programs to give a sense of their growth, relative importance, and nature. Sometimes these data are reported by others; sometimes I have gathered them. There is, of course, much to learn by examining individual programs in detail. To gain a more intimate understanding of policy I have chosen to discuss the pioneer programs, the prototypes, and the widely acknowledged successes and failures. I have tried to alert the reader to which of these is typical and which is not.

The time span of the study runs generally from the depression era to 1985, but the principal focus is on the last decade of this period. Data on some programs are not available for the latter year; what appears in the book is the latest available material as of mid-1987.

CHAPTER 2

The Framework of Economic Development Policy

STATE and local economic development is not a new governmental function in the United States. Distant ancestors of modern policy initiatives may be traced back at least to the New Jersey legislature's decision in 1791 to incorporate Alexander Hamilton's private company, the Society for Establishing Useful Manufactures, as a vehicle for industrial development. Strengthened by a state tax exemption, a grant of power to condemn property for its own use, and control over much of the water supply of northern New Jersey, the society proceeded to create by the falls of the Passaic River the nation's first industrial park (Norwood, 1974, p. 37). Others have documented similar efforts of other young states in this period (e.g., Handlin and Handlin, 1969; Heath, 1954). The direct progenitors of contemporary economic development policies date from the Great Depression of this century, during which southern states in particular sought to lure industry to their region with offers of tax relief, cheap capital, and subsidized plants and land.

If economic development is not an entirely novel government concern, the character of this policy domain is qualitatively different from efforts in the years before the 1970s. The shift from an emphasis on supply-side location incentives to demand-oriented market-sensitive entrepreneurial policies as the means to growth has been accompanied by other shifts as well. No longer a limited regional activity of industrially underdeveloped southern and New England states, economic development is now a universal public function. Furthermore, the domain is marked by an increasing degree of institutionalization and policy elaboration, as the narrowly focused arrangements of the postdepression decades have given way to bureaucratic management of a complex array of technical programs. Finally, economic development has grown from a relatively marginal item on the political agendas of state and local officials to a central—even pivotal—issue among prevailing concerns.

The elevation of economic development to the standard array of governmental functions is a recent phenomenon. Writing particularly of its penetration of the planning profession, Edward Bergman has observed, "It is now widely accepted that economic development has taken its place among the principal planning activities carried out at state and local levels. Acceptance came so rapidly and so completely that long-time planners now overlook the fact that very few of them would have posed it as an important planning activity a decade ago" (1983, p. 260). Scholars estimate that by the mid-1980s more than 15,000 state and local officials in the United States were engaged in domestic economic development activities as their primary responsibility, and countless others dealt with development problems in tangential or episodic fashion (Beaumont and Hovey, 1985).

Twentieth-century forerunners of modern state economic development bureaus can be found in the early efforts of Alabama, North Carolina, Florida, and Maine, each of which established agencies between 1923 and 1927 to encourage industrial development and attract investment (Gilmore, 1959, p. 29). Economic development planning was part of the function of the state comprehensive planning agencies established by every state but Delaware during the depression as a condition of receiving federal public works funds. Development planning was limited in the 1930s mainly to taking inventories and coordinating the location of public works facilities with industrial development needs. A number of states, mainly in the South, continued to maintain parallel agencies devoted to encouraging industrial relocation (Cobb, 1982). When the National Resources Planning Board was disbanded in 1943, the state planning agencies disappeared in its wake.

State bureaus designed to implement efforts to stimulate industrial and other economic development spread after the war but did not become a universal element of state government machinery until recently. Today each of the 50 states has a department of economic development or its equivalent. Yet of the 44 states responding to a Council of State Governments survey in 1982, 13 reported that they had established economic development agencies as recently as the 1970s, and 8 said that they had formed such units only in the 1980s (Reinshuttle, n.d., p. 1). A number of states maintain one or more additional specialized authorities, commissions, or quasi-public corporations to complement their primary economic development unit.

Most large cities and urban counties also established or greatly expanded economic development offices in recent years.[1] New Haven created its Office of Economic Development in 1979, Minneapolis its Community Development Agency in 1981, and Chicago its Department of Economic Development in 1982, to give several examples. Detroit has an older agency, but as late as 1970 it employed only two people, whose tasks were limited to commercial- and industrial-site planning. By the middle of the decade, however, the number of employees had expanded to more than 40 and their tasks had greatly diversified. The elaboration of functions is also found at the state level, as the following passage from a report by the Utah Department of Community and Economic Development (1985) suggests:

