without any government intervention. These criticisms are difficult to measure,

yet enterprise zones remain a common technique for economic development. In the ICMA, 66.3% of local governments reported that they use economic development zones.

Technology Zones are economic development zones that are designed to attract and develop technology companies. In the ICMA, 88.9% of local governments reported that they use technology zones. Technology companies locating in the zones are eligible for numerous incentives. The ICMA-surveyed cities reported that they offer these incentives in their technology zones: reduction in permit fees (24.0%), reduction in user fees (11.0%), flexibility in special zoning (46.0%), ordinance exemptions (10.0%), reduction in gross receipts tax (11.0%) and other (54.0%). Malecki (1984) notes that high tech companies prefer locales with universities, plenty of professional services, and diverse cultural and educational opportunities. Public investment in these areas should accompany the use of technology zones.

Business Improvement Districts (BIDs) are non-profit organizations that supplement local government services by providing additional services to improve an area. BIDs are usually established in retail areas with the objective of making the area more attractive to shoppers. They typically provide "added police services, local hourly clean ups, and joint merchant services" (Blakely and Bradshaw, 2002, p. 187) and sidewalk cleaning, graffiti removal, snow removal, and landscaping. BIDs are publicly sanctioned but run by the private members. The funding for BIDs generally comes in the form of a small tax on the businesses in the district. For BIDs in Wisconsin this tax averages $2.52 per thousand dollars of assessed property value. BIDs have proven to be very effective ways to revitalize retail areas in New York and other cities (Blakely and Bradshaw, 2002).

Tax Increment Finance Districts (TIF) have been established in many cities as a way to stimulate redevelopment in areas that have a high number of vacant or dilapidated properties. A TIF is "an economic development financing tool used to attract private investment to blighted areas" (Fitzgerald and Leigh, 2002, p.117). Blighted areas typically have low property values, and therefore low property taxes. The property value of a new manufacturing facility in Chicago's Stockyards Commons TIF, for example, will be much higher than the property value of the vacant land prior to development. Properties that are redeveloped within a TIF district are taxed at their market value. However, any new tax revenue that is derived from a greater market value of the property over and above the pre-development baseline is reinvested into the TIF district through "improvements such as land acquisition and preparation, road and sewer construction, and streetscaping" (Fitzgerald and Leigh, 2002, p. 117). TIFs are established for a set period of time (no more than 23 years in Chicago) after which, all of the tax revenue goes into the general revenue fund of the city. Of the local governments in the ICMA survey, 49.6% reported that they use tax increment financing and 34.7% reported that they use TIF districts to fund economic development programs.

Planned Manufacturing Districts (PMD) are "designed to prevent competing land uses, specifically residential and commercial, from encroaching on manufacturing areas" (Fitzgerald and Leigh, 2002, p. 109). Normal zoning codes, which are normally contestable on a case-by-case basis, are suspended and the current industrial zone status is frozen. A common practice of real estate developers is to purchase low cost manufacturing land, have the zoning converted to residential, and build houses. Residential property values are higher per square foot than industrial property values.

Additional residential developments can increase property values in an area resulting in major tax increases for preexisting industries. Because Planned Manufacturing Districts work to prevent tax increases for industries, PMDs are effective tools of industrial retention.

Industrial Parks are parcels of land "purchased by a local government for the purpose of subdividing it into lots for use by manufacturing businesses" (Koven and Lyons, 2003, p. 189). Local government typically provides the necessary infrastructure including roads and utilities, and in some cases erects speculative buildings. Industrial parks are built for the purpose of attracting new businesses to a city. Industrial parks have long been criticized because they contribute to urban sprawl and damage the environment (Jacobs 1992). In response to this criticism, some developers have embraced "ecoparks," where "member businesses seek enhanced environmental, economic, and social performance through collaboration in managing environmental and resource issues" (Lowe, 2001, p. 2). The Choctaw Generation Plant is the core member of the Red Hills EcoPlex, in Chester, Mississippi. Other businesses in the EcoPlex industrial park manufacture products using waste products from the power plant ("Ecoparks Gaining Momentum" 2001).

Landbanking is the practice by public or nonprofit agencies of acquiring parcels of land to be used in a future economic development project. In many cases the economic development agency buys numerous small properties in an attempt to piece together a larger plot of land that will be used for some purpose such as an airport expansion, construction of an industrial park, expansion of a local firm, or simply to preserve open space. Landbanks often "receive vacant brownfield properties that are tax delinquent and

environmentally contaminated" (Fitzgerald and Leigh, 2002, p. 93). The objective is to resolve the tax delinquency; decontaminate the site; and sell the property to an organization that will put the land back to productive use, such as a private firm.

Community Land Trusts are a type of landbank typically operated by charitable non-profit organizations. In an effort to create and preserve affordable housing, the trust will purchase land. The acquired properties are often in declining neighborhoods in central cities. These properties are improved and affordable housing is provided for lower income households.

Townscaping is the practice of improving the physical appearance of a central city following a theme developed by local merchants, city planners and citizen groups (Blakely and Bradshaw, 2002). The objective of townscaping is not only to attract tourists to the city, but also to encourage local residents to patronize their own downtown. The Fourth Street Live project, part of a downtown revitalization plan in Louisville, Kentucky, can be considered a townscaping project. The project converts an underused shopping facility into a music- and sports-themed entertainment district spanning four city blocks. The project not only includes securing "anchor" tenants such as Hard Rock Café and the Premier Fitness Group, but also improving the cityscape including sidewalks, landscaping and a pedestrian walkway.

Human Capital Development Techniques

Higher education is consistently linked to success in economic development (Reich, 1983, 1991, 1998; Asefa and Huang, 1994; Koven and Lyons, 2003). As low skill jobs consistently move off-shore, U.S. cities must invest in their own human capital. Cities with more educated workforces are more capable of retaining and attracting new

economy jobs. A full 46.6% of ICMA survey participants cite a lack of skilled labor as a barrier to economic development. A city's public schools and colleges are economic assets that can contribute to a better educated workforce. Typical human capital development techniques are described in this section.

Customized Job Training is a frequently used economic development tool. Koven and Lyons note that "customized training is the most common industrial incentive financed directly from state resources" (2003, p. 49). Training programs are often accompanied by job screening programs to ensure that a new employer has a sufficient workforce. These programs typically include pre-employment training, technical training, on-the-job training, and management training. Training is often delivered by community colleges or technical education centers. The West Virginia Development Office explicitly voices their willingness to pay for training and explains that their "overall funding levels will be based on the wages and benefits, location, and the number of net new jobs created." In the ICMA survey, 63.2% of local governments reported that they support job training programs, and 36.0% report that they directly provide job training as a specific economic development program.

Job Screening is often used by local governments to attract new business into its locale. New foreign firms especially need this service as they are often unfamiliar with the local labor force and local hiring practices. In the ICMA survey, 15.7% of local governments reported that they offer employee screening as an economic development incentive.

Equity Techniques

Equity economic development strategies are designed to bring the poor into full economic participation, especially by helping them get jobs. Goetz (1994) hypothesized

that the equity development paradigm is becoming more prevalent in economic development policy that has traditionally been dominated by pro-growth economic development policy. Regression analysis was used to examine the economic development practices in 173 U.S. cities to determine what factors are correlated with equity economic development policies. Equity development was measured by considering seven economic development techniques (such as requiring developers to provide low-income housing, and transportation mitigation fees), and certain housing policies (such as rent control, and requiring developers to replace demolished low-income housing). The findings suggest that alternate development policy is becoming more prevalent and "the grip on local policy enjoyed by business interests is not as strong as once believed" (p. 102).

Typical "equity" techniques are described in this section. Many of these techniques involve federal programs. They are included here because local governments can use these programs in their economic development efforts.

Wage Subsidies provide a tax credit to employers for hiring low-skilled workers. Wage subsidies can be offered at the local or state level, but often local governments aid local businesses in obtaining federal work subsidies. Through the Work Opportunity Tax Credit, a 1996 federal program, businesses earn tax credits up to $2,400 for each employee they hire. To qualify for the program, employees must be in a "targeted group," such as disabled, or those on welfare.

Welfare-to-Work is a federal program designed to move people off of welfare and into economic self-sufficiency. Businesses that hire a welfare recipient and employ them for 180 days can claim a tax credit up to 35% of the employee's first year wages, and up to 50% of the employee's second year wages. A "local agency" must certify that the

employee was on welfare. In the ICMA survey, 48.7% of local governments reported that they support Welfare-to-Work as an economic development initiative.

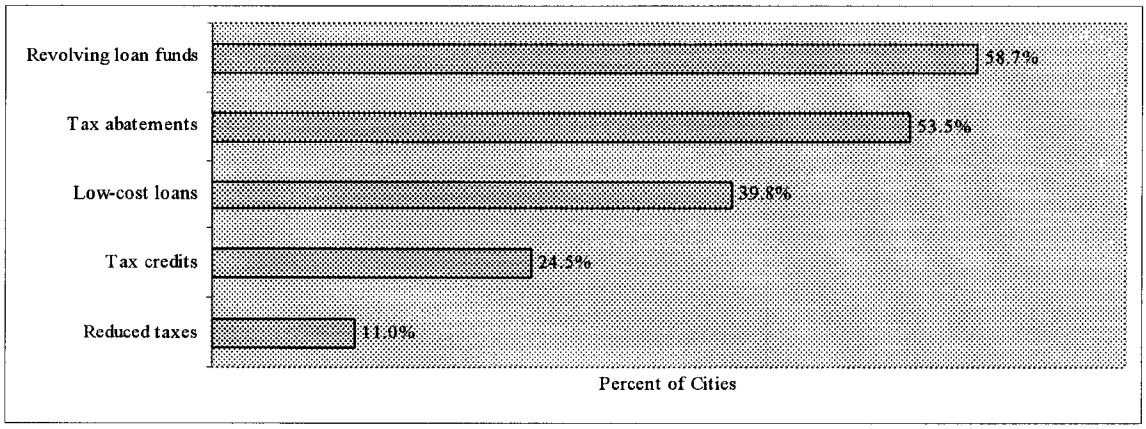
Community Development Loan Funds are designed to provide financing and investment that will create or save jobs for lower income persons. The federal department of Housing and Urban Development (HUD) provides funds to states through Community Development Block Grants (CDBG) and these funds are supplemented with principal and interest payments from previous borrowers. Local agencies administer these programs. To earn a loan, businesses submit applications and they must prove that 51% of the jobs that are being created or saved are for lower or middle income persons. In the ICMA survey, 54.9% of local governments reported that they have a community development loan fund.

Fiscal Tools

The economic development techniques described in this chapter are funded using a variety of fiscal tools and techniques. Sbragia's 1996 book, *Debt Wish*, offers a detailed description of the fiscal tools used by local government to fund economic development programs. As the title implies, Sbragia chronicles how U.S. cities have used government borrowing to finance economic development projects. Cities consistently employ entrepreneurial policies to mobilize public capital. Fisher and Peters (1998) offer an excellent discussion of tax incentives and non-tax incentives offered to private firms. This section of the chapter describes some of the most commonly used fiscal tools in economic development practice. Figure 4.6 illustrates the prevalence of certain business retention techniques.

Figure 4.6

ICMA Cities Utilizing Certain Fiscal Techniques



Source: International City/County Management Association, 1999.

Reduced Taxes are often used to recruit new businesses into a city; 11.0% of the ICMA cities report that they reduce gross receipts taxes for new technology-related industries and businesses.

Tax Exemptions affecting many local and state taxes paid by private firms are available in many U.S. cities. South Carolina, for example, has many "cost of operation" automatically exemptions on items such as electricity and raw materials.

Tax Credits typically allow a business to deduct a specific amount from their state income tax bill. Table 4.1 shows the tax credits that are available to Kentucky firms. Local government is often formally and informally involved in the receipt of these incentives. Tax credit programs exist in 24.5% of the ICMA cities.

Table 4.1

Tax Credit Programs Available to Firms in Kentucky

Program	Qualifications	Tax Credit
Bluegrass State Skills Corporation Skills Training Investment Credit	Sponsor occupational or skills upgrade training programs for the benefit of their employees.	Credit against Kentucky income tax of 50% of training costs, up to $500 per employee, and up to $100,000 per company.
Kentucky Jobs Development Act	For new and expanding service and technology related projects.	Projects may receive a 100% credit against the state income tax arising from a project and may collect a job assessment fee of up to 5% of the gross wages of each employee whose job is created by the project and who is subject to Kentucky income tax. Amounts can be up to 50% of project start-up cost and up to 50% of annual facility rental cost or rental value for up to 10 years. *The local community must approve the project prior to the submission of an application*
Kentucky Rural Economic Development Act	For new and expanding manufacturing projects in qualified designated counties.	State income tax credits and job assessment fees for up to 100% of their capital investment for up to 15 years on land, buildings, site development, building fixtures and equipment used in a project.
Kentucky Economic Opportunity Zone Program	New or expanding manufacturing or service/technology companies in a certified Opportunity Zone.	An income tax credit of up to 100% of the Kentucky income tax liability on income generated by or arising out of the project; and A job development assessment fee of up to 5% of gross wages
Kentucky Industrial Development Act	For new and expanding manufacturing projects.	Approved projects may receive state income tax credits for up to 100% of its capital investment for up to 10 years on land, buildings, site development, building fixtures and equipment used in a project. Or, the company may collect a job assessment fee of 3% of the gross wages of each employee whose job is created by the approved project and who is subject to Kentucky income tax.

Source: Kentucky Cabinet for Economic Development

Tax Stabilization Agreements serve as guarantees from local government to the private sector that taxes will not be raised significantly in the near future. These are used "to assure potential investors of a stable tax environment" (Koven and Lyons, 2003, p. 193).

Tax Abatements are contracts between local government and a private firm that reduce the firm's property tax payments. To encourage development, local government agrees that "some share of assessed value will not be taxed for an agreed time period" (Koven and Lyons, 2003, p. 192). The ICMA survey indicates that 53.5% of U.S. cities use tax abatement incentives as a tool of economic development.

Tax-Exempt Bonds are frequently used as a tool of economic development. Until the Tax Reform Act of 1986 cities often helped finance private sector projects. Rather than firms financing their own industrial construction through corporate bonds, cities would secure cheaper financing for firms by issuing municipal bonds. This was an attractive incentive for private firms. Today this practice is only used for projects that are justifiably "public" in nature such as infrastructure.

Low-Cost Loans are offered by 39.8% of the ICMA cities. Such loans "generally permit firms that have trouble obtaining loans through normal channels to secure financing at either market rates or below-market rates" (Koven and Lyons, 2003, p. 190). Such loans are often considered "gap" financing because they provide the firm with enough cash to use as collateral to secure significant venture capital.

Loan Pooling occurs when multiple lenders contribute funds into a "pool" from which loans are made to local businesses. A community development loan fund as described above is one type of loan pool. The organization is typically publicly chartered although privately funded.

Microloans in the usual amount of $500 to $1,000 are an essential part of microenterprise programs.

Infrastructure Subsidies are the process of local government paying for new infrastructure such as an airport expansion, a new road or a new waste treatment plant.

Matching Improvement Grants are given to firms who are making some physical improvement to their property. The city of Monticello, Illinois has issued forty "Façade Improvement Grants" to local businesses as part of their downtown renewal program. The matching grants are worth up to $3,000 (Monticello Main Street, Inc., 2004).

Revolving Loan Fund Programs (described in a previous section) are offered in 58.7% of ICMA cities.

Public-Private Partnerships for Economic Development

A public-private partnership is a formal complementary relationship between two or more public and private entities to achieve a common objective in which all parties derive some benefit. The formal partnership arrangement delineates each partner's roles and responsibilities; states the level of investment and risk of each partner; and describes how financial and non-financial benefits will be distributed between the partners. Although partnerships represent government "power-sharing," they also entail "risk-shifting" from government to the private sector (Linder, 1999). The basic purpose of partnering is "to take advantage of the potential for all parties to gain greater benefit than they could on their own" (Mullin, 2002, p. v.). When public-private partnerships are tendered for the purpose of economic development, the overall objective of the partnership is usually to increase the number of jobs or the number of employers in a region, or to revitalize the physical assets of an urban area. This entry relates why public-

private partnerships are on the rise in economic development practice; offers examples of typical partnerships, describes different models of partnership arrangements for service delivery and infrastructure development; and concludes by projecting future trends and directions for economic development public-private partnerships.

The Rise of Public-Private Partnerships

The use of public-private partnerships is on the rise because they allow governments to provide services that otherwise would have had to wait until funds were available (Williams, 2003). City leaders primarily enter into public-private partnerships because "they are seeking additional capital for economic expansion" (Walzer and Jacob, 1998, p. 16). Local governments often lack the funds to build needed infrastructure so they partner with private organizations to leverage private capital. In certain cases (which are explained further below) private contractors finance, build and operate a public good such as a new toll road. After a period of time, during which the contractor earned a profit, ownership of the public good is transferred to the government. In this instance a worthy good was made available to the public, the private firm earned a profit, and the government took ownership of the public good with virtually no expenditure.

Another reason why the use of partnerships is on the rise is that government decision-making has been decentralized from the national government to local government. Local governments often lack the fiscal resources necessary for public projects. Therefore creative entrepreneurial approaches, such as partnering with the private sector, are useful to provide needed public goods and services. Now local public administrators have a greater stake in their own economic development. A local economy experiences growth when it increases the number of jobs and firms. Partnering directly

with those firms for economic development projects represents the new entrepreneurial approach to public administration.

A third reason why public-private partnerships are becoming more prevalent is that they provide a better more efficient alternative to the traditional bidding process for government contracts (Williams, 2003). In the traditional competitive bidding process, private firms competed with each other and contracts were typically awarded to the lowest bidder. This often resulted in an adversarial relationship between the government and the contractor, because the low bid often meant the project would not receive sufficient resources and funding. In a typical partnership the public agency looks for expertise rather than economy, and the private sector actor is chosen based on their technical qualifications. This results in more realistic management of resources and a collaborative working relationship rather than a competitive relationship. But this does not mean partnerships are more expensive than the traditional model, because in many partnerships, the private actor invests much, if not all, of the capital resources.

A final reason for the rise in partnerships between government and industry relates to structural changes in the macroeconomy. The new marketplace is a globalized economy with firms competing across national boundaries. National governments now have more of a stake in the success of its firms. In the so-called "New Economy," economic growth occurs through technological advances and corporate strategy (Carayinnis and Alexander, 2000), so we see a rise in technology partnerships between public and private actors (Stiglitz and Wallsten, 1999). One such example is SEMATECH, a partnership formed in 1987 between U.S. computer chip makers and the federal government, who provided funding and research. At the time the U.S. lagged

behind Japan in semiconductor market share (Caryinnis and Alexander, 2000). After almost a decade, the U.S. became the world leader in the semiconductor market and SEMATECH withdrew from federal funding. SEMATECH now allows foreign firms to join the partnership.

Public-Private Partnerships for Economic Development

State and local public actors enter into partnerships with private organizations to accomplish a number of economic development objectives that often fall under the broad context of the revitalization of urban areas. Some of the most common objectives of an economic development public-private partnership are: to improve the business climate of the region, to develop real estate, to retain an existing employer, to develop small businesses, and to provide assistance to workers.

Some public-private partnerships are designed to develop the business climate of a region and to market the region to outside firms that might be attracted to locate to the region. A recent survey by the International City/County Management Association (ICMA) of economic development officials revealed that 40% of U.S. cities have partnerships with private organizations, and 21% of them have a private economic development foundation. These private foundations typically engage in activities such as developing promotional materials and websites, providing media advertising, hosting special events, and sponsoring trade missions abroad.

Another objective of public-partnerships is to develop, or redevelop, public infrastructure or real estate. An example of a public-private partnership for infrastructure development is described above. In a typical real estate development partnership, an economic development zone is created. Private firms develop the land and the physical

structures. In some cases public land is given to the developer. Both the developer and the new firms locating in these zones are eligible for tax incentives. In the survey cited above, 11% of participants reported that they have used public-private partnerships to create such economic development zones.

Retaining firms in the local economy is a third objective of some partnerships. Local government partners with non-governmental private organizations such as chambers of commerce and private firms to prevent a local firm from exiting the area. The ICMA survey reveals that 64% of participating cities had such partnerships. Koven and Strother (2002) describe a case in Louisville, Kentucky where the state's largest employer threatened to close its facility because the firm did not have enough part-time labor for its third shift. City, state, and business leaders created an innovative partnership that addressed the employer's needs. Private and public resources were invested and the employer was retained.

Another common objective of public-private partnerships is to develop small businesses. Of the surveyed cities 9% report that they use public-private partnerships to provide community development loan funds and 5% use partnerships for microenterprise programs. Through community development loan funds, public and private funds are loaned to entrepreneurs at below-market rates to help them start new businesses. Microenterprise programs, such as business incubators, provide capital, technical expertise, training, and networking assistance for entrepreneurs. In these ventures, the private actor is often a non-profit organization, such as a Community Development Corporation (CDC), whose invested funds are matched by a local government entity.

CDCs are nonprofit 501c3 organizations that often specialize in housing and business development (Clarke, 1998).

Finally, many public-private partnerships are created to provide job training for a city's residents. Of the cities in the ICMA survey, 16% report that public-private partnerships are used to provide job training, and 9% report that partnerships are used to manage the federal Welfare to Work program. This program allows participants to continue on welfare while going through an approved skills training program.

Partnership Models for Service Delivery

The level of collaboration between public and private actors in a partnership varies from case to case. Many public services have traditionally been provided directly by the government with no collaboration with the private sector. Intergovernmental agreements (such as a county and city sharing jail facilities, road maintenance responsibilities, or an airport) represent an example of collaboration between multiple public organizations. But the public sector is increasingly looking to the private sector for partners who can produce public services. Savas (2000) lists models of public-private partnerships where a private entity acts as a producer of public goods and services: 1) contracts, 2) franchises, 3) grants, and 4) vouchers. Goods and services can also be provided in the free market, by voluntary service, and by self-service.

Contracting involves government payment to a private entity to provide a specific service. Virtually all governments procure some goods or services by contracting with private firms. Services related to economic development that are often provided by contractors include economic development attraction activity, road and building

construction, convention center management, industrial development, and urban planning.

Franchises are awarded by governments to private firms who agree to provide a unique public service such as airport operation, utilities, and toll roads. Government gives the firm permission to operate in a specific geographic area and citizens pay the firm directly for services.

Grants are resources given by government to private firms who can then provide more affordable good or service to citizens. Grants are often subsidies, in the form of money, tax exemptions, tax abatements, or low-cost loans. For economic development, many state and local governments give away land at no cost to new firms.

Vouchers are subsidies given directly to consumers to purchase goods such as food (food stamps) or education (school vouchers). Unlike grants where the government decides which producers get the resources; consumers decide where to spend their vouchers. Job training vouchers and the G. I. Bill are voucher programs designed to increase human capital and are therefore relevant from an economic development perspective.

The examples above mention partnerships with private firms, but numerous partnerships exist where the private-sector partner is not a firm, but a non-profit organization.

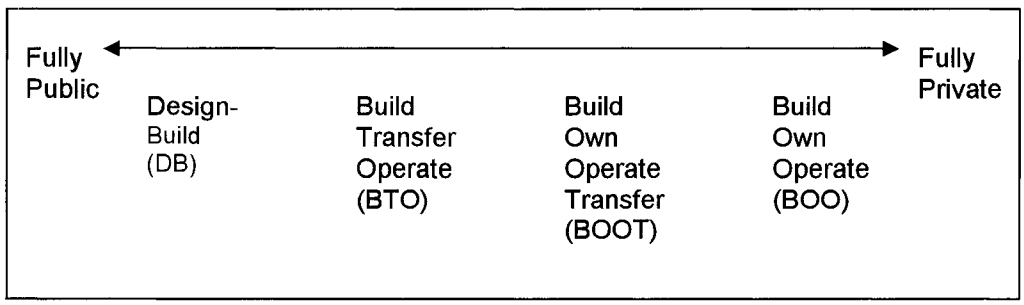
Partnership Models for Infrastructure Development

The potential for economic growth in a region is enhanced when physical infrastructure (such as roads, airports, mass transit, and utilities) and social infrastructure (such as hospitals, housing, jails, and schools) are fully developed. When public funds are available, governments can produce and provide needed infrastructure. But governments

often lack the funds (and the expertise) to build needed infrastructure, therefore they look for partners in the private sector that have both capital and technical expertise. A typical partnership is characterized by the public entity providing political and bureaucratic resources, and the private entity providing capital and technical expertise. Savas (2000) and Williams (2003) describe a range of public-private partnerships each with varied degrees of privatization. Numerous models exist, but four representative models are illustrated in Figure 4.7.

Figure 4.7

The Range of Privatization



Source: Savas, 2000.

The first model, design-build, represents traditional infrastructure development where the private contractor provides architectural and construction services. The public entity provides financing, retains ownership of the newly created asset, and earns any user fees from the project.

In the build-transfer-operate model, the private partner provides their own funding. After construction is complete, ownership of the asset is transferred to the government partner. The private firm then leases the facility back, operates the facility and earns reasonable income from user charges.

The build-own-operate-transfer (BOOT) model is an excellent way for governments to acquire infrastructure assets without fiscal hardship. The private firm builds, owns, and operates the facility for a period of time, then transfers the asset to the government. Chinese local government officials entered into a BOOT public-private partnership to avoid the high costs of constructing a bridge across the Hangzhou bay from Shanghai, China to Ningbo, "Non-governmental private enterprises" provided a large part of the initial investment. Through the formal partnership arrangement a government clause guarantees the private enterprises will recoup their investments through years of earning bridge tolls (Wu and Wu, 2003).

The build-own-operate "resembles outright privatization" (Williams, 2003). Private firms build and operate a public infrastructure asset, and there is usually no provision for ownership to be transferred to the government. The "chunnel" connecting England and France is an example of public infrastructure that followed the BOO model.

Trends and Directions of Public-Private Partnerships

Public-private partnerships are on the rise for many reasons. Decentralization of political power from national governments to local governments, a new entrepreneurial public sector management style, and fiscal stress are driving local government to secure private funding for economic development projects. The use of partnerships will especially increase for infrastructure construction projects (Klitgaard and Treverton, 2003). Because partnerships are found to be more efficient and less adversarial than traditional bidding contractual arrangements, the use of public-private partnerships might be on the rise. However, one hindrance to the rise in public-private partnerships is the appearance of cronyism and impropriety—private firms appear to be enriching

themselves with public resources. And the "risk-shifting" aspects of partnerships can result in poor performance according to "the criteria of equity, access, and democracy" (Rosenau, 1999). In general, however, public-private partnerships have proven to be an effective tool for economic development projects and it is expected that they will continue to be utilized in the future.

Louisville United Parcel Service Case Study

In 1997 it was announced that United Parcel Service (UPS) was considering closing their headquarters operation in Louisville, Kentucky and relocating to another U.S. city. Due to their difficulty in staffing their late night package handling positions in Louisville, UPS began looking for another city that could meet their labor demands. Facing the immediate threat of losing the city's major employer, government and private sector leaders in the Louisville area developed a plan aimed at satisfying UPS's work force needs. Typical economic development initiatives were engaged to prevent the departure of UPS from the Louisville economy, but the creation of the innovative Metropolitan College program became the key component in retaining UPS. This brief case study provides a description of the Metropolitan College program.

The Problem

Since its founding in 1907, United Parcel Service has grown to be the largest package distribution company in the world. The company's 359,000 employees work at 1,748 operating facilities in over 200 countries and territories throughout the world (United Parcel Service 2001a). Louisville has served as the corporate headquarters and the main U.S. air hub. In addition to being the largest employer in the city and in the state, UPS was thought to be one of Kentucky's "industries of the future" that could take

advantage of increased deliveries generated by Internet commerce. Many believed that growth in this sector could balance recent job losses in other parts of the metropolitan area, due to manufacturing decline. If UPS relocated to another city, the area would not only lose existing jobs, but also future jobs that were part of UPS's planned billion dollar expansion.

The Economic Development Response

To convince UPS to remain in Louisville, city leaders employed numerous traditional incentive programs. Certain fiscal incentives were offered including elimination of the jet fuel tax (attractive to UPS given their massive air fleet of 51 jet aircraft and 384 chartered aircraft), and property tax abatements for construction of the new "Mega-Hub." Whole neighborhoods were removed (using eminent domain), and brownfields were decontaminated in a massive airport expansion program. Local government and local firms agreed to exclusively use UPS for their shipping business. But the initiative that was most important in the retention of UPS was the creation of the Metropolitan College program. The program produced a large pool of labor that was willing to work as part-time package handlers.

The Metropolitan College program was developed in an emergency atmosphere since the threat of job loss mandated a quick response. This quick response led to collaboration among three local colleges, state officials, city business leaders, and UPS. The collaborative plan was innovative in its use of public universities as tools of economic development.

As part of their "Hub 2000" program, UPS invested over $1 billion to expand its Louisville operation. In 2001, the Louisville hub required a total of 4,800 part-time

package handlers during the peak season, and according to John Kinney, Workforce Planning Manager at UPS, they were usually "a couple hundred short" going into the peak holiday season. Metropolitan College allowed UPS to hire 2,200 part-time package handlers in 2001. This figure surpassed their year 2005 objective of 2,100 part-time package handlers (J. Kinney, personal communication, October 2, 2001). Table 4.2 shows the overall composition of part-time package handlers at UPS.

Table 4.2

Composition of Part-time Package Handlers at the Louisville UPS Facility

School to Work	400
Earn & Learn	400
Metro College	
University of Louisville	960
Jefferson Community College	1,100
Jefferson Technical College	70
Other Package Handlers	1,870
Total	4,800

Source: UPS, 2001.

The Program

Through the Metropolitan College program, student-workers who agree to work at the UPS Next Day Air operation have free tuition at Jefferson Technical College, Jefferson Community College, or the University of Louisville. The commonwealth of Kentucky assumes responsibility for half of the tuition, and the other half is paid by UPS, if not already covered elsewhere by federal grants or college scholarships.

Metropolitan College students who fulfilled their work requirements at UPS, attended classes regularly, and received at least 18 credits during a given year were eligible for housing stipends which were 103 dollars per month in 2001. A new dormitory, Bettie Johnson Hall, was opened on the University of Louisville campus July 2000 with Metropolitan College students in mind. The housing program was designed specifically to help recruit workers from outside the Louisville area. Using the housing stipend, UPS recruiters attracted about 400 people from the Appalachian mountain region of the state where residents faced many obstacles such as high unemployment (Jones, 2000; J. Kinney, personal communication, October 2, 2001). Many of the Appalachians have since returned home.

UPS also offered a loan program to their student-workers. Students can borrow up to $2,000 per year from UPS for living expenses. The loan is renewable for a total of four years. If the student-worker stays with UPS for a full year, UPS forgives 50 percent of the loan. After two years, UPS forgives 75 percent of the loan up to $3,000. After three years, the company forgives 100 percent of the loan up to $6,000, and after four years, 100 percent up to $8,000 (United Parcel Service 2001b).

The program also provides certain non-financial benefits. To accommodate the late night schedules of package handlers many classes were set up for late afternoons and early evenings, and some classes are offered at the UPS facility. Many classes end by Thanksgiving to enable students to work extra hours over the peak shipping season. Workers who enrolled in the Metropolitan College program also receive free bus passes for public transit, and special bus routes were established from the three college campuses to the company's sorting center (Holmes 1998).

In October 2001, Metropolitan College enrolled about 1,100 students at Jefferson Community College, 965 students at the University of Louisville, and about 65 students at Jefferson Tech (J. Kinney, personal communication, October 2, 2001).

The Impacts of the Program

The Metropolitan College program has been perceived as a "win-win" situation, providing positive impacts to UPS, local politicians, colleges and the student-workers.

Benefits to UPS. From the perspective of UPS, the main objectives of Metro College were to reduce turnover and to grow the labor pool. These objectives were met, largely due to implementation of the Metro College program. Significant advances were attained in terms of the turnover issue. Part-time package handler turnover was a steady 80 percent per year before Metro College, but by the year 2001 this figure dropped to 15 percent. Regarding overall retention rates of Metro College and non-Metro College workers, the Louisville location consistently ranks second or third place among all 47 UPS "Mega Hubs." Each retained employee represents significant cost savings for UPS. The average cost of recruiting, hiring, background checks, training and the "productivity curve" was estimated to be about $1,450 (J. Kinney, personal communication, October 2, 2001). Helped by the lower rates of turnover, UPS was able to meet its hiring objectives by adding an additional 1,500 positions.

Perhaps the most significant benefit of this program for UPS is the improved efficiency of the workforce. UPS Louisville witnessed an increase in the "piece per hour" rate of packages handled, an internal measure of worker productivity. In addition, the number of mis-sorted and damaged packages has decreased as well as the number of work-related injuries. The young, healthy, dedicated work force contributed to these

increases in efficiency. Metro College also was credited with creating "residual benefits" which were "immeasurable, but clearly positive" (J. Kinney, personal communication, October 2, 2001).

