Local Economic Development in Southern California's Suburbs: 1990–1997

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Foreword

In this report, Max Neiman and his colleagues take a critical look at local economic development in Southern California. After decades of fiscal retrenchment that reached its peak (or nadir) in the recession of the early 1990s, California's localities have taken on most of the responsibility for stimulating local economic development. The authors review local practices from 1990 to 1997 and suggest that interjurisdictional competition for economic development is now a way of life.

The authors also note that the state government's efforts to restrict this competition are probably unrealistic. Localities will continue to seek economic development whenever they consider it beneficial. But the authors go further when they claim that state restrictions also may be unnecessary and counterproductive. Although it is not clear that such competition squanders public resources, we know that these restrictions further weaken local fiscal authority at a time when it needs strengthening.

Despite criticism that local development efforts often do not serve the community at large, the authors observe that the cities most likely to undertake these efforts are those that need new development the most. Furthermore, communities typically learn to adapt their policies to their circumstances. Even those cities perceived to be aggressively competitive were found to be well within expected behavior when their specific circumstances were taken into account. The findings are especially important given the shrinking role of state government in subsidizing local development during the recession of the 1990s.

These findings provide a refreshing view on a longstanding debate—the proper role of local government in economic development. The policy landscape has changed over the decades, and California's local governments have been left to their own devices. Rather than a hodge-podge of irrational responses, the policies pursued by these local governments fall well within reasonable bounds for attracting and retaining business. With relatively few exceptions, this is one area where government is doing the job taxpayers should expect.

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President and CEO
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Summary

In the early 1990s, as California experienced its most severe economic decline since the Great Depression, conventional wisdom held that state and local officials had taken the state's businesses for granted (Dardia and Luk, 1999). As California lost 720,000 jobs between 1990 and 1993, business executives relocating to other states repeatedly expressed their dissatisfaction with the state's business climate, and Governor Wilson proposed a host of measures to streamline, reform, and end policies that allegedly placed the state and its communities at a competitive disadvantage.

During this same period, the long-term consequences of California's fiscal policies and voter initiatives were also taking their toll on local government revenues. In an effort to maintain their tax bases, cities and counties scrambled to attract and retain businesses. In a few high-profile cases, communities lavished public resources on private projects that showed little promise of benefiting those communities as a whole. Presumably in response to these cases, the state legislature began considering measures to curb the abuses associated with this approach to local economic development. In 1999, the governor signed AB 178, which limited competition among localities for large retailers and auto malls.

Although these high-profile cases generated a good deal of legislative concern, we have little reliable information about how typical they were. No one has documented the incidence of local government "give-aways" or established that local competition for economic development is either widespread or costly. This study seeks to provide some of that information by analyzing data from Census and state government sources as well as three waves of highly detailed surveys on local economic development policy in a seven-county region of Southern California. The surveys, which were sent in 1990, 1994, and 1997 to knowledgeable informants, included items on perceptions of and policy options for

intercity competition for economic and commercial activity. This report, then, helps us understand local competition by placing it against the broader backdrop of economic development and its constituent processes.

The Broader Context of Local Economic Development

The economic environment in which nations, states, and communities operate has changed considerably in the last 30 years. In particular, the advent of highly internationalized capital and commodity markets, electronic information networks, and mobile management and production resources has decentralized labor processes and markets and created what some observers call the new regional economies. Despite these rapid and consequential changes at the global level, most economic development policy in the United States and California is still conducted at the local level. Federal aid, a critical feature of local economic development efforts for years, was curtailed or eliminated after 1980, when the Reagan and Bush Administrations oversaw a 35 percent reduction in national grants to cities. This reduction had important consequences for California's cities. In Los Angeles, for example, the federal contribution to the city's budget dropped from 19 percent in 1977 to 2 percent in 1985.

At the state level, economic development policy during this period emphasized two broad themes: building on California's natural strengths and fostering competition. The first theme reaffirmed the state's role in providing infrastructure for economic development; the second encouraged local governments to fashion their own strategies for economic development. Two general strategies arose as a result of state policy: the Democratic option, which emphasized neighborhood revitalization, and the Republican strategy, which focused more on regional development. Both approaches were reflected in a series of compromise measures.

As federal aid evaporated and the state emphasized competition, California's local governments were pushed toward corporate-centered economic development. The recession of the early 1990s did nothing to weaken this trend. Indeed, there is good reason to believe that job loss during this time increased the incentives to attract and retain commercial enterprises and sharpened the sense of rivalry among California's cities for economic development. Much of the recent literature reflects this corporate-centered approach to economic development, focusing on local "growth machines" and the business elite rather than on democratic participation, local control, or social justice. Part of this emphasis may be traced to generally low levels of public concern for local economic development policy, which typically draws public attention only when business or residential development conflicts with the lifestyle and amenity concerns of local residents.

Key Findings

Several important findings emerge from this study. One is that most local policies cluster into three broad groupings:

- Streamlining (for example, one-stop permit processing);
- Classic redevelopment policy (for example, land assembly and tax increment financing); and
- Intergovernmental grants and subsidies (for example, enterprise zones and training grants).

Apart from redevelopment and tax increment financing, which remain pervasive and controversial, very little of what localities do in the name of economic development seems to qualify as corporate give-aways.

The evidence also indicates that, over time, cities became more active in the economic development area. Two factors contributed to this change: the historical trend toward decentralized development and the poor condition of California's economy in the early and mid-1990s. Localities faced statewide policy changes that drew away local resources for municipal purposes and a recession that dissipated what local revenues remained. As their awareness of policy options increased, these localities implemented more—and more focused—economic development efforts.

Another finding is that perceptions of competitiveness do not correlate strongly with actual development policy, once other factors are taken into account. Although 65 percent of respondents noted that they had examined the development policies of other cities, only 38 percent said that they had adopted specific policies as a result of competition from other cities. About 34 percent said that such competition influenced the number of incentives their localities offered to businesses. The survey also indicated that such competition is mostly a localized affair. When asked to list their competitors, the vast majority of respondents named nearby cities in the same county.

In addition to documenting local development activity, this study also tests the major explanations that purport to explain that activity. Although some explanations emphasize either the general level of competitiveness in a region or the role of political and institutional characteristics of the locality, the findings indicate that among the study's explanatory factors, the best predictor of economic development activity is sheer economic need. Family income is negatively correlated with such activity, and high unemployment and community size are positively correlated. In general, the findings offer little evidence that prosperous localities pursue economic development more actively than less-affluent communities.

The findings regarding the role of political and institutional factors are also suggestive. Once other factors were taken into account, there was no relationship between any particular policy measure and either the size of the local economic development staff or the level of electoral conflict related to economic development. Of the factors that correlate with local development policy, the three most independently significant are population size, the importance of the local bureaucracy, and the influence of local private sector actors. That is, larger communities with important local bureaucracies and private sector actors usually have higher levels of economic development. In addition, the characteristics of local communities also affect the type of local economic development policies emphasized.

Perhaps the most significant finding concerns the effects of perceived competition among localities. The data from this study indicate that there is little independent relationship between our measure of competition and local policy. Initially, the data analysis indicated that the more competitive a city was seen to be, the more it did in terms of local economic development; but when other factors were taken into account, competitiveness as such did not have an independent effect on policy. This finding challenges the need to curb such competition through legislative action at this time.

Although the findings are not conclusive, they strongly suggest an alternative view about competition among local governments. There can be little doubt that localities are trying to garner the sort of commercial activity that enhances their tax base. It is less clear, however, that eliminating competition among localities is a realistic goal or that competition can be eliminated by reducing reliance on sales taxes, whatever the other merits for reforming California's fiscal system. It remains likely that localities will continue to compete for economic activity so long as local residents, property owners, or public treasuries benefit from having more development of some kinds and less of others. This likelihood is especially prevalent for established communities in densely populated areas, which tend to be more sensitive to the policies of nearby communities.

If eliminating interjurisdictional competition for local development is not a realistic policy goal, neither is it an obviously worthy one. At a time when local fiscal authority is already weak, further constraints on competition for local economic development may not be helpful, especially if the evidence suggests that this competition is not disabling in the first place. Such restrictions might very well exacerbate the real problem of declining local authority in an effort to "solve" the less-urgent problem of costly give-aways.

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1. Introduction and Overview

In 1997, the PriceCostco chain attempted to elicit from the Northern California City of Martinez a $250,000 per year tax rebate to improve Costco's parking lot in that city. This deal would have provided at least $5 million for Costco over 20 years. Newspapers throughout the state repeated the tale of how the "retail giant" with tens of billions of dollars in sales was "extorting" public revenues from communities that had become inordinately dependent on sales tax revenue. In this case, Costco sales tax revenue generated nearly 5 percent of the Martinez municipal budget.

State legislators tried to prevent this alleged extortion and the poaching of businesses by communities from their neighbors. By September 1997, AB 178 was enacted as state law with no legislative opposition. The bill's chief aim was to limit local ability to use public funds to attract businesses from communities in the "same market." Although the bill also marked the first time that a genuine effort was devoted to encouraging localities to cooperate and to share in business growth, most of the public attention focused on the bill's anti-poaching objectives.

AB 178 was formulated and passed into law with very little systematic knowledge of what localities actually do regarding economic development. Nor was there any dispassionate analysis of how the larger social context of economic development produced incentives for localities to compete with one another. This study seeks to provide some of that knowledge and presents an alternative view of local efforts to court economic development.

The Need for Context

It is important to keep in mind that competition among communities for business is a venerable feature of American civic history. Over the years, there have always been political and economic forces shaping the economic calculus of localities. For example, in discussing how California's current system of financing public services affects local economic development policy, we must recall that local finance has been only one catalyst to interjurisdictional competition. The current preoccupation of California communities with augmenting sources of local finance, however, predates the 1992 reshuffling of property taxes in the state, although surely the 1992–1994 changes have intensified local anxieties about local finance. Between 1980 and 1992, however, the Reagan and Bush Administrations oversaw a national program of grant reductions, resulting in a 35 percent cut in aid to American cities (Caraley, 1992). For example, in Los Angeles the federal contribution to the city's budget dropped from 19 percent in 1977 to a meager 2 percent in 1985 (Niblack and Stan, 1992, p. 267). In part to overcome the ravages of economic decline and federal reductions in local government assistance, as well as the perturbations of global economic tides, California, like the rest of the nation, expanded the state government's role in what was being called a "fend-for-yourself" federal system.

With the onset of the 1990s, California was struck by a series of severe economic blows, each of these amplified by the ending of the Cold War, with its accompanying scaling-down of federal defense contracts and military base closures. The economic decline was the most severe of the post–World War II economic shocks and produced long-term reductions in defense and aerospace and other large manufacturing activity. Indeed, between 1990 and 1993, the number of jobs in the state fell by 5.6 percent (over 720,000 jobs). Most of California's job loss was concentrated in Southern California, producing not only higher unemployment but also a severe deflation in housing values and reductions in local revenues for public services. There is good reason to believe that the magnitude of this economic tremor contributed to a heightened interest, even fervor, among communities about how to attract and retain economic development.

In short, a number of developments over the course of the past several decades, including national and state policies, have propelled local governments toward a greater dependence on corporate-centered economic development (see Donahue, 1997). Indeed, by the 1990s the unprecedented economic decline, the repeated and loud assertions by the state's governor that the state was antibusiness, and the severe and continuing stress on local revenues began to push local governments into more intense economic development activity (Dardia and Luk, 1999; Lewis and Barbour, 1999). Then in 1992–1994, in the face of a severe budget crisis, the state began shifting billions of dollars in local property tax dollars away from localities. That shift is considered by many to have increased local expeditions to locate sales tax treasure. It is understandable if the heightened concern regarding the economic decline and loss of business also increased a sense of greater interjurisdictional rivalry among California's cities for economic development. Even the voters' approval of 1998's Proposition 11, which made it much simpler for localities to engage in cooperative agreements regarding sharing in the costs and benefits of courting business, has not produced much cooperation among localities.

The underlying aspects of California's fiscal system along with other factors are likely to engender continuing local efforts to retain and attract business, with special emphasis on retail business. We cannot assume, however, that remedying the shortcomings of local finance will eliminate local preoccupation with economic development. Development activity and the local nature of the "competition" are likely to remain as important issues regardless of fiscal reform. No doubt there will be occasional stories of communities throwing public money in the path of business or making other kinds of controversial investments to draw economic activity to their communities. That, in turn, will again incite calls for reform. A major point in this report, however, is that discussions regarding reform require much more evidence about what communities do and why they do it.