> Fifteen years ago promotional efforts of the Department of Community and Economic Development were limited to tourism and to responding to out-of-state industrial clients. Today the on-going programs of the Department . . . include: the Urban Development Program which recruits business to the metropolitan areas of the state; the Rural Development Program which coordinates with rural areas of Utah for recruitment of industry; the Business Development Program which is charged with helping existing businesses and with developing state financing initiatives; the International Development Program which works to attract foreign investment in Utah, to encourage export of Utah products to foreign markets and to promote Utah as a destination for the Pacific Rim tourist; . . . and the Centers of Excellence Program which encourages greater ties between Utah's colleges and universities and the private sector. (pp. 5–6)

The virtually universal institutionalization of the economic development function has also been accompanied by a proliferation of policy tools and a rapid intensification of their use. Conducting a detailed census of state and local policy initiatives, particularly over time, is a daunting and perhaps impossible task. No comprehensive catalogue exists; even the partial compendia are out of date at the time of publication, so fast is the pace of innovation in this policy domain.[2] One source, how-

1. No census of municipal economic development agencies exists to my knowledge. The Washington-based Council for Urban Economic Development reports, however, that many cities in the 1980s moved economic development functions out of planning departments and created new agencies headed by "cabinet level" administrators (interview, CUED, Apr. 14, 1987).

2. Two sources that provide reasonably thorough coverage of supply-side location-incentive programs by state include Northeast-Midwest Institute, *The 1983 Guide to Government Resources for Economic Development* (Washington, DC: Northeast-Midwest Institute, 1982) and National Association of State Development Agencies, *Directory of Incentives for Business Investment and Development in the United States* (Washington, DC:

ever, the *Industrial Development and Site Selection Handbook*, a trade periodical, does track the annual shift in the number of states offering various financing subsidies, tax incentives and exemptions, and special development services. Beginning in 1966 the survey reported on the incidence of 44 different incentive programs; the number of programs tracked rose to 53 in 1976 and 55 in 1985.

If we sum all the separate programs in the 50 states in any given year and take that sum as a percentage of all *possible* programs (the number of states [50] multiplied by the number of different types of programs), we get a simple index over time of the increasing penetration of these largely supply-side location-incentive programs tracked in the survey. Between 1966 and 1985 this penetration score went from .382 to .594. The actual number of programs in existence increased by 94.4 percent in these years (see Table 2-1). Table 2-2 shows, for illustrative purposes, the growth in the number of states offering selected programs from this survey.

Many policy innovations in economic development (including most of those associated with the entrepreneurial state) are not tracked annually. Urban enterprise zones and municipal land banks do not appear in the *Site Selection Handbook* survey, nor do product-development corporations or state venture capital funds. High-tech centers of excellence, mayoral trade missions abroad, and state export-financing programs are other examples of important program initiatives not enumerated in any annual survey.[3]

The growth in the simple number of programs, of course, fails to convey the increasing intensity of their use. Even programs long available in principle show sharply increased rates of use in the 1970s and 1980s. One dramatic example concerns tax-exempt bonds for industrial development financing, pioneered in the South in the 1930s. In 1975 cities, states, and other public authorities issued a total of $1.3 billion worth of such bonds to finance private firms, a sum that had grown to this level in modest increments since the early 1950s. By 1984, however, the volume had risen to $17.4 billion, an explosive increase of more than 1200 percent (U.S. Congress, Joint Committee on Taxation, 1985, p. 60). Other examples abound. New York City's J-51 tax abatement, designed to stimulate investment in rehabilitated housing, was established in 1955. By 1979 the city had foregone a cumulative total of approximately $40 million in property taxes in the first 24 years of the program. Only three years later the amount of foregone tax revenues under J-51 had doubled to approximately $80 million (Avens et al., n.d., p. 13). Increases of virtually exponential proportions can be observed in other programs, such as the use of tax increment financing arrangements, the number of publicly supported research parks for high-tech industries, the number of foreign trade missions undertaken by governors and mayors, and so on.

Economic development has not only become functionally and organizationally embedded in subnational government in recent years, but it has also achieved a high, often unique, place on state and local political

Urban Institute, 1986, 2d ed.). Neither is published annually. The federal government publishes specialized directories of more recent entrepreneurial programs, including the following by the U.S. Small Business Administration: *State Activities in Capital Formation: Venture Capital, Working Capital, and Public Pension Fund Investments* (1985); *State Export Promotion Activities* (1984); and *State Policies and Programs to Enhance the Small Business Climate* (1984).