Benefits to Government. Political leaders protected and expanded their tax base by keeping the largest employer in the state within the Louisville metropolitan area. The multiplier effect was significant in terms of keeping the present jobs as well as adding 1,500 jobs. Wages to UPS workers helped to fill government coffers through additions to property, income and sales tax revenues. Politicians were also able to reap a positive public relations coup as citizens began to see government leaders from the perspective of protecting jobs and ensuring future prosperity for the state.

Benefits to Universities. Local colleges and universities were able to augment their enrollment base and increase their revenues from added tuition. College presidents were able to claim that they were "team players" in economic development, in the hopes of receiving more funding from state leaders in the future. They avoided negative publicity that would have been received if they refused to participate in the program. Leaders of public colleges, recognizing that large proportions of their funding came from state allocations, did not want to jeopardize future allocations.

Benefits to Students. The program expanded opportunities for students who might not otherwise have been able to attend college. By 2001, over 3,000 students had participated in the Metro College program. Table 4.3 shows the annual financial benefits a student earns by participating in the program.

Table 4.3

Combined Metro College Annual Benefits

Tuition		
50% paid by United Parcel Service	$ 1,822	
50% paid by Commonwealth of Kentucky	$ 1,822	
Book Stipend		
$65 * 8 classes =	$ 520	
Housing Stipend		
$103 * 12 months =	$ 1,236	
Wages		
80 hours per month * $8.50/hour * 12 months =		$ 8,160
Forgivable Loan		$ 2,000
Total Metro College Benefit:	$ 5,400	
Total Annual Benefit:		$ 15,560

Sources: University of Louisville, Metropolitan College. (Based on a full-time undergraduate student taking 12 credit hours per semester at the University of Louisville).

Case Conclusion

The Metropolitan College case illustrates the use of public and private resources and innovative economic development policy to retain a major firm, and to enhance the human capital of a city. Metropolitan College is credited with changing the external work force environment in order to retain the largest employer in the state of Kentucky and to lock in a major expansion of future jobs. In contrast to the ideal of exclusively attracting high paying, highly skilled, professional employees, the Metropolitan College experience

illustrates that employers have needs for both higher skill and lower skill employees. The Metropolitan College case study suggests that, while companies often decide to relocate, such decisions are not unmalleable. Companies that face difficult decisions can be influenced by coordinated public sector efforts. This is illustrated in Kentucky where fiscal incentives combined with innovative use of public universities convinced UPS to stay in Louisville.

Chapter Conclusion

A vast array of economic development practices are utilized in U.S. cities. These practices tend to follow the three primary objectives of economic development: the attraction, retention, and development of additional businesses in the region. This chapter describes the most prevalent economic development practices utilized in U.S. cities today. The case study of Louisville, Kentucky illustrates many of these economic development techniques in action. Many scholars have empirically evaluated the effectiveness of economic development policy and practice. Their conclusions are mixed. The next chapter summarizes the empirical literature on the topic of economic development in U.S. cities.

CHAPTER V

A REVIEW OF THE EMPIRICAL LITERATURE OF ECONOMIC DEVELOPMENT IMPACTS

This chapter reviews the empirical literature related to the impacts of economic development policy and practice in U.S. cities. Due to the paucity of empirical literature on urban economic development policy impacts, this chapter also includes empirical studies of economic development at the state level, regional level, and firm level. This is reasonable because many economic development programs involve both state and local governments, and from the perspective of a business receiving public assistance, it matters little which level of government is the source of the incentive.

More than seventy empirical studies on the topic of the impacts of economic development policy are reviewed in this chapter. With a few exceptions, these studies consist of scholarly books, peer-reviewed academic journal articles, and government reports. These studies are described below, specifically noting the unit of analysis, the research methodology, the analytical methodology, and the conclusion of the study. Most of the studies confirm that government economic development efforts are correlated with moderate economic growth. However, a common theme throughout the literature, as Dewar (1998) points out, is that government development programs do not "develop" as much as was hoped.

The four major sections of this chapter review the empirical literature of economic development impact at the state level, regional level, city level, and firm level. A smaller fifth section examines empirical studies of economic development policy formation. To show the growing body of literature, each section is arranged chronologically. The chapter conclusion summarizes the current state of the literature, and emphasizes the contributions this dissertation makes to the body of literature.

Economic Development Impact at the State Level

In recent years, the U.S. economy has gone through major changes as a result of the globalization of production and markets (Hill, 2002). The U.S. no longer dominates the world economy. The employment base in the U.S. has shifted from the production of goods to the production of services; and manufacturing has shifted from labor-intensive to technology intensive. According to Spindler (1994), these structural changes to the U.S. economy are largely responsible for the increased economic development efforts of U.S. states. In recent years, the number of incentives and the value of the incentives have dramatically increased as states compete against each other for private capital investments that have become more mobile in the wake of the globalization of production and markets (Milward and Newman, 1989). Empirical research on the bidding war between the states shows that state economic development efforts have mixed results. This section reviews the literature related to interstate economic development impacts.

Benson and Johnson (1986) used 1966-1978 time-series data to examine state investment in manufacturing, and found that higher state taxes were negatively correlated with business investment. Businesses appear to follow public choice theory by avoiding

high tax areas, implying that growth in the number of firms will be more prevalent in states with lower taxes.

Coughlin, Terza and Cartwright (1987) examined state spending on export promotion and exports of manufactured goods from U.S. states. Regression analysis revealed an unusually high multiplier that an increase of one dollar of state promotion of exports was correlated with an increase of $432 in state exports. Based on this research, increased promotional efforts should result in increased exports.

Luger (1987) studied several economic development initiatives including tax subsidies, attraction efforts, research and development support, capital provision, and job training programs across U.S. states. Economic growth was represented by wage and unemployment variables. In the regression analysis most of the policy variables had no significant impact on growth. But job training was negatively correlated with wage levels and also negatively correlated with changes in unemployment suggesting that states with lower wages and stagnant job growth were investing more in human capital.

Coughlin, Terza and Arromdee (1989) studied state funds spent to attract foreign direct investment. They used a conditional logit model of the foreign firm's investment location decisions. Their findings were not surprising. Foreign manufacturing firms tend to locate in areas of high density manufacturing (agglomeration), and near markets where per capita incomes were high. They also prefer areas where unemployment is high and manufacturing wages are low. Regarding economic development, they found state funding levels had a statistically significant positive effect on foreign direct investment attraction.

Ambrosius (1989) examined several economic development programs in U.S. states including state revenue bond use, condition of public works, accelerated depreciation, tax breaks, enterprise zones, and job training programs. Interrupted time-series regression analysis was conducted to determine whether these initiatives had any economic impact over the study period, 1969 to 1985. Dependent variables in the analysis included changes in state manufacturing, value-added per capita, and changes in state unemployment rates, after a particular incentive was implemented. Property tax breaks and capital improvement tax breaks were found to be correlated with declines in unemployment, but, in general, the economic development initiatives were insignificant in the analysis.

Marlin (1990) analyzed the use of industrial revenue bonds from 1983 to 1986 and their correlation with changes in Gross State Product (GSP). Regression analysis was conducted with the dependent variables being absolute change in per capita GSP, and percentage change in per capita GSP. Marlin concluded that "increasingly intensive Industrial Revenue Bond use was associated with greater economic growth" (p. 19). Because industrial revenue bonds were considered "the most widespread and popular development incentive used" at the time, Marlin suggests the results of the study "can be extended to include the effectiveness of subsidies in general" (p. 15).

Jones (1990) examined the relationship between state expenditure policies and economic growth from 1964 to 1984. Overall state expenditures were measured on a per-capita basis, and growth was measured by the percent change in the number of business firms in the state. A primary objective of Jones' research was to disprove the hypothesis that public sector expenditures hinder economic vitality. Using regression analysis, Jones

found that at the state level "overall expenditures do not cause economic stagnation" (p. 230). In other words, high state expenditures (and presumably high state taxes) do not hinder economic growth. Jones also notes that local economic development policy impacts are "masked by the aggregate state-level approach" (p. 230).

In a study commissioned by the California Department of Commerce, Blakely and Bradshaw (1992) examined economic development programs in sixteen "progressive" U.S. states. A comparison was made of each state's promotional expenses, use of financial incentives, enterprise zones, and organizational structure. The study found no correlation between economic development investment (budgets) and economic development.

Woodward (1992) studied U.S. states' efforts to attract Japanese manufacturing firms to U.S. soil. The study found that states' with mature manufacturing industries (as measured by a state's industrial development index score) were less likely to land a Japanese firm. States that had recruitment offices in Japan, however, doubled their probability of winning a Japanese firm. Research by Urata and Kawai (2000) reveals that the conditions in the host country exert more influence over the foreign direct investment decisions of small- to medium-sized Japanese firms rather than the larger firms.

Friedman, Gerlowski, and Silberman (1992) also analyzed the location decisions of multinational corporations. The establishment of 884 new branch plant locations across the U.S. was considered from 1977 to 1988. Most of the new plants were from firms based in Japan, West Germany and the United Kingdom. A conditional logit model was used with U.S. states as the choice set. The study discovered that access to markets,

labor market conditions, state promotional efforts to attract foreign investment, and state and local tax rates were significant factors in location decisions.

Bingham and Bowen (1994) performed an impact evaluation of state economic development programs. All fifty states were used in their data set and regression analysis was the analytical methodology. Dependent variables were gross state product (GSP) manufacturing per capita in 1988, change in GSP manufacturing per capita from 1986-1988, overall GSP per capita in 1988, and change in overall GSP per capita from 1986-1988. Independent variables were economic development spending, economic development policies, and the use of industrial revenue bonds. Numerous control variables were used. They conclude that, "There does not seem to be any significant relationship between state spending on economic development and economic vitality" (p. 501). They did find, however, that states employing a larger variety of development policies had stronger economies.

Phillips and Goss (1995) performed a meta-analysis of the 84 earlier studies of economic development found in Bartik (1991). As a measure of business activity, tax elasticity was used, which is a measure of the changed value of tax bases as a result of assessed taxes. Negative elasticities indicate that if taxes are raised, then tax bases shrink (presumably due to business defections from the city). The study found that tax elasticities differ substantially from city to city. Phillips and Goss therefore recommend that local governments should have access to the full range of fiscal decisions, as is currently the case.

In a study commissioned by the Economic Policy Institute, Lynch (1995) examined dozens of recent empirical studies to judge whether state and local tax

incentives were associated with economic growth. Lynch observed that the empirical research consistently indicates that tax incentives for economic development "play a small role in investment decisions and fail to generate significant numbers of new jobs" (p. 22). Moreover, Lynch suggests that forgone tax revenues hinder states' abilities to provide many key growth criteria, such as infrastructure, transportation, schools, and human capital investments. When these key criteria go under funded, the provision of these services is borne by private citizens and private firms, who are unlikely to do so long-term, preferring rather to move to another locale.

Goss and Phillips (1997) examined the effect of state economic development spending on per capita income and employment. Annual economic development expenditure data was collected from the National Association of State Development Agencies for 1986, 1990, and 1992. The study found that state economic development spending has a "modest positive effect" on incomes and employment rates. Goss and Phillips also contend that previous studies examining the effect of taxes on growth have underestimated the negative effect of taxes on growth if economic development expenditures are not included in the analysis.

In their 1998 book, *Industrial Incentives*, Fisher and Peters examine state and city use of economic development policy in competition against each other (see also Peters and Fisher, 1997). The book has two main concerns: measuring the true value of incentives from the point of view of the firm, and identifying the spatial pattern of incentives.

Determining the actual value of incentives from a firm's perspective is an important facet of the overall issue of development, which leads Fisher and Peters to

inquire, "Can development incentives reasonably be expected to influence a firm's location decisions?" (p. 4). Using the hypothetical firm method, sixteen hypothetical firms were created with assumed plans to build a new facility. Fisher and Peters analyze the "standing offer" development incentives and tax differentials in the 24 largest manufacturing states and a random sample of 112 cities within those states for 1992. Using computer simulation, they forecasted the firms' costs and revenues in a steady state for twenty years. Then they ran the same simulation with the firm constructing a new plant in one of the study states or cities. The second simulation included tax rates and incentives. Many conclusions were noted. First, there was no "best" location; certain industries would have profited more in one locale than in another locale, which leads to the suggestion that state and city policy makers "operate a de facto industrial policy, favoring some sorts of manufacturing investment and disfavoring others" (p. 171). Second, there was no obvious regional pattern even within a specific industrial sector. This leads to the overall conclusion that the actual value of a government-offered incentive could be worth less (or more) to an individual firm. One need look no further than the $50 million airport that was part of the incentive package offered to BMW from South Carolina. BMW is not getting the full $50 million dollars worth of value because the public airport is shared with other users.

The second analysis of the book attempts to identify the spatial pattern of incentives to determine whether new manufacturing facilities will be drawn to poorer areas. This is important, because if net benefits are to be provided to the nation, then economic development policy (and incentives) should target economically depressed areas. Unemployment rates were used to determine which of the 24 states and 112 cities

represent depressed areas. The model showed that the investment return rates of the 16 hypothetical firms were higher in the states with higher unemployment. At the city level the analysis discovers "a spatial pattern of returns on new investment that has little or no bearing to the spatial pattern of unemployment" (p. 200). From this analysis, it appears that poorer states are more attractive to mobile firms, while poorer cities are not.

In 1987, the Nebraska state legislature required that the state Department of Revenue collect data on all tax incentives offered to businesses. Using this data, Goss (1999) researched what impact the incentives had from 1987 to 1995 in Nebraska's 93 counties. Using regression analysis, Goss found that investment in businesses through tax incentives had a statistically significant positive impact on economic growth in counties with low unemployment, but no impact in high unemployment counties. It was also discovered that tax incentives tended to be offered in areas that already had higher levels of investment, suggesting that differences in economic performance across the state were widening.

In a study commissioned by the organization, Good Jobs First, Hinkley and Hsu (2000) examined 122 performance audits of state economic development programs and agencies. The audit reports were from 59 agencies in 44 states. The study concluded that auditing practices were "primitive." They note there was little evidence that state economic development officials are held accountable for development, and even less evidence that economic development programs are effective.

Buss (2001) examined the impact of state tax incentives on economic growth and firm location decisions. The number and type of tax incentives was compared across U.S. states. Buss observed that the use of all types of economic development tax incentives

has increased from 1986 to 1996. It was observed that the literature on tax incentives is filled with cost benefit analyses that yield "conflicting results regarding whether taxes matter" (p. 90). Buss also suggests that tax incentive studies should also consider alternate uses of these forgone public monies.

A few of the studies above suggest state economic development practices have insignificant impact, but other studies show that state economic development policies are correlated with modest economic growth. While such practices often receive bad press, the empirical literature more often than not show a modest positive economic impact.

Economic Development Impact at the Regional Level

Public choice theory intimates that individuals and firms choose to locate in the municipality that provides the most advantageous mix of public goods and services, and amenities (cf. Tiebout, 1956). But citizens who notice better employment in another municipality are willing to travel to the new municipality for work if the commute is not unreasonably long. A typical labor market therefore spans multiple municipalities. Retail markets similarly span multiple municipalities as people are willing to travel for better shopping. Markets for labor and goods are not defined by a single city but a region, such as a metropolitan area and the surrounding rural area. However, research indicates that proximity to labor markets and proximity to customers are consistently ranked as important factors in the location decisions of businesses. Surveys show that business executives first consider regions, rather than specific sites when making location decisions (Calzonetti and Walker, 1991; Schmenner, 1994). Noting the importance of regional differences, certain scholars have studied economic development policy impacts in a single region such as within a single state or metropolitan area. Studies of enterprise

zones, which are small geographic regions within a municipality, are also included in this section.

Stutzer (1985) considered the economic impact of industrial revenue bonds within a single state (Minnesota) from 1975 to 1984. Using cross-sectional and time-series analysis, he concluded that the ubiquitous use of industrial revenue bonds had no significant impact on statewide employment or the property tax base.

Jones, Marshall, and Weisbrod (1985) used Dun and Bradstreet data to compare employment growth in eight enterprise zones in the Midwest and East from 1980 to 1984. They concluded that the creation of new jobs had significantly grown in the zones. Overall business activity increased in all of the zones, but some of the zones still suffered aggregate job loss.

The U.S. General Accounting Office (1988) studied enterprise zones in Maryland during their first four years of operation. Time series analysis of employment growth was conducted. It was found that employment did grow in the zones. But interviews with large employers further revealed that other factors were more influential than incentives associated with the enterprise zone.

Erickson and Friedman (1989) examined the effectiveness of the use of enterprise zones to attract investment and create jobs. Their analysis considered zone characteristics, MSA characteristics and the use of certain incentives within the zone. Using regression analysis, they found the number of zone incentives was positively correlated with investment and job creation. Also, the number of zones per states was negatively correlated with zone performance, perhaps because the benefits associated with zone participation were diluted throughout the state.

Rubin and Wilder (1989) also studied the impacts of enterprise zones, focusing on Indiana's ten enterprise zones. The study described positive overall results in the zones as measured by the number of new businesses, business expansions, jobs created, and the percentage of new jobs going to zone residents. They also did a case study of the enterprise zone in Evansville, Indiana. Shift-share analysis was used to compare growth of industries within the zone to overall growth in the Evansville MSA from 1983, when the zone was adopted, to 1986. It was found that employment (warehousing, wholesale trade, retail trade and services) in the enterprise zone increased 43%, but in the surrounding county it only increased by 12%. Enterprise zones therefore appear to be an effective job growth policy.

Luger and Goldstein (1990) studied the use of research parks as an economic development tool. They compared employment growth in the host counties of 116 research parks to employment growth in control counties. Means comparison tests and regression analysis were employed. They concluded that 58 percent of the counties with research parks experienced more growth than the control areas. Older parks and those with university ties experienced more economic development.

Walker and Greenstreet (1991) studied whether economic development incentives influenced the location and expansion plans of businesses. Survey data were collected from 540 new manufacturing plants in the Appalachian region. The surveys inquired whether incentives influenced final location and expansion plans. Of businesses surveyed 37% admitted incentives were deciding factors in location choices. Logit analysis confirmed that incentives had a significant effect on final site selection. Regression

analysis revealed that incentives were insignificant in firms' decisions to expand their existing locations.

Fox and Murray (1991) noted that businesses make location decisions based on objective information such as potential profits, and subjective information such as the quality of life. They examined business entries and exits into the 95 counties of Tennessee from 1980 to 1986. The number of entering firms was 68,520, and the number of exiting firms was 52,725. Regression analysis was used to analyze the linkage between entries and exits and economic, demographic, public service, and tax data for each of the counties. The results of the analysis show that "the influence of any single local-government policy on the start-up or location of firms is, in general, very small in any given year" (p. 117). None of the variables in the analysis, however, were direct measures of economic development policy.

O'hUallacháin and Satterthwaite (1992) studied enterprise zones, research parks, and industrial revenue bonds (IRBs) and their impact on firm growth by industry. Using data from *County Business Patterns*, employment numbers were examined across 264 metropolitan areas. Using regression analysis they found that enterprise zones and research parks had positive effects on firm growth, but the results were seldom statistically significant. IRBs had no positive effect in their analysis.

Granger and Blomquist (1999) studied the location preferences of manufacturing facilities. They were interested in the effect of amenities, and used a quality-of-life index to represent amenities. Other data were collected from government sources on 253 urban counties. Regression analysis was used and the findings were summarized that

manufacturing firms that are more labor-dependent are more attracted to urban areas that are rich in amenities. Public policy variables were not included in the analysis.

L. E. Papke (1994) studied ten enterprise zones in Indiana cities. Indicators of economic activity used in the study included unemployment, inventories, and machinery and equipment. Machinery and equipment, and inventories are sources of local and state tax revenue in many places. These were analyzed in the area before and after the zone was officially designated an enterprise zones. Comparisons were made to jurisdictions surrounding the enterprise zones and control jurisdictions. Regression analysis was conducted and Papke concluded that unemployment dropped in enterprise zones, inventories increased, but machinery and equipment investments declined. So the enterprise zone program appears to be correlated with economic growth in two of the three categories of interest. J. A. Papke's (1990) study of Indiana enterprise zones found that enterprise zones had less capital investment after the enterprise zone designation than before.

In a recent study, Coughlin and Segev (2000) investigated the number of new foreign manufacturing firms at the county-level in the continental U.S. from 1989 through 1994. A negative binomial model was used to estimate the likelihood of observing a new plant in a county. Numerous economic, demographic, geographic and public sector variables were used. The study found that economic size, educational attainment, the existing manufacturing base, and transportation infrastructure were statistically significant positive location determinants. The study also found that foreign firms prefer urban areas and tend to locate in counties with higher numbers of black residents. High taxes were found to deter foreign investment. These findings are

especially timely as manufacturing employment is currently in decline, yet foreign-owned manufacturing is still on the upswing in the U.S.

Anderson and Wassmer's 2000 book, *Bidding for Business*, represents a comprehensive case study of the efficacy of economic development initiatives in the Detroit metropolitan area. The book details how the Chrysler Corporation declared in 1973 that they needed government assistance to upgrade their Mack Street Stamping Plant in Detroit or 5,000 existing jobs would be in jeopardy. In an attempt to ease Chrysler's tax burden, city officials convinced the state legislature to draft a bill empowering cities with the authority to grant tax abatements. Within a few years, cities across Michigan were widely using tax incentives to attract and retain businesses.

Anderson and Wassmer's methodology for analyzing economic development policy impacts included the use of descriptive statistics, ordinary least squares regression, and maximum likelihood regression. The data set included 14 inner cities and 98 outer cities in the Detroit metropolitan area. Inner cities were designated as those within ten miles of downtown. Commercial property values were used in much of the analysis as a proxy variable representing overall private sector prosperity. Property values are of interest in this study because the economic development incentives most widely used in the Detroit area relate to property: property tax abatements, Tax Increment Finance Areas (TIFA), Downtown Development Authority (DDA) districts, and industrial development bonds (IDB). Other dependent variables in their analysis include local employment rates and poverty rates.

Anderson and Wassmer's findings are quite relevant to the debate about the efficacy of economic development programs. As expected, they found the number of

incentives offered has increased over time. Cities within the Detroit metro area who established TIFAs or DDA districts increased their commercial property values. Property tax abatements granted prior to 1977 were positively correlated with property values, but later abatements and the use of IDB exerted no positive influence on commercial property values.

Anderson and Wassmer also tested Bartik's (1991) supply-side hypothesis that private sector economic growth creates trickle down benefits for the poor. Analyzing commercial property values as evidence of private sector economic prosperity, they found no correlation between such values and a city's poverty rate.

Wassmer and Anderson (2001) analyzed the use of economic development incentives to influence business location decisions within a metropolitan area. Much of the previous research focused on interregional locational moves. Panel data from 112 cities within the Detroit MSA was used. The time periods of the data are 1977, 1982, 1987, and 1992. Simultaneous equation modeling and regression analysis were used to determine predictors for four economic indicators used as dependent variables: employment rates, local poverty rates, manufacturing property values, and commercial property values. Numerous economic and demographic independent variables were included in the models. Each model had very strong predictive power—the lowest coefficient of determination was .85. Tax abatements in 1977 and 1987 were significantly positively correlated with manufacturing property values. Tax abatements in 1982, 1987, and 1992 were significantly positively correlated with commercial property values. The measures of economic development included in the analysis were property tax abatements, the use of industrial development bonds, tax increment finance districts

(TIFs), and downtown development authorities (DDAs), but these policy variables were only included in the last two models. They conclude that IBDs and TIFs "exerted no statistically significant effect on the local manufacturing tax base in any of the observed years" (p. 142).

A small number of regional analyses indicate that economic development policy has little economic impact, but most of the regional studies show that economic development policy is correlated with economic growth.

Economic Development Impact at the City Level

In the wake of "federal retrenchment" from urban problems, local city government officials have become more proactive in managing their economic affairs (Feiock, 1991). In light of resource scarcity and the never-ending list of demands from city residents, it becomes an important issue to discover whether local economic development efforts have any positive impact on local economies. Therefore previous empirical studies of economic development at the city level are of particular interest. Many studies have focused on a particular aspect of urban economic development such as the efficacy of enterprise zones. Other studies have analyzed how economic development is impacted by a particular characteristic of cities such as tax rates or amenities. Yet only a few comparative studies exist that consider a wide range of economic development policy inputs and economic development outputs using cities as the unit of analysis. Yet public choice theory contends that cities compete against each other for economic growth. It is quite possible that a single metropolitan area contain both poor and rich cities. When aggregate metropolitan economic data is considered, this inter-municipality rivalry is lost in the data. Therefore the use of individual municipalities is important in

the study of local economic development policy. Empirical studies that have analyzed the impacts of a single economic development policy, or multiple policies, at the city level, and similar studies that have analyzed economic development policy as an output, are described below.

In an early study, McDonald (1983) conducted microeconomic analysis of local real estate subsidies to business and real estate tax collections. It was found that real estate subsidies "tend to increase employment" by increasing the intensity of land use. McDonald makes the wise observation, however, that "the best option from the view point of the municipality...is to get some other level of government (state or federal) to pay for a subsidy" (p. 333).

A qualitative HUD study, conducted by Humberger (1983), examined trends in local urban economic development policy. The study notes that structural changes to the national economy, such as the rise of multinational corporations, are more of a factor in economic development than the migration of business. Businesses seeking new locations consider production input costs such as labor and materials, but are less swayed by government incentives like tax abatements and regulatory relief. Humberger also observes that small business and professional and technical firms are more willing to locate in central cities, and research (cf. Birch, 1987) infers that small businesses are more likely to create jobs, yet larger businesses usually receive the largest incentive packages. Humberger's study ends with a warning that local government should seek paybacks from businesses that receive incentives yet fail to fulfill their promises. Apparently the warning was not heeded, as the incentive wars between the states erupted

in the early 1990s, wherein states paid from $11,000 to $200,000 per job, and rarely held businesses accountable for the promised job creation (see Mahtesian, 1994).

Feiock (1987) considered capital investment, employment growth, and firm growth in an analysis of economic growth in 92 U.S. cities. As measures of economic development activity, the study used counts of the number of business incentive programs, special business services, and attraction techniques. Regression analysis revealed that these economic development initiatives were positively correlated with economic growth.

In a later study, Feiock (1988) tested the effects of local economic development policy on urban economic growth using survey data. To ascertain the level of economic development activity, Feiock designed and administered a survey which was sent to city government officials in all U.S. cities having a 1980 population of 50,000 or more. Only 96 surveys were returned. Economic data for these cities was gathered from various government sources. Dependent variables in the analysis were economic indicators as they changed from 1972 to 1982. It was found that "the provision of business incentives is positively related to change in urban economic output" (p. 148). Feiock concludes that incentive effects are not large, but "they may be significant enough to have a marginal impact on urban economic development" (p. 148).

Koven and Shelley (1989) analyzed whether public policy exerts influence on net migration in U.S. cities. Out-migration from cities is cited as a cause of urban decline. The authors observe that local government officials exert influence over taxing and spending policies, but have far less influence on factors such as wage levels, crime rate, population density and others. The study considers a mix of service, ecological, fiscal

public policy and economic measures across all U.S. cities with populations above 250,000. In the zero-order correlations, all three public policy expenditure variables were statistically significant. In a multiple regression model using 49 cities, it was found that tax rates and fire protection expenditures were statistically significant. The results of the study are interpreted that population migration is related to public policy variables, and the inference is made that the migration of jobs and industry must therefore also be related to public policy variables.

Using a larger data set of 212 U.S. cities, Feiock (1991) analyzed the correlations between city economic development initiatives and growth in the manufacturing sector. The dependent variables were the growth of new capital investment, the growth in the number of manufacturing firms, and the growth of manufacturing jobs from 1970 to 1980. The results again "provide evidence that local policies can have certain positive effects on economic growth" (p. 644). Economic development policies had a statistically significant positive effect on capital investment, and the number of firms, but not the number of jobs. Feiock's work is similar to this dissertation, except Feiock focused primarily on manufacturing while this study considers other industry sectors while using a larger data set.

In his 1991 book, *Who Benefits from State and Local Economic Development Policies?* Bartik analyzes whether economic development policies affect overall job growth, and whether they affect job growth for society's poor and unskilled. Numerous econometric techniques are employed, especially linear regression. The analysis focuses on two sets of dependent variables: the average unemployment rates, occupational wage

rates, housing and other prices in 25 metropolitan areas from 1972 to 1986; and the labor market successes of 44,000 men in 89 metropolitan areas from 1979 to 1986.

The study produces several findings that are relevant to economic development policy. Most notably, "A wide variety of state and local policies can significantly affect the long-run level of business activity in a local economy" (p. 57). In a high unemployment area the effects of such economic growth are progressive. That is, "lower-earnings males gain far more in percentage terms from local growth than higher-earnings males" (p. 185). In a low unemployment area the effects of economic growth are regressive. That is, the poor benefit less than people with higher incomes. In an area experiencing growth in employment opportunities (perhaps because of a state or local development incentive), skilled workers migrate to the area to fill those jobs. Previously unemployed unskilled workers remain unemployed. Bartik's question *Who Benefits?* has a two-part answer. Incentives offered in prosperous cities (those with low unemployment) do not benefit lower-skilled workers; but incentives offered in less prosperous cities (those with high unemployment) do benefit poor workers, unless other workers migrate in to fill the jobs.

In his book Bartik also wrote a comprehensive review of previous empirical work. He concluded that the literature agrees that local taxes and local expenditures are positively correlated with economic growth. Bartik concluded that locally offered incentives can effectively be used to promote equity and efficiency. Poorer cities tend to have smaller tax bases but higher expenditures due to a larger, more mature infrastructure. From an "equity" perspective, incentives in poor cities can attract businesses that will provide jobs for the city's poor residents. The salaries earned then

have multiplier effects throughout the city. From an "efficiency" perspective, incentives offered in a poor city bring jobs to the neediest area. If the poor city already has certain infrastructure such as roads and public transportation, it might also be more efficient for business start-ups to locate in the urban core rather than at the periphery. If the new firm requires sophisticated utilities however, and infrastructure in the urban core is outdated, new construction might at the periphery might be more efficient from the firm's perspective.

Bartik also concludes that state and local competition for business is not a zero-sum game from a national perspective. Admitting "the evidence is sparse," Bartik nonetheless concludes that intrastate and intracity competition can increase productivity, redistribute jobs to needy areas and possibly even increase overall national employment (p. 201).

Gruidl and Walzer (1992) examined whether attraction and retention strategies, such as tax breaks and other incentives, increased employment in Illinois communities. Data was collected using a mail survey and the final data set included 111 Illinois cities in 1985 and 283 in 1991. In their regression model, employment change is the dependent variable. The following variables were statistically significant and positively correlated with job growth: labor quality, an agglomeration economy, and local government expenditures. These variables were statistically significant and negatively correlated with job growth: wages, and property tax rates. None of the specific economic development policies were statistically significant in the model. Yet the authors argue that while economic development policies "might be important in micro studies of specific business

location decisions, they may not affect enough businesses to be detected in a study of community employment change" (p. 62).

Gottlieb (1994) examined urban amenities as location factors. He conducted meta-analysis of previous survey studies and econometric studies. Business leaders who influenced firm locations were the subjects of the surveys. The econometric studies were characterized by the "overuse" of proxy variables such as crime to represent overall urban amenities. Gottlieb concluded, "There is no evidence that firms will seek out amenities to the exclusion of all other location factors," yet amenities are consistently viewed as important location factors especially for high-tech firms (p. 279). "Government services" was a variable in the analysis, but specific economic development policy variables are not included. Nonetheless, Gottlieb recommends that, "an economic development agency targeting high technology cannot afford to ignore amenities" (p. 275).

Another study by Gottlieb (1995) analyzed amenities in 365 contiguous municipalities in 13 counties in New Jersey. High-tech employment was used as the dependent variable in linear regression analysis. Gottlieb tested the hypothesis that high-tech firms consider amenities and agglomeration in their location decisions. The study concluded that "avoidance of disamenities" and agglomeration preferences were important location determinants.

A study by Green, Fleischmann, and Kwong (1996) examined the effectiveness of local economic development policies in the 1980s. The study used economic development policy data collected from a 1984 ICMA survey and Census Bureau data from 1982 and 1987. Two-stage least squares regression analysis was used to examine

the relationship between absolute employment figures and economic development policies. Almost 900 cities having populations between 10,000 and 250,000 were included in the data set. Their twelve separate models explained much of the variance in employment, but economic development policy had very little statistical significance. "Local economic development policies had limited influence on changes in the number of jobs in cities" (p. 623). They intimate that their analysis confirms Schneider's (1982) theory that local economic development initiatives are yielding diminishing returns because their use has become widespread. At this point, Green, Fleischmann, and Kwong's work is the most comprehensive study of urban economic development policy impacts. This dissertation contributes to the literature by considering not only job growth, but income growth and growth in the number of firms.

Siegel and Waxman's 2001 report, *Third Tier Cities: Adjusting to the New Economy*, explores the impacts of economic restructuring on U.S. cities having populations of 15,000 to 110,000. They note, "The economic development tools that have been introduced to address downtown revitalization, economic restructuring, and neighborhood decline in the nation's larger cities are not always applicable to these smaller cities" (p. 2). Using descriptive statistics from a database of 396 cities, Siegel and Waxman allege that "third tier" cities suffer from these challenges: out-of-date infrastructure, dependence on traditional industry, brain drain, decline in "civic capital," and limited access to financing. The study concludes that third tier cities must create and enhance local amenities, use colleges as economic development assets, use regional approaches and build "civic capital." The study offers an excellent narrative of the

decline of smaller cities, but does not offer empirical evidence regarding the effectiveness of economic development policy.