In addition to the controversies about the nature and effects of local economic development policy, there are a number of related reasons to study this topic. First, we do not have enough systematic, empirical descriptions of what localities are actually doing in the way of local economic development. For example, what exactly constitutes "economic development" in any given instance? Although we have defined local economic development policy in terms of a general striving to attract and retain commercial and business activity, the specific set of activities that represent any given locality's policy varies substantially.

Indeed, classifying local economic development policies is itself a demanding activity, for which scholars have provided a series of alternatives (e.g., Reese 1993; Fleischman, Green, and Kwong, 1992). This study will provide its own contribution to this issue of what categories of local activity constitute economic development policy.

There is also the question of how best to characterize the courting of business and commercial activity. This study relies on survey data with an extensive battery of items regarding the local economic development policy arena. The ambiguities and complexities surrounding these issues are exemplified by the complex ways in which the respondents in this study evaluate their communities' policy objectives and effectiveness.

Local economic development policies can vary across a number of themes. There might be actions that emphasize making the local arena more "business friendly;" examples of this sort of approach include reducing red tape, lowering taxes, providing off-site improvements and other infrastructure enhancements, and providing training programs. Yet other tactics might emphasize the important link between economic development and lifestyle considerations, where local amenities—schools, recreation, and quality of life—are considered key, if not decisive.

Organization of the Study

The following chapters are designed to gauge what communities do to attract and retain economic development in their communities, to assess explanations of why communities do these things, and to address the current apprehension over local competition concerning economic development.

Chapter 2 describes the data sources and the surveys that were employed to measure local policy. These surveys are unique in the range of issues they cover and the way they permit us to measure local policy. Chapter 3 describes the several kinds of ways that local economic development policy is measured in this survey, with special emphasis on the evolving nature of such policy in the context of changing economic conditions. Chapter 4 catalogs the major approaches to explaining local economic development policy and then examines the evidence concerning these explanations. Chapter 5 concludes with an assessment of the current pressure to discipline localities and constrain them from "competing" for local economic development. Most of the technical material and detailed explanations of measures and techniques used in this study are presented in the appendices.

2. The Data and Policy Surveys

Earlier studies of local policies emphasized the effect of policy and the wisdom of local efforts to shape economic development. However, the study of local economic development policy is undergoing a shift in focus. There is increasing concern for *why these policies arise in the first instance*. Local economic development policy might, in addition, differ over time, depending on various factors such as the strength of the overall economy. Although previously concern has emphasized the role of local give-aways, interest is also growing in describing the range of policies enacted by localities. Much interest is currently being expressed in so-called "third wave" or postfederal policies, which presumably have come to characterize many local economic development strategies. These policies are marked by an emphasis on institutional capacity-building, inclusion of public, private, and nonprofit sector actors, the use of entrepreneurial policy activities, and the maintenance of quality and accountability in policy outcomes (Wolman and Spitzley, 1996; Eisinger, 1998; Clarke and Gaile, 1998). These sorts of economic development policies focus not only on the practice of local economic development but also on how that policy domain is organized, on how its actions are implemented, and on the relationship between both organization and implementation. For these reasons, this report focuses on describing and measuring local economic development policy.

The report also probes a number of different explanations concerning variation in local economic development policies, such as:

- Socioeconomic approaches (emphasizing the role of local needs and resources);
- Institutional and process approaches (emphasizing forms of government and political interactions among decisionmakers and community organizations);

- The near-conventional wisdom that communities adopt economic development policies as a result of competition with one another. The nature of these alternative explanations is spelled out in more detail below.

The Data

The data for this report were gathered from a series of surveys sent to local officials in the cities within a seven-county region of Southern California: San Diego, Orange, Los Angeles, Ventura, Santa Barbara, Riverside, and San Bernardino. As of 1997, there were 202 municipalities in these seven counties. Three surveys were conducted in the spring and summer of 1990, 1994, and 1997 by the Center for Social and Behavioral Science Research at the University of California, Riverside. The key objective of each survey was to measure local policy efforts in economic development and identify patterns in policymaking. Field interviews were conducted at various times in 1990 and 1994 and during the 1998–1999 period. Public officials—both elected and administrative—were asked about the choice of specific policy actions and how these were formulated and implemented.

In addition to collecting survey data and standard socioeconomic information, we gathered data on a wide variety of political characteristics dealing with political participation, partisanship, and the formal structure of the respective local governments. These data were supplemented by data gathered by Dardia (1998) and Lewis and Barbour (1999).

The survey data help to map the economic development policy terrain among localities in Southern California. The use of statistical techniques allows us to discern how individual local policies have coalesced over time around a small set of policy categories. Using these results, we identify different emphases in the economic development policies. By 1997, for example, it was apparent that many of the policies of communities could be grouped around three distinct policy categories. We labeled these *streamlining, classic redevelopment,* and *intergovernmental assistance and subsidies*. Much of the analysis below provides information about what might account for the 1997 differences in policy emphases.

We also believe that each community's economic development policy can be characterized as the *sum* of all of its individual actions. The higher the sum, "the more active" a community is in economic development policy. Local policy is measured, then, in terms of the three *policy emphases* mentioned above and the one overall *policy activity score*. We then assess the relationship between these measures of local economic development policy and several categories of explanatory characteristics, including standard socioeconomic traits (e.g., poverty, growth rates, ethnic composition, or family income are viewed as need and resource measures), measures of fiscal capacity, political characteristics (e.g., local partisanship, form of election, controversy, and importance of various local groups and actors), and perceptions of interlocal competition over economic development. After examining these relationships, we proceed to an analysis of the simultaneous effect of variables that are found initially to be related to local policy.

The Surveys

The surveys at the core of this study used the Dillman method to enhance the returns (Dillman, 1978). That is, each survey was compiled in booklet format for readability, and a combination of three mailings, reminders, and personal telephone calls were used to enhance the response rate. The items included in the surveys were designed to tap as many features of local policymaking that theory and prior research suggested were relevant to explanations of public policy. The surveys asked respondents about local economic conditions, economic development policy actions, the nature of competition between cities for economic development projects, the administrative organization of the city's economic development activities, the politics of economic development policymaking, and the outcomes and effectiveness of economic development activity.

The surveys were mailed to local officials designated as the most suitable to answer a survey about local economic development policy, such as the heads of local housing departments, senior economic development planners, city managers, assistant city managers, and others responsible for economic development. In developing the surveys, pretests were employed to ensure that the survey items were meaningful and included a sufficiently broad array of local economic development activities. In 1990, the list of economic development activities included 26 items, 30 items in 1994, and 36 items in 1997 (see Appendix A).

In 1990, the survey produced 136 respondents from the 190 municipalities in the region (a response rate of 71.5 percent). In 1994 there were 156 respondents from the 202 municipalities (a response rate of 77.2 percent). The 1997 survey generated 140 respondents from the 202 municipalities (a response rate of 69.3 percent). The 1994 survey occurred toward the end of the worst economic decline in post–World War II California, and the higher response rate reflects, perhaps, the higher level of anxiety and interest in the issue of economic development in that period. The distribution of the survey respondents by county is summarized in Table 2.1.

The data indicate that despite the minor differences in response rates for the three surveys, the relative proportions of respondents across counties for each of the three years remain remarkably stable. Differences in findings across time, if they exist, are not likely to be the result of differing rates of county survey completion rates.

Table 2.2 summarizes selected characteristics of the study's multicentered region. The data indicate that the samples of the cities participating in the surveys in the three separate years are not notably different in terms of the characteristics described here. If one excludes cities with fewer than 20,000 in 1990 population, we find that the cities

Table 2.1

Distribution of Cities' Respondents by County

County	1990 %	1994 %	1997 %
Los Angeles	41.2	39.7	37.5
Orange	16.2	16.0	19.5
Riverside	11.8	12.2	12.5
San Bernardino	9.6	9.6	10.2
Santa Barbara	3.7	3.8	3.9
San Diego	9.6	9.6	10.2
Ventura	5.9	3.8	3.9
No.	136	156	140

Table 2.2

Statistical Profile of the Southern California Region

Community Trait	All Cities (No.= 202)	> 20,000 Population, 1980 (No.=115)	1990 Survey Cities (No.=137)	1994 Survey Cities (No.=156)	1997 Survey Cities (No.=140)
% > 65	10.4	9.9	10.6	10.7	10.9
% black, 1990	4.6	5.5	3.5	4.0	3.8
City's age, years	58.7	67.9	57.9	60.0	62.0
Population change, 1981–1989	27.2	20.9	27.7	28.0	27.2
Population, 1980	43,569	60,697	44,964	46,615	45,211
Population, 1992	78,556	78,529	58,950	66,116	70,296
Projected growth, 2010	55.1	35.3	60.2	56.4	56.9
% Hispanic, 1990	29.2	29.6	28.7	28.8	30.2
% family income ≥ $50,000, 1990	41.4	40.8	40.9	40.8	37.9
% working in area	27.3	26.4	28.0	27.5	30.0
% in manufacturing	18.3	20.0	18.2	18.4	17.9
Median value housing, $, 1990	232,080	226,311	222,471	227,127	208,506
% owner-occupied housing, 1990	59.6	56.2	59.3	59.0	57.2
Population density/sq mi, 1990	5,821	6,509	5,756	5,682	5,934
% below poverty level, 1990	10.8	10.7	10.6	10.7	11.2
% unemployed, 1990	8.1	8.3	8.1	9.2	8.2
% white	71.4	69.3	72.0	71.8	70.9
% houses built, 1980–1990	23.9	20.9	24.3	24.0	24.1
% bachelor's degree or higher	20.4	19.7	19.8	19.9	17.4

SOURCES: U.S. Census; State of California, Department of Finance.

are older, have grown less between 1981–1989, and are projected to grow less in the future. In the main, however, the data seem not to be skewed by having slightly different response rates in the 1990, 1994, and 1997 mailings.

The study's focus on municipalities in the Southern California region should provide the full range of suburban localities, cutting across demographic, racial, economic, and institutional considerations. Indeed, even if one excludes the cities of Los Angeles and San Diego, the total estimated 1999 population of the municipalities in the study region is over 57 percent of the total 1990 municipal population of the state, excluding the cities of San Francisco, Los Angeles, San Jose, and San Diego or 44 percent of the state's municipal population with these cities included. Moreover, because the economic downturn of the early 1990s struck Southern California the hardest, it is reasonable to expect that the localities in this region were the most likely to become preoccupied in trying to stabilize or reverse the economic nose-dive that afflicted their communities and municipal budgets. There are no doubt regional differences within California and between the municipalities contained in these regions. Indeed, having data from among the communities in different state regions would perhaps complement the findings here. There is no reason to believe, however, that the findings for Southern California should not have information of interest to a statewide population.

3. Shifting Policies in Good and Bad Times

Describing Economic Development Policy

Previous studies of local economic development have focused mainly on case studies, and sometimes studies include a number of case histories (Pagano and Bowman, 1995). To analyze the policies of many communities simultaneously, however, comparable measures of local public policy must be developed. As we examine various explanations of local economic development policy, we will use four measures of 1997 local economic development policies. One is simply the sum of the many different local economic development policies local governments claim to adopt. In this sense, rather than being a measure of which policies are *emphasized*, this additive measure is an indication of overall effort. We term this measure the *economic development policy* (EDP) score.

Analysis of the policies in all three surveys also permits us to detect whether local economic development policies have been fine-tuned by local governments and to assess, if by 1997, three main clusters of policies emerged: namely, streamlining, traditional redevelopment, and intergovernmental assistance. For example, analysis of the policies in all three surveys might indicate that economic development policies were fine-tuned by local governments, and that by 1997, a clearer structure of economic policies had emerged. Indeed, evolution of policy into more discernible clusters can also suggest that the overall conditions of the state's economy might influence local economic development policy. In 1990, localities were not only facing a number of statewide policy changes that drew away local resources to support K–12 public schooling, but the state was slipping into a very serious economic downturn, which also dissipated local revenues. In short, 1990 was a period of municipal panic among the state's localities.