3. The growth of each of these programs, as well as others, is covered in Chapters 7, 10, 11, and 12.

Table 2-1. The Penetration of Supply-Side Location Incentives, 1966–85

	1966	1976	1985
Total programs	840	1213	1633
Total possible programs	2200	2650	2750
Penetration percentage	.382	.458	.594
Programs per state	16.8	24.3	32.3

Sources: *Industrial Development and Manufacturers Record* 135 (Dec. 1966, 26–27; *Site Selection Handbook* 21 (May 1976), 106–8; *Industrial Development and Site Selection Handbook* 154 (Jan.–Feb. 1985), 52–54. (The different titles simply reflect name changes and the merger of two publications by the same publisher.) In addition to the tax incentives, capital and land subsidies, and technical assistance programs tracked in this survey, several regulatory programs (6 in 1966 and 1976, 4 in 1985) were tracked, but they are not included in these calculations, because they are not regarded as incentives to business location.

Table 2-2. Number of States Offering Selected Economic Development Programs

Policy	1966	1976	1985
City or county revenue bond financing[a]	28	43	50
State loans for building construction	11	15	30
Accelerated depreciation of industrial equipment	9	21	36
State loan guarantees for building construction	11	14	20
City or county loan guarantees for building construction	1	0	7
State aid for existing-plant expansion	14	27	37
Local tax exemption or moratorium on land or capital improvements	11	21	32
State tax exemption on manufacturers' inventories	19	34	43
State tax exemption to encourage R&D	3	7	19
City or county provision of free industrial land sites	—	13	19

Sources: Same as Table 2-1.
[a]Local government programs are normally dependent on state enabling legislation.

agendas. Economic development and growth concerns were not even included as such among the major policy issues that students of state politics discussed as recently as 1965. The policy areas of "taxation, education, welfare, and highway programs . . . ," wrote the editors of the classic *Politics of the American States,* "taken together, . . . constitute much of the substance of politics at the state level" (Jacob and Vines, 1965, p. 289). And an analysis of issues most frequently mentioned in gubernatorial state-of-the-state, inaugural, and budget speeches between 1970 and 1983 found no references to economic development until 1976, when it ranked sixth along with such concerns as election-law reform and government reorganization (Herzik, 1983). But then the issue began to rise in importance: in 1979 it ranked in fifth place on the list of concerns, and by 1981 it had risen to second. Later surveys of governors and their staffs conducted by the National Governors' Association found the issue in first place in both 1983 and 1984. Most governors also ranked it as the major priority of the future (Beyle, 1983; *State Policy Reports,* Sept. 21, 1984; Balderston, 1986, p. 4). Surveys among urban officials have turned up similar findings. For example, a 1983 National League of Cities survey found that of the top six "most serious issues" mayors said they were facing, three were related to economic develop-

ment: unemployment, inadequate job base, and inadequate local revenue sources (Roberts, 1984, p. 12).

In many states and cities economic development is viewed, not simply as a discrete issue competing for attention and resources with other issues on the political agenda, but rather as a pervasive "framework issue" that bears in some way on all other major policy concerns. The possibilities for effective transportation, human services, and education initiatives are dependent in this view on the success of economic development policy, while tax policy, environmental regulation, and labor policy cannot be considered apart from their potential impact on prospects for economic development. The critical role of economic development is reflected in gubernatorial rhetoric: an analysis of 40 recent state-of-the-state messages found them studded with new development proposals—an average of about a dozen per speech (*State Policy Reports,* Mar. 1985, pp. 3–4).

These various indicia of the rise of economic development policy suggest that the issue has undergone a recent transformation from an occasional item on the agendas of a few industrially underdeveloped states to a concern of central and universal importance. Policy tools and programs, once relatively simple and few in number, have become exceedingly complex and varied, while policy development and implementation in this realm have become increasingly bureaucratized. In a variety of ways, then, economic development concerns and programs have penetrated the political world of states and communities.

Framework Elements of Economic Development Policy

For more than half a century subnational economic development policy has been shaped by a constant structural framework. The elements of this framework include the idea of a public-private partnership as the preferred vehicle for the pursuit of development goals, decentralized responsibility, avoidance of government economic planning, a preference for capital- rather than labor-based solutions to employment problems, and pragmatism. These elements have constituted a congenial matrix for the development of both supply-side and demand-oriented policy approaches.

PUBLIC-PRIVATE PARTNERSHIP

The idea that certain social goals can be achieved best through private-sector activity supported in some way by government has been and still is a central structural feature of economic development policy. The union of government and business in common effort, called a partnership in the economic development domain, is said to unite the greater vision, expertise, and management skills of the private sector with the risk-bearing capacity and resources of the public sector. At one extreme this collaborative principle precludes reliance on fully socialized economic forms as a strategy for development, and at the other it rejects a laissez-faire approach that maintains a solid wall between public authority and the private economy.