In his 2002 book, *Rise of the Creative Class*, Richard Florida suggests the creative class members are the key drivers of economic growth. Creative class members make up more than 30% of the U.S. workforce and include scientists, engineers, architects, educators, entertainers, writers, and artists. Florida examined 332 urban regions and created four indices for them: creativity index, diversity index, high-tech index, and innovation index. Based on the economic prosperity of the highly creative cities, Florida suggests that cities must attract the creative class in order to fuel future economic growth. The creative class is attracted by certain quality of life amenities such as entertainment, the arts, universities, and recreation; and intangibles such as tolerance and diversity.

Unlike the state and regional analyses which infer modest positive correlation between economic development policy and economic growth, scant evidence exists using city-level data that policy is impacting growth. Only a few quantitative studies exist that consider specific measures of local economic development policy and economic growth at the city-level using a large set of U.S. cities. Some of these studies show that local economic development policy has modest positive impacts (Bartik, 1991; Feiock, 1987, 1988, 1991), while others show little or no impact (Green, Fleischmann, and Kwong, 1996).

Economic Development Impact at the Firm Level

Attracting new businesses to a city is prima facie evidence of economic development. Many researchers have analyzed the location decisions of businesses. The literature confirms that traditional economic factors (i.e. labor cost and availability, and

proximity to markets) are crucial locational determinants. In the so-called New Economy, high-tech firms are replacing manufacturers as the engines of economic growth, and quality of life is a major factor in high-tech business location decisions. When a firm is considering two locations with equivalent production costs, quality of life can be the deciding factor. High-tech firms are defined as companies that spend large amounts on research and development, and employ a high percentage of scientists, engineers or technicians. Empirical studies regarding business location decisions are noted below.

Morgan (1967) reviewed business location decision studies of the 1940s, 1950s, and 1960s. His meta-analysis concludes that firms follow conventional economic wisdom regarding their location decisions. Firms consistently choose areas with preferable market access, labor costs, and availability of raw materials. These traditional factors of production are becoming less important as transportation and communication technologies advance and become more affordable.

A survey conducted by Fortune magazine in 1977 of the 1000 largest corporations in the U.S. found that the availability of labor was the most important factor in recent plant locations, but that proximity to markets would be the most important factor in future plant sitings.

Schmenner (1982) analyzed industrial location decisions of Fortune 500 manufacturing plants in 1972 and 1978 using data purchased from Dun and Bradstreet. Of the 17,759 plants, 9,499 of them did not move their operation or open branch locations. In fact, only 450 plants relocated, which suggests that manufacturing firms were not as mobile as previously thought. Of the 1,611 plants that opened new branches, only 1 percent admitted that tax rates and business climate influenced their location

decisions. Labor climate was the most important factor considered by companies looking for new sites. For high-tech firms, the availability and cost of highly skilled technical labor and proximity to universities were the most influential locational determinants. Proximity to markets was also an important factor. Schmenner argues that taxes have little impact on business location decisions, yet practitioners use tax incentives for development, when perhaps they should focus their development efforts towards expanding existing businesses.

In a survey of 691 high-tech companies, Premus (1982) examined their location decisions. He found the following factors to be influential in the location decisions of high-tech firms: proximity and cost of skilled labor, taxes, good schools, space for expansion, local transportation, and recreational amenities. Economic development incentives were not found to influence firm decisions.

Plaut and Plata (1983) examined the relationship between state business climate and industrial growth from 1967 to 1977. Industrial growth was measured by percentage changes in real value added, employment and real capital stock. Independent variables include the FANTUS and COSMA scales (some of the earliest measures of business climate), accessibility to markets, climate, land costs, labor costs, unionization, energy costs, and others. Regression analysis was conducted. The authors admit, "After controlling for other factors, the business climate, tax, and expenditure variables as a group were found to be not significantly related to overall state industrial growth but significantly related to state employment and capital stock growth" (p. 115). No specific measure of economic development policy was used but the findings indicate that state

investment was positively correlated with the number of manufacturing jobs in the region.

Bartik (1985) examined the probability of a particular state being chosen for new manufacturing plants using conditional logit analysis and a modified version of Schmenner's original 1972 and 1978 data. The study concludes that high unionization and high state taxes have a strong negative effect on the location choices for new manufacturing facilities. This tax finding contradicts Schmenner's (1982) earlier finding. Bartik also suggests there is "some evidence that improved public services can attract business" (p. 14). Observing that land area has a positive effect on location choices, Bartik argues that the "dartboard theory works almost perfectly," meaning that if all other things are equal, states with larger land area will attract a larger number of firms (p. 18).

Goldstein (1985) surveyed 1,000 corporate executives and found that access to transportation especially highways was the most important factor considered when corporations chose a new location. Other important factors were worker productivity, unionization, available tax credits, and available tax exemptions.

Hekman and Greenstein (1985) conducted a survey of manufacturing plants in the South Atlantic states. They found these factors were influential to the location decisions of manufacturers: state and local industrial climate, labor productivity, transportation, land availability and land cost.

Wasylenko and McGuire (1985) examined total employment growth and employment growth in six specific industries in U.S. states from 1973 to 1980. They used econometric regression to analyze employment trends from *County Business Patterns*. Their general observations are that employment growth is discouraged by higher wages,

higher utility prices, and higher taxes; and employment growth is encouraged by higher state and local investments in education. Yet these generalizations do not apply to all industries. They warn, "Location determinants are not the same for all industries" (p. 509), yet they imply that if cities improve their business climates, economic growth is more likely.

Blair and Premus (1987) conducted a meta-analysis of empirical literature and confirmed Morgan's (1967) conclusion that traditional factors weigh most heavily in the location decisions of businesses. They note, however, that business location decisions are also influenced by certain quality of life factors such as education and community attitudes.

Calzonetti and Walker (1991) analyzed the data from a Dunn and Bradstreet survey of new manufacturing facilities. They discovered that firms have different criteria for choosing a new region, and different criteria for choosing a site within the region. Proximity to markets, proximity to labor, land, and taxes were the most important regional criteria. The most important local site criteria were markets, unions, highways, wages and livability.

Haug (1991) conducted a review of the site selection literature (as opposed to *region* selection) and concluded that facility availability, property costs, construction costs, community attitudes, and room for expansion were factors that influenced business location decisions.

Schmenner (1994) also analyzed the two-step location decisions of service firms in the Midwest. Firms are thought to first select a general area; then pick a particular site. Operations managers at service companies were surveyed about which area and site

criteria were considered "musts," and which were only "wants." The survey had 926 responses. Probit analyses and difference of means tests were employed to uncover factors that influence service firms' decisions. The most influential location factors were infrastructure, proximity to customers, and the ability to attract qualified labor. Schmenner suggests states and localities should stress these factors when trying to recruit outside service firms.

Cohen (2000) analyzed the location decisions of retail firms and confirmed that retail and personal services firms choose locations based on the proximity to markets so they can maximize their sales revenue. Cohen also confirmed that corporate headquarters tend to be located in central business districts of large cities. Downtown locations are prestigious, and corporate executives prefer the amenities of a downtown area including professional support services, restaurants, and entertainment.

Rondinelli and Burpitt (2000) surveyed business executives of 118 internationally-owned firms that had branch facilities in North Carolina. The characteristics that the executives consistently ranked highest as factors in attracting and retaining international companies were labor force, transportation, quality of life, and overall business climate. Factors ranked lowest were state taxes, finance, plant services, and marketing assistance. Thus, public assistance to firms could be deemed unnecessary. Yet incentives are still offered perhaps because public policy makers are motivated by political pressures toward development, and they must keep up with other states and localities that are offering incentives.

In a recent study for the Economic Development Administration, Salvesen and Renski (2002) reviewed the literature regarding location decisions of New Economy

firms. They also conducted interviews of a small sample of firms that had recently located to the Raleigh, Durham and Chapel Hill metropolitan area of North Carolina, known as the "Research Triangle." They observed that many firms viewed quality of life as an increasingly important factor in business location decisions, especially in attracting and retaining employees. They note, "Location decisions are generally based on a mix of factors, including costs of land, quality and cost of labor, access to decent transportation facilities, and in at least a few cases, proximity to a university and to the chief executive's home" (p. 42).

In a unique study that compares job-producing development to residential growth, Lewis (2002) examined the likelihood that local governments in California would offer financial incentives or zoning changes to accommodate land development for new businesses or for residential uses. Data were collected from a 1998 mail survey of city managers and augmented with data from the Census and other sources. The final data set included 223 municipalities that had some vacant land available. The survey results confirmed that city managers were more likely to provide incentives for business uses and less likely to provide incentives for residential uses. Using multivariate regression analysis, Lewis used each city's likelihood score of offering incentives as dependent variables. The findings show that incentives are more likely to be offered in cities that have strong business communities, high numbers of skilled-trade workers, and a strong local Democratic Party.

These business location studies show that economic development policy is one of the least important factors in selecting a new site. Yet incentives continue to be offered by politicians, and accepted, even demanded, by businesses. Motivated by profit

maximization, government incentives are now an expected part of a company's profit and loss calculations.

Economic Development Policy as an Output

Most of the empirical research examines the impacts of economic development policies, but a few studies have examined what factors are important in economic development policy formation. Empirical studies that consider economic development policy formation are described below.

An early HUD study by Muller (1976) examined public sector economic development in U.S. cities. A survey of 90 cities with populations of 150,000 or more was conducted and 16 site visits were made. The report sought to discover development activities, institutions, coordination between actors, and innovation in development policy. The study concluded that economic development had become a new and increasing function of local governments, and development activities focused on industrial retention and expansion.

Culp, Finn, Knox, Miller, and Tilney (1980) evaluated the impact of the Community Economic Development Program (CEDP). The program, which ran from 1976 through 1979 in ten cities was initiated and funded by HUD, the Department of Labor, and the Department of Commerce. Culp et al. examined documents and conducted interviews with public officials and business leaders. The study concluded that the CEDP was successful in accelerating the use of federal funding in the ten cities and generating economic development activities which continued after the end of the grant period.

To determine whether cities "get what they pay for," Reese and Ohren (1999) examined inputs into the economic development process, such as budget and staff

resources, and economic development policies and programs as outputs. It was hypothesized that a local government that invests more resources towards economic development is more likely to implement "effective" economic development policies. They used a data set of 107 Canadian and 355 U.S. cities, and correlation analysis. Reese and Ohren concluded that their hypothesis was accurate: cities with larger budgets and more staff implement "more effective" strategies.

Rubin and Rubin (1987) conducted seminal research on economic development policy formation in 178 U.S. cities. Four factors were considered as possible explanations for why cities differ in their development policies: 1) citizen need (cf. Rubin, 1986), 2) urban capacity (cf. Feiock, 1985), 3) fiscal stress (cf. Kennedy, 1984), and 4) growth processes (cf. Lyon, Felice, Perryman, and Parker, 1981). Correlations between these four factors and seven types of incentives were examined. They found, "richer, fast-growing communities simply were not spending money on incentives" (p. 55). Rich cities did not have to spend money to attract growth. But cities that are the poorest (lowest incomes, highest unemployment) were "spending the most money on expensive and possibly ineffective economic development incentives" (p. 55). From this study, Rubin and Rubin observe three decision rules used by economic developers. First, cities should always use incentives that are inexpensive or free (i.e. appropriate Federal funds). Second, use expensive incentives to aid business development "if the amounts are obfuscated and therefore do not rouse policy battles" (p. 57). And third, use expensive visible incentives only when the justification is that the poor and unemployed will be helped.

A study by Basolo and Huang (2001) sought "to determine the factors that influence the support of economic development by cities" (p. 328). They supposed that Peterson's (1981) City Limits hypothesis—which states economic development officials tend to pursue a pro-growth agenda—is no longer the prevailing policy model. Using a mail survey and U.S. Census information, a data set of 1,070 U.S. cities was created. The dependent variable was the total expenditure of each city towards economic development. Numerous political and economic independent variables were used, including the influence of business on development policy. Using regression analysis, they found that business influence was not correlated with economic development expenditures, but certain political variables had significant correlations. The study concludes that the City Limits theory is not an accurate portrayal of current economic development policy and practice, and instead, political actors dictate policy, not private sector actors. Their study focuses on how policy is formed, and the article concludes with a call for additional research on the impacts and outcomes of policy, which is the intent of this dissertation.

Sullivan (2002) examined the use of business subsidies and subsidy controls (clawbacks) in 1,629 U.S. cities. Data were collected by a 1998 mail survey of local government economic development practitioners. Subsidy usage measures include the total dollar amount of subsidies and a scale variable of the total number of subsidy types used in 1997. Subsidy controls were measured by the frequency (never, sometimes, usually, or always) that clawbacks were used. Findings from the study indicate that poorer cities are less likely to use clawbacks, and cities with high bureaucratic capacity are more likely to use subsidy controls.

In general, the economic development policies at the state and local level appear to follow the corporatist pro-growth model. Public assistance is given to the supply-side of the economy with the expectation that benefits will flow to all members of the society. Political pressures are also frequently cited in the literature as causes of pro-growth public policies.

Chapter Summary

This chapter reviews the empirical literature related to the impacts of economic development policy at the state level, regional level, city level, and firm level. Unfortunately these studies do not, and cannot, calculate the opportunity costs of economic development policies. It is uncertain whether public monies given in the form of incentives, or lost in the form of tax revenues forgone, might have generated more positive results elsewhere.

Most of the state and regional studies reviewed in this chapter infer that economic development policies are correlated with modest economic growth. While economic development policy often receives bad press, the empirical literature consistently shows a modest positive economic impact at the state and regional level. At the firm-level, a rich body of literature confirms that traditional economic factors (i.e. labor cost and availability, and proximity to markets) are crucial locational determinants for business. At the city-level, however, only a few quantitative studies exist analyzing the relationship between local economic development policy and economic growth. This dissertation seeks to contribute to the modest body of literature that analyzes local economic development policy and growth at the city-level. Local city government officials have taken a more proactive approach to managing their economic affairs. In light of resource

scarcity and the never-ending list of demands from city residents, it is important to discover whether local economic development efforts have any positive impact on local economies.

How this Study Contributes to the Literature

This study follows previous research by using cities as the unit of analysis (as did Feiock, 1987, 1988, 1991; Koven and Shelley, 1989; and Green, Fleischmann, and Kwong, 1996), and by analyzing economic growth from one period to another (as did Feiock, 1988; and Green, Fleischmann, and Kwong, 1996). This study also follows previous research by using survey data as independent variable measures of economic development activity (as did Feiock, 1987, 1988, 1991; and Green, Fleischmann, and Kwong, 1996). A comparison of this study to the existing literature on urban economic development is shown in Table 5.1.

This study adds to the existing body of research in three significant ways. First, unlike most of the previous studies, this study uses a large set of U.S. cities ($n = 412$) to represent all U.S. cities with populations over 25,000 ($N = 1{,}070$). Second, because economic development policy is designed to have wide impacts on a local economy, this study considers growth in the number of firms, jobs, and income, as evidence of economic growth. All three of these measures of economic growth are considered here in the same analysis. Previous studies have only considered a single industry (i.e. manufacturing, Fieock, 1991), focused solely on job growth (Green, Fleischmann, and Kwong, 1996), or used proxy measures of economic growth including capital investment (Feiock, 1987), migration (Koven and Shelley, 1989), or housing and other prices (Bartik, 1991). The third way this study adds to the existing body of research is by

comparing whether firms or individuals benefit more from economic development policy. This is accomplished by comparing private firm income gains and personal income gains in the same statistical model. Generally speaking, this study augments the current body of empirical research by co-opting germane elements of previous research and incorporating them into a single comprehensive study of urban economic development policy impacts. The next chapters further detail the specific data and the analytical methodology employed in this study.

Table 5.1

Comparison of This Study to Previous Literature

Author	Unit of Analysis	*n*	Dependent Variables	Policy Variables	Results
Feiock, 1987	U.S. cities	97	capital investment employment growth firm growth	number of business incentive programs special business services number of attraction techniques	Economic growth is positively correlated with economic development policy.
Feiock, 1988	U.S. cities with populations of 50,000 or more	96	change in number of firms change in investment employment growth	scale variable of ED policies	"The provision of business incentives is positively related to change in urban economic output" (p. 148)
Koven and Shelley, 1989	U.S. cities with populations of 250,000 or more	49	net migration	police expenditures fire expenditures general gov't expenditures per capita taxes	"Policies emanating from specific localities can influence migration patterns" (p. 715).
Feiock, 1991	U.S. cities	212	capital investment growth growth in mfg. firms growth in mfg. jobs	scale variable of ED policies	"Local policies can have certain positive effects on economic growth" (p. 644).
Bartik, 1991	U.S. metropolitan areas	25	unemployment rates occupational wage rates housing and other prices	tax rates incentives	"A wide variety of state and local policies can significantly affect the long-run level of business activity in a local economy" (p. 57).
Green, Fleischmann, and Kwong, 1996	U.S. cities with populations between 2,500 and 250,000	900	mfg. employment growth service employment growth	tax abatements incentives attraction/retention activities	"Local economic development policies had limited influence on changes in the number of jobs in cities" (p. 623).
Strother, 2004	U.S. cities with populations of 25,000 or more	412	mfg. firm growth retail firm growth job growth mfg employee growth retail employee growth income growth mfg. value-added retail sales	Capita Per ED Staff ED Budget Per Capita Total E.D. Initiatives % Time On Attraction Attraction Techniques Use Of Incentives % Time On Retention Retention Techniques % Time On Development Use Of Sm. Bus. Dev. Use Of Loans Use Of "Equity" Techniques Local gov't expenditures	

CHAPTER VI

DATA DESCRIPTION

This chapter describes the quantitative data that is used in this dissertation's statistical analysis. A single data set is created by merging data from a private organization and data provided by the U.S. Census Bureau. The specific data sources are described in detail below. This chapter also describes the individual variables that will serve as dependent, independent, and control variables in the inferential analysis of the next chapters.

Data Sources

Two primary data sources are used in this study. Data regarding the economic development practices of U.S. municipalities come from the 1999 "Economic Development" survey conducted by the International City/County Management Association. Data regarding economic conditions in U.S. cities are gleaned from the 1994 and 2000 *County and City Data Books* from the U.S. Census Bureau.

ICMA 1999 Economic Development Survey

The International City/County Management Association (ICMA) is a professional and educational organization that serves local government public administrators. The ICMA provides technical and management assistance to its members through research reports, books, training, and raw data collection. Every five years the ICMA conducts its "Economic Development" mail survey. The purpose of the survey is to gauge what

economic development practices are being utilized by local governments across the U.S. The ICMA's mail survey methodology is consistent with the techniques recommended by Dillman (1999) and Babbie (2001).

In fall 1999 and spring 2000, the ICMA mailed out a total of 3,308 surveys to municipalities with populations of 10,000 or more. Surveys were addressed to the Chief Administrative Officers, who were asked to report about their economic development policy experiences. The ICMA mailed out 2,882 surveys to cities, of which 912 were returned (31.6% response rate). A detailed response rate table and a copy of the complete survey instrument are included in the appendix of this dissertation.

The ICMA *Economic Development 1999* data set includes 321 variables in these five categories: (a) General Information; (b) Business Retention; (c) Business Attraction; (d) Small Business Development; and (e) Local Government Profile. The data contain numerous measures of economic development including budget, staff size, strategies (retention, attraction, development), and the level of local business participation. The specific variables that will be used in this study are described below.

County and City Data Books

Economic data for this study are gleaned from the 1994 and 2000 *County and City Data Books* generated by the U.S. Census Bureau. Tables C-1 through C-5 contain 1,070 records for U.S. cities. A city is defined as an incorporated place that had a 1990 population of 25,000 or more, and was legally in existence in 1990 as a city, borough, town, or village.

The *County and City Data Books* contain numerous variables in these seven categories: 1) Area and Population; 2) Population by Age, Sex, and Race; 3) Group

Quarters Population and Households; 4) Housing, Crime, and Labor Force; 5) Manufacturing and Wholesale Trade; 6) Retail Trade and Accommodation and Foodservices; and 7) Government Finances and Climate. Much of the data originates from other reports including the *Census of Population and Housing*, and the *Economic Census*. The specific variables that will be used in this study are described below.

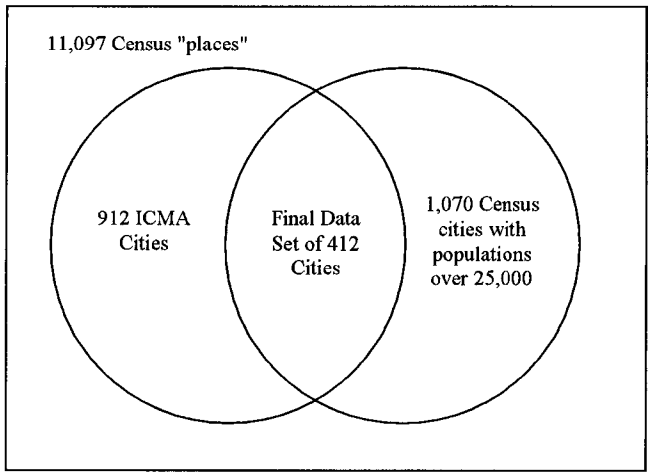
An advantage of using the *County and City Data Book* in this study is that the unit of analysis is individual cities. Urban economic research typically uses Metropolitan Statistical Areas (MSA) as the unit of analysis, but MSA-level data is aggregated from the multiple cities and counties contained within the metropolitan area. In a study of local economic development policy city-level analysis is preferable; because a city's greatest competitors are typically its neighboring cities (Tiebout, 1956; Calzonetti and Walker, 1991; Schmenner, 1994).

Final Merged Data Set

The 912 ICMA records were merged with the 1,070 Census records using seven-digit Federal Information Processing Standard (FIPS) codes. This study's final data set consists of the 412 cities that were found in both the ICMA data and Census data, as shown in Figure 6.1. Five hundred ICMA cities (designated as "places" not "cities" by the Census) are excluded because *County and City Data Books* do not contain aggregate economic data for these smaller cities. Of the Census' 1,070 cities, 658 were excluded from the final data set because no ICMA data exists, probably because they did not respond to the ICMA survey.

Figure 6.1

Graphical Representation of the Final Merged Data Set



Sources: International City/County Management Association, U.S. Census Bureau.

Elimination of an Outlier. Tabachnick and Fidell (2001) suggest that cases with standardized *z*-scores in excess of 3.29 are potential outliers and can distort statistical analyses. Since the *z*-scores for Los Angeles far exceed that guideline it was eliminated from the final data set. The average city, for example, lost 4.0 manufacturing firms over the study period, but Los Angeles lost 1,040 firms ($z = 15.1$), and the average city lost 528.4 retail firms over the study period, but Los Angeles lost 21,564 retail firms ($z = -18.1$). Other cities in the data set with over one million population do not have data near as extreme as Los Angeles, so the extreme scores are not related to population size. Perhaps the extreme scores are due to other qualitative phenomena such as the 1992 rioting that resulted in thousands of jobs lost, over 1,000 buildings lost to fire, and damages in excess of $1 billion. The Los Angeles metropolitan area is still represented in the final data set by cities such as Anaheim, Burbank, and Glendora.

Representativeness and Generalizability. According to Babbie, "A sample is representative of the population from which it is selected if the aggregate characteristics of the sample closely approximate those same aggregate characteristics in the population" (2001, p. 184). If a sample is found to be representative of the population it is drawn from, the results of the study can be generalized to the population. Key variables from the 412 study cities (considered a sample) are compared to the same variables in the 1,070 Census cities (considered the population). The variables that were chosen reflect economic, policy, and control conditions. Difference of means tests were conducted on each variable using the *z* distribution to determine whether differences between the sample and the population are statistically significant a technique recommended by Lind, Marchal, and Wathen (2003). The statistics in the final column of Table 6.1 show that the sample is largely representative of the population.

Table 6.1

Comparison of 412 Sample Cities to the Population of 1,070 Cities

Variable	Population			Sample			Difference of Means Test
	N	Mean	St. Dev.	*n*	Mean	St. Dev.	*z* ($\alpha = .05$)
Mfg. firm growth	1,070	47.6	198.2	410	-1.5	45.0	-5.01
Retail firm growth	1,070	-496.4	1,133.6	412	-477.3	647.7	0.34
Job growth	1,070	6,341.9	15,281.4	412	7,733.8	16,639.5	1.85
Mfg. employee growth	864	-1,533.1	10,162.7	366	-1,740.5	5,627.2	-0.39
Retail employee growth	969	-3,602.0	21,443.3	412	-2,244.0	4,145.7	1.29
Mfg. value-added	864	45,958.6	1,085,715.1	352	33,102.0	611,492.3	-0.22
Retail sales growth	1,069	104,607.3	472,092.2	412	136,767.4	391,928.7	1.38
Gov't expenditures/cap.	996	1,078.0	1,027.4	397	987.5	539.3	-1.76
Population, 1990	1,070	98,961.1	289,734.2	412	87,951.8	119,913.0	-0.77
Population growth	1,070	9,882.3	31,881.3	412	11,161.0	27,713.6	0.81
Crime rate 1990	1,070	6,296.7	3,769.9	412	6,580.7	4,044.7	1.53

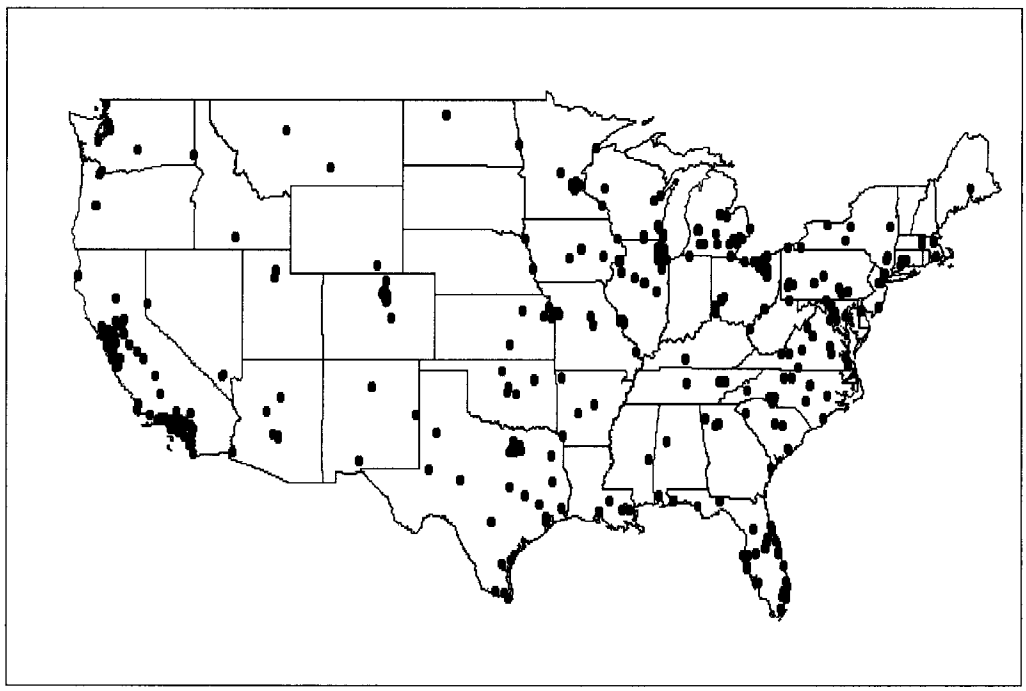
Notes: The difference of means test is a two-tailed test using the 5% level of significance. Values more extreme than the critical values for *z* of 1.96 and -1.96 indicate the sample differs significantly from the population.

Source: U.S. Census, County and City Data Books, 1994 and 2000.

Growth in manufacturing firms is the only variable whose sample statistic significantly differs from the population parameter. The larger mean in the population is positively skewed by cities whose base of manufacturing firms grew substantially over the study period such as New York city (3,887 net new firms) and Houston (2,608). Those cities did not respond to the ICMA survey and are therefore not included in this study's final data set. Conducting a difference of means test using the trimmed population mean (18.4) with the trimmed sample mean (-.1) revealed no statistically significant difference ($z = -1.79$), which confirms that difference in firm growth between the population and the sample is caused by the influence of a few outliers. It is not unreasonable therefore to expect the results of this study will still have some meaningful application to the population of all 1,070 cities. Previous empirical studies of urban economic development assumed representativeness but made no rigorous comparison of their sample data to population data. Overall, it is reasonable to conclude that the final data set in this study is representative of U.S. cities having populations over 25,000. Figure 6.2, a map of the 412 study cities, shows the geographic dispersion of the study cities.

Figure 6.2

Map of 412 Cities Used in This Study



Sample size. According to Lind, Marchal, and Wathen, "If a sample is too small, the resulting conclusions will be uncertain" (2003, p. 272). The formula for calculating the minimum adequate sample size is:

$$n = p * (1 - p) * (z / E)^2$$

Where n represents the minimum sample size, p is the population proportion (typically set at .5), z is the standard normal value corresponding to the desired confidence level, and E is the maximum allowable error (Lind, Marchal, and Wathen, 2003). At the 95% confidence level, z is equal to 1.96. Five percent is the maximum allowable error, so E is equal to .05. Thus the formula for minimum sample size is:

$$n = .5 (1 - .5) * (1.96 / .05)^2 = 384$$

Therefore the sample size of 412 cities adequately represents the population of 1,070 cities. This data set exceeds the sample size of all previous studies but one (see Table

5.1). Green, Fleischmann, and Kwong (1996) used 900 cities in their study, but only analyzed a single economic indicator, job growth. This study improves upon previous research by using a large data set and numerous economic indicators related to job growth, firm growth, and income growth.

Dependent Variables—Measures of Urban Economy

The underlying hypothesis in economic development practice is that local government economic development policies and practices relate to economic growth. Measures of economic growth will be used as dependent variables in this dissertation. To measure economic growth across time, the difference in a particular economic indicator is calculated from an earlier time period to a later time period. Therefore economic growth is expressed in this equation:

$$economic\ growth = economic\ indicator_{t2} - economic\ indicator_{t1}$$

For most of the dependent variables $_{t2}$ is 2000, and $_{t1}$ is 1990. The dependent variables fall into three conceptual categories: the number of firms, the labor force, and income. Table 6.2 shows descriptive statistics for the dependent variables used in this study.

Table 6.2

Dependent Variables, Descriptive Statistics

	N	Minimum	Maximum	Mean	St. Dev.	Skewness	Kurtosis
Dependent Variables Related to the Number of Firms							
Growth, mfg firms	410	-343.0	182.0	-1.5	45.0	-1.5	12.4
Growth, retail firms	412	-6,772.0	123.0	-477.3	647.7	-5.4	39.1
Dependent Variables Related to the Labor Force							
Growth, jobs	412	-21,043.5	208,471.4	7,733.8	16639.5	6.9	64.8
Growth, mfg employees	366	-48,764.0	20,823.0	-1,740.5	5,627.2	-3.3	18.9
Growth, retail employees	412	-39,978.0	4,371.0	-2,244.0	4,145.7	-4.1	24.7
Dependent Variables Related to Income							
Mfg. value-added	352	-4,869,558	3,705,732	33,102.0	611,492.3	-0.4	21.2
Retail sales growth	412	-1,004,363.6	3,103,016.4	136,767.4	391,928.7	1.8	10.1
Growth, income	412	-33,809.49	54,191.08	4,964.35	11,615.25	1.2	3.0
Valid *N* (Listwise)	366						

Source: U.S. Census, County and City Data Books, 1994 and 2000.

Dependent Variables Related the Number of Firms

Economic development practitioners spend more than half of their time on attraction and retention strategies with the objective of increasing the number of firms in a region (see Figure 4.1). This study uses manufacturing firm growth, and retail firm growth, as measures of the number of firms in a city. The data for these variables come from the 1994 and 2000 *County and City Data Books*, but the original sources are the 1987 and 1997 Economic Censuses.

Manufacturing Firm Growth

This variable measures the change in the number of manufacturing firms in a city. Growth is measured by subtracting the number of manufacturing firms in 1987 from the number of manufacturing firms in 1997. Manufacturing firms are identified as those

having the Standard Industrial Codes (SIC) of 20-39 in 1987, and those having the North American Industry Classification System (NAICS) codes of 31-33 in 1997. On average, the study cities lost 1.5 manufacturing firms over the ten-year period. Older plants that employed large numbers of workers are being replaced by new more modern plants that use technological innovation (such as robots) to replace workers (Dunne, Roberts, and Samuelson, 1989). Corporations are also closing their large manufacturing plants in the U.S. and building new plants in Mexico and China where wages and regulations are low (Whitney, 2003). As the U.S. economy has seen an overall decline in manufacturing, effective economic development policy is more likely to slow the overall decrease in the number of firms, rather than increase the number of manufacturing firms.