The Economic Development Policy Score

The surveys asked each respondent to indicate how important a series of policy actions were in their respective community on a “1” to “5” scale, with “1” being not at all important and “5” being very important. An overall score for each city was then calculated by simply adding the sum of the scores for the individual items. These scores, then, reflect both whether a community was pursuing a particular policy and how important the policies were judged to be in that community. To standardize for the number of policy items across the surveys—26 items in 1990, 30 items in 1994, and 36 items in 1997—each score is divided by the maximum score for that year (1990 maximum score = 130, 1994 maximum score = 150, 1997 maximum score = 180). This modification resulted in an adjusted EDP score. We further compare the mean scores of cities that are above and below the median score. If there were no meaningful differences being tapped by these scores, we would not find significant differences between those above and those below the median. These scores are summarized in Table 3.1, where the raw scores are divided by the total possible scores to produce an adjusted EDP score.

The findings in Table 3.1 indicate that *communities are implementing more economic development activities as the range of options and awareness of them increase.* Recall that the EDP scores reflect the overall number and importance of what each community is presumably doing to attract and retain local economic development. And the raw score has been increasing as the range of policies has increased.

Table 3.1

Mean Economic Development Activity High and Low Scores

	EDP Scores for All Cities	Above Median Scores (High Scores)	Below Median Scores (Low Scores)
EDP90 score means	55/130 = .42	73/130 = .56	35/130 = .27
EDP94 score means	70/150 = .47	92/150 = .61	49/150 = .33
EDP97 score means	82/180 = .46	106/180 = .59	57/180 = .32

These results also indicate that the mean EDP scores above and below the median are quite different. This suggests that the scores meaningfully distinguish among communities in terms of the overall level of EDP activism. For example, the adjusted mean EDP score for 1990 among those cities above the median EDP score is .56; below the median, the mean score is .27—a substantial difference. It is worth mentioning that over time, the raw EDP scores for both low and high scorers, as well as the raw EDP scores for all communities, have been rising as the number of economic development activities from which communities can choose increases. Considering all the communities, the 1990 raw score is 55, for 1994 it is 70, and for 1997 it is 82. Considering all the communities, then, the mean, raw EDP score increases by 27 points in the 1990–1997 interval. Among those communities above the median with respect to their mean EDP scores, the increase in the raw score between 1990 and 1997 is 33 points; among those below the median the increase is only 17 points—approximately half that of the higher scoring communities.

The Most Widely Used Policies

From the responses to the three surveys, we were able to assess the variety and substance of economic development activities. The approach taken here is quite similar to that of other quantitative studies of local economic development (e.g., Reese, 1993; Bartik, 1991; Fleischman, Green, and Kwong, 1992), although other surveys are generally not as extensive in the variety of actions explored. Respondents were asked to indicate how impor tant each of the economic development activities is in their cities. They were also explicitly asked to indicate if their community did *not* do the specific activities. Consequently, we can describe how frequently individual policies are occurring among communities. The results for all three surveys, summarized in Table 3.2, indicate that the number of policy activities has grown during the intervals between surveys. First, the number of items has grown during the intervals between the surveys. Every year the survey was implemented, a group of local officials reviewed the material. Over time, the number of items

Table 3.2

Summary and Ranking of Policies for 1990, 1994, and 1997 Surveys, by Percentage of Responses

1990 Survey	%	1994 Survey	%	1997 Survey	%
Tax increment financing	84.2	Tax increment financing	81.3	Facilitate license/ permits	76.8
Acquire/consolidate land	70.0	Facilitate license/permit	80.0	Tax increment financing	72.0
Subsidize land acquisition	67.9	Consistent de-velopment rules	63.9	Private promotional groups	71.9
Developer agreements	64.7	Establish city agency	63.2	Consistent development rules	67.2
Establish city agency	63.5	Ombudsman service	63.0	Property/site referrals	65.4
Public improvements	59.0	Public/private cooperation	62.5	Networking with businesses	64.8
Networking with businesses	56.3	Networking with businesses	62.1	Assemble land for private use	59.2
Public/private cooperation	53.5	Construction in declining areas	58.2	Ombudsman service	57.0
Subsidize infrastructure	50.9	Assemble land for private use	54.8	Community block grant	56.8
Rebate sales tax	49.4	Acquire/ consolidate land	52.7	Construction in declining areas	55.4
Use industrial parks	49.0	Community block grant	48.9	Promoting specific industry	54.1
City-sponsored advertising	48.1	Local government advertising	46.1	Military base conversion	52.2
Facilitate business license	36.7	Promoting specific industry	46.0	Improving quality of schools	51.9
Site improvement relief	31.4	Joint ventures with cities	43.5	Working with colleges/universities	50.0
Loans to business	29.7	Loans to business	43.4	Subsidize infra-structure	48.1
Increase amount of business land	28.1	Local enterprise zones	42.7	Improving local amenities	48.1
Grants to business	25.4	Subsidize employee training	40.4	Working with area's Councils of Gov.	44.2
Joint ventures with cities	25.0	Issue bonds for developer	39.3	Local government advertising	43.0
Increase density/height	24.0	Subsidize on-site infrastructure	38.7	Establish city agency	42.8
Relief from development fees	22.4	Tax abatement	38.6	Loans to business	42.7

Table 3.2 (continued)

1990 Survey	%	1994 Survey	%	1997 Survey	%
Tax abatement	22.0	Use industrial parks	38.2	Joint ventures with cities	41.2
UDAG[a]/EDA grants	21.6	Increase business land	36.5	Issue bonds for developer	40.9
Subsidize employ training	21.3	Site improvement relief	36.4	Use industrial parks	40.2
Provide discounted utility	5.6	Grants to business	33.0	State enterprise zones	40.0
Subsidize salaries	0.0	Rebate sales tax	30.8	Local enterprise zones	38.2
		Relief from devel-opment fees	29.7	Grants to business	36.5
		Increase density/height	17.7	Subsidize employee training	36.3
		Subsidize salaries	14.3	Federal job training programs	33.3
		Utility discounts	12.7	Assistance for small business	32.9
				Utility discounts	31.0
				Relief from devel-opment fees	29.9
				Loans for start-ups	29.2
				Rebate sales tax	28.6
				Increase business land	22.1
				Increase density/height	10.7

[a]Urban Development Action Grant.

included in the survey has increased. This increase suggests that state-of-the-art economic development policies among localities broadened to include more policies. Second, the number of policies being implemented in 50 percent or more of the responding cities increased from ten in 1990 to 11 in 1994 to 15 in 1997. The data indicate that as time has passed, not only has the range of policy options been growing but more cities are doing a greater number of things.

If we examine the ten top policies for each of the years, it is apparent that a number of traditional activities connected with redevelopment activity are consistently present (Dardia and Luk, 1999). These traditional methods include tax increment financing in conjunction with land acquisition, land consolidation, infrastructure subsidies, and land resale for private use. Additionally, the use of streamlining and the emphasis on making local policy more user- and business-friendly are also in evidence among these top items. If one examines the *least* employed activities—those with fewer than 40 percent of the responses indicating that an action is done, we see that direct subsidies and give-away sorts of activities, such as exempting businesses from fees, are not perceived as being that frequently used or important. Moreover, federal assistance, such as that provided through Urban Development Action Grants and the Economic Development Agency, seem fairly low on the listing of important actions—not an altogether surprising result given the withdrawal of the federal government from so much of the local economic development game. Taken together, then, the most popular local economic development policy practices include a mix of traditional and newer approaches to economic development.

The Three Policy Clusters

Not only is it important to have comparable measures of local policy, it is important to have a manageable set of such measures. As we have seen, 36 local policies were enumerated in the 1997 survey, and these policies will be explained and evaluated in the following chapters. However, it is awkward and complex to develop separate explanations for each of the 36 individual 1997 policies. If there are valid grounds to combine these measures into a smaller set of policies, the analysis becomes more efficient and comprehensible. Using factor analysis, a standard technique of data reduction, we identified three distinct policy clusters by 1997: streamlining, traditional redevelopment activity, and intergovernmental assistance. The following summarizes the individual policies associated with each of these three 1997 clusters (detailed discussion of how factor analysis is used in this study to reduce the data is found in Appendix A).

The 1997 streamlining cluster comprises exclusively six facilitating actions. Regulatory reform, networking with businesses, and making the local regulatory environment as user-friendly as possible are consistently related in this cluster. The traditional redevelopment cluster contains five activities that are usually associated with this particular, often controversial, economic development activity.

The Streamlining Cluster

- Property site referrals;
- Streamlining license/permit application;
- Assuring consistent development rules;
- Networking with businesses;
- Improving local amenities; and
- Working with regional governments.

The Traditional Redevelopment Cluster

- Assembling land for private use;
- Assembling land for clearance;
- Tax increment financing;
- Subsidizing infrastructure; and
- Issuance of bonds for development.

Intergovernmental Assistance

- Subsidizing employment training;
- Establishing enterprise zones;
- Targeting declining areas for assistance;
- Federal job training; and
- Loan packaging for start-ups.

Policy activities situated in the intergovernmental assistance cluster are all generally implemented as the result of state and federal assistance. Employment training, state and federal enterprise zones, and loan packages for businesses, including start-ups tend to be the part of various state and federal programs. These problems tend to be directed at declining and older areas, whether parts of larger cities or developed suburban locales.

Another key finding is that policy clustering has become more apparent over time (see Appendix B). In 1990, with 26 local economic development activities included in the survey, the policy items appeared to organize into seven clusters (factors), with one cluster containing four policies, two clusters with three policies, and the remaining four clusters with only two policies in each. Moreover, when the policies do cluster, they sometimes do so in less coherent ways, so that it less obvious what the underlying theme for the cluster might be. For example, the two items that clustered in Factor III of the 1990 items were the use of UDAGs and tax abatements (see Appendix Table B.1). In Factor VI, the two policies that cluster are networking with existing businesses and utility discounts.

By 1994, the items begin to organize around fewer clusters or factors. Although the data indicate six clusters among the policy measures, two of these have only one policy item associated with that cluster (Factors V and VI). Moreover, the most important 1994 cluster is one comprising seven items that are marked by traditional redevelopment and economic development activities. If one examines the other clusters, one might discern a business subsidies cluster (Factor II) or an intergovernmental aid cluster (Factor III). However, the other clusters and items are organized in less coherent ways. For example, Factor IV is made up of items that involve streamlining, facilitating, as well as subsidizing activities.

By 1997, the policy items are organized into three fairly coherent policy clusters (factors), with two of these (Factor II—traditional redevelopment and Factor III—intergovernmental assistance) containing five policy items. Factor I, the most important 1997 factor, involves a clustering of six streamlining and facilitating activities.

These findings suggest that local economic development policies in 1990 seemed to be more like individual actions by local governments to deal with the severe economic crisis and fiscal constraints. The 1990 data indicate one clear cluster comprising the traditional range of redevelopment activity. By 1994, even while localities were adopting more economic development actions, these individual policies began to organize around a smaller number of policy clusters. Redevelopment-related activities seem to be the most salient activity at this time, as it was in 1990. By 1997, however, nearly half of the local government activities surveyed were streamlining, redevelopment, and intergovernmental policies. Of course, a policy that does not cluster with other policies in some thematic way is not necessarily unimportant. For this reason, our analysis also employs the EDP score to provide a measure of overall local economic development policy effort for each community.

Conclusion

The data are consistent with the notion that localities are involved in a learning process in which local economic development policies are being emphasized and deployed in increasingly systematic and changing ways. By 1997, many local policies were systematically linked in particular policy clusters. Perhaps the shock of the economic collapse in the 1990s and the increasingly stringent conditions facing local government budgets propelled localities into the economic development business in a burst of discrete, somewhat frantic individual activity. In fact, the more important policy activities of the earlier surveys included a number of big-ticket incentives and grants to businesses, presumably to attract and retain them. By 1997, however, the expensive incentives and subsidies to businesses appeared to be judged as less prominent, although clearly traditional redevelopment policies remained a central local activity. From the localities' perspectives, improving the local business climate, enhancing amenities such as schools, and facilitating interactions and information became among the most salient set of activities. Of course, communities vary in terms of how much emphasis they place on the key 1997 policy clusters and on overall economic development effort. In the next chapter, we review the major of explanations of these local differences.

4. Examining Explanations of Local Economic Development Policy

Introduction

There are a number of ways to explain why local governments vary with respect to *what* they do and *how much* they do with regard to economic development. Which explanation one emphasizes can affect how one evaluates local policy and how one is likely to feel about the relative balance of power between local and state government.