"Partnership" is a loose term for a range of types of collaborations. It may be invoked to describe the efforts of government to create a congenial business climate through, for example, general tax and labor policies. This sort of diffuse, indirect "partnership" contrasts with more focused relationships cemented by grants of subsidies to specific firms, where government plays the role of subordinate or junior partner, and with a range of actual joint ventures, where government and one or more specific firms share risks and even equity interests on a relatively equal footing.

Partnerships between government and business are justified on the grounds that private investment is essential to the economic health of a community or state but without public inducements it will not or cannot take place in sufficient quantity or in those ventures most likely to produce collective economic benefits. As Charles Lindblom argues in *Politics and Markets,* "Governments . . . must . . . offer benefits to businessmen in order to stimulate the required performance" of tasks that range from maintaining full employment to regional development. Without inducements, business will not perform those "indispensable functions" (1977, pp. 133–37).

Supply-side economic development policy sought to create partnerships with mobile capital through location inducements of various sorts—low taxes, tax exemptions, cheap land, and capital subsidies. Historically, these inducements have been offered on a unconditional basis, suggesting that government in the supply-side tradition fills a subordinate and quite vulnerable role in any partnership. Business recipients are under no obligation in the typical arrangement to produce a set number of new jobs or to remain in a location for a specified period of time. Once public assistance is provided, government can only hope in the usual case that the public interest will be served by the firm's economic decisions.

The partnership principle is equally critical to the entrepreneurial approach, but it is a partnership where government has attempted to focus

its resources on firms or industries that promise growth, to play a more decisive role in influencing the behavior of target firms by identifying and then surmounting critical barriers to private investment, and, increasingly, to hold the private partner responsible for meeting performance obligations. Partnership is thus still important, but the balance of power between the two partners, I shall argue, has become more equal.

DECENTRALIZATION

The invention and implementation of economic development policies are the responsibilities chiefly of numerous state and local governments. The task is shared by countless private organizations, such as chambers of commerce, and quasi-public bodies, such as industrial development corporations. Most of these actors operate independently of one another. There is no federal department of economic development to offer guidance, nor is there a national development plan or coordinating body. Federal programs do exist, but their exploitation and implementation are left mainly to state and local officials and citizens' groups.

The very idea of the modern business inducement—the offer of public resources to reduce the costs of business operations in return for industrial employment—was crafted at the community level during the depression. These incentives were gradually adopted, refined, and expanded by the states.

Federal initiatives have been important at various times for establishing policy models or for stimulating state and local experimentation. Urban renewal in the 1950s, for example, introduced on a broad scale the use of eminent domain for economic development. Programs and conferences sponsored by the U.S. Small Business Administration helped to spur state interest in the small business sector. In addition, federal resources passed down to state and local governments in the form of grants-in-aid for economic development have been substantial at times, though they have diminished in importance since 1980. But despite Washington's record of policy invention and fiscal assistance, the federal role in subnational economic development has been dwarfed by the sheer energy, density, and ingenuity of state and local efforts.

This is not, of course, to overlook the fact that in the American federal system the maintenance and enhancement of economic well-being is a shared responsibility. It is simply a function carried out by the two levels of government in different ways. The federal government establishes the parameters of subnational efforts through its fiscal, monetary, and trade policies. Although states and localities also attempt to influence investment behavior through tax policies, the bulk of their efforts to create employment, stimulate new investment, and encourage new industries is carried out through microeconomic interventions.

One problem with placing a major burden for addressing such critical problems of economic performance or nonperformance on the shoulders of subnational government is that Americans enter the field of economic development policy without the full benefit of the superior resources that Washington is able to marshal. Moreover, the pattern of decentralized economic development means that this policy domain is subject to a classic weakness of a federal system, namely that regional inequalities affect the ability to fashion policy, thus, potentially perpetuating uneven rates of growth. Uneven patterns of prosperity and policy development exist, of course, in nations with centralized growth and development strategies (Rodwin, 1970). But in those societies it is a *national* goal to bring depressed regions up to the national norm. In the United States the achievement of this goal is mainly a state and local responsibility pursued by jurisdictions with very different capacities.

There are at least two additional consequences of the decentralization of responsibility worth noting: policy variety and interjurisdictional competition. Although there are several basic models that influence economic development policy design, there is not only much variation within these but also a great deal of idiosyncratic effort.

One important explanation for the variety of policy initiatives in this field is the response to the fact that states typically learn what their neighbors and major competitors are doing and prudently seek to match those efforts. This creates a problem of market differentiation insofar as a state is interested in attracting mobile domestic and foreign capital, for if every state offers the same menu of programs, how can any state stand out? How is it possible under those conditions for policy to make a difference in stimulating or attracting development? Investors of capital will make their decisions about how much, when, and where to invest without having to consider the differential impact of policy. This situation, then, creates incentives for program invention in order to create interstate differences. Policy variety is a product of competitive dynamics.