Retail Firm Growth

Retail firms are identified as those having the Standard Industrial Codes (SIC) of 42-45 in 1987, and those having the North American Industry Classification System (NAICS) codes of 44-45 in 1997. On average, U.S. cities lost 477.3 retail firms over the ten-year period. No city had positive growth in the number of retail firms. Four cities lost more than 3,000 retail firms. Although retail spending has not declined, the reduction in the number of retail firms evinces the "big-box" retailer trend. A single Wal-Mart store can displace a hundred Mom-and-Pop retailers. A study by Muller and Humstone (1996) found that new Wal-Mart stores capture more than 80% of their sales from pre-existing businesses through low (sometimes predatory) prices. Many of the pre-existing businesses are located in central cities and are locally owned. This means the profits are more likely to be spent in the local economy. While many retailers focus on a "big-box" suburban strategy, the $85 billion inner-city retail market is often overlooked. ICIC

research found that more than 25 percent of inner-city retail demand is unmet. Retail firms might experience "burdensome" operating costs due to such factors as crime, but the ICIC claims the rewards outweigh the risks: "high volume and preferences for certain high-margin goods translate into attractive bottom-line results." Areas that are typically underserved include grocery, apparel, pharmacy, and fast food (ICIC, 2002). Numerous economic development initiatives can be employed to protect these existing retail shops. Through import substitution, local governments buy goods such as office supplies from locally-based businesses, retail analyses can be conducted to help local retailers find profitable markets. Communities can also decide to close their doors to the big box retailers, as is being done in numerous cities across the country. The City Council in Jacksonville, Florida recently rejected plans for a new Wal-Mart based on anticipated traffic and noise problems (Calnan, 2003).

Dependent Variables Related to Jobs

One of the most frequently stated objectives of economic development policy and practice is to increase the number of jobs in a region. This study uses the following variables as measures of the number of jobs in a city: overall job growth, manufacturing employee growth, and retail employee growth. The data for these variables come from the 1994 and 2000 *County and City Data Books*, but the original sources are the 1987 and 1997 Economic Censuses.

Job Growth

No exact data exist on the actual number of jobs in each city. Data do exist, however, on the number of people willing to work (labor force size) and the number of people willing to work who are currently unemployed (unemployment rate). The labor

force includes "all the people who are employed plus those that are unemployed" (Sievert and Dodge, 2001, p. 274). On average, the labor force in U.S. cities grew by 6,873.0 workers over this period. The number of jobs in each city can be approximated with this formula:

$$jobs = labor\ force * (1 - unemployment\ rate)$$

Although this calculation does not account for vacant jobs, it offers a satisfactory method to estimate the number of jobs in each city. Job growth is calculated by subtracting the number of jobs in a city in 1987 from the number of jobs in a city in 1997. Using this method, the average number of jobs gained per U.S. city in this study is 7,733.8. Very few cities had negative job growth. The cities gaining the most jobs were Phoenix (+208,471), Dallas (+137,076), and Las Vegas (+100,445). The biggest losers were New Orleans (-2,393), St. Louis (-2,181), and Pittsburgh (-2,118).

While not included as a dependent variable, unemployment was also examined. Unemployment went down in all but nineteen of the study cities. The mean average shows that unemployment dropped by 2.4% over the ten-year period. Economic development programs such as employment screening can help firms hire workers; and programs such as job training, enterprise zones, business attraction, and business retention can help create jobs for unemployed workers.

Manufacturing Employees, Growth

Manufacturing employees include all employees who work for firms with the manufacturing SIC codes of 20-39 in 1987 and the NAICS codes of 31-33 in 1997. Both production and management workers are included. On average, the number of manufacturing employees in U.S. cities dropped by 1740.5 during this time period. This

decline in manufacturing employees reflects overall structural changes in the macroeconomy as the U.S. shifts from a manufacturing-based economy to a service-based economy.

Retail Employees, Growth

Retail employees include all employees who work for firms with the SIC codes of 42-45 in 1987, and the NAICS code of 44-45 in 1997. On average, the number of retail employees in U.S. cities declined by 2,502.3 jobs from 1987 to 1997, which is probably attributable to the Wal-Mart affect described above. Very few U.S. cities had growing numbers of retail employees.

Dependent Variable Related to Income Growth

Another objective of economic development policy and practice is to increase personal income and corporate profits in the region. In the ideal situation, economic development practitioners employ policies and programs that create new high-paying jobs, rather than merely reorganize the existing workforce (Blakely and Bradshaw, 2002). These new high-paying jobs would be a factor in increased per capita income growth. Economic development officials also work to improve profitability of local firms through programs such as import substitution, marketing assistance, and ambassador programs. If these programs are effective, it is reasonable to expect indicators of profitability such as manufacturing value-added and retail sales to increase.

Per Capita Income Growth

Per capita income refers to the average annual amount of money earned by an individual. Income represents money earned by working but it also can include gifts, welfare payments, capital gains or lottery winnings. This variable, per capita income

growth, is calculated by subtracting the 1987 per capita income from the 1997 per capita income. The data are expressed in constant 1997 dollars—that is, the 1987 figures have been adjusted for inflation. On average, per capita increased by $4,424.12 in the study cities.

Manufacturing Value-Added Growth

Value-added figures are the "differences between a firm's sales and its purchases from other firms," and is thus a measure of an individual firm's profitability (Byrnes and Stone, p. 398). The variable used in this study, manufacturing value-added growth, is calculated by subtracting the 1987 figures (expressed in inflation-adjusted 1997 dollars) from the 1997 figures. Aggregate city-level data for this variable comes from the *County and City Data Book*. Despite the widespread media reports of the downturn in U.S. manufacturing, the study cities experienced value-added growth of $33,102 over the study period. This variable is included in this analysis because it is a general measure of corporate income.

Retail Sales Growth

Another measure of corporate income is retail sales growth. This variable is measured as the difference in gross retail sales in the city from 1997 to 1987 (again, all figures are expressed in 1997 dollars). Retail sales in the study cities increased by $136,928 over this period.

Data Notes

The dependent variables show skewness and kurtosis (as do the same variables in the population). Rather than transform the variables in advance, the analysis will be conducted and the residuals (difference between the predicted and observed values) will

be screened for normality. This technique is recommended by Tabachnick and Fidell, who also point out that in large samples (with 100 cases or more), "a variable with statistically significant skewness often does not deviate enough from normality to make a substantive difference in the analysis" (2001, p. 74). Previous comparable studies (see Table 5.1) did not use transformed variables. In their study of job growth, Green, Fleischmann, and Kwong preferred using absolute numbers which "allows one to interpret regression coefficients in terms of job gains and losses" (1996, p. 613).

Independent Variables—Measures of Economic Development Activity

It is thought the economic development policies and programs will be positively correlated with economic growth in cities, so variables from the ICMA data set that measure economic development policy and practice will serve as independent variables in this study. Certain variables represent the four principal economic development objectives of attraction, retention, business development, and equity planning. The theories behind all of the economic development initiatives listed below are explained at length in Chapter Four. Each independent variable is described below, and Table 6.3 shows the descriptive statistics for these variables.

Table 6.3

Independent Variables, Descriptive Statistics

	N	Minimum	Maximum	Mean	St. Dev.	Skewness	Kurtosis
Independent Variables Related to Economic Development Policy							
Capita Per ED Staff	295	1,843.5	1,205,278.0	43,856.7	79,575.8	11.2	156.2
ED Budget Per Capita	363	0.0	421.6	16.1	45.7	5.8	39.8
Total E.D. Initiatives	412	0.0	55.0	24.7	12.6	0.2	-0.7
Public-Private Partnerships	412	0.0	9.0	2.3	1.7	0.7	0.4
Independent Variables Related to Business Attraction							
% Time On Attraction	352	0.0	100.0	25.1	18.2	0.8	0.8
Attraction Techniques	412	0.0	13.0	5.4	3.6	0.1	-1.1
Use Of Incentives	412	0.0	15.0	5.2	4.0	0.2	-0.9
Independent Variables Related to Business Retention							
% Time On Retention	362	0.0	100.0	29.0	21.7	0.7	0.1
Retention Techniques	412	0.0	12.0	4.6	3.0	0.1	-0.8
Independent Variables Related to Business Development							
% Time On Development	358	0.0	100.0	38.1	25.0	0.6	-0.3
Use Of Sm. Bus. Dev.	412	0.0	9.0	2.0	2.1	0.9	0.3
Use Of Loans	412	0.0	4.0	1.5	1.5	0.5	-1.3
Independent Variables Related to Equity Planning							
Use Of "Equity" Techniques	412	0.0	6.0	2.6	1.8	0.2	-1.0
Valid *N* (Listwise)	235						

Source: ICMA Economic Development Survey, 1999.

Economic Development Staff Size

This variable is a measurement of a city's human resource investment into economic development activity. Of the cities in this data set, the average economic development staff size is 2.94 people. Larger cities are expected to employ larger staffs, therefore, to control for population size, this variable is expressed as *capita per staff.* On

average, U.S. cities employ one economic development professional per every 43,856.7 citizens.

Economic Development Budget

This variable measures the amount of money budgeted for economic development. Again, larger cities are expected to have larger budgets, so to control for population size, this variable is expressed as *budget per capita.* The per capita economic development budget in U.S. cities is 16.1 dollars, on average. If economic development programs are effective in promoting growth, then it is logical to expect that cities who invest more in their economic development programs are more likely to experience growth.

Number of Economic Development Initiatives

This variable is a measure of the total number of economic development initiatives a city employs. On average, these cities employ 24.7 initiatives. Many of these initiatives are listed below in the descriptions of the other "initiative" variables. This variable is essentially a scale of proactivity. This technique is consistent with Anderson and Wassmer's 2000 study. They note, "A count of the types of incentives offered in a city does not reflect the intensity of use, it still provides information on the distribution of use across different varieties of incentives" (p. 85). Cities that employ a higher number of initiatives are thought to be more proactive in their approach to develop their local economies.

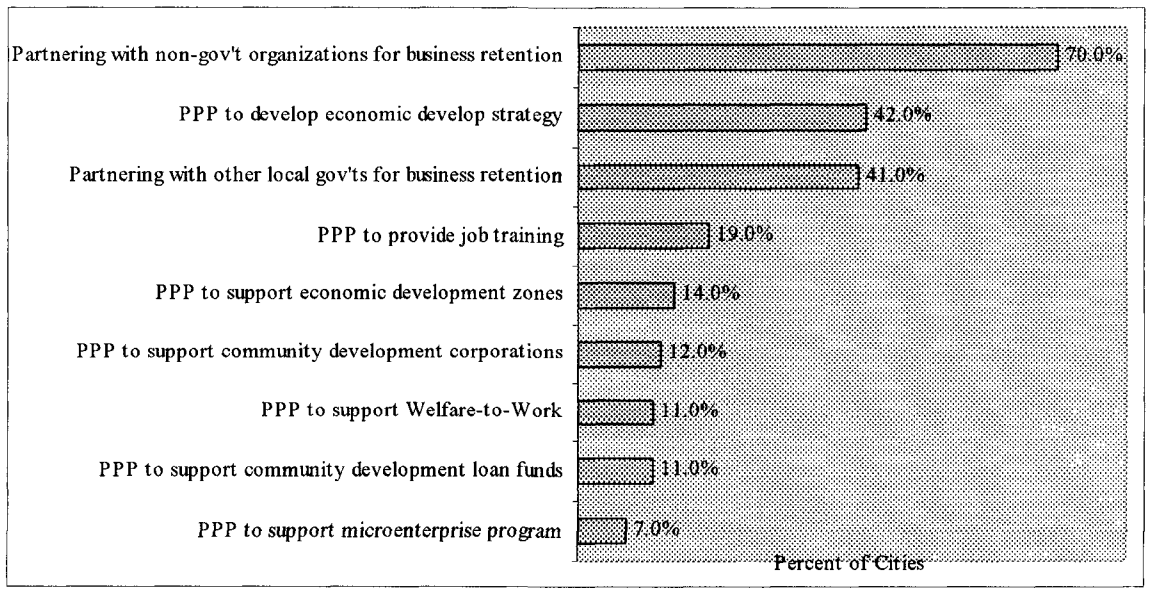
Public-Private Partnerships

This scale variable measures the number of public-private partnership types used in American cities. As partnerships are thought to be newer "third-wave" techniques,

cities that employ more partnerships are thought to be more innovative in their overall economic development policy approach. Figure 6.3 illustrates the types of partnerships used, and the percentage of the survey respondents who reported using each type.

Figure 6.3

Percentage of U.S. Cities Using Certain Public-Private Partnerships



Source: ICMA Economic Development Survey, 1999.

Time Spent on Attraction

This variable is the percentage of time that respondents spent trying to attract new businesses to their city. On average, 25.1% of economic development officials' time was spent on business attraction.

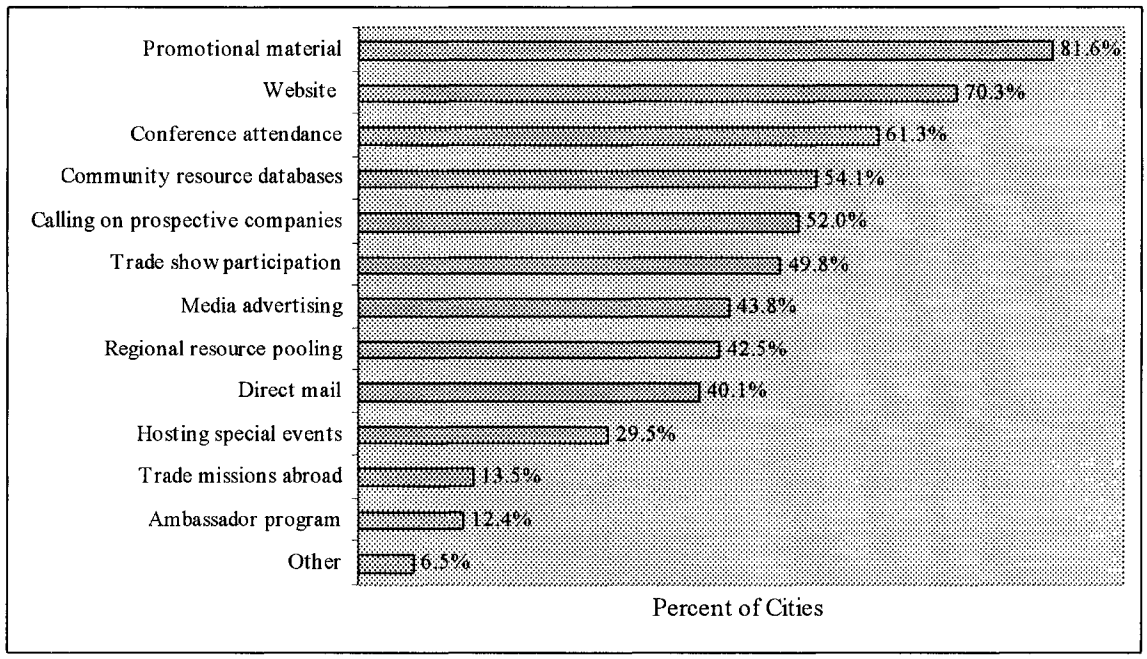
Number of Attraction Initiatives

The survey respondents were asked to report which of thirteen business attraction techniques they employ in their work. The choices were community resource databases, promotional material, media advertising, direct mail, trade show participation, conference attendance, calling on prospective companies, hosting special events, ambassador

program, trade missions abroad, regional resource pooling, and the use of a website. The average city employs 5.4 of these business attraction initiatives. Figure 6.4 shows how prevalent each of these business attraction initiatives is in U.S. cities. Economic development practitioners expect these attraction efforts to increase awareness of their city in the minds of external businesses and industrial location consultants.

Figure 6.4

Percentage of U.S. Cities Using Certain Business Attraction Techniques



Source: ICMA Economic Development Survey, 1999.

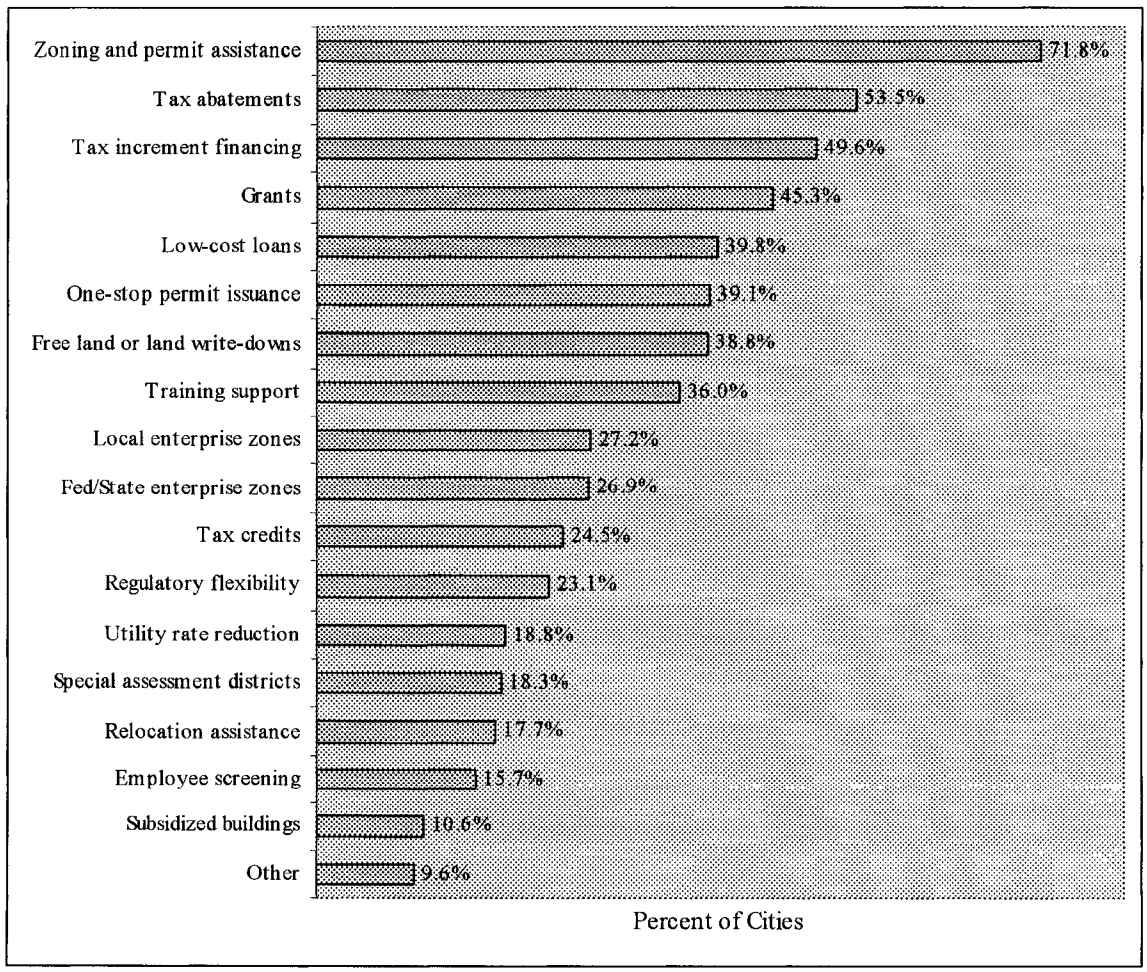
Use of Incentives

ICMA survey respondents were asked to report which of nineteen incentives they offer to private businesses. The choices were subsidized buildings, employee screening, relocation assistance, special assessment districts, utility rate reduction, regulatory flexibility, tax credits, fed/state enterprise zones, local enterprise zones, training support, free land or land write-downs, one-stop permit issuance, low-cost loans, grants, tax

increment financing, tax abatements, zoning and permit assistance, and infrastructure improvements. The research noted in Chapter Five indicates that incentives offered by government are related to economic growth. Once a firm has chosen a region for a new branch location, incentives often help the business choose a specific site (Green, Fleischmann, and Kwong, 1996). The average city uses 5.2 of these incentives in their economic development practice. Figure 6.5 shows the prevalence of each of these incentives in economic development practice in U.S. cities.

Figure 6.5

Percentage of U.S. Cities Offering Certain Incentives



Source: ICMA Economic Development Survey, 1999.

Time Spent on Retention

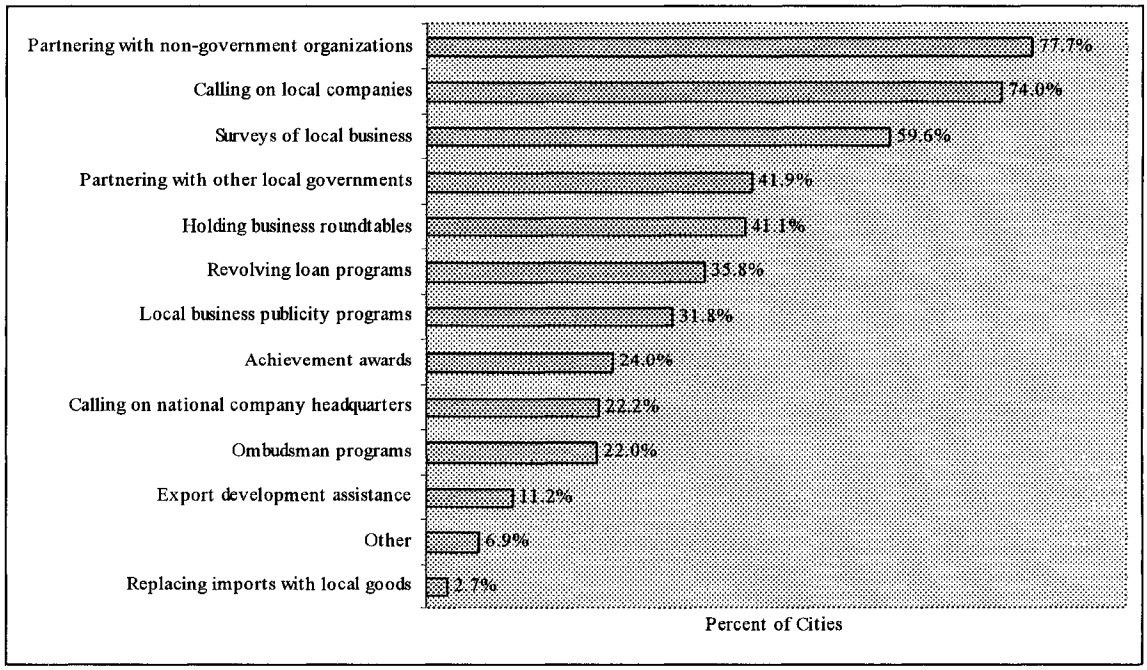
This variable is the percentage of time that respondents spent trying to retain existing businesses in their city. On average, 29.0% of economic development officials' time was spent on business retention.

Number of Retention Initiatives

The survey respondents were asked to report which of twelve business retention techniques they employ in their work. The choices were calling on local companies, calling on national company headquarters, surveys of local business, holding business roundtables, revolving loan programs, ombudsman programs, achievement awards, local business publicity programs, replacing imports with local goods, export development assistance, partnering with non-government organizations, and partnering with other local governments. The theory behind these retention techniques avers overall economic growth is aided, not by bringing in new firms, but by holding constant the number of existing firms. The average city employs 4.6 of these business attraction initiatives. Figure 6.6 shows how prevalent each of these business retention techniques is in economic development practice.

Figure 6.6

Percentage of U.S. Cities Using Certain Business Retention Techniques



Source: ICMA Economic Development Survey, 1999.

Time Spent on Business Development

This variable is the percentage of time that respondents spent trying to develop small businesses in their city. On average, 38.1% of economic development officials' time was spent on small business development. As most job growth is generated by small businesses (Birch, 1987), it is logical to expect the cities who assist entrepreneurs develop new businesses to experience economic growth.

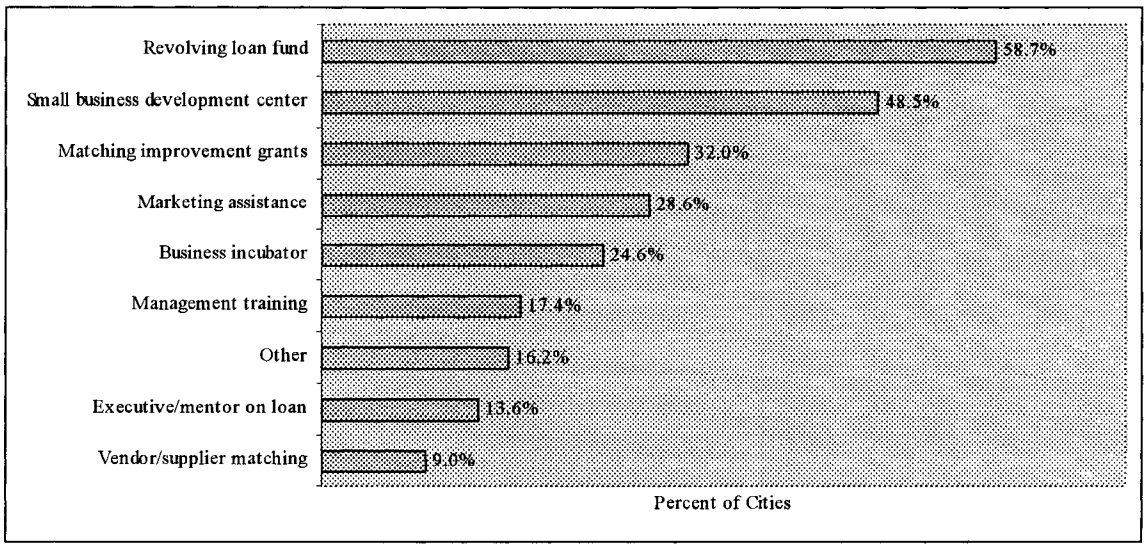
Number of Business Development Initiatives

Survey respondents were asked to report which of nine small business development techniques they employ in their work. The choices were vendor/supplier matching, executive/mentor on loan, management training, business incubator, marketing assistance, matching improvement grants, small business development center, and

revolving loan funds. The average city employs only 2.0 of these small business development initiatives. Figure 6.7 shows how prevalent each of these business retention techniques is in economic development practice.

Figure 6.7

Percentage of U.S. Cities Using Certain Business Development Techniques



Source: ICMA Economic Development Survey, 1999.

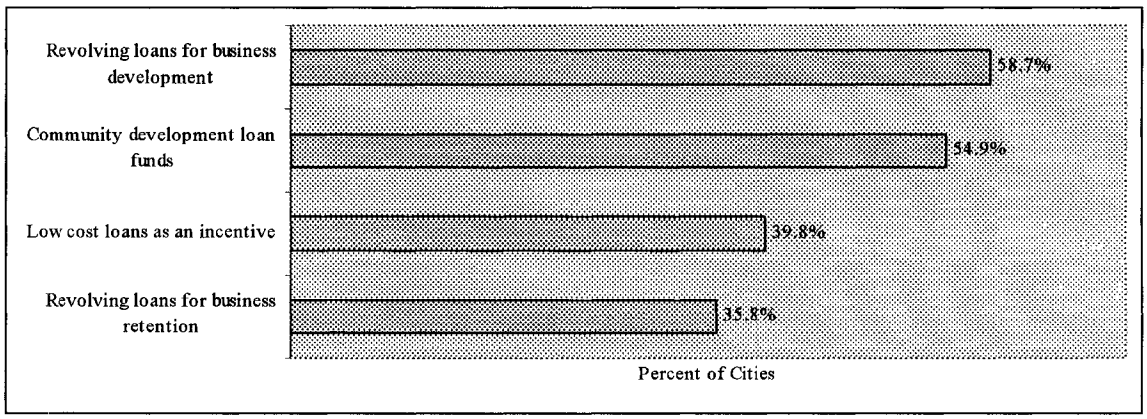
Loans

Innovative loan programs are often utilized to provide start-up capital for entrepreneurs. The ICMA survey respondents were asked which of four, if any, loan programs they utilize. The choices were community development loan funds, revolving loans for business retention, revolving loans for business development, and low cost loans as an incentive. Cities utilizing creative loan programs are thought to encourage economic growth, by making investment capital more available for business start-ups, or business expansions. This variable is a scale variable that counts the number of loan types used by each city in economic development. It is possible that a city only has one loan program and they utilize it in more than one of the above uses. The survey instrument

asked about loans in four distinct questions, so they are reported separately here. The average number of these loan programs used is 1.5. Figure 6.8 shows how prevalent each of these four loan programs is in economic development practice.

Figure 6.8

Percentage of U.S. Cities Using Certain Loan Programs



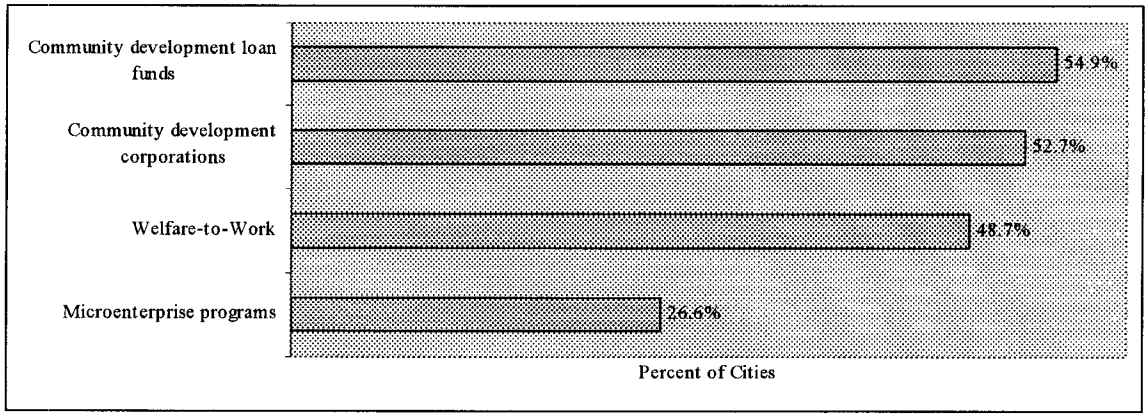
Source: ICMA Economic Development Survey, 1999.

Number of Equity Initiatives

Survey respondents were asked to report which of six so-called "equity planning" techniques they employ in their work. While equity planning is not a clearly defined concept, the survey instrument offered these choices which fall into the broad category of equity planning because they are designed to bring economic benefits to the least fortunate in depressed areas of cities: economic development zones, community development corporations, community development loan funds, microenterprise programs, Welfare-to-Work, and job training. The average city uses 2.6 of these equity planning initiatives. Figure 6.9 shows how prevalent each of these four loan programs is in economic development practice.

Figure 6.9

Percentage of U.S. Cities Using Certain "Equity Planning" Programs



Source: ICMA Economic Development Survey, 1999.

Control Variables—Other Things Thought to Impact Urban Economies

Numerous control variables that represent factors that affect city economies will be also be used in the models. Perhaps the variation in urban economies will be more accounted for by the control variables rather than the economic development independent variables. Economies are quite complex, and it is unlikely that the total variation of an economy can be explained by any collection of variables. The control variables used in this dissertation are population, population growth, manufacturing economic base, technology economic base, local taxes per capita, local government expenditures per capita, mayoral form of government, crime rate, percentage of high school graduates in the city, the percentage of college graduates in the city, and the average temperature in January. These variables are described below, and the reason for their inclusion in this study is also stated. Table 6.4 shows the descriptive statistics for these variables.

Table 6.4

Descriptive Statistics, Control Variables

	N	Minimum	Maximum	Mean	St. Dev.	Skewness	Kurtosis
1990 Population	412	25,063	1,111,030	87,951.8	119,913.0	5.4	36.4
Pop. Growth 1990-2000	412	-48,496	332,062	11,161.0	27,713.6	6.3	56.2
Mfg. Econ. Base	412	0.00	1.00	0.16	0.36	1.9	1.7
Technology Econ. Base	412	0.00	1.00	0.04	0.20	4.6	19.5
Taxes Per Capita	397	67.0	2,173.0	434.6	255.6	2.7	10.7
Expenditures Per Capita	397	301.0	4,088.0	987.5	539.3	2.2	6.7
Mayoral Form Of Gov't	412	0.00	1.00	0.15	0.36	2.0	1.9
Crime Rate 1990	412	-	37,903.0	6,580.7	4,044.7	1.3	8.1
% Hs Grads, 1990	412	26.3	96.6	78.5	10.4	-1.0	2.4
% College Grads, 1990	412	1.7	71.2	24.0	12.1	1.2	1.5
January Temp, Avg.	412	5.9	68.1	38.5	15.1	0.1	-1.1
Valid N (Listwise)	397						

Sources: International City/County Management Association, U.S. Census Bureau.

Population

This variable is simply the 1990 population as recorded by the U.S. Census Bureau. Cities are thought to be the epicenters of economic activity in a region (Jacobs, 1992). Larger cities will likely have greater economic activity than smaller cities. So this variable is included in the analysis to control for city size. The average population of the cities in this data set is 87,951.8.