The data we have gathered permit an extensive assessment of many standard explanations of local economic development, and that will permit us to evaluate how the evidence we have is consistent with one or the other explanation. In the following pages, we focus on the following three categories of explanation: (1) need- and resource-driven explanations, (2) political and institutional explanations, and (3) competition explanations.

Need and resource explanations of public policy comprehend local governments as mere registers for the forces that act upon them, with little capacity for local factors to reshape or redirect external forces. Need and resource explanations think of local governments as having very few, if any, options. In this view, communities cannot affect the rules of the game. They cannot determine who the dealer is or the number of cards dealt. Once informed of the house rules, they have no capacity to ensure that the rules are not changed the next day. Localities are simply expected to play the socioeconomic hand they have been dealt and hope for the best. As mentioned above, scholars often define localities as being constrained and limited by their need to foster local revenues and avoid pressures for increased local services. The result is that localities are either driven by local deprivation, in which case they are “need-driven,” or they are propelled by the plenitude of their assets, in which case they are “resource-blessed.”

Communities with access to airports, excellent infrastructure, and aggressive local leaders have the means and inclination to pursue additional commercial development. On the other hand, resource-poor and high-need communities might be obliged to exert themselves to seek more development as a means of providing jobs and additional resources. In other words, the socioeconomic profiles and geographical positions of communities dictate their economic development policies, with some communities doing more because they can, and others doing more because they must.

In contrast to the need-resource approach, explanations that emphasize the importance of local political and institutional characteristics might also affect the sorts of policies a locality will choose. Political-institutional explanations refer to formal rules that shape the legal context or the political interactions that affect policy decisions. These sorts of factors include the form of local government (mayor-council versus council-manager) or form of local elections (at-large versus district-level). Additionally, a host of political process factors might also affect policymaking, including patterns of local political affiliations (partisanship), levels of general local conflict and controversy (e.g., the prevalence of recall elections or initiative battles), or the perceptions among communities of competition from other communities. For example, other things being equal, communities with at-large elections are likely to have officials who are less concerned about individual neighborhoods or geographically concentrated opposition. Therefore, communities with at-large elections should be more “active” in redevelopment policy than communities with district- or “ward”-level elections. Localities with higher Democratic registrations or greater support for “liberal” policies might be more supportive of government intervention in the local economy. Hence, such communities might not only have more active local economic development policies, but they might also be marked by greater reliance on the more intrusive approaches such as redevelopment and subsidy approaches. Less “liberal” or “more Republican” locales might emphasize different sorts of economic development policies, for instance, streamlining of regulation and easing the permit process and less use of traditional redevelopment and subsidy activity.

Several additional aspects of the political process can be expected to shape or mold local policy. For example, greater levels of controversy over development policy might reduce the overall level of economic development activity or might deter local officials from using tax subsidies or other forms of costly approaches, such as those often associated with traditional redevelopment approaches. Higher levels of local political acrimony, as evidenced, for example, by recall elections and ballot measures, might increase the risk of enacting some kinds of economic redevelopment activity. Differing patterns of influence with respect to neighborhoods, local agencies, local business interests, and elected officials can all reasonably be expected to shape local policies.

Of particular interest are local perceptions regarding competition from other communities. When local officials think of themselves as being more or less in competition with other communities to attract and retain local businesses, one can expect that the level of policy activity to attract businesses should also increase. Even in situations where there is a great deal of uncertainty about the efficacy of local efforts to attract or retain business, the perception that competition exists can incite officials to enact economic development policies. Indeed, much of the concern among reformers of local economic development policy, especially at the state level, stems from the belief that competition among localities is fierce and that “bidding wars” among localities have produced costly, mostly ineffectual, subsidies for businesses. Apart from the issue of whether local economic development policies do anything to enhance local conditions, it is clear that many local officials seem to believe they are beneficial, in part because of the “folklore” that has emerged from a few specific instances of bidding success (Feiock, 1991). Despite intense disputes regarding the efficacy (Dardia, 1998) or fairness of local economic development efforts, there are powerful political incentives for localities participating in the competition.

The Measures

Local need characteristics refer to those local features that tend to swell the demand for local services. One such category of variables is often associated with "crisis" communities, in the sense that these are older, poorer, more crime-ridden places, with disadvantaged populations suffering the ravages of low education and higher unemployment levels. Such traits include measures of crisis or deprivation. The measures employed here, all U.S. Census Bureau data, are as follows:

- Percentage of local population that is nonwhite, 1990;
- The percentage of local housing built before 1939, as of 1990;
- The local crime rate in 1990;
- The percentage of the local population with more than a high school education, 1990; and
- The percentage of local population in 1990 categorized as in poverty or unemployed.

The assumption is that higher numbers of minorities, older communities, higher crime rates, lower levels of education, greater unemployment, and poverty constitute indicators of need. Such communities are presumably most likely to benefit from growth in local economic activity, both in terms of stabilizing or reversing the deteriorating conditions of local life, reducing unemployment, and nourishing the local tax base. The expectation is that high-need, crisis communities are more likely to invest in economic development policies as a reflection of their efforts to remedy the problems they face.

Another set of need-inducing measures involves community growth and size. The assumption is that localities with higher levels of population or housing growth or that are more populous are also more likely to experience the need to expand or renew infrastructure and support a greater variety of services. Over 80 percent of Californians live in cities, and higher growth rates and population size tend to elicit efforts to ease traffic congestion, support policing and other aspects of public safety, expand parks and recreation, and alleviate further stress on existing infrastructure. The result is greater operating and capital burdens. It is assumed here that growth in the 1980s produces policy change in the 1990s. Consequently, the city growth and population size measures are as follows:

- Housing change, 1980–1990;
- Population change, 1980–1990;
- Population density, 1980–1990;
- Population size, 1990; and
- Land area, 1990.

The supposition is, of course, that these are all associated with higher levels of local economic development activity. Our data indicate that these measures relate to each other in statistically significant and expected ways. Communities with large amounts of land but lower population densities tended to grow the most with respect to housing and population. Not surprisingly, communities with higher population densities grew the least with respect to population and housing in the 1980s.

We now turn our attention to resources. Are communities blessed with higher levels of local resources better able to support local economic development activities? Put differently, were the local economic development policies of the 1990s expressions of efforts to adjust to fiscal conditions of the 1980s? Did local communities with fewer resources seek to improve their condition through local economic development activity?

Although we expect communities with fewer resources to exert themselves more to improve their fiscal condition, in part by promoting economic development, there are competing views regarding these expectations. On the one hand, communities with plentiful resources are less likely to "need" development for tax revenues. In this instance, higher resource levels imply *lower* economic development effort. On the other hand, communities with higher resource levels might be in a position to invest in economic development, in a kind of "rich-getting-richer" scenario; in this circumstance, one might expect higher resources levels to be associated with *higher* levels of community development effort. In any case, it is assumed that a community with a higher proportion of its total resources generated with own-source revenues will be less fiscally stressed and more fiscally blessed. We also include measures of property taxes and sales taxes to assess whether differing fiscal patterns might be associated with different levels and types of local economic development effort. We use the following indicators of local resources:

- Adjusted per capita sales tax revenue, 1988 (in 1995 dollars);
- 1971–1988 change in per capita sales tax revenues; percentage of total local revenue derived from local property tax, 1986;
- All revenues from *local* sources as a percentage of total resources, 1986;
- Total revenues (from all sources), per capita 1986; and
- Bonded indebtedness per capita, 1986.

There is a long-standing interest in the role of local government structure in affecting local policymaking (Lewis, 1996). In the case of contrasting mayor-council and city manager forms, it has been claimed that city manager forms tend to be more insulated from electoral pressures, especially neighborhood pressures. Because the city manager is the chief executive and nonelected, the view is that such local governments tend to place a barrier between the city's executive branch and voters, thereby providing some political cover. Therefore, one would expect that city managers are more likely to be able to resist or dismiss local opposition to or controversy about local economic development policy.

Our 1997 survey specifically asked respondents to assess how important a variety of local actors were in local economic development policy. These actors included city councils, business groups, newspapers, mayors or chief executives, neighborhood groups, and local staff and economic development/redevelopment agencies. These responses permit us to explore a number of explanations regarding the pattern of local politics. For example, some scholars claim that local economic development policies are merely reflections of the interests of local private business, the so-called local "growth machine" (Molotch, 1976). Others suggest that local economic development policies reflect the autonomy of the local state (Gurr and King, 1987), with local bureaucracies mainly interested in improving the local revenue base to support local public services. Finally, the local surveys probe how controversial local economic development policy is as a policy domain. Obviously, all other things being equal, the more controversial local policy is, the more difficult it will be to enact such policies. The measures we use to indicate local political features include the following:

- Whether the locality is a city manager or mayor-council form of local government;
- The size of the local redevelopment/economic development bureaucracy;
- The perceived importance of the locality's elected officials and local economic development staff in policymaking;
- The proportion of voters registered as Democrats;
- The level of electoral strife, as measured by the number of local initiatives and recall elections; and
- The perceived importance of private sector business organizations in local policymaking.

Of course, some individual communities suffer economic declines; others increase in economic well-being. Communities sometimes do see other localities as "threats" to their economic well-being, and they adopt policies that reflect a sense of competition with other jurisdictions. We find that many cities are willing to spend assets to find out what their competition does to stimulate economic development. For example, 65 percent of our 1997 sample of cites said that they spent time or other resources to determine what other cities do to attract businesses, suggesting that competition has influenced city behavior in a tangible and measurable way.

In the following pages, we seek to measure the impulse for communities to compete with one another and to ascertain whether a community's sense of competition can account for differences in local economic development policy. The analysis allows us to explore the proposition that the greater the sense of competition, the higher the level of local economic development activity. Many who advocate reform in this arena believe that increasing levels of local economic development activity arise from the competition among communities. Additionally, many models of local policymaking assume that competition among localities increases pressures on local officials to respond to the demands of businesses for subsidies and lower taxes (Schneider, 1989), which in turn increases the amount of economic development policy actions.

To test these models, we asked our respondents whether they felt that competition with other communities caused their city to offer more incentives to businesses than would have been the case without such a sense of rivalry with other communities. Although most respondents (65 percent) did not feel that competition increased the use of incentives and subsidies, a sizable minority did say that competition influenced the number of such incentives (34 percent). Additionally, when we asked whether the respondents' cities had adopted specific policies as a result of what other cities were doing, over 38 percent of the respondents said that they had implemented such policies by 1997.

For the 1994 and 1997 surveys, we asked respondents to list the cities they considered to be their community's competitors for economic development. We then added up the number of times a city was mentioned as the first- or second-ranked competitor for each given year (1994 and 1997). Both of these scores—labeled COMP94 and COMP97—range from 0–9. Half the cities in our samples were mentioned at least once in both years and two cities had scores of 9 in both years. Much of our analysis supports Bowman's (1988) finding that the highest level of competition occurs between cities within the same region. Our surveyed cities were asked to name and rank those jurisdictions that are competitors for economic development projects, and the vast majority of respondents named nearby cities within the same county. Only two respondents saw their competitors coming from out of state. In the following analysis, we use the 1994 measure of competition as an explanatory variable of policy in 1997, since it is assumed that the competition in one period affects policy in a subsequent time.