In addition, program variation reflects to some extent the lack of a strong consensus about what works and what does not in this policy domain. Much program design is frankly experimental, as states try alternative ways of wielding leverage in the economy.

Decentralization of responsibility for development also accounts for interjurisdictional competition. As one urban economist observed more

than 20 years ago, "It seems rather useful to view the city not so much as a trading or producing area but rather as a center competing with all other places within the national economy for job-creating investments" (Stanislaw Czamanski, quoted in Conroy, 1975, p. 49). The supply-side tradition particularly is a response to the contest for mobile industries and branch operations of existing firms. The rise of the entrepreneurial state, however, with its emphasis on homegrown firms and entrepreneurs, promises to dampen interstate competition for investment.

State and local officials still devote substantial energies and resources to the competition for footloose firms, despite indications, discussed later, that such businesses do not constitute the main sources of employment growth in a state's economy. Much of this effort is no doubt spurred by the sheer excitement of the hunt, though other key factors are the need to counteract the efforts of other states and the fact that attracting the rare major employer from another place seems to pay enormous political dividends.

ABSENCE OF PLANNING

When economic development first emerged as an activity of state and local government, officials sought to encourage economic growth by pursuing targets of opportunity. Rumors that a particular firm was interested in relocating, inquiries from firms to local chambers of commerce about potential sites, or notices of relocation plans in the business press would mobilize local and state officials and business leaders in an effort to attract the prospect. Any business, no matter how small, no matter what the product or the wage structure, was considered a prize (Cobb, 1982, p. 70). States and cities still advertise the virtues of their respective business climates in the business media,[4] and inquiries generated by these ads may provide the basis for elaborate follow-up procedures (see, for example, Alabama Development Office, 1986, p. 56).

As competition became more intense, governors, mayors, and business leaders were no longer content to wait for firms to announce a desire to relocate. Instead, they formed "raiding parties" that traveled to other states prospecting for footloose firms. The city of Atlanta pushed this

4. Nearly every state advertises, but few report on their efforts as carefully as Oklahoma. The Oklahoma Department of Economic Development reports that its advertisements in such periodicals as *Fortune, Forbes, Barron's, Harvard Business Review,* and various airline magazines generated 7181 inquiries from businesses in 1984. The first two periodicals accounted for the largest number of inquiries (Oklahoma Dept. of Economic Development, 1985, Appendix XX).

practice to the extreme by establishing a permanent office in New York City in the 1970s from which to recruit northeastern businesses to Georgia (*New York Times*, Feb. 11, 1977). Although few states have matched Atlanta's particular brand of aggressiveness (Kentucky and Massachusetts are exceptions; both have New York offices), many still conduct vigorous prospecting campaigns outside the state. Mississippi, for example, reports 17 trips made by prospecting teams between July 1985 and June 1986 to New York, Chicago, Memphis, New Orleans, Los Angeles, San Francisco, Cleveland, and Mobile to make contact with "key decision makers in plant location" (Mississippi Dept. of Economic Development, 1985–86, pp. 11ff.).

To the extent that states have relied on random inquiries from out-of-state firms and saturation prospecting trips, the pursuit of economic development has been an essentially unplanned activity. Development goals under such a strategy are no more complex than attracting more jobs. It is no doubt the case that such an approach to economic development has been encouraged by the appearance of quantitative "scorecards" recording plant openings and closings, by state. These make the measurement of "success" and "failure" an apparently simple matter for the public (see, for example, *Industrial Development and Site Selection Handbook*, Nov.–Dec. 1985, pp. 28–29). These short-term considerations converge, of course, with the historic American suspicion of central economic planning (Kantrow, 1983, pp. 80–84). American individualism is more comfortable with the combination of liberties and disorder that obtain in the relatively unimpeded market than with the strictures of central planning (Wildavsky, 1986).

These cultural predispositions notwithstanding, an interest in more consciously planned approaches to development has begun to emerge. In its mildest version the planned approach involves simply targeting a broad range of industries on which to focus promotional efforts. Oklahoma provides an illustration: the state hired an outside consultant to identify various industries in advanced technological fields that might flourish in the state's particular setting, and these now provide the target firms for the state's prospecting efforts (Oklahoma Dept. of Economic Development, 1985, p. 14 and Appendix II). A number of communities and states also produce lists of development activities and goals in more or less random fashion that they label "economic development plans." The Advisory Commission on Intergovernmental Relations, for example, reports that in 1984 70 percent of 570 local chambers of commerce said that their communities had such "plans" (Roberts et al., 1985, p. 24).