Population Growth

Population growth is calculated by subtracting a city's 1990 population from its 2000 population. It is thought that cities with faster growing populations are also cities with faster growing economies (Rusk, 1995), although it is not certain if one is the cause of the other. This variable is included to control for the effects of population growth, and also to discover how much of the variation in a city's economy is attributed to its

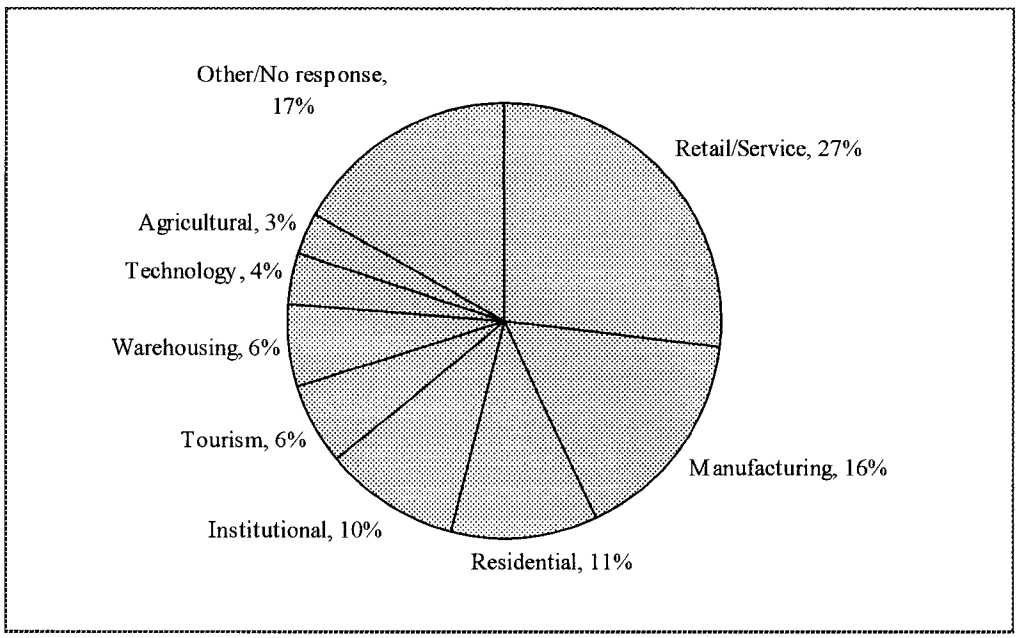
population growth as compared to its economic development activity. The cities in this data set had an average population growth of 11,161.0.

Economic Base Variables

The ICMA survey asked respondents to indicate which industrial sector they consider to be their economic base. Figure 6.10 shows which industries the survey respondents consider the primary economic base for their city. As structural changes in the U.S. economy occur, it is thought that cities whose basic industry is manufacturing will experience economic hardship, while cities whose basic industry is technology are more likely to prosper (Blakely and Bradshaw, 2002).

Figure 6.10

Economic Base for 412 Study Cities



Source: ICMA Economic Development Survey, 1999.

The manufacturing economic base variable is a dummy variable (1 = manufacturing economic base, 0 = other economic base). Of the 412 cities, 16% indicate

that manufacturing is the primary industry in their city. This variable is included in the analysis because the decline in the number of manufacturing firms and employees is a significant aspect of the U.S. economy.

The technology economic base variable is a dummy variable (1 = technology economic base, 0 = other economic base). Of the 412 cities, only 4% indicate that manufacturing is the primary industry in their city. This variable is included in the analysis because high technology is expected by some (i.e., Schumpeter, 1934) to be a key catalyst for growth in the New Economy.

Local Taxes Per Capita

This variable simply measures the annual dollar of taxes paid per capita in each city. The source is the 2000 *County and City Data Book.* The average amount of taxes paid is $434.60 per capita. This variable is included as a control variable in this study because tax levels are thought to influence the location decisions of firms and individuals (Tiebout, 1956).

Local Government Expenditures Per Capita

This variable simply measures the annual dollar of local government expenditures in each city. The source is the 2000 *County and City Data Book.* The average amount of expenditures is $987.50 per capita. This variable serves as a proxy variable for the "basket of public goods" described by Tiebout (1956). According to public choice theory, people are thought to make location decisions based on the mix of public goods and services in a city. Cities with higher expenditures are potentially cities that have a better offering of public goods and services, and would therefore be more attractive to firms and individuals.

Mayoral Form of Government

The mayor variable is a dummy measure of the type of local government (1 = mayoral form of government, 0 = other form of local government). Reese and Rosenfeld observe that the presence of a "strong chief executive," who provides "policy entrepreneur" leadership is necessary for building coalitions and brokering deals (2002, p. 8). They also explain that mayor-dominated systems of local government tend to use economic development policies "emphasizing traditional financial incentives and infrastructure investment" (2002, p. 154). Because of these phenomena, this variable is included in this study.

Crime Rate

This variable is the number of serious crimes reported to the police per 100,000 people in 1990. The data comes from the 1994 *County and City Data Book* as originally reported by the F.B.I. The average crime rate for the cities in this study is 6,580.7 serious crimes per 100,000 residents. This variable is included in this study because high crime rates are thought to be negatively correlated with many measures of economic growth. Employers are reluctant to locate in crime-ridden areas.

Education Variables

Human capital is thought to be a significant variable related to economic development (Reich, 1983; Asefa and Huang, 1994). New Economy companies require a more educated workforce than Old Economy companies. Therefore it is thought that cities with more highly educated workers are more likely to attract, retain, and develop businesses. Two variables are included that represent the education level of a city's workforce: the *percentage of high school graduates* in the population, and the *percentage*

of college graduates in the population. For the cities in this study, the average percentage of high school graduates is 78.5 percent. For college graduates the average is 24.0 percent. The source of this variable is the *County and City Data Book.*

Average January Temperature

This variable is simply the average temperature in the city in January. The source is the *County and City Data Book.* Much has been written about economic decline in the colder northern "Rustbelt" or "Frostbelt" states, and economic expansion in the warmer "Sunbelt" states. Perhaps business owners prefer to operate in warmer climates. With this in mind, it is expected that a city's average January temperature would be positively correlated with economic growth—higher temperatures equate to better economies. This variable is included in the analysis to control for potential climate economic impacts. The average January temperature for cities in this study is 38.5 degrees Fahrenheit.

Chapter Summary

This chapter describes the quantitative data that are used in this study's statistical analysis. The data set is created by merging data from a private organization and data provided by the U.S. Census Bureau. The descriptive statistics regarding dependent, independent, and control variables of this study offer an insightful look at the economic conditions of U.S. cities, and a view of the economic development policies and practices that are most widely put to use by economic development practitioners in U.S. cities. The next chapters describe the methodology employed in this study, the analytical models, and the results of the analysis.

CHAPTER VII

METHODOLOGY

The objective of this dissertation is to determine whether the economic development policies employed at the local government level are statistically significant and positively correlated with measures of economic growth in U.S. cities. Based on the current body of empirical literature, it is hypothesized that economic development practice at the local level is positively correlated with economic growth. Multiple correlation and regression techniques are used to examine correlations between the incidence of economic development practices and economic growth. This chapter describes the inferential statistical techniques used in this study, and three analytical models: the firm growth model, the job growth model, and the income growth model. Each model is designed according to theoretical implications in the economic development literature.

Multiple Correlation and Regression Technique

Selection of an appropriate statistical technique depends on two factors: the research question(s) and the characteristics of the data set. According to Tabachnick and Fidell, "If the major purpose of analysis is to assess the associations among two or more variables, some form of correlation/regression...is appropriate" (2001, p. 17). The major purpose of this analysis is to assess the associations between economic growth and economic development tools. Continuous dependent variables will be used and multiple

continuous independent variables will be used (with a few dichotomous dummy variables as exceptions), therefore multiple correlation and regression is the most appropriate technique for this study (Tabachnick and Fidell, 2001, p. 27).

Description of Multiple Correlation and Regression

Multiple correlation and regression analysis "are a set of statistical techniques that allow one to assess the relationship between one dependent variable and several independent variables" (Tabachnick and Fidell, 2001, p. 111). The term "correlation" specifically refers to the measurement of the strength of the association between variables, and the term "regression" refers to prediction of a variable based on another variable. These two terms are typically used interchangeably in the literature. The main objective of this dissertation is to discover associations between variables rather than make predictions.

Multiple regression analysis is based on the assumption that "there is a linear relationship between each of the independent variables and the dependent variable" (Lind, Marchal and Wathen, 2003, p. 448). The least squares criterion is used to determine the equation. In this study this linear relationship is represented by the simplified formula:

$$E = a + \Sigma b_n ED_n + \Sigma b_n C_n + e$$

where the dependent variable E represents a measure of a city's economy, the a represents the y-intercept in the equation, the b_n represents the regression coefficients of the independent variables, the ED_n represents economic development independent variables, the b_n represents the regression coefficients for the control variables, the C_n

represents the control variables, and e is the error term. This equation is the basis for all of the regression models.

The effectiveness of the regression equation is determined using two measures: s_y, the multiple standard error of the estimate; and R^2, the coefficient of determination. The multiple standard error of the estimate is "a measure of the scatter, or dispersion, of the observed values around the line of regression" (Lind, Marchal and Wathen, 2003). The coefficient of determination, R^2, shows the amount of variation in the dependent variable that is explained by the independent variables. In a strong model s_y is low and R^2 is high.

Regression analysis includes the use of t-tests to determine whether any of the independent variables have significant regression coefficients (b). According to Tabachnick and Fidell, the goal of regression is to arrive at the regression coefficients for the independent variables that bring the predicted values of the dependent variable "as close as possible" to the observed values of the dependent variable (2001, p. 112).

Isolating the Effects of Economic Development Policy

Each regression model will be run using two blocks. In the first block, standard multiple regression will be performed between the control variables and the dependent variable and the R^2 statistic will be noted. The second block will add to the control variables the independent variables that are of interest to this research. The change in the R^2 statistic from the first to the second block will reflect the amount of variation in the dependent variable that is attributed to the independent variables. This technique will isolate the effects of economic development policy, while controlling for other important variables.

Limitations

Although commonly used, multiple regression analysis has certain theoretical and practical limitations. From a theoretical perspective, regression analysis reveals relationships between variables, but cannot prove causality. It is possible, however, that the variation in the dependent variable is predicted by phenomenon not included in the model, or that a relationship is spuriously caused by another variable. In regression analysis, therefore it is important that the combination of independent variables in each model must be chosen carefully according to theoretical considerations.

Regression analysis also has certain practical limitations. The ratio of cases to independent variables must be substantial or the analysis is imperfect and meaningless. A rule of thumb is $N \geq 50 + 8m$, where m is the number of variables (Tabachnick and Fidell, 2001, p. 117). In this study, where $N = 412$, it would not be unreasonable to use more than 40 independent variables, although the models described below use far fewer independent variables. The number of independent variables included in this analysis is driven by the number of unique economic development policy approaches.

Another concern of regression analysis is multicollinearity, which is present when two variables are different measures of the same thing. Tabachnick and Fidell (2001) suggest that multicollinearity can be detected through examination of zero-order correlations, tolerances, conditioning indices, and variance proportions. Zero-order correlation (r = .70 and above) between two independent variables is strong evidence of multicollinearity. For example, taxes per capita and expenditures per capita are highly correlated (r = .729). Cities with higher taxes are also cities that have higher expenditures. Tolerances are calculated in each regression by subtracting the computed

squared multiple correlations from 1. Variables with low tolerance scores (< .30) show evidence of multicollinearity and are removed from the analysis. Conditioning indices and variance proportions are also used to detect multicollinearity. A conditioning index is "a measure of tightness or dependency of one variable on the others" (Tabachnick and Fidell, 2001, p. 85). Belsely, Kuh, and Welsch (1980) allege that multicollinearity exists in a given dimension when the conditioning index is high (> .30) and at least two variance proportions for an individual variable are high (> .50).

To resolve problems associated with multicollinearity between two independent variables, the regressions are run twice to determine the impact of the two offending variables. Rotation allows a comparison of the impact of each variable. When multicollinearity is discovered between two independent variables, the variable with the least impact is removed. To resolve multicollinearity between an independent variable and the dependent variable, the independent variable is removed.

The Firm Growth Model

The attraction, retention, and development of new firms is consistently stated as the primary objective of economic development policy and practice. Cities that successfully attract, retain, and develop firms, inevitably experience economic growth. It is hypothesized that cities that are more proactive in their efforts to attract, retain, and develop firms are those cities that experience growth in the number of firms. The firm growth model illustrated in Table 7.1 is posed to test this hypothesis. Growth in the number of manufacturing firms, and growth in the number of retail firms serve as the dependent variables.

Table 7.1

The Firm Growth Model

	Variables	Justification
Dependent	manufacturing firm growth	a measure of firm growth
	retail firm growth	a measure of firm growth
Independent	ED staff size (capita per)	a general measure of ED investment
	ED budget (per capita)	a general measure of ED investment
	total ED initiatives	a measure of proactivity
	% time on attraction	a measure of time investment
	attraction techniques	a measure of proactivity
	% time on retention	a measure of time investment
	retention techniques	a measure of proactivity
	% time on development	a measure of time investment
	use of development techniques	a measure of proactivity
	use of loans	a typical development tool
	use of incentives	typical attraction techniques
	public-private partnership use	a measure of third-wave innovation
Control	population	to control for city size
	population growth	to control for population growth
	manufacturing economic base	to control for economic base
	local taxes (per capita)	Public Choice theory, firms prefer low tax areas
	expenditures (per capita)	Public Choice theory, firms prefer high quality public goods
	mayor form of government	strong executive leadership necessary for "deal-making"
	crime rate	relocating firms avoid high crime areas
	% high school grads	to control for an educated workforce
	% college grads	to control for a highly educated workforce
	January temperature, average	relocating firms might prefer temperate climates

The Job Growth Model

The previous three sets of models focused on the economic development objectives of attracting, retaining, and developing firms. Besides increasing the number of firms, another objective is to increase the number of jobs in the city in many ways, such as encouraging a national company to expand its local operation rather than open a new facility elsewhere. So in this model, the number of jobs, rather than the number of firms, is the unit of analysis.

Table 7.2

Job Growth Model

	Variables	Justification
Dependent	overall job growth	job growth in all sectors is analyzed
	manufacturing firm growth	a measure of job growth in the mfg. sector
	retail firm growth	a measure of job growth in the retail sector
Independent	ED staff size (capita per)	a general measure of ED investment
	ED budget (per capita)	a general measure of ED investment
	total ED initiatives	a measure of proactivity
	% time on attraction	a measure of time investment
	attraction techniques	a measure of proactivity
	% time on retention	a measure of time investment
	retention techniques	a measure of proactivity
	% time on development	a measure of time investment
	use of development techniques	a measure of proactivity
	use of loans	a typical development tool
	use of incentives	typical attraction techniques
	public-private partnership use	a measure of third-wave innovation
	use of "equity" techniques	programs designed to boost employment for the most needy
Control	population	to control for city size
	population growth	to control for population growth
	manufacturing economic base	to control for economic base
	local taxes (per capita)	Public Choice theory, firms prefer low tax areas
	expenditures (per capita)	Public Choice theory, firms prefer high quality public goods
	mayor form of government	strong executive leadership necessary for "deal-making"
	crime rate	relocating firms avoid high crime areas
	% high school grads	to control for an educated workforce
	% college grads	to control for a highly educated workforce
	January temperature, average	relocating firms might prefer temperate climates

The Income Growth Model

Economic development policy and practice is thought to have a positive effect on personal income and corporate profits in the region. Attracting new high-paying jobs is an important element of economic growth. These new high-paying jobs would boost per capita incomes in the city. Economic development officials also employ various initiatives to improve profitability of local firms. If effective, it is reasonable to expect indicators of profitability such as manufacturing value-added and retail sales to increase. The income growth model, illustrated in Table 7.3, includes measures of personal income, and corporate income. The results of this model will yield an interesting comparison of the benefits of economic development policy experienced by individuals and the benefits experienced by firms. While some of the theoretical literature suggests that economic development policy favors corporations over individuals (Schmitter, 1974; Goetz, 1994), the previous empirical literature does not analyze these differences.

Table 7.3

The Income Growth Model

	Variables	Justification
Dependent	per capita income growth	a measure of firm growth
	mfg. value added growth	a measure of growth in the mfg. sector
	retail sales growth	a measure of growth in the retail sector
Independent	ED staff size (capita per)	a general measure of ED investment
	ED budget (per capita)	a general measure of ED investment
	total ED initiatives	a measure of proactivity
	% time on attraction	a measure of time investment
	attraction techniques	a measure of proactivity
	% time on retention	a measure of time investment
	retention techniques	a measure of proactivity
	% time on development	a measure of time investment
	use of development techniques	a measure of proactivity
	use of loans	a typical development tool
	use of incentives	typical attraction techniques
	public-private partnership use	a measure of third-wave innovation
	use of "equity" techniques	programs designed to boost income for the most needy
Control	population	to control for city size
	population growth	to control for population growth
	manufacturing economic base	to control for economic base
	local taxes (per capita)	Public Choice theory, firms prefer low tax areas
	expenditures (per capita)	Public Choice theory, firms prefer high quality public goods
	mayor form of government	strong executive leadership necessary for "deal-making"
	crime rate	relocating firms avoid high crime areas
	% high school grads	to control for an educated workforce
	% college grads	to control for a highly educated workforce
	January temperature, average	relocating firms might prefer temperate climates

Chapter Summary

Because this study attempts to discover statistically significant relationships between economic development practices in U.S. cities and measures of economy in those cities, correlation and regression analyses are used. Three different models are posed that analyze correlations between economic development policy and economic growth. This chapter describes the statistical techniques used in this study, and each of the analytical models. The results of the analysis are described in the next chapter.

CHAPTER VIII

RESULTS OF THE ANALYSIS

The objective of this study's quantitative analysis is to determine whether economic development practice is statistically significant and positively correlated with economic growth. This chapter reports the results of multiple correlation and regression analysis for the three different models described in the previous chapter: the firm growth model, the job growth model, and the income growth model. At the end of the chapter, the fifteen study cities that have experienced the most economic growth are compared to the fifteen study cities that have experienced the least economic growth.

Multiple Regression Models

This section reports the results of the multiple regression analyses described in the previous chapter. In each of the multiple regression models, economic indicators serve as dependent variables. Using SPSS the independent variables are entered into each model in blocks. The first block contains all of the control variables, and the second block adds the economic development policy variables. The coefficient of multiple determination (R^2) indicates the amount of the variance in the dependent variable that is explained, or accounted for, by these independent control variables (Lind, Marchal, and Wathen, 2003, p. 435). Because R^2 tends to be overestimated (Tabachnick and Fidell, 2001, p.147), this statistic is adjusted according to the guidelines proposed by Wherry (1931). The change in the adjusted coefficient of multiple determination (adjusted R^2 change) from the first

block to the second block indicates the additional amount of the variance in the dependent variable that is accounted for by the economic development policy variables. Consistent with previous research, this analysis is expected to confirm that control variables explain much more of the variance in economic growth than do economic development policies.

To investigate whether the independent variables actually have zero net regression coefficients, a global test is conducted using the F distribution. In all but one regression noted below, each regression is statistically significant ($p \leq .05$). This indicates that the amount of explained variation in the dependent variable (adjusted R^2) did not occur by chance.

The residuals for each regression of non-transformed dependent variables showed normality or near-normality. Power and logarithmic transformations did not improve the models. Therefore, absolute numbers are used in the analysis rather than transformed variables which is consistent with previous research.

Some of the variables have a small number of missing values. The variable manufacturing job growth, for example, has a few missing values because the number of manufacturing employees was not reported for all cities. The U.S. Census Bureau withholds this information in cities with only a few manufacturing firms to protect the privacy of those firms. In the regressions, missing values were replaced with the mean scores for that variable, a common technique described by Tabachnick and Fidell (2001, p. 62).

In a few instances, multicollinearity problems were discovered and the offending variables were eliminated from the analysis. Zero-order correlations revealed

multicollinearity with the two control variables local taxes and local expenditures (r = .792, $p < .001$), so the local expenditures variable was removed. Similarly, the high school graduate percentage variable is multicollinear with the college graduate percentage variable (r = .732, $p < .001$), so the college graduate percentage variable was removed. The scale variable that measures the total number of economic development initiatives was also eliminated from the analysis because it is multicollinear with four of the seven economic development policy variables that were used to create it. In the case that a control or independent variable is multicollinear with the dependent variable, the offending control or independent variable is removed from the analysis and noted in the results tables.

The Firm Growth Model

The firm growth model tests the hypothesis that cities that are more proactive in their efforts to attract, retain, and develop firms are those cities that experience growth in the number of firms. Growth in the number of manufacturing firms and growth in the number of retail firms serve as the dependent variables. Growth is measured as the absolute difference in the number of firms from 1987 to 1997 as reported in the 1994 and 2000 *County and City Data Books*.

Manufacturing Firm Growth

Table 8.1 reports that about 32 percent of the variance in manufacturing firm growth is explained by the control variables (adjusted $R^2 = .319$). The standardized regression coefficients for control and independent variables are shown in the "Beta" column. Population growth is statistically significant and positively correlated with the dependent variable ($p \leq 0.001$, $\beta = .527$) which confirms the parallel migratory patterns

of individuals and firms described by Koven and Shelley (1989). The technology economic base variable is also significant and positively correlated with the dependent variable ($p \leq 0.05$, $\beta = .099$). This confirms the role of high-tech as a driver of economic growth.

Variables that are significant and negatively correlated with manufacturing firm growth include population ($p \leq 0.001$, $\beta = -.548$), taxes ($p \leq 0.001$, $\beta = -.191$), and crime rates ($p \leq 0.1$, $\beta = -.094$). Evidently cities with higher populations, higher taxes, or higher crime rates are experiencing slower growth (or decline) in the number of manufacturing firms. These results confirm the trends of manufacturing firms deserting larger, high-crime cities in favor of smaller growing cities that are most likely in suburban locations.

When the policy variables are entered in the second block, only an additional two percent of the variance in manufacturing firm growth is explained (adjusted R^2 change = .024). The percent time spent on attraction variable is significant and positively correlated with increased numbers of manufacturing firms ($p \leq 0.05$, $\beta = .126$). Although the standardized regression coefficient is small, we have some evidence that cities focusing more time on attraction are more likely to experience growth in the number of manufacturing firms. Conversely, the number of attraction techniques variable is significant and negatively correlated in this regression ($p \leq 0.1$, $\beta = -.103$). Perhaps this finding is evidence of the inefficacy of a "shotgun" policy approach. Rather than employing a vast array of attraction techniques, cities might consider focusing their attraction efforts according to their economic base, such as is suggested in the literature espousing cluster-strategies.

The number of retention techniques variable is also significant and positively correlated in this regression ($p \leq 0.05$, $\beta = .157$). Cities employing a wider array of retention policies are more likely to expand their numbers of manufacturers.

Overall, the regression coefficients for these policy variables are small, indicating weak correlation. The overall interpretation of these regression results is that economic development policy variables only have a modest impact on the number of manufacturing firms in a city over and above that of the controls.

Retail Firm Growth

Using retail firm growth as the dependent variable, Table 8.1 reports that the block of control variables explains about 41 percent of the variance in the dependent variable (adjusted $R^2 = .409$). Because the absolute number of retail firms is in decline (median = -307) this variable is more of a measure of slower decline rather than actual growth.

Population growth is significant and negatively correlated with retail firm growth ($p \leq 0.001$, $\beta = -.559$), which is perhaps explained by the trends of suburbanization and consolidation. By 1987 (the first time period of this study) much of the migration of retail firms from the urban core to suburban locations (i.e. shopping malls, strip malls) was complete. By 1997 (the second time period of this study) the absolute number of these retailers was shrinking. This may be due to consolidation, as big box retail stores have replaced smaller retail shops. Places with higher population growth (i.e. suburban cities) may have lost more retail firms simply because they had more small shops to lose.

The significant negative correlation of the local tax variable ($p \leq 0.001$, $\beta = -.146$) again illustrates private firms' preference for low tax areas. Crime rates are also

negatively correlated with retail firm growth ($p \leq 0.001$, $\beta = -.250$), which is expected as retailers tend to avoid areas with many negative externalities such as crime.

The average January temperature is a significant positive predictor of retail firm growth ($p \leq 0.05$, $\beta = .095$). This is expected because retail firm locations are based on the presence of a retail market. As Americans migrate from colder states to warmer states it is understandable that retail firm migration would follow the pattern of customer migration. The national migration trend reported by the U.S. Census Bureau shows that the South and West (warmer areas) are experiencing positive net migration, while the Northeast and Midwest (colder areas) are experiencing negative net migration (Franklin, 2003). In other words, as Americans move south with their retail shopping dollars, the retailers follow them with their wares.

Entering the policy variables in the second block explains only an additional two percent of the variance in retail firm growth (adjusted R^2 change = .021). The number of attraction techniques is the only policy variable positively correlated with retail firm growth ($p \leq 0.05$, $\beta = .116$). This can be interpreted that the cities employing a greater number of attraction techniques is more likely to experience growth in the number of retail firms.

The number of incentive techniques variable is significant and negatively correlated with retail firm growth ($p \leq 0.05$, $\beta = -.165$). It is unlikely that the offering of more types of incentives exerts a causal effect on the number of retail firms. More than likely, the significance of this variable in this regression reflects the reality that cities experiencing retail decline are probably experiencing many other economic hardships also. Such declining cities are known to offer more fiscal incentives to businesses than

offered by prosperous cities. In desperate times city leaders have been known to make riskier speculative decisions with public funds.

The fact that policy variables only exert minimal influence over retail firm location decisions is not surprising. It is unlikely that economic development incentives can change the minds of retailers who choose their locations primarily based on potential profitability. Profit potential is based on market forces that may be insensitive to certain public policies. The overall interpretation of these regression results is that economic development policy variables only have a modest impact on the number of retail firms in a city.

Table 8.1

Firm Growth Model Regression Results

	Mfg. Firm Growth				*Retail Firm Growth*			
	Block 1		Block 2		Block 1		Block 2	
	Beta		Beta		Beta		Beta	
Control Variables								
population	-.548	***	-.552	***	†		†	
population growth	.527	***	.494	***	-.559	***	-.572	***
mfg. economic base	.005		-.015		-.014		-.007	
tech. economic base	.099	**	.102	**	-.050		-.043	
local taxes (capita)	-.191	***	-.210	***	-.146	***	-.159	***
mayor form of gov't	.001		-.011		.022		.024	
crime rate	-.094	*	-.087	*	-.250	***	-.251	***
% high school grads	.041		.045		.061		.008	
January temp. avg.	.058		.048		.095	**	.066	
Policy Variables								
ED staff size (capita)			-.046				-.034	
ED budget (capita)			-.044				-.047	
% time on attraction			.126	**			.029	
attraction techniques			-.103	*			.116	**
% time on retention			-.005				-.047	
retention techniques			.157	**			-.028	
% time on development			.000				-.042	
develop. techniques			.091				-.011	
loans			.041				-.033	
incentives			-.042				-.165	**
PPP			-.034				.001	
N	412		412		412		412	
F	22.41	***	11.71	***	36.57	***	17.30	***
Adjusted R^2	.319		.343		.409		.430	
Adjusted R^2 change			.024	**			.021	**

* $P \leq 0.1$ ** $P \leq 0.05$ *** $P \leq 0.001$

† excluded due to multicollinearity

Job Growth Model

This second model, the job growth model, tests the hypothesis that cities that are more proactive in their economic development efforts experience growth in the number of jobs. The dependent variables in these models are growth in the overall number of jobs, growth in the number of manufacturing jobs, and growth in the number of retail jobs. Growth is measured as the absolute difference in the number of jobs from 1987 to 1997 as reported in the 1994 and 2000 *County and City Data Books.*

Overall Job Growth

Table 8.2 reports that only about six percent of the variance in overall job growth is explained by the control variables (adjusted R^2 = .060). Similar to a previous regression, the technology economic base is significant and positively correlated with overall job growth ($p \leq 0.05$, β = .108). This reflects structural changes as the macroeconomy takes on more characteristics of the so-called New Economy, or Information Economy. Cities with technology economic bases (only four percent of the study cities) are experiencing greater job growth than cities with other economic bases. The high school graduate percentage variable is also significant and positively correlated with job growth. This underscores the important role of human capital development as an essential part of economic growth.

Crime rates are also significant and positively correlated with overall job growth ($p \leq 0.001$, β = .219). This suggests that the dynamism that has created jobs may also have attracted non-law abiding citizens. The local tax variable is again significant and negatively correlated with economic growth ($p \leq 0.1$, β = -.094) perhaps illustrating the inclination of businesses to avoid high tax areas.

When the policy variables are entered in the second block an additional two percent of the variance in overall job growth is explained (adjusted R^2 change = .024). The development techniques variable accounts for much of this change. It is statistically significant and contributes to prediction of overall job growth more than all of the other variables in this regression ($p \leq 0.001$, $\beta = .220$). This indicates that the cities experiencing more job growth are more entrepreneurial cities that use more business development techniques such as revolving loan funds, small business development centers, matching improvement grants, marketing assistance, business incubators and vendor/supplier matching. These results emphasize the important role entrepreneurial development policies play in economic growth.

Economic development staff size is also significant and positively correlated with overall job growth ($p \leq 0.1$, $\beta = .081$). City governments employing larger (per capita) numbers of economic development practitioners are experiencing more job growth than cities with smaller staffs.

Noting that this regression only explains about eight percent of the variance in job growth (adjusted $R^2 = .084$) illustrates that job growth is perhaps more dependent upon market factors not included in the model rather than economic development policy and the control variables included in this regression.

Manufacturing Job Growth

Using manufacturing job growth as the dependent variable, Table 8.2 reports that the control variables in the first block explain about thirty five percent of the variance in manufacturing job growth (adjusted $R^2 = .351$). Most of this manufacturing job growth is accounted for by the population variable which is significant and negatively correlated

with manufacturing job growth ($p \leq 0.001$, $\beta = -.687$). This finding is consistent with a massive body of literature that documents the decline of manufacturing jobs in larger cities. Three trends explain the losses of manufacturing jobs from large U.S. cities: mechanization (labor replaced by machines), globalization (labor replaced by cheap overseas labor), and suburbanization (production moved from cities to suburban sites). Manufacturing jobs have been shifting from highly populated central cities to lesser populated suburban cities. Suburban cities are smaller than central cities and have higher population growth rates which explains why the population growth variable is statistically significant and positively correlated with manufacturing job growth ($p \leq 0.001$, $\beta = .382$).

Local government taxes are again statistically significant and negatively correlated with job growth ($p \leq 0.001$, $\beta = -.155$), which can be interpreted various ways. Perhaps the firms that are creating new jobs are tax-averse and avoid locating in high-tax areas. Or perhaps the loss of jobs (or lack of growth of jobs) in a city forces that city to place higher per capita tax burdens on the workers that remain employed. Cities experiencing economic decline, such as many Rust Belt cities, are often saddled with crumbling infrastructure which requires greater public investment for maintenance.

Adding the economic development policy variables to the regression in the second block results in no change in the explained variance in manufacturing job growth (adjusted R^2 change = .000). The economic development budget per capita variable is the only statistically significant policy variable ($p \leq 0.1$, $\beta = -.079$). The correlation is negative, indicating that cities investing more money in economic development still

experience less manufacturing job growth. The small regression weight indicates that this variable is a weak predictor of the dependent variable.

Retail Job Growth

The final column in Table 8.2 reports regression results using retail job growth as the dependent variable. The control variables explain almost twenty four percent of the variance in retail job growth (adjusted R^2 = .239). The significant positive correlation of the January temperature variable ($p \leq 0.05$, β = .132) reveals that retail job growth largely follows the general migration patterns of Americans from the North and East, to the West, and especially the South.

The local tax rate variable is statistically significant and negatively correlated with the dependent variable ($p \leq 0.001$, β = -.222) again underscoring the relationship between higher tax rates and slower economic growth. Population growth is also significant and negatively correlated with retail job growth ($p \leq 0.001$, β = -.331) which is perhaps a reflection of the trend of retail consolidation, where smaller retail shops are replaced by big box retailers. A single big box retailer requires fewer employees than the dozen or so small retailer shops it replaces. Therefore it is no surprise that retail job growth is lower in growing cities than non-growing cities. Also, cities with severely declining populations may have already lost much of the retail base and would not show any additional job loss. The crime rate variable is also significant and negatively correlated with retail job growth ($p \leq 0.001$, β = -.274) which perhaps reflects retailers' aversion to high-crime areas.

Adding the policy variables into the regression improves the prediction of retail job growth by about two percent (adjusted R^2 change = .018). The incentives variable is

significant and once again negatively correlated with the dependent variable ($p \leq 0.05$, $\beta = -.171$). This demonstrates that cities offering more types of fiscal incentives to businesses are more likely cities that are losing retail jobs. Incentives are more likely to be used by cities experiencing slower economic growth. The fact that economic development policy has little positive correlation with retail jobs is expected because economic decisions are driven by profit potential, not the amount of government programs. This finding confirms the idea that offering financial incentives to retailers may not lead to the anticipated outcome of economic growth.