Analysis

Table 4.1 reports the simple relationship between local economic development policy in 1997 and selected explanatory measures from our need/resource, political/institutional, and competition indicator. Many of the expected initial relationships are in evidence. For example, all the

Table 4.1

Correlations Between Selected Explanatory Measures and Economic Development Policy Measures

	EDP, 1997	Stream-lining	Redevel-opment	Intergovern-mental Subsidies
Need Measures				
Unemployment	.399[a]	.165[b]	.294[a]	.239[a]
Median family income, 1990	–.325[a]	–.215[c]	–.377[a]	–.204[c]
City area, 1990	.360[a]	.141	.047	.413[a]
Population size, 1990	.342[a]	.072	.175[b]	.524[a]
Housing change, 1980–1990	.173[b]	.049	.087	.190[b]
Resource Measures				
Per capita sales tax revenue, 1988	.067	.249[a]	.065	–.152[b]
Change in per capita sales tax revenue,1971–1988	–.186[b]	–.048	.078	–.272[a]
Percent local revenue from property tax, 1986	–.198[b]	–.076	–.176[b]	–.133
Total revenue from all local sources, 1986	.085	.178[b]	–.110	.093
Total revenue from all sources, 1986	.090	.119[a]	–.113	.153[b]
Bonded indebtedness, 1986	.113	.027	–.031	.167[b]
Political/Institutional Measures				
Local executive form—mayor-council or council-manager	–.235[a]	–.131	–.148[b]	–.080
No. of employees in economic development	.009	–.025	–.078	–.030
Proportion of voters registered as Democrats	.277[a]	.139	.288[a]	.011
Electoral strife – number of recalls and initiatives	–.022	–.047	–.109	.081
Perceived controversy of economic development policies	–.171	.004	–.275[a]	–.104
Importance of economic development agencies	.497[a]	.316[a]	.466[a]	.036
Importance of elected officials	.325[a]	.214[c]	.236[a]	.091
Importance of private sector actors	.297[a]	.428[a]	–.081	.177[b]
Competition Measures				
COMP94	.329[c]	.213[c]	.109	.250[c]
COMP97	.292[c]	.202[b]	.082	.251[c]

[a]Significance ≤ .001; [b]significance ≤ .05; [c]significance ≤ .01.

need measures are associated with the intergovernmental subsidy category of local economic development policy, perhaps reflecting how these programs are often tied to state and federal requirements, which reflect need characteristics in communities. The need characteristics are all associated, as well, with the overall 1997 measure of local economic development activity (EDP score for 1997). Moreover, the relationships are in the expected directions, with family income negatively related, suggesting that lower need (higher income in this case) produces lower levels of activity across the economic development policy categories. On the other hand, unemployment and community size (both in population and land area) seem to generate higher levels of activity across the board. This pattern provides consistent evidence that communities appear to be producing higher policy levels as an expression of need.

The findings regarding the association between local economic development policy and the fiscal measures are suggestive, if not especially strong. There is some indication that the 1997 economic development policies reflected efforts to manage fiscal issues that appeared earlier. For example, growth in per capita sales tax revenue during the 1970s and 1980s is negatively related to the overall 1997 EDP score. Communities that experienced larger sales tax increases apparently felt less compelled to exert themselves in the area of economic development, and it appears that higher levels of sales tax growth per capita also led to less intergovernmental subsidy involvement too. Even so, cities that, on the eve of the 1990s, had higher levels of per capita sales tax revenue tended to emphasize streamlining, while avoiding programs in the intergovernmental subsidy category. Overall, these findings provide little, if any, support for the idea that the more fiscally blessed places used their advantage to pursue more policies.

The findings regarding political and institutional factors are generally very suggestive. Mayor-council cities tend to have higher levels of overall economic development activity than do council-manager localities (mayor-council was coded 0; council-manager was coded 1). On average, the mayor-council respondents had overall EDP scores for 1997 that were 23 points higher than those of council-manager localities. Additionally, respondents in mayor-council cities tended to emphasize redevelopment policies somewhat more than council-manager localities.

Surprisingly, neither the size of the local economic development staff nor the level of local electoral strife was related to *any* of the policy measures. The perceptions regarding the importance of the local staff in policymaking, the elected officials, and the private sector actors are the most consistent of the political variables related to public policy. Moreover, they are all related in the expected direction to the overall EDP scores, as well as to the streamlining and redevelopment scores.

The other findings also confirm our expectations. In the streamlining policy category, for example, the perceived importance of private sector actors seems most closely related to policy. Making local permit processes and other procedural matters easier and more efficient would be especially salient objectives in the private sector community. In the case of the most controversial aspect of local economic development policy—redevelopment policy—we find that the perceived importance of local staff in local economic development is the most closely associated measure. The proportion of voters registered as Democrats also tends to be associated with the redevelopment policy category. As suggested above, this pattern is consistent with the view that redevelopment policy represents the more intrusive, government-directed form of local economic development, which, according to conventional wisdom, involves the kind of policy that is more tolerated among Democrats than among Republicans.

The data also indicate that the higher the level of controversy over local economic development policy, the less emphasis there is on redevelopment policy. This finding is also consistent with the interpretation that redevelopment policy tends to be the most publicly debated and criticized of local economic development policy.

The competition measures are most closely associated with the overall EDP score. It appears that the communities named more often as competitors do in fact do more, since the 1994 and 1997 competition scores are both associated with the overall 1997 EDP measure. Moreover, the 1994 competition measure, on the whole, is more closely associated with 1997 EDP policy score than is the 1997 competition measure. This is consistent with the claim that 1997 policy is a response, in part, to *earlier* perceptions of competition. It appears, finally, that redevelopment policies are not associated with the number of times a locality is seen as being the competition (COMP94 and COMP97).

The Relative Importance of the Explanatory Variables

So far, we have reviewed a variety of explanations to account for why local governments vary in their level of local economic development activity and the types of policies they support. The evidence is consistent with a variety of explanations that cut across political and socioeconomic interpretations about why communities choose different kinds of local economic development policies. However, the analysis thus far has focused on the individual relationships of the explanatory variables. It is also useful to gauge the relative importance of these variables in accounting for local policy. To do this, we use an ordinary least squares regression to compare the effects of variables. The regression technique is a statistical method that permits us to compare the effect of each variable, holding constant each of the other variables in the analysis. In effect, the technique permits some judgment of how a particular variable influences local policy after we have accounted for the effects of other variables. For example, we know that the size of a community is related to a number of other explanatory variables, such as the number of poorer residents, the age of the housing stock, or the size of the local planning and economic development bureaucracy. The regression analysis, then, permits us to determine the independent effect of bureaucracy size on local policy, after we have adjusted for the effect of community size.

The analysis includes 14 variables that survived the previous analysis and evidenced some relationship with local policy. These include variables across the range of explanations we reviewed above:

- Four socioeconomic measures of local need—proportion of unemployed, population size, population growth (1981–1989), and population density;
- Three measures of fiscal resources—growth in per capita sales tax revenue, bonded indebtedness per capita, and total local per capita revenue;
- Six institutional/political measures—number of local staff committed to economic development, perceived importance of

local bureaucracy, perceived importance of private groups, perceived controversy over economic development, Democratic party registration; and

- The 1994 measure of perceived competition with other localities.

The results reported in Table 4.2 indicate that these variables generally do a credible job in accounting for differences among local economic development policy. In the case of our overall economic development policy score, however, the data indicate that variables we have not included in the study are likely to have some explanatory force. Our measure of public policy—the thing we are trying to explain—along with a number of key explanatory variables that are based on the survey

Table 4.2

Regression Results for Four Policy Measures and Surviving Explanatory Variables (Standardized Regression Coefficients Cell Values)

	Total EDP Score, 1997	Stream-lining	Redevel-opment	Intergovern-mental Subsidies
Unemployment, 1990	.183	.118	.151	.031
Population growth, 1981–1989	.164	.013	–.012	.299[a]
Population size, 1990	.271[a]	.021	.019	.447[b]
Population density, 1990	–.019	–.097	.041	.070
Sales tax growth, 1971–1988	.061	.067	.080	–.054
Bonded indebtedness, 1986	–.074	–.391[b]	.066	.152
Total revenue per capita, 1986	.135	.399[b]	–.193	.084
No. of economic development staff	.141	–.023	.069	.144
Importance of local bureaucracy	.340[b]	.156	.473[b]	–.067
Importance of private sector actors	.241[a]	.312[a]	–.160	.230[a]
Controversy over economic development	.106	.127	.077	–.035
Local government type	–.118	–.069	–.104	–.111
Percentage of voters registered as Democrats, 1988	.064	.045	.061	.003
Competition, 1994	.122	.082	.111	–.079
Adjusted R^2	.509	.212	.309	.365
F-ratio	8.254[b]	2.602[a]	3.880[b]	4.618[b]

[a]Significant at .01; [b]Significant at .001.

data, tend to have higher measurement error levels. The effect is to depress levels of association and underestimate the power of models, something that should be kept in mind in reviewing the results here. Recall that our measures of policy include (1) an overall measure of economic development activity, (2) a measure of streamlining policy, focusing on such activities as reducing red tape, (3) a measure of traditional redevelopment activities including land assembly and clearance, and (4) intergovernmental subsidies, including federal and state job training and enterprise zones. The regression results indicate that the explanatory variables account for the most variation in *the total economic development policy score*. The three measures that appear to have significant independent effects on overall economic development policy are population size and the importance of both the local bureaucracy and the local private sector actors on policy. The findings suggest that in larger communities, where both the local bureaucracy and local private sector actors are seen as important in developing local economic development policy, one is also likely to find higher levels of overall economic development effort. But might this be mainly a function of community size? The data indicate that the relationship between community size and the importance of the local bureaucracy is relatively modest. Community size is also independent of the perceived importance of private sector actors. Indeed, the actual size of the local bureaucracy is also apparently independent of how important the local bureaucracy is perceived to be.

Our sense is that larger communities tend to do more, at least partly, as a reflection of the somewhat higher level of need that is manifested in them. For example, the larger the community, the higher its unemployment level, the lower its median family income, and the higher its population density.

The measure of local private sector influence on overall local economic development policy seems to be *independently* related to our measure of overall local economic development policy effort. For example, the measure of private sector influence measure is not related to the importance of the local bureaucracy or to any of the other explanatory variables. It might be that private sector influence is more on-going and understood as a fixed feature, since the economic interest that local businesses have in the economic development field is direct and obvious. However, the pattern for our measure of the importance of the local economic development bureaucracy is quite suggestive of other more complex relationships. For example, it seems that local bureaucracies are, in effect, responding to the distress or disadvantages their communities bear. Without a growing economic base, local bureaucracies might understandably fear that local revenues will be inadequate to support salaries or growth in staff. It is therefore anticipated that local staffs are more active in needier, often larger locales because the local bureaucracy becomes mobilized in trying to prevent or ameliorate local fiscal and social disadvantages. The data support this interpretation: It is in the larger communities that local economic staffs are considered more important; the more important the local economic development staff is perceived to be, the higher is the level of local poverty, the higher is the level of unemployment, and the lower is the median family income. In other words, larger communities are more likely to manifest the kinds of conditions that incite local bureaucracies to support policies that might improve the local economic climate.

It is interesting to note that the perceived importance of the local staff in economic development policy is associated with the size of the city's 1990 population, but it is *unrelated* to the actual number of local employees involved in local economic development activities. Surprisingly, among these cities, the number of employees working full time in economic development activities is also unrelated to city size. It is possible that in larger cities the perceived importance of the local staff in economic development is rooted in the conditions that are more likely to accompany more developed, more populous communities (somewhat higher poverty, crime, aging infrastructure, and unemployment). Rather than bureaucratic determinism, in which public sector staff fuels growth for reasons of bureaucratic self-interest, staff in large communities might actually be important because they are trying to remedy the maladies that often disproportionately afflict such places.

Localities That Emphasize Streamlining

Obviously, a variety of factors explain differences in local streamlining activity that have not been included here. Still, the findings are suggestive. One gets a sense that communities that emphasize streamlining activities are fiscally prudent and fiscally well-off, as reflected in the negative relationship between streamlining and per capita bonded indebtedness. The lower the bonded indebtedness in a community, the more likely it will have a higher level of streamlining. Yet, the higher the level of total revenue per capita in a community, the higher is its streamlining activity. Finally communities where local private actors are seen as influential in economic development policy have higher levels of streamlining activity. In other words, communities with lucrative revenue sources but lower bonded indebtedness and influential private sector actors are more likely to be more involved in streamlining.

Emphasizing Redevelopment

Only one variable seems to have an *independent* effect on traditional redevelopment policies, such as using tax increment financing, land assembly, and land clearance. That measure is the perceived importance of the local economic development bureaucracy. As indicated above, communities in which the local bureaucracy is seen as an important influence on economic development policy tend to have higher poverty, higher unemployment, lower median family incomes, and larger populations. One interpretation, then, is that local bureaucracies see redevelopment activities as a suitable response to local conditions. Because it is often argued that fiscal motivations drive these policies, it is notable that none of the fiscal measures seem to be associated with the redevelopment policy effort (Dardia, 1998). Moreover, the fiscal measures are unrelated to the perceived importance of the local bureaucracy, so it is unlikely that the fiscal conditions of communities engender a local bureaucracy focused on redevelopment.