A number of states and a few cities have embraced a more vigorous focused approach in the form of strategic economic development planning. Strategic planning is an exercise borrowed from the private corporate sector. Its key elements at the state and local level are the establishment of long-term economic goals that may realistically be met, an audit and analysis of internal strengths and weaknesses, and an assessment of opportunities in the external world that may be exploited by the state's or city's particular mix of economic resources and capabilities. The plan is designed to focus resources over the long term on a state's comparative advantages vis-à-vis other states and to prevent diffusion of effort (Sorkin et al., n.d.; Olsen and Eadie, 1982). A crucial aspect of state strategic planning is the identification of certain industries likely both to provide high economic development benefits and to flourish in that particular state's environment. As the director of Michigan's Department of Commerce describes the strategic planning process, it is as though the state of Michigan were an industrial park with certain given resources and advantages. The object of the managers—the state government—is to exploit these for the maximum collective economic effect. To fill up the park with tenants and encourage their growth, the state must do a "market analysis" to assess the range of external opportunities for firms likely to do well in the state economy, and it must perform an audit of internal resources—labor market characteristics, capital availability, the nature of the local industrial agglomeration, and so on—on which firms may draw. This exercise in Michigan actually led to the targeting of automotive-parts manufacturers and certain specific high-technology industries with special application to the auto industry (Douglas Ross, speech made at Wayne State University, Apr. 16, 1987).

The emphasis in strategic planning is on specific feasible goals attained according to a timetable. Normative objectives—what ought to be—and grand speculations about the future play no role in strategic planning.[5] The strategic planning process varies from strictly in-house, professional, bureaucratic participation to an elaborate, consensus-building, "corporatist" effort among labor leaders, business people, and government bureaucrats and elected officials.

By 1986 at least 17 states had written some sort of strategic plan

5. Strategic planning efforts in the public sector are distinguished from the "futures" commissions that many states and cities sponsored in the 1970s (e.g., the Goals for Dallas Commission, Oregon 2000, and so on). Futures reports generally deal with more than economic development, they offer alternative scenarios, they seldom specify timetables or policy options, and they generally ignore resource constraints (see Chi, 1983).

Chart 2-1. State Strategic Economic Development Plans, 1985

Arizona	1983	*Arizona Horizons: A Strategy for Future Economic Growth*
California	1984	*Job Creation for California in the Decade of the Eighties*
Hawaii	1985	*Hawaii's Economic Future*
Illinois	1985	*Illinois Jobs for the Future: Five Year Economic Development Strategy*
Indiana	1983	*In Step with the Future*
Iowa	1984	*We Are Iowans First*
Michigan	1984	*The Path to Prosperity*
Minnesota	1985	*Minnesota: A Strategy for Economic Development*
Montana	1983	*Montana Economic Development Project*
Nevada	1985	*Nevada State Plan for Economic Diversification and Development*
New York	1985	*Rebuilding New York: The Next Phase from Recovery to Resurgence*
North Dakota	1985	*An Economic Development Plan for North Dakota*
Ohio	1983	*Toward a Working Ohio: Jobs and Ohio's Economy*
Pennsylvania	1985	*Choices for Pennsylvanians*
Rhode Island	1984	*The Greenhouse Compact*[a]
Utah	1985	*Developing Utah's Economy: Guidelines, Policies and Plans*
Wisconsin	1985	*The Final Report of the Strategic Development Commission*

[a]Defeated by voters in a referendum, June 1984.

designed to focus state resources on certain targeted industries of special significance to the state. Chart 2-1 lists the states and the titles of their plans. At least eight additional states reported in a 1985–86 survey that they were preparing strategic plans or had just been mandated to do so by their legislatures.[6] A number of other states have marketing plans in lieu of strategic plans, but these are short-term agendas that do not derive from an analysis of external opportunities for local industries and the state's resources.[7] Several cities, including San Francisco, Pasadena, and San Antonio, have also prepared strategic economic development plans.

Although Pennsylvania conducted the first state strategic planning exercise, it was Rhode Island's elaborate 976-page *Greenhouse Compact* several years later that achieved national attention. Orchestrated by Ira Magaziner, a private economic development consultant, the plan proposed by a representative commission appointed by the governor called for an array of new venture-capital programs, research centers, job-training efforts, and small business incubators. This complex plan, which contemplated public expenditures of $250 million over a seven-year period, was put before the voters and, to the surprise of its myriad backers

6. These included Alaska, Arkansas, Florida, Kansas, Nebraska, New Hampshire, New Mexico, and West Virginia. The survey of all states was conducted by telephone in 1985–86.