Table 8.2

Job Growth Model Regression Results

	Overall Job Growth				***Mfg. Job Growth***				***Retail Job Growth***			
	Block 1		Block 2		Block 1		Block 2		Block 1		Block 2	
	Beta		Beta		Beta		Beta		Beta		Beta	
Control Variables												
population	†		†		-.687	***	-.673	***	†		†	
population growth	†		†		.382	***	.359	***	-.331	***	-.344	***
mfg. economic base	.054		.043		-.003		-.021		.025		.041	
tech. economic base	.108	**	.099	**	-.010		-.014		-.028		-.020	
local taxes (capita)	-.094	*	-.108	**	-.155	***	-.160	***	-.222	***	-.237	***
mayor form of gov't	-.050		-.033		-.016		-.007		.031		.035	
crime rate	.219	***	.218	***	-.043		-.056		-.274	***	-.288	***
% high school grads	.158	**	.197	***	.039		.036		.053		.001	
January temp. avg.	.076		.054		.037		.032		.132	**	.108	**
Policy Variables												
ED staff size (capita)			.081	*			-.040				-.048	
ED budget (capita)			.005				-.079	**			-.043	
% time on attraction			.003				.051				.066	
attraction techniques			.045				-.007				.059	
% time on retention			-.076				.010				-.050	
retention techniques			.047				.059				-.069	
% time on develop.			.024				-.025				-.061	
develop. techniques			.220	***			.006				-.042	
loans			-.079				-001				-.039	
incentives			-.019				-.001				-.171	**
PPP			-.051				-.017				-.026	
"equity" techniques			.023				.036				.081	
N	412		412		412		412		412		412	
F	4.74	***	2.97	***	25.71	***	11.49	***	17.11	***	8.13	***
Adjusted R^2	.060		.084		.351		.349		.239		.257	
Adjusted R^2 change			.024	**			.000				.018	**

* $P \leq 0.1$ ** $P \leq 0.05$ *** $P \leq 0.001$ † excluded due to multicollinearity

Income Growth Model

The income growth model tests the hypothesis that economic development policy has positive impacts on personal and corporate income. The dependent variables are growth in per capita income, growth in manufacturing value added, and growth in retail sales. Growth is measured as the inflation-adjusted difference in income from 1987 to 1997 as reported in the 1994 and 2000 *County and City Data Books*.

Per Capita Income Growth

In this regression, per capita income growth from 1987 to 1997 is the dependent variable. Using the global test and the F distribution it was found that this regression model is invalid. The null hypothesis that all the regression coefficients are zero could not be rejected in the first block ($F = 1.53, p = .135$), nor in the second block ($F = 1.27, p = .193$). From a practical standpoint, this means that the independent variables do not have the ability to predict the dependent variable. In other words, neither the control variables nor the policy variables have a statistically significant effect on per capita income growth. The variation in per capita income growth must therefore be explained by other factors that are not included in this analysis.

Manufacturing Value Added

The manufacturing value added growth variable is a proxy measure of the aggregate profitability of all manufacturing firms in the study cities from 1987 to 1997. The control variables in this regression explain thirteen percent of the variance in manufacturing value added growth (adjusted $R^2 = .130$). This entire variance is accounted for by two variables. The population variable is significant and negatively correlated with manufacturing value added ($p \leq 0.001, \beta = -.254$). The population growth variable is also

significant but is positively correlated with the dependent variable ($p \leq 0.001$, $\beta = .490$). This indicates that the value added of manufacturing firms in larger cities is not growing as much as the accretions of manufacturing firms in smaller cities. Inspection of the data revealed manufacturing value added actually dropped by an average of $123,624 in the largest quartile of the study cities (103 largest cities). The smallest quartile of the study cities experienced an average manufacturing value added growth of $78,238. The fact that firms have greater value added accretions in smaller cities and growing cities is no doubt a reflection of two trends: the shift of manufacturing from larger Rust Belt cities to smaller Sun Belt cities, and the shift of manufacturing from urban core cities to the suburbs.

Adding the policy variables to the model did not improve the prediction of the dependent variable (adjusted R^2 change = .000) and none of the policy variables were statistically significant. It appears that local economic development policy has no discernable impact on the value added of manufacturing firms in a city.

Retail Sales Growth

Retail sales growth is the change in inflation-adjusted sales from 1987 to 1997 for all retailers within a city. Table 8.3 reports that the control variables explain about nine percent of the variance in retail sales growth (adjusted $R^2 = .086$). Population is significant and positively correlated with retail sales ($p \leq 0.001$, $\beta = .178$). The percentage of high school graduates variable is also significant and positively correlated with retail sales growth ($p \leq 0.001$, $\beta = .248$). Larger cities and cities with higher levels of human capital appear to have higher volumes of retail sales. The tax variable is again

significant and negatively correlated with the dependent variable ($p \leq 0.05$, $\beta = -.163$). Apparently retail sales are lower in cities with higher taxes.

Adding the policy variables to the regression explains an additional two percent of the variance in retail sales (adjusted R^2 change = .019). The percent time spent on attraction variable is significant and positively correlated with retail sales ($p \leq 0.05$, $\beta =$ .130), and the number of attraction techniques is significant but negatively correlated with retail sales ($p \leq 0.1$, $\beta = -.117$). The modest correlations of these policy variables raises doubts about the ability of economic development officials to impact retail sales in their city.

The income growth model was designed to compare the benefits of economic development policy experienced by individuals (per capita income) to the benefits experienced by firms (manufacturing value added, and retail sales growth). But in all three of the regressions, economic development policy had no substantial impact on the income growth of either individuals or firms. The apparent answer to the question, "Who benefits more, individuals or firms?" is "neither." The income growth of individuals and the income growth of firms have no substantial correlation with economic development policy. Local government taxes and expenditures also have no substantial correlation with income growth. Another possible explanation is that the benefits of economic development policy are experienced by only certain individuals or firms, and these benefits are indiscernible in this study's aggregate data.

Table 8.3

Income Growth Model Regression Results

	Per Capita Income Growth				*Mfg. Value Added Growth*				*Retail Sales Growth*			
	Block 1		Block 2		Block 1		Block 2		Block 1		Block 2	
	Beta		Beta		Beta		Beta		Beta		Beta	
Control Variables												
population	-.052		-.082		-.254	***	-.239	***	.178	***	.175	**
population growth	.039		.060		.476	***	.490	***	†		†	
mfg. economic base	.082		.072		-.070		-.074		.066		.079	
tech. economic base	.063		.067		.004		-.001		.045		.040	
local taxes (capita)	-.115	**	-.130	**	-.024		-.018		-.163	**	-.053	
mayor form of gov't	-.055		-.055		.010		.009		.003		.014	
crime rate	.129	**	.172	**	-.042		-.034		.044		.089	*
% high school grads	.000		.010		.019		.004		.248	***	.144	**
January temp. avg.	-.049		-.057		-.051		-.067		.069		-.073	
Policy Variables												
ED staff size (capita)			.016				-.069				-.044	
ED budget (capita)			.082				-.001				.059	
% time on attraction			.055				-.051				.130	**
attraction techniques			-.053				.039				-.117	*
% time on retention			.073				.007				.038	
retention techniques			.045				-.006				-.050	
% time on develop.			.055				-.056				-.005	
develop. techniques			.025				-.045				-.010	
loans			.089				-.017				-.010	
incentives			-.027				.037				-.047	
PPP			.087				.080				.043	
"equity" techniques			-.123	*			-.086				.036	
N	412		412		412		412		412		412	
F	1.53		1.27		7.81	***	3.76	***	5.82	***	3.41	***
Adjusted R^2	.011		.013		.130		.123		.086		.105	
Adjusted R^2 change			.002				.000				.019	*

* $P \leq 0.1$ ** $P \leq 0.05$ *** $P \leq 0.001$

Best and Worst Cities

To gain a deeper understanding of economic growth in American cities, an index was created that ranks the 412 study cities. Each city was first ranked in order from highest growth to lowest growth for each of the eight dependent variables used in the analysis described in previous chapters. The final index is a composite score of each city's rankings added together. Table 8.4 shows the "best" study cities (cities that have experienced the most economic growth during the study period), and Table 8.5 shows the "worst" cities (cities that have experienced the least economic growth). A comparison of the two groups of cities is shown in Table 8.6. The final column in Tables 8.4 and 8.5 indicates which industries make up the majority of the economic activity in the city. This information comes from the ICMA survey, but where left blank, information was gathered from the U.S. Census County Business Patterns data and the 2000 County and City Data Book.

The best cities were smaller (average population = 127,200) than the worst cities (219,713) and more likely to be suburban rather than central cities. One of the central cities on the "best" list, Murfreesboro, Tennessee, is technically a central city, but is practically a suburban city. It is only 40 miles from Nashville and serves as a bedroom community. There appears to be no difference between the core economic industries of the best and worst cities but there is a significant geographic difference as illustrated in Figure 8.1. The best cities are mostly located in the Sun Belt, while the worst cities are mostly in the Rust Belt.

A comparison of certain statistics of the best and worst cities is shown in Table 8.6. While the worst cities experienced the much-publicized "manufacturing decline," the

best cities actually added an average of 68 manufacturing firms. The worst cities lost 1,243 retail firms, but the best cities only lost 196 retailers. The number of jobs in the best cities grew by 23,470 but the worst cities actually lost 1,833 jobs. In the best cities annual per capita income increased $13,443 (in 1997 dollars), while incomes dropped by $156 in the worst cities. The growing cities also have more educated work forces (79.1% high school graduate rate) than the declining cities (74.5%). The best cities are also located in warmer climates.

Some interesting observations can be made regarding the policy differences between the best and worst cities. The worst cities employ larger staffs and higher budgets (see Table 8.6). Evidently cities experiencing economic decline are more willing to spend public money to encourage economic development. In addition to spending more, the declining cities also tax their residents more than double ($850 per capita) the amount charged by growing cities ($404).

The results of this comparison further show that economic growth is less dependent upon public policy, and more dependent upon market conditions and other factors such as geography and human capital.

Table 8.4

Study Cities Experiencing the Best Economic Growth, 1994-2000.

Rank	City	Population	City Type	Core Economic Industry
1	West Valley City, UT	108,896	suburb	manufacturing
2	Vancouver, WA	143,560	suburb	retail/service
3	Plano, TX	222,030	suburb	technology/telecommunications
4	Pinellas Park, FL	45,658	suburb	tourism/hospitality
5	Ontario, CA	158,007	suburb	warehousing/distribution
6	Conroe, TX	36,811	suburb	manufacturing
7	North Las Vegas, NV	115,488	suburb	warehousing/distribution
8	Gilbert, AZ	109,697	suburb	retail/service
9	Las Vegas, NV	478,434	suburb	tourism/hospitality
10	Maple Grove, MN	50,365	suburb	manufacturing, retail/service
11	Murfreesboro, TN	68,816	central city	manufacturing
12	Wilmington, NC	75,838	central city	retail/service
13	Mentor, OH	50,278	suburb	manufacturing
14	Chesapeake, VA	199,184	suburb	manufacturing
15	Blaine, MN	44,942	suburb	manufacturing

Sources: 1994 and 2000 County and City Data Books, 2000 County Business Patterns.

Table 8.5

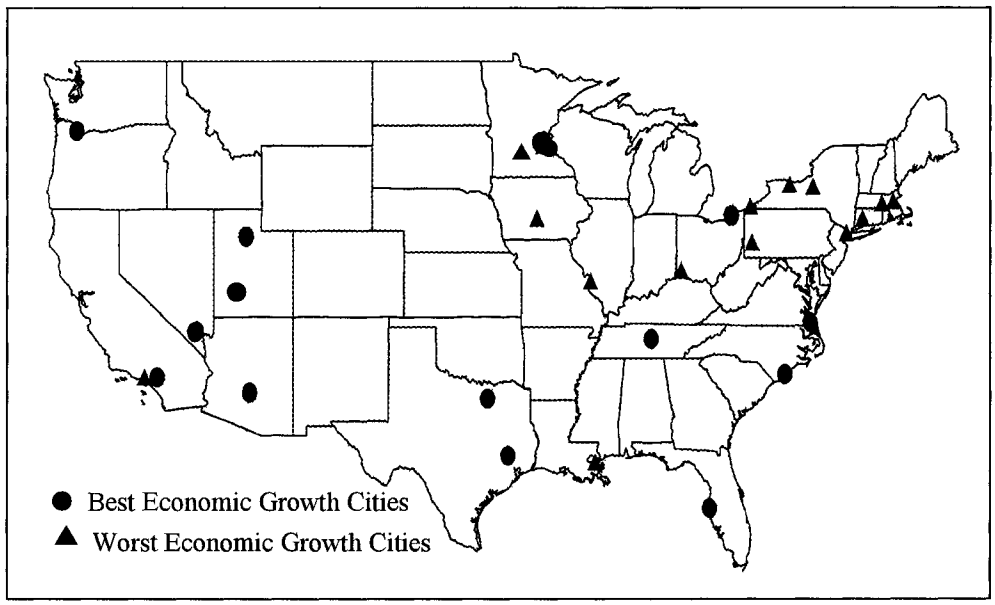
American Cities Experiencing the Worst Economic Growth, 1994-2000.

Rank	City	Population	City Type	Economic Base
398	Erie, PA	103,717	central city	manufacturing
399	Des Moines, IA	198,682	central city	retail/service
400	Hackensack, NJ	42,677	suburb	retail/service
401	Beverly Hills, CA	33,784	suburb	tourism/hospitality
402	Syracuse, NY	147,306	central city	manufacturing
403	Rochester, NY	219,773	central city	manufacturing, healthcare
404	Cincinnati, OH	331,285	central city	healthcare, manufacturing
405	Waterbury, CT	107,271	central city	technology/telecommunications
406	Minneapolis, MN	382,618	central city	manufacturing, retail/service
407	Cambridge, MA	101,355	central city	education/business services
408	Pittsburgh, PA	334,563	central city	manufacturing
409	New Orleans, LA	484,674	central city	tourism/hospitality
410	St. Paul, MN	287,151	central city	warehousing/distribution
411	Worcester, MA	172,648	central city	manufacturing, healthcare
412	St. Louis, MO	348,189	central city	retail/service, healthcare

Sources: 1994 and 2000 County and City Data Books, 2000 County Business Patterns.

Figure 8.1

Cities with the Best and Worst Economic Growth



Sources: 1994 and 2000 County and City Data Books

Table 8.6

Comparison of Best and Worst Economically Growing Cities

	Fifteen Best Cities	Fifteen Worst Cities
Economic Growth Variables		
Manufacturing Firm Growth	68	-93
Retail Firm Growth	-196	-1,243
Job Growth	23,470	-1,833
Per Capita Income Growth	$13,443	-$156
Policy Variables		
Economic Development Staff	3.5	7.1
Economic Development Budget	$1,292,678	$12,315,475
ED Budget Per Capita	$16	$54
Local Taxes Per Capita	$404	$850
Other Variables		
Population	127,200	219,713
High School Graduates	79.1%	74.5%
Average January Temperature	39°	28°

Sources: 1994 and 2000 County and City Data Books

Chapter Summary

The findings reported in this chapter are consistent with previous research that control variables explain much more of the variance in economic growth than do economic development policy variables. The population size variable was significant and negatively correlated in three of the regressions showing that larger American cities are not experiencing as much economic growth as smaller cities. The population growth variable was significant in three of the regressions and is interpreted that cities with growing populations also have growing economies. The technology economic base variable was significant and positively correlated with economic growth in two of the

regressions showing the role of high technology in economic growth. Local tax rates were significant and negatively correlated with six of the eight dependent variables, offering strong evidence in support of the conservative idea that high taxes hinder economic growth. The high school graduate variable was significant and positively correlated in two of the regressions, which illustrates the connection between human capital development and economic development.

Overall, the economic development policy variables had limited impact on economic growth in the regressions. The percentage of time spent on attraction variable was significant and positive in two regressions, but the use of attraction techniques was significant and negatively correlated with the dependent variable in two regressions. The use of development techniques were significant and positively correlated with overall job growth, which suggests that programs that encourage entrepreneurialism (such as business incubators, microenterprise, and revolving loan funds) have a positive effect on job growth. The use of incentives was not positive in any regression, but was significant and negative in two of the regressions. This finding joins a chorus of previous researchers who cast suspicion on the effectiveness of incentives. The next chapter of this study discusses the overall policy implications of these findings in greater detail.

CHAPTER IX

POLICY RECOMMENDATIONS AND CONCLUSION

Economic development practice in American cities has increased its fervency in recent years due to political phenomenon such as federal retrenchment and economic phenomenon such as globalization and shifts toward the New Economy. City leaders, whether Republican or Democrat, appear to have embraced the "corporatist" model of economic development policy, where the spotlight has been on increasing the number of firms, jobs, and income in a city through policies and programs that favor the supply-side of an economy. The focus has been on attraction, retention, and development of businesses in the local economy. Consistent with previous empirical research, this study found only modest evidence that economic development policy has positive impacts on economic growth. This chapter offers policy recommendations that are based on the specific results of the analysis described in the previous chapters. The chapter also offers policy recommendations that are generally based in the analysis and the current body of literature. These policy recommendations are believed to represent some of the "best practices" in local economic development policy today. The chapter concludes with an overall summary of this research.

Policy Recommendations

Despite this study's discouraging findings regarding only modest correlations between policy and growth, the findings do have certain applications to real-life local

economic development policy decisions. In general, it is recommended that economic development practitioners take an informed proactive policy approach. The results reported in the previous chapter infer that different economic development initiatives have different impacts. Economic development practitioners should therefore be informed of the numerous economic development techniques that can be implemented (such as the many noted in Chapter IV of this dissertation).

Making wise decisions about which of the numerous economic development practices to implement first requires an understanding of the condition of the local economy. Core economic industries in different cities find themselves in different stages of the Product Cycle curve described by Vernon (1966). Some urban economies are based in new product creation (i.e. Silicon Valley, Austin), while others are based in product innovation and improvement, or in mass production of standardized goods (i.e. Detroit). These recommendations are consistent with the clustering strategies articulated by Porter (1990 and 2000) who suggests that economic development strategies should focus on developing the core clusters of an area.

In addition to these two general ideas regarding the importance of economic development practitioners being well-informed of economic development "tools" and being well-informed of their own economies, other more specific recommendations deduced from the findings of this dissertation are noted below.

1. Business Development

The use of business development techniques was statistically significant and positively correlated with overall job growth in the analysis reported in the previous chapter. Therefore it is recommended that economic development officials commit to the

development of new entrepreneurial firms and the expansion of existing firms. Typical business development techniques include business incubators, microenterprise programs, revolving loan funds, matching improvement grants, marketing assistance, management training, executive on loan programs, and other similar programs. A common characteristic of these business development initiatives is that they provide capital and training, two essential elements needed by any start-up business.

Research shows that small businesses and start-up companies are responsible for much of the job creation and economic growth in the U.S (Birch 1987). To encourage that growth, economic development officials can implement the techniques listed above. Additionally, local economic development officials can also help local businesses secure assistance from other governments. As a result of the Small Business Innovation Research program created in 1982, each federal agency allocates four percent of its budget to fund innovative small firms (Audretsch, Weigand, and Weigand, 2002). The federal Small Business Administration also offers numerous programs designed to help entrepreneurs including assistance with technical, financial, or legal matter.

Development officials should not only foster the growth of new entrepreneurial companies, but also aid the expansion of existing companies. A partnership between Greater Louisville, Inc. (the private chamber of commerce) and the City of Louisville has created a program called The High Impact Portfolio (Lynch, 2004). This program proactively singles out local companies capable of high-growth and offers them assistance with training, taxes, networking, hiring, and planning.

Survey research has revealed that the needs of business differ by type of firm and location (for example, see Seley, 1981 and Zinger, Blanco, Zanibbi, and Mount, 1996).

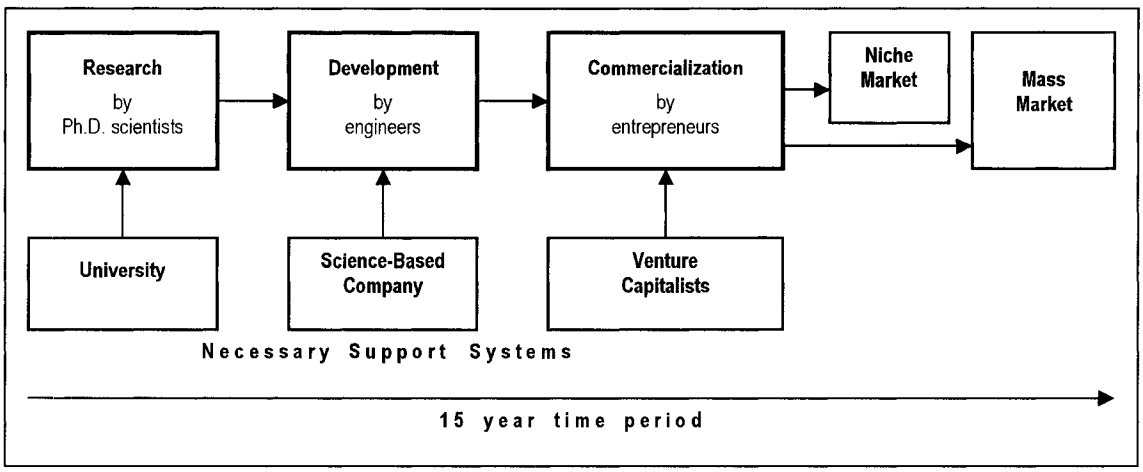
Zinger, et al found that business owners had "low regard for the fit between government programs and the needs of small business" (1996, p. 347). Vernon (1966) pointed out that the industries in a given city might be in different places in the Product Cycle curve. For business development techniques to be effective, it seems necessary for the economic development practitioner to be well-acquainted with the local economy, and the local firms. This appears to be occurring to some extent in the ICMA-surveyed cities, where 59.6% of cities conduct surveys of local business, and 41.1% conduct business roundtables (ICMA, 1999).

2. Develop High Tech

Economic hardship in U.S. cities is often blamed on a decline in the manufacturing sector. But every city has not experienced a decline in manufacturing. In fact, cities with a technology economic base were more likely to experience growth in the number of manufacturing firms and growth in the overall number of jobs as reported in two of the regressions in the previous chapter. Instead of a general decline in manufacturing, what is occurring is a change in the type of manufacturing that is growing. High-tech manufacturing is responsible for "about two-thirds of U.S. economic growth since 1990" (Bee, 2000, p. 15). Economic developers need to understand how to improve technology development within their jurisdiction. The federal government is increasing research funding and states are now "promoting technology as a way to create jobs and develop their economies" (Dietz, 1998, p. 36). Prior to engaging in high tech economic development initiatives, it is important to understand how successful technology clusters function. Figure 9.1 illustrates the three phases of the high-tech development process described in detail by Bee (2000).

Figure 9.1

The High-Tech Development Process



Based on Bee (2000).

Research is typically conducted by Ph.D. scientists at universities that results in a new scientific invention. Next, engineers working in industry develop the idea into a salable product. In the third phase, entrepreneurs launch a business enterprise that sells the product first in niche markets, then in mass markets. To work effectively each of the three phases has its own support needs. The research phase requires the resources of a large tech-focused university. The development phase requires "a large science-based company" as an anchor, and the commercialization phase requires venture capital. Because five out of six high-tech ventures fail, venture capitalists are only attracted by a critical mass of high-tech activity. Bee notes, "The intellectual activity that draws venture capital, therefore, is concentrated in about two dozen regions around the U.S." (2000, p. 17). Cities that have successfully developed technology clusters such as San Jose, California, and Cambridge, Massachusetts have all of these support elements in place (research universities, science-based anchor companies, and venture capitalists).

Even if all three of these support elements are present, successful development can only occur if collaboration occurs between the scientists, engineers, businesspeople, and venture capitalists (Bee, 2000).

In the past, economic development activity to promote high-tech development has largely focused on technology zones and tech-focused business incubators that rely on technology transfer from universities to entrepreneurs. These can be effective tools, but it is also essential that all of the resources are in place to support the needs of the research, development and commercialization phases and that a collaborative environment exists.

3. Human Capital Investment

In the quantitative analysis in the previous chapters, the high school graduate variable was statistically significant and positively correlated with economic growth in two of the regressions. Previous studies have shown a link between human capital and economic growth (Becker, 1970; Asefa and Huang, 1994). An empirical study by Warner notes, "Evidence suggests that a strategy focusing on human capital is more effective at stimulating per capita income growth than one designed to reduce firm costs" (1989, p. 389). In other words, investing in a city's workers is better than investing in a city's firms. Therefore it is recommended that cities make human capital investment a priority.

Public education is primarily the role of state and county governments, and the private sector provides much of the training for the skilled trades such as tool and die making and information technology. Local government is seldom the provider of educational services, but through cooperation with other governments and the private sector, city leaders can enhance human capital in their city by promoting educational initiatives such as those shown in Table 9.1. Many of these are described in Heckman's

(2000) paper, "Policies to Foster Human Capital." Heckman argues that the greatest return on investment is in the early years. Therefore programs such as Head Start and preschool have greater economic impact than adult education programs such as Welfare-to-Work. Although normally beyond the scope of the work typically performed by economic development practitioners, human capital programs can still be a vital part of a cities overall economic development plan.

The innovative Metropolitan College program described in Chapter Four illustrates that economic development practitioners can implement programs that enhance human capital while still meeting the traditional goals of business retention and business expansion. Another program in Kentucky, the QUEST program (an acronym for Quest for Useful Employment Skills for Tomorrow), was developed to give high school students "employability skills" such as communication, leadership, teamwork, initiative, and problem solving. The program was developed through a partnership between Scott County Public Schools and Toyota Motor Manufacturing Kentucky, one of the major employers in the county (Greater Lexington Area New Economy Plan, 2001).

Table 9.1

Certain Public and Private Programs That Enhance Human Capital

Primary and Secondary Education	Higher Education	Skills Training
Big Brothers/Sisters	Assistantships	Apprenticeships
Competition Between Schools	Federal Student Loans	ESL Training
GED	Fellowships	Firm-Specific Job Training
Head Start	Financial Aid	Job Corps
New Chance	Scholarships	Job Training Partnership Act
Quantum Opportunity Program	Subsidized Tuition	Literacy Programs
School-To-Work		On The Job Training
Sponsor A Scholar		One-Stop Career Centers
		Welfare-To-Work
		Workforce Development Programs

Based on Heckman (2000).

4. Never Pay For Retail

This study finds that fiscal incentives are negatively correlated with growth in the number of retail firms and jobs. Attempting to "pay for" retail through incentives can be ineffective and costly, while a retail potential analysis can be an inexpensive method of attracting new retail firms and jobs to a city.

Incentives given to retailers by city governments in the past have included free land, land write-down, reduced tax rates, free infrastructure, financing assistance through municipal bonds, and numerous other financial and non-financial incentives. As stated in a previous chapter, retail firms make their location decisions primarily based on profit potential. Government incentives are unlikely to influence a retail firm's location decisions, although the retail firm certainly will not turn down an incentive if offered. In the regressions in the previous chapter, it was found that cities that use more incentives

are actually losing retail firms and retail jobs. Knowing the futility of offering incentives to retail, certain local governments, such as Buncombe County, North Carolina prohibit such practices outright (Buncombe County Economic Development Incentive Policy, 1998).

A better way that economic development officials have engaged the retail industry is through retail potential analysis. Using Census demographic data and consumer expenditure data, a city's (or neighborhood's) retail purchasing profile can be created. Such a profile shows which goods the residents are expected to buy, and how much they are expected to spend. The next step is to evaluate the current retail situation in the city. If certain retail sectors are underserved, then the consumer expenditures are "leaking" out of the city, as residents travel to do their shopping. Using data from the U.S. Department of Labor on the number of each type of firm in the city, a market serving index can be created for each category of retail which reveals the retail categories that are underserved. This type of research is then useful in recruiting new retailers who might be eager profit from the untapped retail market. Brammer and Tomasik suggest that such research can be turned over to the "real estate brokerage community" who tend to be "an eager sales force" (1995, p. 38). Economic development officials need not pay for new retail. Good market research can be an effective enough invitation to attract new retail.

5. End the War Between the States

A second war between the states has broken out in recent years. The war is an economic competition and public funds are the preferred weapons. States (and to a lesser extent, cities) use their legal powers and taxpayer money to lure firms from other states

and other countries. According to Reed, such policies are a zero-sum game and they "create neither wealth nor jobs, but they do give politicians opportunity to take credit for helping business" (1996, p. 35).

Many case studies have documented states paying private firms sizable sums to attract them to their borders. In 2004, the state of Ohio won a new uranium enrichment plant with an incentive package worth $125 million (Rulon, 2004). Ironically, the private firm, United States Enrichment Corporation, was previously a federal government-owned organization that was privatized in 1998. Had it not been for the bidding war between Ohio and Kentucky (the original preferred site for company), the Ohio taxpayers would not have to foot the bill of $250,000 per job.

A 1998 Time magazine article noted the "new math" used by state and city public administrators who gave incentives worth $323,000 per job to lure the Norwegian company, Kvaerner ASA, to Philadelphia. The jobs paid $50,000, and Time estimated, "it will take more than 48 years of tax collections from the shipyard's employees to earn back the money first granted to create these jobs" (p. 48). Toyota is another foreign firm that has become quite skilled in extracting incentives from state governments. In 1985 Toyota chose to locate its Camry plant in Georgetown, Kentucky for two reasons: proximity to car-buying American consumers, and $125 million in incentives offered by the Commonwealth of Kentucky (Thompson, 1989). The $125 million package included the free gift of $18 million worth of land that Toyota demanded at the last minute. The case is characterized by American taxpayers paying the foreign company to come to America to sell cars to Americans. Without the incentives, Toyota would undoubtedly have found a way to sell cars to American consumers. The private firm should not be

faulted for wanting to improve its profitability. State governments, however, should be better stewards of public funds. The ridiculous practice of politicians taxing their constituencies so that profits can be sent overseas should be stopped.

The findings of this study join the chorus of previous research that shows that economic development incentives have only modest correlation with economic growth. Based on these findings, it is recommended that the war between the states should be ended. This idea originally gained traction in the mid-1990s, but appears to have lost political momentum. The practical implementation of this recommendation has been articulated by Burstein and Rolnick (1995 and 1996) who suggest that the Commerce Clause of the U.S. Constitution empowers Congress to end the economic war by enacting a non-compete law that states must follow. In a Harvard Law Review article, Enrich (1996) notes that the Commerce Clause allows Congress to enact statutes that "prohibit discriminatory aspects of state taxation," and therefore the war between the states can be halted (1996, p. 377). In the light of public resource scarcity and increased global economic competition, it seems wise to avoid giving public funds directly to firms, especially foreign firms. The American consumer market should provide enough of an incentive to be attractive to foreign firms.

In addition to possible non-compete legislation, the federal government can also curb corporate welfare by reducing the number of exemptions, allowances, credits, rate relief, and tax deferrals allowed by the current tax code. These amount to preferential treatment and are counterproductive to a free-market system.

6. Competitive Regionalism

On a lesser scale, a "war between the cities" is also happening. Research shows that firms typically first pick a region, then a city and site within the region (Calzonetti and Walker, 1991; Schmenner, 1994). After picking a region, firms often pit cities against each other in a bidding war for their mobile capital investment. Such competition is zero-sum "if it results in oversubsidization where the public incentives merely relocate a company between individual competing areas" (McCarthy, 2000, p. 1).

An approach dubbed "competitive regionalism" is a potential solution to the zero-sum game. "Competitive regionalism involves cooperative networks of local public, private, and nonprofit bodies, with higher tiers of the state, that focus their economic development efforts for the benefit of the metropolitan region as a whole" (McCarthy, 2000, p. 1). Local governments within a region essentially call a truce between each other which is enforced at the higher state level. The regional governance organization (whether formal or informal) can still offer assistance to new firms without wasting scarce public resources. In addition to ameliorating bidding wars, the competitive regionalism model also establishes a metropolitan-wide approach to infrastructure development. Public and private representatives of the Build-Up Greater Cleveland program, for example, have devised a cooperative strategy to invest nearly $1 billion in new public works in the region (McCarthy, 2000, p. 2). Competitive regionalism has many political pitfalls, but is perhaps the only solution to end the war between the cities.

7. Accountable Growth

This policy recommendation is consistent with the first two that call for more responsible stewardship of public resources. In 1980, the city of Detroit was notified that

a Chrysler plant would be closing and 5,000 jobs would be eliminated. For years the city had given generous tax breaks to Chrysler in exchange for a guarantee that the jobs would stay in the city. When the plant closed, there was nothing the city could do to recoup the forgone tax revenue. This example illustrates that cities should hold companies that have received incentives accountable for the economic growth they have promised. Some tools of accountable growth include performance criteria, clawbacks, and greater public disclosure.

By agreeing on performance criteria up-front, a local government is able to "claw back" their forgone revenue. A firm that promises 500 new jobs but only creates 250 would be required to pay back fifty percent of the value of the received incentives. Some incentive programs only pay after the promised jobs are created. Through the Training 2000 grant program, the state of Indiana agrees to cover the training costs for certain types of new employees. The companies receiving the grant must first hire and train the employees before they receive any of the state monies.

Greater public disclosure of incentives could also improve accountability, not only for the firms, but for the politicians also. When cities or states engage in an incentive bidding war for a firm, much of the negotiation occurs in secret, often by consultants who are paid a commission on the outcome. Neither the consultants nor the politicians have a personal stake in the gamble. It is the taxpayers who have much to lose in the bidding wars. Since politicians are held accountable in the court of public opinion, greater public disclosure could perhaps improve accountability.