The data, in short, suggest that where redevelopment policy is emphasized, the local government is more likely to be managing the consequences of higher levels of community need. This correlation, of course, has nothing to do with issues regarding whether or not such redevelopment efforts are effective (Dardia, 1998). As communities develop higher levels of need, they tend to emphasize redevelopment, which in turn increases the role of the local economic development staff, which in fact emphasizes redevelopment strategies to deal with the problems facing their respective localities.

Emphasizing Intergovernmental Subsidies Tax Incentives

The amount of variance explained in our measure of intergovernmental subsidy involvement is the second highest among the policy measures analyzed. The results indicate that the main factor affecting the involvement of localities in these incentives and intergovernmental subsidy programs is the size of the locality. Secondarily, communities with higher population growth rates and where private sector actors are seen as important in the economic development process tend to be more involved in the intergovernmental category of policies. Many of these programs are targeted at larger localities, perhaps because of the nature of program requirements (e.g., subsidizing employee training programs, local and state enterprise zones, and loans for start-up businesses) and the relationship that such programs have to the factors usually associated with larger communities (e.g., higher proportions of minority populations, higher poverty rates, or higher levels of poverty).

What Happened to the Effects of Competition?

Despite the attention devoted to the presumed consequences of economic competition among cities for new business activity, our data indicate that *there is little independent relationship between our measure of competition and local policy*. Initially, in terms of the simple relationship between our measure of competition and local policy, there are a number of significant correlations. The data first indicated that the more competitive a community was seen to be, the more it did generally in terms of local economic development and the greater was its involvement in streamlining and intergovernmental subsidies and programs. Yet the regression analysis indicates that once the effects of our other explanatory variables are taken into account, no independent effect is observed on any of the policies by our measure of competition. However, the data suggest that competition mediates between the other explanatory variables and policy. After all, there are a number of critical explanatory variables that are related to competition. Specifically:

- The larger the community the more competitive it is perceived to be; and
- The greater the community's bonded indebtedness, the more competitive it is perceived to be.

The data also indicate that the larger communities tend to be in areas with greater numbers of cities within a five-mile radius of one another, and that the greater the number of cities within a five-mile radius, the higher the level of competition. In short, what we see is a kind of developmental sequence. In areas where there are larger cities, there are also greater numbers of cities nearby. This correlation produces heightened perceptions of the presence of other cities—an obvious but still important fact. Additionally, the data indicate a modest but significant correlation between the number of cities in a five-mile radius and the bonded indebtedness per capita. The greater the number of cities in a fixed area, the higher is the level of bonded indebtedness and the greater is the perception of competition. Indeed, the perceptions are not totally misplaced, if one thinks of bonded indebtedness as one sign of a community that is striving to attract development.

These findings are fairly important. On the one hand, we find that there is no strong correlation between the usual fiscal measures that presumably incite the impulse to support policies designed to attract development. Instead, the data suggest that *perceptions* of competition derive from the density of cities in a region and their tendency to see one another as competitors. The perceptions may be as important as the actual behavior of the communities. If a business makes overtures to several communities, it is more likely to do so in places where they are near one another. If a business is interested in a particular location, and if there are a number of nearby locations with similar features, each in a different jurisdiction but still offering desirable location options, then the sense of interjurisdictional competition is more likely. On the other hand, if all the alternative locations exist within the same locality, then it is less sensible to think of competition between these locations along jurisdictional lines. In short, interjurisdictional competition among local governments is almost inevitable where the density of local governments is high.

Summary

The data indicate that it is useful to think of communities as emphasizing different types of local economic development policies. We distinguished between (1) the overall level of economic development effort, a simple additive index of how many economic development activities are being done in a locality, and (2) three composite measures of specific policies in the areas of streamlining, redevelopment, and intergovernmental subsidies and grants. Moreover, the analysis suggests that at a simple level, there is support for a number of conventional explanations of why communities adopt certain economic development policies and why they tend to emphasize some categories of policy over another. However, once the analysis examines the relative effects of different explanatory variables, the relevance of some explanations is undermined. Specifically, the results indicate that:

- The overall measure of economic development policy effort is fairly well accounted for by the effect of community size and the importance of the local economic development bureaucracy and private actors;
- Community involvement in subsidies and intergovernmental programs to assist in job training and economic development reflect primarily community size and the importance of private sector actors;
- An emphasis on classic redevelopment policies is most immediately an expression of the importance of local economic development staffs, whose roles are likely to be enhanced by the tendency of local staffs to be seen as more important among the larger, needier communities; and
- Streamlining as an approach to economic development is somewhat related to a kind of low-intensity environment, where communities with high levels of local revenue and low levels of indebtedness emphasize this approach.

In a number of ways, the findings also emphasize that insofar as a community’s social and demographic qualities translate into public policy, they do so through their effect on the role of community groups, particularly city staff and private sector business leaders.

Yet these policies seem unrelated in any systematic way to either competitive forces or fiscal motivations, at least with respect to how we have measured these phenomena in this study. In the case of fiscal measures, we find that more affluent, less debt-encumbered localities emphasize streamlining as an approach to economic development. On the one hand, if less fiscally endowed localities were to view local economic development policies as one tactic in the effort to enhance their tax base, then we would expect to see some relationship between lower tax and revenue resources and higher levels of community economic development effort. We find no such pattern. Moreover, if better endowed localities were systematically better able to compete and more involved in widening the gap between themselves and their less-fortunate counterparts, then we would expect to see a positive relationship between economic development policy and fiscal resources. Again, we find no such pattern. In short, there is no evidence that communities are systematically or generally investing in local economic development as a manifestation of some rational fiscalization of local economic development policy. It is possible that individual, specific projects are targeted with a view toward enhancing the local revenue base. But such ad hoc policies are more episodic and less systematic than is generally believed.

Similar conclusions apply to our findings regarding competition. Initially, the analysis indicated that communities viewed as the most competitive were also more active in doing economic development. However, the regression analysis indicates that there is no *independent* relationship between our competition measure and local policy. Of course, in individual cases communities might actually adopt particular policies or engage in some bidding war over a specific project. In other words, competition might be reflected in the effort surrounding a unique, high-profile proposal, rather than being manifested in a community's regular package of economic development policies. Economic competition might exist, but on an ad hoc rather than a generalized basis. Insofar as communities have reputations for being competitive, it is likely the consequence of rivalry over individual projects rather than an indication of an ongoing contest between communities. Finally, perceptions of competition are likely to exist merely because communities that are in close proximity are likely to know more about what their neighbors are doing and more apt to feel that growth among them comes at their expense. The more populous, higher-density communities, because of their propinquity, are, therefore, more likely to think of themselves as being in competition with their neighbors. Of course, their geographic closeness also makes them more likely to hear about one another's activities and, sometimes, to be played off against one another. It is unlikely that a retailer, for example, would play off *distant* communities for the same project, although fairly high-profile instances of that sometimes happens, as when Carlsbad, California, and Prince William County, Virginia, were courted by Legoland USA and played off against one another. In that particular "competition," Carlsbad, California, "won."

5. Do Local Efforts to Court Economic Development Justify Reform?

The Conventional Wisdom

Clusters of communities are likely to compete in different ways for different businesses. Moreover, businesses vary in terms of how their underlying activity connects to local markets, how much they will require to move from optimal to less-optimal locations, how representative their goods and services are of community preferences and local self-images, how many suitors a business can attract and play off against one another, and how many other businesses they might draw into the game, thereby reducing the leverage that any one of them has over the area's jurisdictions. The data here also indicate that communities can also differ in the way local political regimes might affect the process of competition for business.

Nevertheless, many public officials and observers of state and local policymaking think of local governments as uniformly desperate to attract local economic development. There is a pervasive concern among observers about whether local land-use policies reflect an obsession with maximizing local public treasuries, often at the expense of job development and residential land use. Communities are presumably preoccupied by the need to find signature businesses to show that they are worthy of commercial attention. As one newspaper reported, "The justification for wooing Starbucks is usually financial, but most city officials also admit they want the familiar green-and-white logo to serve as proof that their neighborhood has arrived (Fulmer, 1999). Or there are stories about cities that are bamboozled and exploited by predatory retailers. There is, in other words, a kind of conventional wisdom that has communities tripping over one another to grab whatever business they can, often investing in incentives and other expensive packages. The view is that such efforts, in the main, merely shift business from community to community without actually increasing the overall stock of economic activity. Moreover, the feeling is that such policies favor retail over manufacturing and moderate- to low-income housing. The result, it is often argued, is a need for state reform, usually in the form of a proposal to limit the options of communities. Partly as a response to this presumed mania among local governments to woo business and waste resources through unnecessary and ineffective embellishments, the California state legislature in 1993 barred city redevelopment agencies from offering tax subsidies as part of their efforts to lure retailers to their cities (AB 1920, Community Development Reform Act of 1993).

Efforts to restrain local governments from competing with one another have continued. The most recent major effort to discipline localities is AB 178, enacted in 1999, which regulates local efforts to lure auto dealerships and so-called big box retailers. This bill was inspired specifically by the belief that the continuing prospect of local revenue losses has incited ruthless competition between local governments to attract and retain sales-tax-generating development. Especially large retailers, such as Costco, K-Mart, and Target, along with footloose automobile dealerships, were presumed to be playing off communities against one another. Or there is the highly publicized disquiet that has resulted from increased scrutiny of redevelopment agencies, whose cost-effectiveness and mission have been forcefully criticized in recent years (Dardia, 1998). Consequently, AB 178 focused on remedying interjurisdictional competition by preventing cities, counties, and redevelopment agencies from offering any financial assistance to auto dealers and so-called “big box” retailers. The legislation also provides a mechanism for permitting local governments to deploy fiscal incentives, if they arrange for some sharing of resulting sales taxes.

There is also continuing alarm about the lack of regard for moderate-income housing and job-generating manufacturing in the frenzy to attract retailers and their sales tax revenues. In a recent report, the State Controller expressed exactly this concern: “Retail growth is now preferred over manufacturing and other industrial growth because it generates sales tax revenues (Connell, 1999, p. 32)." Underscoring this worry is the Lewis and Barbour study (1999), in which local officials confess to maximizing local revenues as more important than job creation or housing development. These issues and the consequent anxiety they create is fueled by a continuing stream of news stories about how communities have either lost or gained in the competition over economic development. There are also periodic and troubling accounts of subsidies and incentives being elicited from localities by allegedly ruthless retailers. Note that AB 178 is focused on the relocation of existing businesses from one locality to another. As a result, there might be some salutary effect for the most worrisome problem, where one locality's overtures "cause" a business to relocate from another city or county within "the same market area." However, since the allure of sales-tax generators has not changed, it is very likely that communities will remain vulnerable to the extortionate or seductive advances of retail businesses. Therefore, it is likely that the public fretfulness about competition among localities will continue and the demand for reform will erupt again.

An Alternative View and Policy Implications

There is a price to pay for local reform, however, at least as it is generally discussed today. Although AB 178 includes some effort to encourage cooperation among localities, the bill, like many other proposed "reforms," seeks to constrain local policy options. But such changes do not address the overall institutional and legal climate of the state that incites interlocal competition. It is worth considering a number of issues, therefore, regarding the context in which reform demands are emerging and whether reform is, at this point, even necessary.

Most of the evidence assembled on behalf of reform is based on dramatic, journalistic accounts, sometimes the same incident being replayed extensively among various newspapers and other media outlets. Actual empirical assessments of how much shifting of business actually occurs are rare and exceptionally difficult to conduct. Moreover, if localities are biased in favor of assisting retail businesses, it is not clear how much that has disadvantaged manufacturing activity or if there has been any ill effect at all. Local government reluctance to accommodate moderate-, low-, or high-density housing has a venerable history, antedating Proposition 13 and more recent changes in the state's fiscal system. It is highly unlikely that there will be major changes in the patterns of the customary local resistance to moderate- and low-income housing or to high-density housing. Reducing pressures to engage in "fiscalized" economic and land-use policies might have little to do with obviating local resistance to affordable and higher-density housing.

Much of the impetus to limiting local government capacities to provide incentives and subsidies for businesses to move and relocate is based on the following reasoning. Because businesses are profit-maximizers, a community's offer must have a value that is greater than the sum of the losses resulting from being at the less-optimal location. To lure a business to a less-desirable location assumes that businesses are willing to risk one aspect of the fundamentals of their operations in return for some compensating public subsidy. It is difficult to imagine that businesses are willing to do that. In this case, observers would argue that localities are being suckered into offering incentives, when, in fact, these inducements will not generally affect the location decisions of businesses. Of course, if a business finds that it has a choice of several desirable, proximate locations within different jurisdictions, there are more opportunities for one locality to be played off against the other. In either case, public money is presumably committed in undesirable ways.