7. For example, Oklahoma, Mississippi, and Alabama.

in the statehouse and corporate and union headquarters, went down to overwhelming defeat (Magaziner, 1986; Anton and West, 1987). No other strategic plan has been the subject of a statewide popular referendum. Piecemeal implementation by legislative action and executive decree has been the rule.

Strategic planning in the public sector for economic development is clearly new. Most of the history of economic development is notable for the absence of planning. The growing interest in planning, which represents a genuine change in one structural element of the policy domain, has arisen out of the need to use public resources in a more focused, efficient way in a highly competitive environment. As states compete with other states, as local producers compete abroad, and as indigenous entrepreneurs compete with one another for public and private capital, state economic development officials have sought, out of necessity, ways of concentrating their efforts on those economic sectors and business people most likely to produce job growth. Strategic planning provides the guidelines for such efforts.

THE PRIMACY OF CAPITAL

A fourth critical element in the structure of economic development is the notion that the key to job creation, a primary goal, is to encourage and subsidize the investment of private capital. As new firms are born or as existing firms relocate or expand under the impetus of business subsidies, it is expected that the local demand for labor will increase. Employment goals are therefore pursued through a trickle-down process common to both supply-side and demand-oriented approaches to development.

An alternative strategy would, of course, focus directly on labor and take the form of public employment, wage subsidies to private industry, labor training, and labor mobility programs, that is, an "active manpower policy" in the Swedish mode (Ginsburg, 1983, Ch. 6). Some state and local governments do offer wage subsidies (they are often found in state urban enterprise zones, for example), and nearly all states administer job-training programs geared to the needs of specific enterprises. But these are essentially secondary elements in a policy domain in which the support of capital is the paramount consideration.[8]

8. The Congressional Budget Office reports that in fiscal year 1983–84 the states spent a total of $428 million on business promotion in the form of loans, loan guarantees, venture capital funds, and a variety of direct expenditures including job-training and labor services. Expenditures on all labor programs accounted for 28.3 percent of total spending. California alone, however, spent $68 million of the $121 million devoted to labor programs.

To assume in a capitalist society that capital is the engine of economic development is hardly surprising, but the implication of this assumption has been an occasional tendency not merely to devise policies that promote capital but to supplement them with others that have a distinctly antilabor cast, particularly in the supply-side tradition. This tendency emerged in part from a diagnosis of regional economic decline that focused on the ability of low-wage states and foreign nations to induce industrial relocation from high-wage areas. Since such movement by firms is assumed by many to represent a strain toward efficiency—highly rational behavior—the blame for economic woes was attributed not to mobile industries but to labor which had priced itself out of the market.

It followed that, in order to compete as an attractive site for industry, states had an interest in reducing the local price of labor. In the 1940s southern states pioneered right-to-work laws in the hopes of weakening union power, thus undercutting labor's leverage in setting wages. A central theme in state and local economic development campaigns in those years was that southern labor was not only cheap but *willing* to work for a low wage (Cobb, 1982, Ch. 4). Although right-to-work laws spread out of the South only into the central and northern plains, other states sought to reduce labor costs on the supply side through their policies on unemployment insurance and worker-compensation levels. Such thinking is still encouraged by certain "business climate" surveys in which comparative wage rates and other labor costs among states figure prominently.

Policies of the entrepreneurial state reject the assumption that low wages constitute a competitive advantage. Economic development is increasingly understood as a process that involves not simply employment growth but also increasing income (see Chapter 3). Furthermore, the new entrepreneurial strategy has begun to experiment with programs designed to protect workers against economic dislocation, interposing state power between labor and private employers who decide to relocate or shut down (see Chapter 13). But in common with the supply-side tradition, demand-oriented entrepreneurial policies focus primarily on capital investment as the key to stimulating employment growth. Labor policy remains marginal to the economic development process.

Eliminating this outlier provides a more meaningful picture. Remaining labor expenditures amounted to only $53 million. After removing California's outlays from the state total, labor expenditures for all other states constituted only 14.7 percent of business-promotion costs (CBO, 1984, pp. 4, 79).

PRAGMATISM

When the state of Mississippi initiated its Balance Agriculture With Industry program of industrial subsidies in the 1930s, a few doubters were concerned that such arrangements were "socialistic" (Cobb, 1982, P. 33). But in their desperation for economic development many Mississippians put aside such worries. As one Mississippi banker commented, "I'm so much concerned about real forms of Socialism that I can't worry much about that municipally owned but privately operated factory down the street" (Moes, 1962, P. 74; see also Cobb, 1982, p. 33).