Similar to the argument for accountability, is the argument for fairness. Rather than offer firm-specific incentives, cities and states should have a comprehensive

economic development plan. Ihlanfeldt argues that comprehensive plans make incentives "available to all firms that satisfy eligibility criteria, rather than acting as bait to lure a particular company" (1995, p. 341). Offering incentives more equally can eliminate the unjust practice of forcing existing firms and individuals to bear the tax burden of subsidized firms.

8. Accommodate Growth

The above recommendations are not based in an anti-business bias. Recognizing that business is responsible for our high standard of living and our convenient modern way of life, it is recommended that government accommodate growth through reduced taxes and simplified bureaucracy. Local tax rates were significant and negatively correlated with six of the eight dependent variables, offering strong evidence in support of the conservative idea that high taxes hinder economic growth. Many states and cities have consolidated bureaucratic functions related to business in a single "one-stop shop." Eased bureaucracy is attractive to businesspeople. In an announcement made by Citigroup that the company planned to build a new call center in Louisville and hire 1,600 new employees, the spokesman stated, "Our experience with your merged government has been streamlined, professional and extremely efficient in all of our dealings in making this happen" (Tompkins, 2004, p. F2). Dealing with one government ensured that the company did not have to negotiate with multiple agencies for permits, licenses, and incentives. Analysis by Sjoquist (1982) also suggests that consolidated governments provide higher levels of service. An efficient bureaucracy can be an effective part of the whole economic development process.

9. New Partners

For years, local chambers of commerce have worked alongside public sector officials to attract and manage new development. To complement this pattern of informal cooperation, public organizations are entering into more formal partnerships with private and non-profit organizations. The public-private partnership variable was not significant in any of the regressions in the previous chapter, nonetheless, partnerships are a recommended economic development tool. Perhaps the expected positive correlation of partnerships with growth did not appear in the data because partnerships are too recent of a phenomenon to be captured in the data. They are a type of third-wave policy that became more prevalent in the 1980s and the 1990s. Because they allow cash-strapped governments to leverage private capital and private expertise, public-private partnerships can be an effective policy approach to economic development. Chapter Four offers a detailed description of partnership schemes and examples.

10. Focus on Individuals, not just Firms

Offering incentives to attract or retain businesses is now a zero-sum game according to Barry Alberts, director of Louisville's Downtown Development Corporation, a non-profit development agency. Every city doles out corporate welfare equally, therefore cities can no longer expect an advantage over other cities simply by offering incentives. To cease offering incentives, however, would put a city at a disadvantage. Alberts suggests "competing for firms is the old way, and competing for people is the new way" of economic development (2004).

Following the logic of Florida's (2002) argument that the creative class drive economic growth, the Downtown Development Corporation is attempting to attract educated, creative individuals by ensuring that the quality of life in downtown Louisville

is attractive. Louisville's revitalization efforts include the development of a world-class skate park, a minor league baseball stadium, a massive waterfront park, a new entertainment district, an arts district, several new museums, and new housing in downtown. Through a public-private partnership, $6 million were raised to provide low-interest loans for the development of new downtown housing. Such urban amenities are thought to attract people with advanced skills who prefer to live in areas that have a high quality of life (Salvesen and Renski, 2002). High tech firms that depend on a highly skilled labor force are therefore more likely to locate in cities with a better quality of life.

Just as the presence of amenities can help attract individuals, the absence of disamenities is also attractive. Crime rates were negatively correlated with growth in three of the regressions in the previous chapter which suggests a link between growth and crime. Therefore improved police protection that results in lower crime rates can have an impact on economic growth.

Cities with more amenities are thought to have an advantage in the competition for new firms and new workers. Focusing solely on developing more urban amenities does not guarantee economic growth, but a higher quality of life can certainly be the tiebreaker between cities competing for high tech workers and firms.

Study Limitations and Directions for Future Research

This study explores theory, practice, and impact of economic development policy in American cities. The study finds that economic development policy and practice appear to exert only moderate positive effects on economic growth. These findings must be considered limited because of certain data constraints.

First, the use of aggregate quantitative data allows for a broad analysis of urban economic development, but important details might not be observed in the aggregate data. For example, this study used a scale variable that counts the number of types of incentives used in the cities. A better measure would be the specific dollar amount of incentives granted to businesses.

A similar limitation is the use of survey data for the independent variables. The survey respondents were economic development practitioners who are perhaps more likely to give answers that reflect positively on their city. Such responses can generate a biased set of data.

For future research it seems appropriate to conduct a similar study using cities as the unit of analysis, but use more specific fiscal measures of incentives. Such research would entail gathering data directly from city records and it might only be feasible with a small panel of cities.

Final Comments

This study was conducted under the assumption that some economic development policies and practices work, while others do not. The inquiry began with the hope of finding an economic development approach that consistently delivers economic growth. The major hypothesis of this study that the level of public sector economic development activity in U.S. cities is positively correlated with local economic growth was not supported by the evidence. With only a few exceptions, economic development policies and practices showed very little correlation with economic growth. It was found that the economic development policies in American cities are only modestly correlated with economic growth in those cities. These findings lead to the bleak conclusion that

government can do little to influence markets (at least on the local level). It appears that the market is more responsible for determining economic growth, not public policy. However, public policy has a role to play.

Rubin (1988) observed that economic development practitioners follow the strategy of "shoot anything that flies, claim anything that falls." In other words, developers will take any development they can get, so long as jobs are created. The second part of the strategy "claim anything that falls" refers to the political reality that economic development officials must generate positive publicity to maintain political power. Public officials are quick to call a press conference when they have successfully attracted a new employer to their city. Other important activities such as business retention, business development, and human capital development do not generate as much buzz as the attraction of a new firm. Politicians therefore tend to focus their time and fiscal resources on short-term attraction programs to the detriment of other strategic activities. Rather than ignore important, yet unglamorous, projects, politicians should drum up public support simply through better communication. Economic development officials can leverage the realities of the political process, by not only claiming what falls, but also by educating their polity on the scope and importance of the less glamorous, yet essential economic development work. And finally, because the impacts of economic development policy and practice are so minor, economic development officials should be wise stewards of scarce public funds. It is believed that the policy recommendations described in this chapter offer a sound plan for wiser stewardship of public money.

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APPENDICES

PAGE

International City/County Management Association
ICMA
777 North Capitol Street, NE
Suite 500
Washington, DC 20002-4201

Economic Development 1999

Dear Chief Administrative Officer:

ICMA is conducting a survey on economic development in local governments. The information obtained will provide data on practices, experiences, and policies that will be reported in several ICMA publications. Please assure the success of this project by completing the questionnaire and returning it to ICMA within three weeks.

Thank you for your participation.

Sincerely,

William H. Hansell, Jr.
Executive Director

General

1. In the next five years do you expect a:
   - ☐ a. population increase
   - ☐ b. population decrease

   A. Please indicate the anticipated percent of increase or decrease. _____%

2. What percent of those working in your jurisdiction live there? _____%

3. Which of the following best describes your local government's primary economic base (1) during the *last* five years and (2) which do you think it will be over the *next* five years? *(Check only one in each column.)*

	Last five years	Next five years
a. Agricultural (farming and supporting industries)	☐	☐
b. Manufacturing	☐	☐
c. Retail/service	☐	☐
d. Institutional (military, government, nonprofit, etc.)	☐	☐
e. Residential community (commuters)	☐	☐
f. Tourism/hospitality	☐	☐
g. Warehousing/distribution	☐	☐
h. Technology/telecommunications	☐	☐
i. Other *(Please specify)* _____	☐	☐

4. What percent of your land area is zoned for:
   a. Commercial/industrial/manufacturing use _____ % b. Residential use _____ % c. Open space _____ %

5. Which of the following describes the condition of your local government's economic base (1) during the *last* five years and (2) which do you think it will be over the *next* five years? *(Check only one in each column.)*

	Last five years	Next five years
a. Rapid expansion (more than 25%)	☐	☐
b. Moderate growth (10-25%)	☐	☐
c. Slow growth (less than 10%)	☐	☐
d. Economic base is stable - no real growth or decline	☐	☐
e. Slow decline (less than 10%)	☐	☐
f. Moderate decline (10-25%)	☐	☐
g. Rapid decline (more than 25%)	☐	☐

6. Does your local government have a written economic development plan? ☐ a. Yes ☐ b. No

7. Which of the following participate in developing your local government's economic development strategies? (*Check all applicable.*)

☐ a. City
☐ b. County
☐ c. Chamber of Commerce
☐ d. Private business
☐ e. Citizen advisory board/commission
☐ f. Ad hoc citizen group
☐ g. Public/private partnership
☐ h. Private economic development foundation
☐ i. Utility
☐ j. State government
☐ k. Federal government
☐ l. Other *(Please specify.)* _____

A. Please indicate the top two participants by putting the corresponding letter in the space provided. 1. _____ 2. _____

8. How many of your professional staff spend at least 70% of their time on economic development activities? _____

9. How much did your local government *budget* for economic development activities for FY 1999? $_____
A. List the top two funded activities? 1._____ 2._____

10. Do you think your economic development budget over the next five years will (*Circle one number.*)

Significantly decrease		Remain the same		Significantly increase
1	2	3	4	5

11. Please identify your competition in attracting investment in your jurisdiction. (*Check all applicable.*)

☐ a. Nearby local governments
☐ b. Other local governments within the state
☐ c. Local governments in surrounding states
☐ d. Other states
☐ e. Foreign countries
☐ f. Other *(Please specify.)* _____

A. Please indicate the top two competitors by putting the corresponding letter in the space provided. 1. _____ 2. _____

12. How has NAFTA affected your local government over the past five years? *(Check all applicable.)*

☐ a. Job loss
☐ b. Revenues from U.S. exports have decreased
☐ c. Illegal immigration has decreased
☐ d. No effect
☐ e. Job creation
☐ f. Revenues from U.S. exports have increased
☐ g. Other *(Please specify.)* _____

13. Do private companies contribute funds to your local government's marketing efforts?

☐ a. No
☐ b. Yes

A. If yes, how much do you expect to collect for FY 1999? $ _____

14. Please indicate which of the following sources of government revenue are used to fund your economic development programs. *(Check all applicable.)*

☐ a. Local revenues/general fund
☐ b. Federal grants-in-aid
☐ c. State grants-in-aid
☐ d. General obligation bonds
☐ e. Revenue bonds
☐ f. Tax increment financing districts
☐ g. Special assessment districts
☐ h. Other *(Please specify.)* _____

A. Please indicate the top two sources of revenue by putting the corresponding letter in the space provided. 1.____ 2. _____

15. Which of the following technology applications has your local government implemented *as part of its economic development efforts*? *(Check all applicable.)*

☐ a. Kiosks with touch-screen computers
☐ b. Videos
☐ c. Hand-held computer terminals used in the permit and inspection process
☐ d. On-line computer services (access to government services and information through computer and modem)
☐ e. Interactive faxing (faxing permits, forms, and applications for a fee)
☐ f. Smart buildings (e.g., equipped with technologies that turn lights on and off, that read security cards, etc.)
☐ g. Intelligent vehicle highway systems (e.g., electronic toll collectors)
☐ h. Fiber optic networking/cable
☐ i. Other *(Please specify.)* _____

16. Does your local government consider its telecommunications infrastructure to be an economic development tool or asset?

☐ a. Yes ☐ b. No

17. What percentage of your staff's time is devoted to the following activities?

a. Retention _____ % b. Attraction _____ % c. Development _____ %

18. Which of the following sectors are the focus of your economic development efforts?

☐ a. Agricultural (farming and supporting industries)
☐ b. Manufacturing
☐ c. Retail/service
☐ d. Institutional (military, government, nonprofit, etc.)
☐ e. Residential community (commuters)
☐ f. Tourism/hospitality
☐ g. Warehousing/distribution
☐ h. Technology/telecommunications
☐ i. Other *(Please specify.)* _____

19. Which of the following barriers to economic development has your local government encountered? *(Check all applicable.)*

☐ a. Citizen opposition
☐ b. Availability of land
☐ c. Cost of land
☐ d. Lack of skilled labor
☐ e. Limited number of major employers
☐ f. Declining market due to loss of population
☐ g. Traffic congestion
☐ h. Lack of capital/funding
☐ i. Lack of political support
☐ j. Other *(Please specify.)* _____

A. Please indicate the top two barriers to economic development by putting the corresponding letter in the space provided.

1. _____ 2. _____

B. What are you doing to address the top two barriers?

_____
_____
_____
_____

20. Does your local government support any of the following programs to promote economic development and if "*yes*," how does the local government provide the program?

Program	Local government supports program? Yes	No	How does the local government provide for these programs? (*Check all applicable.*) Non-profit	For-profit	Government agency	Public private partnership
a. Economic development zones/tax incentives	☐	☐	☐	☐	☐	☐
b. Community development corporation	☐	☐	☐	☐	☐	☐
c. Community development loan fund	☐	☐	☐	☐	☐	☐
d. Microenterprise program	☐	☐	☐	☐	☐	☐
e. Welfare-to-Work	☐	☐	☐	☐	☐	☐
f. Job training	☐	☐	☐	☐	☐	☐
g. Other (*Please specify.*) _____	☐	☐	☐	☐	☐	☐

Business Retention

21. Does your local government have a written business retention plan? ☐a. Yes ☐b. No

22. Please indicate which of the following business retention activities your local government conducts.
☐ a. Local government representative calls on local company
☐ b. Local government representative calls on national company headquarters
☐ c. Surveys of local business
☐ d. Business roundtable
☐ e. Revolving loan fund program
☐ f. Ombudsman program
☐ g. Achievement awards
☐ h. Local business publicity program
☐ i. Replacing imports with locally supplied goods
☐ j. Export development assistance
☐ k. Partnering with other non-governmental organizations (e.g., chamber of commerce, private firms)
☐ l. Partnering with other local governments
☐ m. Other *(Please specify.)* _____

Business Attraction

23. Does your local government have a written business attraction plan? ☐ a. Yes ☐ b. No

24. Which of the following methods does your local government use to attract business?
☐ a. Community resource databases
☐ b. Promotional material
☐ c. Media advertising
☐ d. Direct mail
☐ e. Participation in trade shows
☐ f. Attendance at conferences
☐ g. Local government representative calls on prospective companies
☐ h. Hosts special events
☐ i. Ambassador program
☐ j. Trade missions abroad
☐ k. Regional approaches (pooling resources)
☐ l. Website
☐ m. Other *(Please specify.)*_____

25. In your local government's business attraction program, what has been the emphasis on attracting non-manufacturing commercial businesses?

Very high		Moderate		Very low
1	2	3	4	5

26. Does your jurisdiction have special technology zones that are designed to encourage technology-related industries and businesses to move to your jurisdiction?
☐ a. No
☐ b. Yes
A. If "*yes*," please indicate the incentives used in the technology zones to encourage technology-related industry and business. (*Check all applicable.*)
☐ 1. Reduction in permit fees ☐ 3. Flexibility in special zoning ☐ 5. Reduction in gross receipts tax
☐ 2. Reduction in user fees ☐ 4. Ordinance exemptions ☐ 6. Other (*Please specify.*) _____

27. Please indicate (1) which of the following provides most of your current business prospects and (2) which you would like to attract in the future. *(Check only one in each column.)*

	Current	Future
a. Agricultural (farming and supporting industries)	☐	☐
b. Manufacturing	☐	☐
c. Retail/service	☐	☐
d. Institutional (military, government, nonprofit, etc.)	☐	☐
e. Residential community (commuters)	☐	☐
f. Tourism/hospitality	☐	☐
g. Warehousing/distribution	☐	☐
h. Technology/telecommunications	☐	☐
i. Other *(Please specify.)* _____	☐	☐

Small Business Development

28. Does your local government have a written small business development plan? ☐ a. Yes ☐ b. No

29. Which of the following does your local government offer for small business development? *(Check all applicable.)*

☐ a. Revolving loan fund
☐ b. Small business development center
☐ c. Executive on loan/mentor
☐ d. Management training
☐ e. Marketing assistance
☐ f. Business incubator
☐ g. Vendor/supplier matching
☐ h. Matching improvement grants (physical upgrades to business properties)
☐ i. Other *(Please specify.)* _____

Business Incentives

30. Does your local government offer business incentives? ☐ a. Yes ☐ b. No

Answer questions 31 - 36 only if you checked "*yes*" in question 30.

31. Do you require a performance agreement as a condition for providing business incentives?
☐ a. Always ☐ b. Sometimes ☐ c. Never

32. Do you perform a cost/benefit analysis prior to offering business incentives? ☐ a. Yes ☐ b. No

33. Do you have formal written criteria used to determine eligibility for business incentives? ☐ a. Yes ☐ b. No

34. Please indicate any change in the dollar value of the average business incentive package over the last five years? *(Circle one number.)*

Much larger		**About the same**		**Much less**
1	2	3	4	5

35. Please indicate which of the following incentives your local government offers. *(Check all applicable.)*

☐ a. Tax abatements
☐ b. Tax credits
☐ c. Locally designated enterprise zones
☐ d. Federal/state designated enterprise zones
☐ e. Tax increment financing
☐ f. Grants
☐ g. Infrastructure improvements
☐ h. Free land or land write downs
☐ i. Employee screening
☐ j. Training support
☐ k. Utility rate reduction
☐ l. Zoning/permit assistance
☐ m. Regulatory flexibility
☐ n. Relocation assistance
☐ o. Low-cost loans
☐ p. One-stop permit issuance
☐ q. Special assessment districts
☐ r. Subsidized buildings
☐ s. Other *(Please specify.)* _____

A. Please indicate the top two most frequently used incentives by putting the corresponding letter in the space provided.
1. _____ 2. _____

36. Please indicate how your local government measures the effectiveness of business incentives. *(Check all applicable.)*

☐ a. Amount of jobs created by the new business
☐ b. Amount of money invested in construction materials and labor
☐ c. New dollars invested in land
☐ d. Number of new businesses relocating or expanding in jurisdiction
☐ e. Company revenue/sales
☐ f. Cost/benefit analysis
☐ g. Other *(Please specify.)* _____

Local Government Profile

37. Does your local government use performance measures to assess the effectiveness of its economic development efforts?
☐ a. No
☐ b. Yes

A. If "*yes,*" which of the following performance measures are used *(Check all applicable.)*
☐ 1. Input measures (e.g., number of staff hours expended by program)
☐ 2. Output measures (e.g., number of organizations that receive assistance by program)
☐ 3. Efficiency measures (e.g., program expenditures per estimated tax dollars generated)
☐ 4. Other *(Please specify.)* _____

38. What is your real property tax rate per $1,000 of assessed value? _____

39. What is your personal property tax rate per $100 of assessed value? _____

40. Does your jurisdiction have a local sales tax?
☐ a. No
☐ b. Yes

A. If "*yes*," what is the rate? _____%

41. How many schools are in your jurisdiction (both public/private)?

	No. of schools	Please indicate if you expect an increase or decrease in the number of schools over the next five (5) years. Increase	Decrease
a. K-12		☐	☐
b. Junior college (2-year)	_____	☐	☐
c. Vocational/technical		☐	☐
d. University/college	_____	☐	☐

42. What is the median cost of a single-family dwelling in your jurisdiction? $_____

43. What is the median rental cost of two-bedroom apartment in your jurisdiction? $_____

44. Which of the following are in your jurisdiction?
☐ a. Railroad ☐ c. Port ☐ e. Major waterway
☐ b. Airport ☐ d. Truck route ☐ f. Major highway

45. How many hotel/motel rooms does your jurisdiction have? _____

46. How important is tourism in comparison with other industries?

Very important		About the same		Not important
1	2	3	4	5

47. Approximately what percent of your local government's annual revenue is from tourism? _____%

48. What is per capita personal income in your jurisdiction? $ _____

49. What is per capita property tax revenue? $ _____

50. What percent of the residents in your jurisdiction are retirees? _____ %

51. What is the unemployment rate in your jurisdiction? _____ %

Name: _____ Telephone number: _____

Title: _____ E-mail address: _____

Please include copies of your small business development plans, attraction plans, and retention plans.

Thank you. Please return this survey to:

Lisa Huffman
Coordinator, Survey Research Activities
ICMA
777 North Capitol Street, NE, Ste. 500
Washington, DC 20002-4201

International City/County ICMA Management Association
[illegible]

Economic Development 1999

The *Economic Development* surveys were mailed in fall 1999 and spring 2000 to the Chief Administrative Officers in municipalities with populations 10,000 and over and to the Chief Administrative Officers of counties with populations 50,000 and over with the council-administrator or council-elected executive form of government. Of the 2,882 municipalities and 426 counties that received surveys, 912 responded (31.6%) and 130 responded (30.5%) respectively. Of the 3,308 municipalities and counties that received surveys, 1,042 responded (31.5%).

For more information on the ICMA's *Economic Development* survey, please contact Sebia M. Clark.

Click here to buy the complete dataset from bookstore.icma.org.

Following is the survey text with the aggregate results shown next to each answer. Each answer represents the percentage reporting for that question, except where noted.

GENERAL INFORMATION

In the next five years do you expect a: (% reporting)

93.6 population increase
6.4 population decrease

What percent of those working in your jurisdiction live there? **49.8**

Which of the following best describes your local government's primary economic base (1) during the *last* five years and (2) which do you think it will be over the *next* five years?

	Last five years % reporting	Next five years % reporting
a. Agricultural (farming and supporting industries)	5.7	3.8
b. Manufacturing	20.6	19.7
c. Retail/service	25.1	26.7
d. Institutional (military, government, nonprofit, etc.)	9.9	7.4
e. Residential community (commuters)	19.5	16.2
f. Tourism/hospitality	5.6	5.4
g. Warehousing/distribution	4.9	4.5
h. Technology/telecommunications	4.5	11.5
i. Other	4.3	4.8

What percent of your land area is zoned for: (% reporting)

Commercial/industrial/manufacturing use **24.9** Residential use **62.0** Open space **16.1**

Which of the following describes the condition of your local government's economic base (1) during the *last* five years and (2) which do you think it will be over the *next* five years?

	Last five years % reporting	Next five years % reporting
a. Rapid expansion (more than 25%)	12.8	10.3
b. Moderate growth (10-25%)	37.6	46.4
c. Slow growth (less than 10%)	32.8	35.7
d. Economic base is stable - no real growth or decline	11.5	7.1
e. Slow decline (less than 10%)	4.6	0.7
f. Moderate decline (10-25%)	0.6	0.2

g. Rapid decline (more than 25%)	0.0	0.2

Does your local government have a written economic development plan? (% reporting) **54.3** Yes **45.7** No

How many of your professional staff spend at least 70% of their time on economic development activities? **2.2 (Average)**

Which of the following participate in developing your local government's economic development strategies? (% reporting)

92.6	City	**40.8**	Public/private partnership
48.3	County	**22.1**	Private economic development foundation
76.5	Chamber of Commerce	**28.8**	Utility
54.9	Private business	**30.3**	State government
49.9	Citizen advisory board/commission	**8.3**	Federal government
15.0	Ad hoc citizen group	**10.7**	Other

How much did your local government *budget* for economic development activities for FY 1999? **$ 719,698 (Average)**

Do you think your economic development budget over the next five years will (% reporting)

Significantly decrease	2	Remain the same	4	Significantly increase
1.2	**3.3**	**45.4**	**42.1**	**8.0**

Please identify your competition in attracting investment in your jurisdiction. (% reporting)

79.2	Nearby local governments	**46.5**	Other states
66.9	Other local governments within the state	**12.4**	Foreign countries
44.7	Local governments in surrounding states	**2.6**	Other

How has NAFTA affected your local government over the past five years? (% reporting)

12.6	Job loss	**8.6**	Job creation
2.6	Revenues from U.S. exports have decreased	**7.2**	Revenues from U.S. exports have increased
0.3	Illegal immigration has decreased	**4.2**	Other
73.2	No effect		

Do private companies contribute funds to your local government's marketing efforts? (% reporting)
24.1 No **75.9** Yes If yes, how much do you expect to collect for FY 1999? **$136,496** (Average)

Please indicate which of the following sources of government revenue are used to fund your economic development programs. (% reporting)

88.8	Local revenues/general fund	**12.1**	Revenue bonds
29.7	Federal grants-in-aid	**34.7**	Tax increment financing districts
36.0	State grants-in-aid	**12.3**	Special assessment districts
11.6	General obligation bonds	**14.3**	Other

Which of the following technology applications has your local government implemented *as part of its economic development efforts*? (% reporting)

7.4 Kiosks with touch-screen computers
44.6 Videos
5.8 Hand-held computer terminals used in the permit and inspection process
74.9 On-line computer services (access to government services and information through computer and modem)
28.5 Interactive faxing (faxing permits, forms, and applications for a fee)
5.1 Smart buildings (e.g., equipped with technologies that turn lights on and off, that read security cards, etc.)
1.7 Intelligent vehicle highway systems (e.g., electronic toll collectors)
42.1 Fiber optic networking/cable
6.3 Other

Does your local government consider its telecommunications infrastructure to be an economic development tool or asset? (% reporting)
74.8 Yes **25.2** No

What percentage of your staff's time is devoted to the following activities? (% reporting)
Retention **26.0** Attraction **26.3** Development **33.4**

Which of the following sectors are the focus of your economic development efforts? (% reporting)

9.9	Agricultural (farming and supporting industries)	**41.7**	Tourism/hospitality
69.7	Manufacturing	**38.3**	Warehousing/distribution
67.7	Retail/service	**52.5**	Technology/telecommunications
9.7	Institutional (military, government, nonprofit, etc.)	**7.8**	Other
19.2	Residential community (commuters)		

Which of the following barriers to economic development has your local government encountered? (% reporting)

31.5	Citizen opposition	**5.2**	Declining market due to loss of population
56.8	Availability of land	**27.0**	Traffic congestion
41.1	Cost of land	**38.5**	Lack of capital/funding
46.6	Lack of skilled labor	**12.4**	Lack of political support
27.2	Limited number of major employers	**19.5**	Other

Does your local government support any of the following programs to promote economic development and if "*yes*," how does the local government provide the program?

	Local government supports program?		How does the local government provide for these programs?			
Program	Yes %	No %	Non-profit %	For-profit %	Government agency %	Public private partnership %
a. Economic development zones/tax incentives	**66.3**	**33.7**	**9.1**	**4.0**	**83.7**	**21.8**
b. Community development corporation	**52.7**	**47.3**	**51.8**	**5.2**	**29.5**	**36.8**
c. Community development loan fund	**54.9**	**45.1**	**26.7**	**6.4**	**66.4**	**23.3**
d. Microenterprise program	**26.6**	**73.4**	**52.5**	**4.9**	**35.2**	**32.1**
e. Welfare-to-Work	**48.7**	**51.3**	**27.9**	**3.6**	**73.0**	**29.4**
f. Job training	**63.2**	**36.8**	**31.1**	**4.9**	**67.1**	**33.5**
g. Other	**40.5**	**59.5**	**20.0**	**2.2**	**66.7**	**40.0**

BUSINESS RETENTION

Does your local government have a written business retention plan? (% reporting) **26.3** Yes **73.7** No

Please indicate which of the following business retention activities your local government conducts. (% reporting)

74.0	Local government representative calls on local company
22.2	Local government representative calls on national company headquarters
59.6	Surveys of local business
41.1	Business roundtable
35.8	Revolving loan fund program
22.0	Ombudsman program
24.0	Achievement awards
31.8	Local business publicity program
2.7	Replacing imports with locally supplied goods
11.2	Export development assistance
77.7	Partnering with other non-governmental organizations (e.g., chamber of commerce, private firms)
41.9	Partnering with other local governments
6.9	Other

BUSINESS ATTRACTION

Does your local government have a written business attraction plan? (% reporting) **32.0** Yes **68.0** No

Which of the following methods does your local government use to attract business? (% reporting)

54.1	Community resource databases	**29.5**	Hosts special events
81.6	Promotional material	**12.4**	Ambassador program
43.8	Media advertising	**13.5**	Trade missions abroad
40.1	Direct mail	**42.5**	Regional approaches (pooling resources)
49.8	Participation in trade shows	**70.3**	Website
61.3	Attendance at conferences	**6.5**	Other
52.0	Local government representative calls on prospective companies		

In your local government's business attraction program, what has been the emphasis on attracting non-manufacturing commercial businesses? (% reporting)

Very high	2	Moderate	4	Very low
15.0	**21.5**	**37.7**	**15.9**	**10.0**

Does your jurisdiction have special technology zones that are designed to encourage technology-related industries and businesses to move to your jurisdiction? (% reporting) **88.9** No **11.1** Yes

If "*yes*," please indicate the incentives used in the technology zones to encourage technology-related industry and business. (% reportin

24.0	Reduction in permit fees	**46.0**	Flexibility in special zoning	**11.0**	Reduction in gross receipts tax
11.0	Reduction in user fees	**10.0**	Ordinance exemptions	**54.0**	Other

Please indicate (1) which of the following provides most of your current business prospects and (2) which you would like to attract in the future. (% reporting)

	Current	Future
Agricultural (farming and supporting industries)	**1.6**	**5.7**
Manufacturing	**20.7**	**48.7**
Retail/service	**24.1**	**50.7**
Institutional (military, government, nonprofit, etc.)	**0.9**	**7.2**
Residential community (commuters)	**4.0**	**12.6**
Tourism/hospitality	**15.2**	**27.4**
Warehousing/distribution	**14.8**	**20.6**
Technology/telecommunications	**20.7**	**53.1**
Other	**3.9**	**6.3**

SMALL BUSINESS DEVELOPMENT

Does your local government have a written small business development plan? (% reporting) **16.9** Yes **83.1** No

Which of the following does your local government offer for small business development? (% reporting)

58.7	Revolving loan fund	**24.6**	Business incubator
48.5	Small business development center	**9.0**	Vendor/supplier matching
13.6	Executive on loan/mentor	**32.0**	Matching improvement grants (physical upgrades to business properties)
17.4	Management training	**16.2**	Other
28.6	Marketing assistance		

BUSINESS INCENTIVES

Does your local government offer business incentives? (% reporting) **68.4** Yes **31.6** No

Do you require a performance agreement as a condition for providing business incentives? (% reporting)

59.4 Always **30.0** Sometimes **10.7** Never

Do you perform a cost/benefit analysis prior to offering business incentives? (% reporting) **77.1** Yes **22.9** No

Do you have formal written criteria used to determine eligibility for business incentives? (% reporting) **65.1** Yes **34.9** No

Please indicate any change in the dollar value of the average business incentive package over the last five years? (% reporting)

Much larger	2	About the same	4	Much less
7.7	19.1	62.7	8.3	2.2

Please indicate which of the following incentives your local government offers. (% reporting)

53.5	Tax abatements	**18.8**	Utility rate reduction
24.5	Tax credits	**71.8**	Zoning/permit assistance
27.2	Locally designated enterprise zones	**23.1**	Regulatory flexibility
26.9	Federal/state designated enterprise zones	**17.7**	Relocation assistance
49.6	Tax increment financing	**39.8**	Low-cost loans
45.3	Grants	**39.1**	One-stop permit issuance
74.1	Infrastructure improvements	**18.3**	Special assessment districts
38.8	Free land or land write downs	**10.6**	Subsidized buildings
15.7	Employee screening	**9.6**	Other
36.0	Training support		

Please indicate how your local government measures the effectiveness of business incentives. (% reporting)

81.3	Amount of jobs created by the new business	**19.7**	Company revenue/sales
43.2	Amount of money invested in construction materials and labor	**37.1**	Cost/benefit analysis
25.9	New dollars invested in land	**16.1**	Other
48.8	Number of new businesses relocating or expanding in jurisdiction		

LOCAL GOVERNMENT PROFILE

Does your local government use performance measures to assess the effectiveness of its economic development efforts? (% reporting)

29.2 No

70.8 Yes

If "*yes,*" which of the following performance measures are used (% reporting)

- **33.7** Input measures (e.g., number of staff hours expended by program)
- **60.0** Output measures (e.g., number of organizations that receive assistance by program)
- **47.0** Efficiency measures (e.g., program expenditures per estimated tax dollars generated)
- **23.5** Other

Does your jurisdiction have a local sales tax? (% reporting)

47.7 No

52.2 Yes

A. If "*yes,*" what is the rate? **3.1** (Average)

How many schools are in your jurisdiction (both public/private)?

	Average Number of schools	Please indicate if you expect an increase or decrease in the number of schools over the next five (5) years.	
		Increase	**Decrease**
K-12	**20**	**92.5**	**7.5**
Junior college (2-year)	**1**	**96.7**	**3.3**
Vocational/technical	**2**	**96.2**	**3.8**
University/college	**1**	**97.0**	**3.0**

What is the median cost of a single-family dwelling in your jurisdiction? (Average of the median) **$140,706**

What is the median rental cost of two-bedroom apartment in your jurisdiction? (Average of the median) **$656**

Which of the following are in your jurisdiction? (% reporting)

79.4	Railroad	**11.1**	Port	**21.8**	Major waterway
48.7	Airport	**76.2**	Truck route	**87.6**	Major highway

How many hotel/motel rooms does your jurisdiction have? **2,019** (Average)

How important is tourism in comparison with other industries?