In this view, localities are always at some disadvantage. However, there are perhaps a number of benefits and possible restraints that might affect the process. Businesses might, from time to time, be unaware of their options in selecting the best locations. If communities generate such information in the course of competing to attract development, we might produce some gains in efficiency. If local government actions help businesses to optimize their location decisions, the relatively low cost of providing such information might produce a net gain for businesses and the local market. Insofar as competition among localities spurs them to provide administrative improvements that reduce business costs and do not risk public welfare (e.g., reduce red tape and speed the development review process), competition might produce benefits. Is it possible that without the rivalry among jurisdictions there would be little incentive to produce such benefits? Communities are increasingly reluctant either to generate information or to produce incentives without demonstrations by businesses of a serious intent to invest in a community. After all, the ritual of courting businesses and providing information gives information to other localities, especially those nearby. Being "jilted" by a business after trying hard to pin down a deal can also produce high political costs for a community's officials. The prospect of losing out to other local government suitors and the attendant political consequences might be a longer-term disincentive to trying too hard through excessive offers. Of course, as business conditions improve, there is also the chance that there will be a scarcity of optimal locations and that communities will not feel as compelled to make offers. Indeed, as suggested above, much of what we assume about the economic development arena is based on the behavior of local governments as they responded to the much lower level of business activity during the severe economic downturn during most of the first half of the 1990s.

It is also the supposition that businesses always gain from the courtship of localities. Is that always so? Might the level of benefit actually be exaggerated? For example, apart from the lack of systematic cataloging of local business benefits, the strong incentive among communities to attract businesses might produce greater levels of competition among businesses within a market, and it is unresolved how often greater competition among localities for business also engenders higher levels of competition among businesses. Indeed, the effort by businesses to attract offers might not only produce information about locations for the competition of a particular business, but might also foster the arrival of competitors in a more rapid fashion. For example, if several neighboring cities compete for a fashion outlet center, and it appears that one community is the likely "winner," the other jurisdictions could very well accelerate the search for a competing operation. Indeed, this is exactly what happened in the competition between Riverside and Moreno Valley for retail businesses in the properties at the communities' boundary at the I-215. Might it be possible, moreover, that the publicity surrounding a particular effort to corral a business would draw competitors who would offer to locate with lower subsidies? Or perhaps some might actually choose to come with no incentives at all.

Our sense of the local economic development game might rest too much on the conventional wisdom produced by the anecdotes associated with a fairly unrepresentative set of circumstances. Even getting a sense of who benefits among localities is very complicated. Is it possible, for example, that some communities with below-average revenue sources use economic development to leverage assets into sales tax gains? The data here indicate that communities in the greatest need strive the most to attract economic development. If these communities can improve their economic growth, economic competition might not be a "bad" thing. Of course, some places have so many accumulated disadvantages in terms of social pathology, dilapidated infrastructure, and lack of access to retail demand that they are decisively frozen out of the competition for business. But other communities have freeway access and undeveloped land, which provide opportunities to improve their fiscal condition. These communities are not always higher-status, affluent places.

In criticizing local competition for businesses, it is often claimed that the result is merely to shift a given level of business activity around in space but not to increase the overall amount of business. Perhaps that is often true, but it is a claim that ignores the prospect that there might be benefits other than increasing the amount of business. It is possible that the current system in some cases benefits otherwise less fiscally sound communities. In short, without more systematic knowledge regarding which localities are successful in attracting business, *by virtue of their policies*, we cannot really assess the important equity issues associated with the question, "Who benefits from local competition for economic development?"

It is very important to emphasize that we are not defending the status quo or denying the existence of abuse, foolishness, or ineffectiveness in some proportion of decisions regarding local economic development policy. The point is that much about competition among localities is not well understood or systematically documented beyond the accumulation of provocative journalistic accounts. In light of more systematic evidence, there might be a case for comprehensive reform of local economic development policy. Our view is that the evidence is not yet available.

When California's most serious post–World War II economic downturn occurred in the early 1990s, many public officials and business people asserted the existence of a pervasive unfriendliness toward business among both state and local governments. The exodus of corporations and other businesses from California was highlighted, particularly since the national economic recovery preceded that of California's. As a result, there were plenty of stories with ample and pungent critical comments from business leaders, again chronicled in a host of journalistic accounts, that other states and their communities had superior business climates. It was in this context that California communities more or less mustered an array of activities to retain and attract economic development. By 1995, according to the California Association for Local Economic Development (CALED), 75 percent of the state's cities had some economic development effort, with over 200 localities having full-time programs. Of the 58 state counties, 35 had countywide public/private entities referred to most often as Economic Development Corporations, with 20 counties organized into five regional bodies. According to CALED (1995, p. 3), "there are at least 450 local and regional organizations providing some level of economic development services throughout the State. Fifty-one of the State's 58 counties are covered by some sort of economic development organization." Many of these organizations have substantial staffs and budgets, with a number of them exceeding millions of dollars.

Doing economic development has become a routine feature of local government. It is an area that has evolved and continues to evolve over time. In the most recent cycle, beginning in approximately 1990, communities were anxiously dealing with the collapse of the economy and what seemed to be the drastic shrinking of the local tax base. Over time, however, there has been increasing sophistication regarding such policies. Officials are better able to assess the seriousness of business overtures and whether their communities are serious contenders for investment. Also, local constituencies do punish officials for give-aways, and local contenders for office often take officials to task for making bad deals.

Finally, as the data indicate, communities continue to support distinct local economic development activities, and although communities are still using an array of tools to retain and attract development, these are currently applied in a prosperous period. In such times, rather than warring against one another in efforts to gain the attention of "hard-to-get" businesses, communities might actually pick and choose among businesses that are increasingly competing to gain access to scarcer numbers of attractive locations.

In short, there are a number of reasons why the current system of local policies should not now be directly regulated. First, fiscal structures and revenue policies do create perverse land-use incentives, and it is this structure of state policy that ought to be the focus of reform. State measures that further erode local governments' capacities to make important decisions, such as those affecting community development, might be ineffective in remedying a real problem by attempting to solve one whose importance has been exaggerated.

Second, it is not at all clear what the costs or extent of local courtship of business and economic development are.

Third, the nature of local competition is increasingly emphasizing such aspects as information, services, streamlining, strategic development, economic clusters, and human resource development and training. The benefits of such strategies and their capacity to tailor policy to regional and local circumstances have not been adequately examined.

Fourth, communities seem to be developing greater sophistication in their dealings with business. They are better able to discern legitimate and serious deals. They have substantial interests in avoiding embarrassing or foolish deals. Voters and political opponents can be expected to inflict political costs on bad decisions, which is the way democracies are supposed to work.

Fifth, reform policy needs to focus on making the rewards of intermunicipal and interregional cooperation within California outweigh the gains from competing with other jurisdictions. Reforms should involve more than merely granting localities the authority to engage in cooperative action. Indeed, the state should consider developing models of cooperative relationships and agreements, as well as providing assistance in the legal and accounting protocols that such agreements will require. Moreover, it would be helpful for the state to provide resources and expertise to help localities assess the net benefit of local assistance to particular businesses. Insofar as state limits on local options are enacted, they should be minimal. For example, it might be more helpful for the state to foster performance incentives, which are granted to businesses only *after* they actually produce the community or regional benefits that are pledged.

Sixth, even with "reform," the political logic of competition will, from time to time, encourage officials to court business and economic development. In the face of perceived opportunities to draw business to a community, passive local officials will be accused of being indifferent to the economic well-being of their communities. The risks of not providing a municipal dowry designed to consummate a commercial union are high. After all, if a locality is rebuffed after making a credible effort, its officials can at least claim that they tried to succeed. If officials are disinterested, however, they will be accused of blithely permitting the economic action to go to rivals.

Seventh, there are plenty of private-sector-generated reasons for localities to continue to compete, as they do in other states where localities are less dependent on sales taxes. So long as local interests continue to benefit from higher land values or greater business activity, or as long as local government budgets are enlarged by more economic activity or higher housing values, and as long as homeowners prefer growth in home equity over stagnant and declining values, local officials will be pressured to improve the local economic climate. Unless the fundamentals of this logic are altered, communities will always perceive themselves as competing with other localities.

Lurking behind much of the apprehension about the local economic development policies of local government is a much larger issue: What do Californians want their local governments to be? Despite the attachment to local government that Americans profess, the actuality is that localities in California have been cavalierly treated by the state, particularly with respect to the system of local finance. Citizens obviously cannot escape their own responsibility for the declining relevance of local governments. If the abysmal electoral involvement of citizens in local elections in California is a sign of how it is valued, local governance is indeed in trouble.

However, if local governments are to be places in which important decisions are made and where citizens can expect to resolve critical policy choices regarding lifestyle, public services, tax burdens, and the physical development of their communities, the current piecemeal approach to addressing local government structure and the sometimes objectionable policies of localities are inadequate, even harmful. Moreover, this partial, ad hoc approach distracts from the fact that localities operate within a governing calculus that is critically shaped and constrained by the system of incentives and deterrents that the state fosters. Beneficial and enduring change among localities will require remedies in that overall environment. Such reform requires not only good intentions and sounder information but also considerable political will among officials and genuine civic interest among the state's residents.

Appendix A

1990, 1994, and 1997 Surveys

The following are the three surveys used in 1990, 1994, and 1997. Frequency distributions for the close-ended items are provided. For any questions regarding the surveys, please contact the authors.

1990 Economic Development Survey

Please indicate how important each of the following is in your city government's efforts to encourage new economic activity in your community. Please consider business, commercial, and industrial/manufacturing development; at this time we are NOT concerned about residential development (following percentages are based on only those respondents who indicated how important the effort was in their community).

	Not at All Impor- tant	Rela- tively Impor- tant	Moder- ately Impor- tant	Rela- tively Impor- tant	Very Impor- tant	No. Valid Re- sponses
Q 1. Tax abatement	42.0%	14.0%	22.0%	10.0%	12.0%	50
Q 2. Site improvement relief	19.8%	17.4%	31.4%	14.0%	17.4%	86
Q 3. Loans to business	21.6%	18.9%	29.7%	16.2%	13.5%	74
Q 4. Grants to business	38.1%	11.1%	25.4%	14.3%	11.1%	63
Q 5. Tax increment financing	4.4%	1.8%	9.6%	15.8%	68.4%	114
Q 6. UDA/EDA grants	38.5%	18.5%	21.5%	6.2%	15.4%	65
Q 7. City-sponsored advertising	11.8%	20.6%	19.6%	20.6%	27.5%	102
Q 8. Increase business land	18.4%	22.3%	31.1%	18.4%	9.7%	103
Q 9. Increase density/height	34.4%	14.6%	27.1%	19.8%	4.2%	96
Q10. Subsidize infrastructure	10.4%	13.2%	25.5%	28.3%	22.6%	106
Q11. Discount utilities	72.2%	8.3%	13.9%	5.6%	0.0%	36
Q12. Facilitate business license	23.8%	16.8%	22.8%	22.8%	13.9%	101
Q13. Public/private cooperation	11.6%	12.4%	22.5%	22.5%	31.0%	129
Q14. Establish economic development agency	15.6%	8.3%	12.5%	20.8%	42.7%	96
Q15. Subsidize land acquisition	7.3%	9.2%	15.6%	24.8%	43.1%	109
Q16. Use industrial parks	12.7%	11.8%	26.5%	23.5%	25.5%	102
Q17. Developer agreements	6.7%	5.0%	23.5%	26.9%	37.8%	119
Q18. Relief from developer fees	31.8%	18.8%	27.1%	15.3%	7.1%	85
Q19. Subsidize employee training	48.3%	12.1%	17.2%	12.1%	10.3%	58
Q20. Subsidize salary	86.6%	9.1%	3.3%	0.0%	0.0%	44
Q21. Issue bonds for developer	13.1%	12.1%	21.2%	26.3%	27.3%	99
Q22. Rebate sales tax	24.1%	4.8%	21.7%	26.5%	22.9%	83
Q23. Acquire consolidate land	9.0%	6.0%	15.0%	23.0%	47.9%	100
Q24. Public improvements	7.6%	7.6%	25.7%	21.9%	37.1%	105
Q25. Networking with businesses	11.8%	21.5%	20.4%	23.7%	22.6%	93
Q26. Joint ventures with cities	30.3%	21.1%	23.7%	15.8%	9.2%	76

Q27. In the space provided, indicate a policy or activity that was not listed in the preceding list and that you believe is important in your city's efforts to promote business and economic development (open-ended item, left uncoded). N=136 valid responses.