In the subsequent half century, as economic development programs spread among the states and cities, neither ideology nor theory has exercised a very rigorous constraint on the inventiveness of official efforts to encourage business investment. Competition rather than abstract principles has been the major driving force in the design and evolution of policy. As Beaumont and Hovey write: "State and local economic development strategies typically evolve incrementally, without an underlying economic theory, except that more jobs are good and less jobs are bad. Local and state officials tend to deal with development pragmatically" (1985, p. 328).

The continual search for whatever appears to work has both advantages and disadvantages. As for the advantages, a pragmatic approach permits great flexibility and encourages innovation. It tends, particularly in a decentralized federal system, to maximize the possibility of tailoring policy to fit the particular conditions of a specific locale. This relatively unconstrained approach to policy design also offers the possibility for integrating a learning process into the business of policy-making. If effectiveness is a major criterion in the crafting of policy, rather than conformity to abstract economic or ideological orthodoxies, then policy-makers must also be watchful for evidence of ineffectiveness as a signal for the need to change.

In practice such a rationalized, if atheoretical, process of policy evolution is often impossible. The intensity of interjurisdictional competition has accelerated the pace of policy innovation to such a degree that evaluation efforts to determine what does and does not work may not always be practical. The evaluation process is hindered not only by the constant need to innovate, however, but also by a reluctance or inability to bring relevant economic theory to bear on policy design. In part this is a product of lack of information—few economic development officials are formally trained in the field—and in part it is caused by a lack of resources that enable analysts in the public sector to generate hypotheses and test them with data over time.

Although the absence of theory makes change and flexibility possible, it may also lock jurisdictions into policies for which there is no theoretical justification. Instead of developing evaluation criteria by reference to theory-based tests, policy-makers often rely in their evaluations on received wisdom, appearances, and their own hunches.

Conclusions

Insofar as it is possible to identify a particular starting point in history, modern state economic development policy may be said to have emerged in the 1930s in the South. As James Cobb has written, "By introducing a system wherein the state sanctioned and supervised the use of municipal bonds to finance plant construction, the BAWI [Mississippi's Balance Agriculture With Industry] program lifted the curtain on an era of more competitive subsidization and broader state and local involvement in industrial development efforts" (1982, p. 5). The rise of economic development as a public policy issue may be charted from that moment by following its increasing penetration in various ways of state and local politics.

Since the depression the invention and elaboration of economic development have been shaped and constrained by certain relatively constant structural features of this policy domain. Their origins may be traced mainly to two major elements of the environment: the cultural commitment to an economic order in which market mechanisms and private enterprise are key characteristics, and the federal political arrangement. The former helps to account for the idea of a partnership between the public and the private sectors, and it also explains the emphasis on capital rather than labor subsidies and the suspicion of central planning. The decentralization of responsibility for policy in this domain is attributable to the nature of American federalism.

All these features create a market milieu for economic development policy-making in which competition for private investment among states and local governments has been the driving force. A great deal is at stake in this competition, and success and failure seem to be easily measured and assiduously monitored by the public.[9] Competitive pressures are such, then, that the main test of policy initiatives in economic development is a pragmatic one rather than whether they fit with ideological or theoretical precepts.

Major changes began to occur in the environment at some point during the 1970s, as we shall see in Chapter 4. These changes appear to have had only modest effects on the basic framework elements of the policy domain. Yet these effects, combined with changes that we have yet to examine in other structural elements, were sufficient to bring about design changes, namely the advent of entrepreneurial policies. What is striking, however, about the framework characteristics that we have just reviewed is that they have created a domain both stable and capacious enough to accommodate the supply-side tradition as well as the demand-oriented entrepreneurial policies of recent origin.

Yet these very characteristics that suggest the capacity for accommodation on the one hand also make clear the limits of policy invention in this domain on the other. Exclusive state and municipal ownership of enterprises and industries (the subnational equivalent of nationalization), national central economic planning, and extensive public employment programs are all foreclosed as approaches to economic development by the partnership principle, decentralization, and the commitment to capital-based solutions. Thus, the decentralized economic interventions pursued by states and cities fall short of the strong state models familiar to students of comparative political economy and therefore constitute a distinctive American adaptation.

9. The success or failure of governors' economic development policies was an issue in a number of state elections in 1986, according to *State Policy Reports* (Nov. 27, 1986, p. 21). *State Policy Reports* does not cite extensive data to back this contention, but it does report a Connecticut survey that found that 49 percent of the respondents thought state government should get the credit for the state's healthy economy; only 19 percent believed that the federal government was responsible.