Very important	**2**	**About the same**	**4**	**Not important**
18.3	**20.6**	**23.0**	**22.2**	**15.9**

Approximately what percent of your local government's annual revenue is from tourism? (Average) **5.9%**

What is per capita property tax revenue? (Average) **$1,446**

What percent of the residents in your jurisdiction are retirees? (Average) **16.7%**

What is the unemployment rate in your jurisdiction? (Average) **4.3%**

APPENDIX C. LIST OF STUDY CITIES BY OVERALL GROWTH RANK

City	State	Overall Growth Rank	Mfg. Firm Growth Rank	Retail Firm Growth Rank	Job Growth Rank	Mfg. Job Growth Rank	Retail Job Growth Rank	Mfg. Value Added Growth Rank	Retail Sales Growth Rank	Income Growth Rank
West Valley City	UT	**1**	4	1	38	4	4	30	17	25
Vancouver	WA	**2**	13	6.5	11	2	6	13	21	129
Plano	TX	**3**	88.5	292	6	16	8	7	4	6
Pinellas Park	FL	**4**	7	115	178	5	9	38	12	101
Ontario	CA	**5**	2	241	34	19	32	15	30	114
Conroe	TX	**6**	75.5	58	114	48	15	97	49	92
North Las Vegas	NV	**7**	31.5	9	48	37	25	82	110	239
Gilbert	AZ	**8**	15	8	155	183.5	14	87	103	18
Las Vegas	NV	**9**	5	352.5	3	55	3	128	1	37
Maple Grove	MN	**10**	28	21	107	6	54	37	143	201
Murfreesboro	TN	**11**	185.5	140.5	53	86	17	70	53	39
Wilmington	NC	**12**	49	216.5	98	141	26	22	15	111
Mentor	OH	**13**	23.5	73	238	10	49	31	58	225
Chesapeake	VA	**14**	53	109	18	68.5	2	194	23	246
Blaine	MN	**15**	20.5	25	136	18	95	76	222	144
Camarillo	CA	**16**	27	129	215	35	78	91	156	16
Pembroke Pines	FL	**17**	25.5	24	101	141	1	150	6	300
Littleton	CO	**18**	128	102.5	159	168	5	144	16	28
Fayetteville	AR	**19**	97	84	108	42	31	104	125	160
Miramar	FL	**20**	42.5	84	161	141	20	132	119	66
Thornton	CO	**21**	105.5	111.5	82	141	23	101	85	124
Layton	UT	**22**	208	12	95	183.5	16	176.5	65	31
Bellingham	WA	**23**	136	207	125	141	34	65	61	30
Moreno Valley	CA	**24**	79	6.5	21	183.5	7	145	45	316
Fort Collins	CO	**25**	72.5	321	25	25	135.5	33	59	134
Menomonee Falls	WI	**26**	39.5	42.5	225	15	22	74	161	234
Rancho Cucamonga	CA	**27**	17.5	201	49	45	28	93	73	311
Midland	MI	**28.5**	110.5	136.5	203	141	58	18	33	118
Fargo	ND	**28.5**	25.5	209.5	68	26	232	64	54	139
Brownsville	TX	**30**	34	312	71	28	96	75	107	109
Buffalo Grove	IL	**31**	65	14	176	13.5	58	51	72	385
Deer Park	TX	**32**	116	36.5	244	47	65	2	274	54
Broken Arrow	OK	**33**	42.5	221	142	33	58	81	31	251
Maplewood	MN	**34**	49	31	239	183.5	64	161	96	38
Janesville	WI	**35**	79	203	133	20	121	5	74	228
Novi	MI	**36**	245	16.5	192	89	30	159	57	83
Reno	NV	**37**	55.5	343	36	40	123	92	27	176
St. Cloud	MN	**38**	136	162	67	13.5	362	52	13	97
Sanford	FL	**39**	185.5	36.5	138	180	27	182	131	23
Normal	IL	**40**	79	48	124	141	66	176.5	157	112
Burnsville	MN	**41**	49	113.5	93	43	53	90	76	391
Deerfield Beach	FL	**42**	53	122	146	57	43	134	64	299
Twin Falls	IA	**43**	92.5	71	233	71	42	147	88	177
Olathe	KS	**44**	62	42.5	60	215	21	106	50	368
North Charleston	SC	**45**	29.5	19	409	23	19	68	36	327
Palm Bay	FL	**46**	65	124.5	235	141	51	34	212	72
Roseville	CA	**47**	88.5	167.5	79	141	13	176.5	25	245
Edmond	OK	**48.5**	39.5	198.5	195	183.5	33	146	132	13

City	State	Overall Growth Rank	Mfg. Firm Growth Rank	Retail Firm Growth Rank	Job Growth Rank	Mfg. Job Growth Rank	Retail Job Growth Rank	Mfg. Value Added Growth Rank	Retail Sales Growth Rank	Income Growth Rank
Mesquite	TX	**48.5**	75.5	313.5	50	104	132.5	42	69	154
Longmont	CO	**50**	20.5	228	73	99	89	167	120	149
McAllen	TX	**51**	70	232	39	267	11	230	34	70
Grand Prairie	TX	**52**	120.5	270	59	38	40	98	87	244
Tuscaloosa	AL	**53**	151	235.5	100	49	80	148	108	91
Pittsburg	CA	**54**	141.5	44	190	76	24	41	171	279
Kentwood	MI	**55**	169	64.5	123	12	165	47	198	192
Maryland Heights	MO	**56**	37	10	316	68.5	10	124	37	379
Temecula	CA	**57**	205.5	3.5	185	183.5	58	16	29	310
Tinley Park	IL	**58**	110.5	27.5	126	234	81	266	153	2
Livermore	CA	**59**	29.5	145	219	51	93	323	141	3
Addison	IL	**60**	116	122	260	66	102	110	42	205
Colorado Springs	CO	**61**	19	395	13	303	127	8	5	157
Chino	CA	**62**	10	226	122	9	98	80	176	308
Davie	FL	**63**	35	130.5	130	70	164	170	104	226
Glendale Heights	IL	**64**	46	18	268	31	77	84	138	373
Gilroy	CA	**65**	101.5	13	202	82	18	280	71	275
Mishawaka	IN	**66**	84.5	127.5	270	171	38	188	46	126
Lynnwood	WA	**67**	334.5	68.5	145	90	48	209	111	53
Moorpark	CA	**68**	45	23	306	233	44	154	246	12
Chico	CA	**69**	81.5	179.5	264	193.5	68	158	62	79
Moorhead	MN	**70**	59.5	40	261	183.5	130	165	200	56
Bedford	TX	**71**	151	122	118	141	173.5	176.5	207	7
Mesa	AZ	**72**	17.5	369	7	208	120	17	11	357
Mission Viejo	CA	**73**	205.5	3.5	165	183.5	58	85	24	393
Rock Hill	SC	**74**	169	193	141	87	167	86	195	82
Apple Valley	CA	**75**	208	3.5	182	183.5	58	176.5	159	168
Fairfield	OH	**76**	41	75	117	91	187	196	205	227
Bryan	TX	**77**	84.5	200	106	77	111	245	149	170
Harlingen	TX	**78**	101.5	211.5	120	24	205	115	233	137
Westland	MI	**79**	62	171.5	151	44	157	100	113	352
Bowling Green	KY	**80**	70	260	177	141	67	176.5	101	162
Texarkana	TX	**81**	254	89.5	351	52	106	73	129	102
Winona	MN	**82**	128	61	347	105	103	116	218	81
North Lauderdale	FL	**83**	208	40	218	141	69	176.5	263	48
Elk Grove Village	IL	**84.5**	151	33	284	204	29	88	121	260
Beaverton	OR	**84.5**	331	136.5	44	304.5	92	36	35	191
Pleasanton	CA	**86**	65	82	222	192	12	156	38	404
Renton	WA	**87**	136	206	187	183.5	214	176.5	39	32
Lawrence	KS	**88**	293	134.5	103	141	114.5	46	122	224
Brunswick	OH	**89**	57.5	40	204	183.5	100	157	180	263
Encinitas	CA	**90**	208	3.5	149	141	58	176.5	51	399
Lewiston	IA	**91**	161.5	99.5	166	183.5	86	176.5	193	127
Kinston	NC	**92**	120.5	73	360	141	144	45	238	76
Carlsbad	CA	**93**	8	262.5	164	3	277	10	137	338
Bloomington	IL	**94.5**	141.5	156.5	65	183.5	286	176.5	182	11
Asheville	NC	**94.5**	128	257.5	188	218.5	90	113	43	164
Cape Girardeau	MO	**96**	296	77	232	32	202	27	154	186
Columbia	MO	**97**	263	218.5	46	141	272	19	81	169
Denton	TX	**98**	151	246	22	178	265	102	160	87
Santa Fe	NM	**99**	38	215	110	170	107	223	52	301
Palmdale	CA	**100**	36	116.5	259	183.5	45	176.5	115	289
Longview	TX	**101**	177	340	156	11	211	24	9	297
Haltom City	TX	**102**	53	94.5	193	39	142	135	293	283
Iowa City	IA	**103**	177	161	128	172	224	12	116	250
Streamwood	IL	**104**	92.5	11	200	111.5	41	215	211	363
Roswell	GA	**105**	245	220	144	141	141	123	55	180

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Yakima	WA	**106.5**	151	177.5	153	59.5	105	175	89	342
Appleton	WI	**106.5**	177	213	85	108	230	79	188	172
League City	TX	**108**	208	20	295	183.5	47	176.5	162	163
Napa	CA	**109**	75.5	243	139	54	213	54	248	230
Prescott	AZ	**110**	84.5	191.5	160	116	87	166	170	282
Woodridge	IL	**111**	88.5	15	242	183.5	36.5	118	191	384
Margate	FL	**112**	208	149	162	183.5	36.5	176.5	44	307
Boulder	CO	**113**	22	294	26	316	308	221	83	5
Tulare	CA	**114**	231	78	241	165	70	224	217	52
Wheaton	IL	**115**	290	27.5	201	277	46	282	140	22
Eugene	OR	**116**	161.5	349	66	59.5	282	99	47	222
Fremont	CA	**117**	1	374	55	1	358	21	184	302
Frederick	MD	**118**	110.5	208	168	84	73	237	67	351
Beaumont	TX	**119**	151	358	253	41	306	11	117	65
Novato	CA	**120**	231	158	332	101	104	189	172	19
Blue Springs	MO	**121**	208	76	231	107	82	186	174	243
Sterling Heights	MI	**122**	9	257.5	33	206	284	48	235	235
New Iberia	LA	**123**	128	181	331	141	108	109	168	142
Eau Claire	WI	**124**	75.5	238.5	143	195	262	126	90	181
Laramie	WY	**125**	208	64.5	266	183.5	147	176.5	175	93
Chula Vista	CA	**126**	12	288	115	244	131	275	98	152
San Pablo	CA	**127**	208	16.5	344	183.5	91	176.5	219	77
Shelton	CT	**128.5**	231	55	337	46	63	61	224	303
Royal Oak	MI	**128.5**	343.5	142.5	105	98	180	125	252	74
Shawnee	OK	**130**	151	88	317	78	124	131	251	188
Santa Maria	CA	**131**	97	198.5	249	198	140	129	216	113
Lufkin	TX	**132**	322	159	273	61.5	118	121	169	122
Morgantown	WV	**133**	263	92	305	141	94	176.5	203	78
Anderson	SC	**134**	254	211.5	275	27	134	32	237	185
Oxnard	CA	**135**	14	315	57	65	301	226	82	298
Davis	CA	**136.5**	208	94.5	104	141	240	176.5	277	120
Bettendorf	IA	**136.5**	245	45	291	141	177	133	288	41
Kenner	LA	**138**	97	238.5	325	85	148	218	91	161
San Antonio	TX	**139**	59.5	410	4	281	409	63	10	135
Manhattan	KS	**140**	208	60	370	141	129	176.5	199	90
Leavenworth	KS	**141**	208	56	58	183.5	114.5	176.5	271	309
Garden Grove	CA	**142**	6	375	86	29	352	28	358	146
Green Bay	WI	**143**	84.5	334	72	166	312	178	109	128
San Clemente	CA	**144**	11	170	250	141	169.5	111	283	249
Fairfield	CA	**145**	105.5	175	197	64	163	184	127	370
Stow	OH	**146**	81.5	35	282	95	50	199	236	408
Florissant	MO	**147**	208	167.5	269	183.5	71	176.5	134	178
Urbana	IL	**148**	136	52	263	183.5	175	176.5	243	159
Arvada	CO	**149**	185.5	298	63	56	160.5	119	245	264
Lorain	OH	**150**	128	169	234	141	229	3	298	194
Manassas	VA	**151**	245	22	216	141	146	29	328	274
Davenport	IA	**152**	161.5	300	158	284	204	43	80	174
Flagstaff	AZ	**153**	290	177.5	109	176	152	141	123	238
Pico Rivera	CA	**154**	231	151.5	289	186	139	155	223	33
Dover	DE	**155.5**	151	134.5	309	63	227	142	241	153
Lombard	IL	**155.5**	177	101	220	111.5	233	163	186	229
Billings	MT	**157**	70	324	70	183.5	303	176.5	97	199
Temple	TX	**158**	275.5	229	150	174	128	162	147	165
East Lansing	MI	**159**	208	27.5	321	183.5	225	176.5	289	1
Simi Valley	CA	**160.5**	208	328	75	246.5	292	60	220	4
Hagerstown	MD	**160.5**	315.5	184	210	252	97	149	165	61
Santa Rosa	CA	**162**	110.5	370	32	22	341	25	202	332

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Bellevue	NE	**163**	245	62.5	324	141	171	120	234	138
Hot Springs	AR	**164**	128	203	278	73	228	138	148	240
Ocala	FL	**165.5**	151	301	174	17	285	59	112	344
Moline	IL	**165.5**	185.5	173.5	287	266	236	95	158	42
Fayetteville	NC	**167**	263	252	386	21	186	57	32	247
Madera	CA	**168**	169	151.5	196	240	84	288	258	60
Blacksburg	VA	**169**	101.5	47	319	175	222	192	330	67
Battle Creek	MI	**170**	270	132	257	72	212	278	209	24
Harrisonburg	VA	**171**	275.5	52	211	239	83	261	139	195
Greensboro	NC	**172**	92.5	377	45	327	364	49	48	167
Marietta	GA	**173**	177	259	84	199	279	212	41	220
Seaside	CA	**174**	208	49	408	141	158	176.5	273	59
Galesburg	IL	**175**	231	106	300	183.5	85	176.5	287	105
Minot	ND	**176**	128	156.5	312	183.5	74	176.5	142	304
Las Cruces	NM	**177**	141.5	253.5	152	185	137	241	86	287
North Olmsted	OH	**178**	208	86.5	358	183.5	210	176.5	194	73
Wheat Ridge	CO	**179**	177	110	227	97	189	193	150	350
Pompano Beach	FL	**180**	254	289.5	112	114	263	152	99	211
Schaumburg	IL	**181**	322	130.5	129	246.5	196	89	106	276
Lompoc	CA	**182**	208	92	318	183.5	185	176.5	291	43
Sumter	SC	**183**	151	251	406	8	151	40	226	265
Oak Forest	IL	**184**	120.5	27.5	271	110	184	179	272	335
Phoenix	AZ	**185**	3	409	1	333	410	1	3	345
San Diego	CA	**186**	33	411	9	345	411	26	56	219
Hoffman Estates	IL	**187**	67.5	54	265	183.5	209	105	239	392
St. Charles	MO	**188**	55.5	286	52	141	307	77	342	258
Rosemead	CA	**189**	62	182	322	93	253	187	352	68
Lansing	IL	**190**	161.5	30	339	201	110	222	250	212
Cerritos	CA	**191.5**	343.5	325	292	58	176	231	95	10
Brookfield	WI	**191.5**	185.5	38	248	251	72	173	167	396
West Palm Beach	FL	**193**	293	317	83	326	320	9	133	50
Bell Gardens	CA	**194**	275.5	46	342	200	88	239	292	49
Sioux City	IA	**195**	141.5	253.5	224	50	197	168	152	347
Irvine	CA	**196**	16	310.5	116	260	247	20	192	375
Downers Grove	IL	**197**	231	111.5	184	258	155	265	28	313
Annapolis	MD	**198**	208	97.5	286	141	203	176.5	144	296
Oklahoma City	OK	**199**	49	407	16	261	399	117	22	286
Baldwin Park	CA	**200.5**	72.5	138	267	79	154	160	302	387
Raleigh	NC	**200.5**	23.5	379	10	319	360	272	14	182
Campbell	CA	**202**	301	196.5	171	117	245	140	136	259
Yuma	AZ	**203**	238	203	157	141	254	96	275	202
Homestead	FL	**204.5**	208	68.5	372	183.5	149	176.5	308	104
West Allis	WI	**204.5**	177	231	397	30	193.5	228	166	147
Saratoga	CA	**206**	208	126	240	183.5	132.5	176.5	290	221
Madison Heights	MI	**207**	315.5	32	212	268	99	242	92	321
Arlington Heights	IL	**208**	169	230	247	7	330	55	151	397
Oak Park	IL	**209**	185.5	166	299	106	276	183	345	26
Saratoga Springs	NY	**210**	185.5	127.5	371	100	201	177	296	131
Cape Coral	FL	**211**	254	248	111	221	35	220	163	343
Bakersfield	CA	**212**	169	365	41	34	374	205	196	217
Springfield	OR	**213**	290	80.5	191	254	79	276	173	269
Jefferson City	MO	**214**	287	188.5	194	83	241	69	354	197
Lodi	CA	**215**	116	235.5	148	256	200	314	306	45
University City	MO	**216**	208	84	330	183.5	112	176.5	286	241
Marshalltown	IA	**217**	254	116.5	359	141	109	176.5	266	200
Woodland	CA	**218**	263	139	132	214	126	271	276	204
Jacksonville	AR	**219**	245	68.5	398	189	135.5	219	305	69

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Fairborn	OH	**220**	245	57	361	167	235	198	346	21
Hemet	CA	**221**	331	214	208	191	122	200	253	116
Enid	OK	**222**	128	233.5	384	183.5	219.5	176.5	265	46
Redwood City	CA	**223**	352.5	250	169	61.5	309	44	280	171
Cypress	CA	**224**	185.5	190	243	81	216	139	267	323
Bangor	ME	**225**	231	165	301	141	218	176.5	183	232
Orlando	FL	**226**	161.5	269	20	350	356	345	8	145
Joliet	IL	**227**	231	261	61	248	261	190	114	291
Plantation	FL	**228**	245	226	81	183.5	207	176.5	204	337
Bay City	MI	**229.5**	110.5	185.5	334	92	231	244	285	179
Bellevue	WA	**229.5**	337	284.5	74	336	191.5	286	19	133
La Porte	TX	**231**	208	52	237	203	52	336	210	365
Gastonia	NC	**232**	293	271	256	280	162	62	145	203
Kissimmee	FL	**233**	263	147	80	141	302	169	333	252
Salinas	CA	**234**	116	341	92	220	188	273	118	340
Escondido	CA	**235**	308	344	87	74	324	172	334	47
Kent	OH	**236**	151	97.5	288	113	242	180	301	320
Great Falls	MT	**237**	110.5	273	336	183	190	211	177	213
Leominster	MA	**238**	343.5	89.5	354	238	119	112	231	207
Passaic	NJ	**239**	361.5	133	388	279	39	281	128	85
Tallahassee	FL	**240**	337	299	40	141	316	176.5	181	208
Lubbock	TX	**241**	322	383	54	169	353	56	78	284
Sandusky	OH	**242**	337	179.5	307	53	268	202	344	14
Superior	WI	**243**	151	124.5	313	141	195	176.5	268	336
Irving	TX	**244**	352.5	367	24	270	143	171	7	376
Kenosha	WI	**245**	120.5	318.5	78	321	255	327	185	107
Bethel Park	PA	**246**	128	99.5	350	109	182	207	255	382
Tamarac	FL	**247**	208	209.5	181	141	156	176.5	256	386
Baton Rouge	LA	**248**	57.5	378	43	301	384	339	100	117
Hallandale	FL	**249**	161.5	164	251	205	270	201	332	136
Kalamazoo	MI	**250**	367.5	268	209	141	346	23	338	34
Titusville	FL	**251**	116	171.5	283	141	250	176	320	270
Rockville	MD	**252**	376.5	187	276	141	317	108	259	64
Jamestown	NY	**253**	296	176	374	94	101	107	247	334
Upland	CA	**254**	169	265.5	99	115	246	208	335	292
Montclair	CA	**255**	254	108	230	103	168	216	378	273
Port Orange	FL	**256**	208	140.5	314	183.5	150	176.5	307	253
Oakland Park	FL	**257**	208	62.5	205	212	248	254	232	312
Charlotte	NC	**258**	392	398	5	346	367	50	2	187
Delray Beach	FL	**259**	151	308	147	187	291	214	84	366
Knoxville	TN	**260**	308	391	51	308	357	302	20	15
Overland Park	KS	**261**	301	347	23	271	289	309	60	156
Altoona	PA	**262**	105.5	238.5	333	276	113	279	155	268
Wyoming	MI	**263**	270	154	69	283	283	247	187	278
Grand Rapids	MI	**264**	359	368	19	318	363	114	126	110
Bradenton	FL	**265**	352.5	205	121	141	298	176.5	386	98
Lynchburg	VA	**266**	270	272	381	274.5	280	71	75	155
Hurst	TX	**267**	308	185.5	175	235	260	259	349	8
Ormond Beach	FL	**268**	92.5	173.5	329	173	145	204	294	371
Sayreville	NJ	**269**	282	66	277	259	62	197	254	388
Kingsville	TX	**270**	208	92	383	183.5	153	176.5	270	322
Alameda	CA	**271**	161.5	357	407	36	382	35	404	9
Corpus Christi	TX	**272**	301	392.5	88	141	351	176.5	79	266
Olympia	WA	**273**	326.5	248	214	218.5	183	260	164	193
New Brunswick	NJ	**274**	326.5	106	290	299.5	259	83	360	88
Montebello	CA	**275.5**	128	306	296	253	256	238	281	55
Rancho Palos Verdes	CA	**275.5**	208	183	315	183.5	76	176.5	260	411

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Rock Island	IL	**277**	254	113.5	357	196	193.5	217	318	166
Meridian	MS	**278**	275.5	191.5	346	183.5	125	176.5	189	333
Riverside	CA	**279**	44	376	12	313	376	300	382	20
Ithaca	NY	**280**	301	218.5	349	67	238	103	319	236
Maple Heights	OH	**281**	282	50	367	265	160.5	269	325	123
Modesto	CA	**282**	282	363	29	102	336	289	284	158
Santa Cruz	CA	**283**	97	296	189	181	337	130	366	248
Thousand Oaks	CA	**284**	67.5	331	77	273	326	296	93	383
Santa Clara	CA	**285**	31.5	336	62	291	378	4	372	374
Melbourne	FL	**286**	254	245	294	274.5	275	67	213	231
Largo	FL	**287**	88.5	155	131	315	215	307	279	367
Jackson	MI	**288**	275.5	145	252	289	116	262	190	329
Port Huron	MI	**289**	238	244	229	75	313	94	367	305
Monroeville	PA	**290**	282	102.5	340	190	264	210	227	254
Wichita	KS	**291**	301	400	31	312	393	340	66	27
Roanoke	VA	**292**	331	326.5	254	299.5	198	53	63	349
Sunnyvale	CA	**293**	49	348	47	364	334	349	94	293
Independence	MO	**294**	141.5	322.5	89	249	278	267	178	355
Atlantic City	NJ	**295**	208	195	348	183.5	322	176.5	387	63
Clovis	NM	**296**	208	150	341	183.5	300	176.5	295	237
Wheeling	IL	**297**	208	79	326	141	257	176.5	316	390
Merced	CA	**298**	315.5	196.5	297	231	166	243	228	223
Shaker Heights	OH	**299**	208	59	364	183.5	181	176.5	324	405
Seal Beach	CA	**300**	238	96	328	183.5	178	176.5	300	402
Oak Ridge	TN	**301**	263	34	335	295	75	303	197	401
Des Plaines	IL	**302**	385	262.5	186	272	338	78	355	29
Parkersburg	WV	**303**	308	142.5	274	293	223	325	261	89
Lakeland	FL	**304**	375	342	173	236	239	153	105	294
Berkeley	CA	**305**	367.5	350	127	202	368	58	240	210
Huntington Park	CA	**306**	263	145	327	184	169.5	233	326	277
Ann Arbor	MI	**307**	365.5	295	91	243	361	151	364	57
Monterey Park	CA	**308**	161.5	322.5	298	230	274	213	368	62
San Angelo	TX	**309**	287	345	352	96	294	137	225	198
Allen Park	MI	**310**	177	119.5	304	183.5	252	176.5	353	378
Meriden	CT	**311**	334.5	163	366	229	138	136	322	256
Park Ridge	IL	**312**	208	153	285	141	226	176.5	361	403
Rome	GA	**313**	245	224	320	286	191.5	293	215	184
Winston Salem	NC	**314**	136	372	167	361	369	352	77	125
Kankakee	IL	**315**	282	68.5	353	225	258	236	347	190
Charleston	SC	**316**	177	303	137	310	380	321	317	35
Kettering	OH	**317**	326.5	233.5	375	245	199	252	26	328
St. Clair Shores	MI	**318**	347	276	97	88	273	225	304	377
Minnetonka	MN	**319**	169	148	198	307	269	291	208	398
West Covina	CA	**320**	105.5	329	213	197	314	143	374	314
Beloit	WI	**321**	208	118	365	216	249	206	297	341
Hamilton	OH	**322**	231	280.5	102	304.5	281	285	369	148
Dubuque	IA	**323**	340	256	226	183.5	217	176.5	257	348
Menlo Park	CA	**324**	308	119.5	280	217	206	256	214	407
South Gate	CA	**325**	308	238.5	310	232	266	203	394	58
Bellflower	CA	**326**	208	264	262	183.5	243	176.5	311	364
Southfield	MI	**327**	397	364	96	285	387	185	262	44
Huntington	WV	**328**	315.5	282	345	224	319	122	314	106
Fort Pierce	FL	**329**	208	339	236	141	348	176.5	400	189
Garfield	NJ	**330**	301	73	376	177	179	191	362	380
Buena Park	CA	**331**	383	304	170	188	325	127	230	318
Hollywood	FL	**332**	270	371	42	242	365	72	402	290
Panama City	FL	**333**	340	335	308	182	311	174	303	115

City	State	Overall Growth Rank	Mfg. Firm Growth Rank	Retail Firm Growth Rank	Job Growth Rank	Mfg. Job Growth Rank	Retail Job Growth Rank	Mfg. Value Added Growth Rank	Retail Sales Growth Rank	Income Growth Rank
Anaheim	CA	**334**	394	394	27	343	391	342	146	36
Los Gatos	CA	**335.5**	128	223	223	193.5	299	235	375	409
Danville	VA	**335.5**	287	242	338	141	290	176.5	340	271
Odessa	TX	**337**	238	352.5	258	179	297	274	242	257
Dallas	TX	**338**	410	412	2	363	412	6	278	216
Portsmouth	VA	**339**	141.5	279	403	209	345	249	392	86
Mobile	AL	**340**	315.5	381	56	257	373	341	264	119
Euclid	OH	**341**	331	160	368	302	219.5	305	331	94
San Leandro	CA	**342**	270	293	221	294	244	301	229	267
Eureka	CA	**343**	347	226	373	210	208	257	244	261
San Mateo	CA	**344**	326.5	351	134	241	340	234	351	150
Fort Myers	FL	**345**	263	309	183	263	347	250	370	143
Newburgh	NY	**346**	315.5	106	387	228	172	246	350	325
Newport News	VA	**347**	97	333	395	325	315	306	282	80
Kansas City	MO	**348**	403.5	405	14	356	404	299	18	242
State College	PA	**349**	263	80.5	378	213	295	240	356	317
Tampa	FL	**350**	405	401	15	342	396	319	70	196
Everett	MA	**351**	301	86.5	363	288	159	298	299	362
La Habra	CA	**352**	322	265.5	228	211	237	251	337	306
Petersburg	VA	**353**	275.5	188.5	393	80	333	181	388	331
Kearny	NJ	**354**	352.5	104	379	269	117	287	339	326
Peoria	IL	**355**	282	338	163	338	310	255	130	361
Glendora	CA	**356**	282	267	293	223	234	227	376	288
Daytona Beach	FL	**357**	308	280.5	281	290	354	311	179	215
Gaithersburg	MD	**358**	381.5	276	302	282	288	232	135	339
Santa Monica	CA	**359**	387	362	207	314	381	313	68	209
Harrisburg	PA	**360**	322	222	392	278	305	284	359	84
Sacramento	CA	**361**	349	397	17	323	394	229	389	151
Pensacola	FL	**362**	347	313.5	377	255	221	253	206	285
Arcadia	CA	**363**	238	255	311	227	304	164	365	400
Santa Ana	CA	**364**	381.5	384	37	341	383	324	384	51
Alexandria	VA	**365**	352.5	287	206	264	372	295	380	130
Fullerton	CA	**366.5**	359	360	94	348	375	343	396	17
Walnut Creek	CA	**366.5**	359	291	135	292	321	264	249	381
York	PA	**368**	376.5	216.5	399	347	251	316	313	75
Hawthorne	CA	**369**	363	248	272	354	287	347	323	108
Skokie	IL	**370**	371	297	343	328	173.5	66	329	395
Glendale	CA	**371**	101.5	385	179	311	366	294	381	295
Huntington Beach	CA	**372**	315.5	387	35	207	377	320	357	315
Santa Barbara	CA	**373**	374	359	199	237	359	277	310	218
Englewood	CO	**374**	352.5	278	172	226	332	270	348	358
Columbia	SC	**375**	372.5	310.5	402	317	296	334	40	272
Burbank	CA	**376**	403.5	346	217	362	267	351	124	281
Sarasota	FL	**377**	406	386	113	287	392	290	408	71
Livonia	MI	**378**	254	276	140	309	355	322	309	394
Palo Alto	CA	**379**	380	318.5	119	357	342	330	102	412
Newport Beach	CA	**380**	361.5	355	154	296	371	39	383	406
North Miami Beach	FL	**381**	340	289.5	279	262	271	248	312	372
Dayton	OH	**382**	208	356	394	141	379	176.5	398	324
Charlottesville	VA	**383**	315.5	274	396	141	343	176.5	385	353
Pasadena	CA	**384**	389.5	354	180	329	385	326	390	40
Clearwater	FL	**385**	388	366	76	306	397	297	406	183
Whittier	CA	**386**	372.5	307	245	222	327	263	379	319
Fort Worth	TX	**387**	395	408	8	352	402	337	201	354
Poughkeepsie	NY	**388**	331	284.5	390	183.5	331	176.5	399	369
Fort Lauderdale	FL	**389**	385	390	28	324	400	308	397	233
Lancaster	PA	**390**	357	283	380	331	323	332	321	141

City	State	Overall Growth Rank	Mfg. Firm Growth Rank	Retail Firm Growth Rank	Job Growth Rank	Mfg. Job Growth Rank	Retail Job Growth Rank	Mfg. Value Added Growth Rank	Retail Sales Growth Rank	Income Growth Rank
Toledo	OH	**391**	398	396	90	349	395	348	393	100
Richmond	VA	**392**	399	388	405	359	398	14	412	99
Canton	OH	**393**	365.5	305	255	332	329	315	327	262
Savannah	GA	**394**	296	316	389	330	344	329	221	280
Racine	WI	**395**	356	320	400	339	335	258	343	173
Akron	OH	**396**	379	380	64	353	389	328	395	255
New Bedford	MA	**397**	385	326.5	401	337	328	312	373	96
Erie	PA	**398**	364	330	369	297	318	195	363	330
Des Moines	IA	**399**	369.5	382	30	335	388	335	371	360
Hackensack	NJ	**400**	369.5	194	385	298	293	304	341	389
Beverly Hills	CA	**401**	378	337	323	250	350	268	269	410
Syracuse	NY	**402**	393	361	404	344	349	318	315	140
Rochester	NY	**403**	389.5	389	362	360	390	310	405	95
Cincinnati	OH	**404**	409	399	303	365	403	338	391	121
Waterbury	CT	**405**	343.5	332	356	320	339	317	377	346
Minneapolis	MN	**406**	407	402	246	358	406	344	410	175
Cambridge	MA	**407**	396	302	382	340	370	292	336	359
Pittsburgh	PA	**408**	402	403	410	355	407	331	409	103
New Orleans	LA	**409**	400.5	406	412	334	408	333	411	132
St. Paul	MN	**410**	400.5	392.5	355	351	401	346	401	206
Worcester	MA	**411**	391	373	391	322	386	283	403	356
St. Louis	MO	**412**	408	404	411	366	405	350	407	214

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Refereed Journals:

Koven, S. & Strother, S. (2002). Saving jobs in Louisville, Kentucky: the view of major stakeholders. Economic Development Journal. 1 (1), 19-22.

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GRANTS

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