Q28. When it comes to the city government's role in fostering economic development (non-residential) in your city, which ONE of the following responses do you believe best applies? Please check one of the following. N=131 valid responses.

1. 5.1% Encouraging economic development is NOT IMPORTANT in comparison to other city policies or objectives.
2. 19.1% Encouraging economic development is MODERATELY IMPORTANT, but not as important as other city policies or objectives.
3. 59.6% Encouraging economic development is AMONG THE MORE IMPORTANT city objectives, although not the most important.
4. 16.2% Encouraging economic development is THE MOST IMPORTANT policy or objective.

Q29. In thinking about your city's efforts to encourage economic development, how would you compare your city's policies with your neighboring local governments? Please check one of the following. N=131 valid responses.

1. 30.5% My city does LESS THAN our neighboring localities to promote economic development.
2. 27.5% My city does ABOUT THE SAME as our neighboring localities to promote economic development.
3. 25.2% My city does SOMEWHAT MORE THAN our neighboring localities to promote economic development.
4. 16.8% My city does MUCH MORE THAN our neighboring localities to promote economic development.

Q30. When it comes to the OVERALL EFFECTS of your city's economic development policies, which of the following would you say best fits? Please check one of the following. N=135 valid responses.

1. 6.7% Our city's policies have had VIRTUALLY NO EFFECT on its economic development.
2. 20.0% Our city's policies have had SOME MINOR EFFECT on its economic development.
3. 41.5% Our city's policies have had A RELATIVELY IMPORTANT EFFECT on its economic development.
4. 31.9% Our city's policies have had VERY IMPORTANT EFFECTS on its economic development.

Q31. Although it is speculative, if you had to guess, would you say that your city is likely to do more, less or about the same respecting economic development in the future? Which one of the following applies? N=135 valid responses.

1. 4.4% Do less.
2. 37.0% Do about the same.
3. 58.5% Do more.

In describing the role of various groups and individuals in economic development policy in your city, how important would you say each of the following ACTUALLY IS, with "1" being not at all important and "5" being very important.

	Not at All Impor-tant (1)	(2)	(3)	(4)	Very Impor-tant (5)	No. Valid Re-sponses
Q32. City manager or mayor	2.2%	3.0%	8.9%	16.3%	69.6%	135
Q33. City council	2.2%	2.2%	11.0%	19.1%	65.4%	136
Q34. City staff	5.1%	5.1%	19.1%	28.7%	41.9%	136
Q35. Chamber of commerce	8.8%	22.1%	27.9%	22.8%	18.4%	136
Q36. Redevelopment agency	7.8%	3.9%	2.3%	18.0%	68.0%	128
Q37. Other business groups	17.7%	30.2%	31.0%	19.4%	1.6%	129
Q38. Organized labor	69.2%	17.7%	11.5%	1.5%	0.0%	130
Q39. Minority/ethnic groups	60.2%	19.5%	12.0%	6.8%	1.5%	133
Q40. Local newspaper	36.6%	26.1%	25.4%	11.2%`	0.7%	134
Q41. Neighborhood organization	41.8%	23.9%	21.6%	9.7%	3.0%	134

Q42. In the space provided, list any other individuals or groups that you believe are important in affecting your city's economic development policies (open-ended, not coded).

Q43. In general, how controversial would you say economic development issues are in your city? Please mark one of the following. N=134 valid responses.

1. 18.7% Not at all controversial.
2. 45.5% Sometimes controversial.
3. 27.6% Often controversial.
4. 8.2% Always controversial.

Q44. In what department or agency or office is economic development/redevelopment housed in your city? Check one of the following. N=133 valid responses.

1. 9.8% Economic development department.
2. 18.8% Redevelopment agency.
3. 39.3% City manager or mayor's office.
4. 22.0% Planning department.
5. 10.1% Other.

Q45. In the space provided, please indicate your official city title (open-ended, not coded).

Q46. Approximately how many individuals does your city government employ with economic development as their primary responsibility? Use the space provided, and if there is no person with economic development as his/her major concern, please indicate so.

Mean number of employees = 3.
50 (37.3%) communities with 0 full-time employees.
29% with 1–3 full-time employees.
10% with 4–9 full-time employees.
4% with 10 or more full-time employees.

Economic Development Survey, 1994

Please indicate how important each of the following is in your city/county government's efforts to encourage new economic activity. Please consider only business, commercial, and industrial/manufacturing development; at this time we are not concerned about residential development.

RESPOND ONLY IN TERMS OF WHAT YOUR CITY/COUNTY IS AUTHORIZED TO DO OR IS ACTUALLY DOING. IF YOUR CITY/COUNTY IS NOT CURRENTLY AUTHORIZED TO ENGAGE IN A PARTICULAR ACTION, THEN MARK THE "NA" (NOT APPLICABLE) CATEGORY.

Not at all important	= 1
Relatively unimportant	= 2
Moderately important	= 3
Relatively important	= 4
Very important	= 5

Q1. Tax abatement (utility, franchise, or property taxes).
N=70 1=19% 2=19% 3=24% 4=16% 5=23%

Q2. Relief from on-site or off-site improvement requirements or other subdivision regulation.
N=107 1=9% 2=23% 3=31% 4=27% 5=9%

Q3. Loans to businesses.
N=99 1=12% 2=7% 3=37% 4=34% 5=9%

Q4. Financial grants to businesses.
N=88 1=17% 2=15% 3=35% 4=25% 5=8%

Q5. Tax increment financing through redevelopment agency areas.
N=128 1=5% 2=3% 3=11% 4=27% 5=55%

Q6. Community development block grant programs.
N=131 1=13% 2=20% 3=18% 4=23% 5=26%

Q7. Local government assisted advertising and public relations.
N=130 1=5% 2=22% 3=27% 4=25% 5=22%

Q8. Provide land for business through re-zoning for commercial use.
N=115 1=16% 2=15% 3=32% 4=24% 5=12%

Q9. Increasing space available for business by changing local land use policy to allow higher densities or building heights.
N=113 1=26% 2=30% 3=26% 4=12% 5=6%

Q10. Government assembly of land and writing-it down for private sector purchase.
N=115 1=12% 2=13% 3=20% 4=29% 5=26%

Q11. Subsidizing or amortizing infrastructure (on-site).
N=106 1=22% 2=16% 3=24% 4=26% 5=12%

Q12. Subsidizing or amortizing infrastructure (off-site).
N=117 1=8% 2=8% 3=26% 4=32% 5=26%

Q13. Providing discounts for water and/or electricity.
N=63 1=48% 2=21% 3=19% 4=8% 5=5%

Q14. Streamlining the review and issuance of business licenses and permits ("fast-tracking").
N=150 1=2% 2=5% 3=13% 4=29% 5=51%

Q15. Providing a formal commitment by city/county to public/private cooperation through such entities as the chamber of commerce or an economic development corporation.
N=136 1=5% 2=13% 3=19% 4=29% 5=33%

Q16. Establishing a single, public agency/department dedicated to economic development/redevelopment.
N=133 1=4% 2=8% 3=25% 4=23% 5=41%

Q17. Encouragement of industrial parks.
N=123 1=20% 2=13% 3=28% 4=20% 5=18%

Q18. Assuring long-term consistency of development rules.
N=141 1=4% 2=%7 3=25% 4=35% 5=29%

Q19. Relief from payment of development fees, exactions, or permits (e.g., fees for traffic impact, park, building permits, affordable housing).
N=141 1=19% 2=22% 3=30% 4=21% 5=9%

Q20. Subsidy or support for employee training.
N=94 1=14% 2=19% 3=27% 4=23% 5=17%

Q21. Subsidy of business salaries.
N=56 1=54% 2=32% 3=12% 4=0% 5=2%

Q22. Issuance of tax exempt or taxable bonds on behalf of developer to finance project.
N=107 1=14% 2=19% 3=28% 4=26% 5=13%

Q23. Rebate of sales tax or transient occupancy tax to businesses.
N=91 1=31% 2=20% 3=19% 4=21% 5=10%

Q24. Acquisition of multiple smaller parcels for clearance and resale as larger parcels.
N=110 1=13% 2=11% 3=24% 4=31% 5=22%

Q25. Construction of public improvements/facilities in declining areas to stimulate private investment.
N=122 1=4% 2=10% 3=28% 4=29% 5=30%

Q26. Formal procedures for contacting and networking with existing businesses to encourage expansion or retention.
N=124 1=3% 2=11% 3=23% 4=31% 5=32%

Q27. Joint ventures with other cities or local governments to encourage business development.
N=122 1=16% 2=16% 3=25% 4=25% 5=19%

Q28. Establishment of local enterprise zones.
N=82 1=28% 2=13% 3=16% 4=21% 5=22%

Q29. The promotion of a specific industry or private sector activity such as tourism, a farmers' market, or legal center.
N=113 1=11% 2=16% 3=27% 4=25% 5=21%

Q30. Ombudsman service for business.
N=108 1=10% 2=13% 3=14% 4=32% 5=32%

Q31. In the space provided, indicate a policy or activity that was not listed in the preceding list and that you believe is important in your efforts to promote business and economic development. If such a policy doesn't come to mind, please skip this question and proceed (open-ended, not coded).

Q32. When it comes to the city/county role in fostering economic development (non-residential), which one of the following responses do you believe best applies? Please check one of the following. N=154

1. 3% Encouraging economic development is NOT AS IMPORTANT in comparison to other local policies or objectives.
2. 7% Encouraging economic development is MODERATELY IMPORTANT, but not as important as other local policies or objectives.
3. 73% Encouraging economic development is AMONG THE MORE IMPORTANT local objectives, although not the most important.
4. 18% Encouraging economic development is THE MOST IMPORTANT local policy or objective.

Q33. In thinking about your local efforts to encourage economic development, how would you compare your policies with your neighboring local governments? Please check one of the following. N=153

1. 21% My city/county does LESS THAN our neighboring localities to promote economic development.
2. 30% My city/county does ABOUT THE SAME as our neighboring localities to promote economic development.
3. 33% My city/county does SOMEWHAT MORE THAN our neighboring localities to promote economic development.
4. 16% My city/county does MUCH MORE THAN our neighboring localities to promote economic development.

Q34. In thinking about your local efforts to encourage economic development, how would you compare your policies with your neighboring local governments? Please check one of the following. N=154

1. 21% My city/county does LESS THAN our neighboring localities to promote economic development.
2. 30% My city/county does ABOUT THE SAME as our neighboring localities to promote economic development.
3. 33% My city/county does SOMEWHAT MORE THAN our neighboring localities to promote economic development.
4. 16% My city/county does MUCH MORE THAN our neighboring localities to promote economic development.

Q35. When it comes to the OVERALL EFFECTS of your economic development policies, which of the following would you say best fits? Please check one of the following. N=153

1. 6% Our city/county policies have had VIRTUALLY NO EFFECT on its economic development.
2. 25% Our city/county policies have had SOME MINOR EFFECT on its economic development.
3. 43% Our city/county policies have had A RELATIVELY IMPORTANT EFFECT on its economic development.
4. 26% Our city's policies have had VERY IMPORTANT EFFECTS on its economic development.

Q36. Although it is speculative, if you had to guess, would you say that your city/county is likely to do more, less, or about the same respecting economic development in the future? Which one of the following applies? N=155

1. 4% Do less.
2. 34% Do about the same.
3. 62% Do more.

In describing the role of various groups and individuals in economic development policy in your jurisdiction, how important would you say each of the following ACTUALLY is, with "1" being Not at All Important and "5" Very Important? CIRCLE a number for each individual or group.

	1 (Not at All Important)	2	3	4	5 (Very Important)
Q37. CEO (City manager/mayor or chief administrative officer) N=156	1=2%	2=1%	3=8%	4=23%	5=65%
Q38. City council or board of supervisors N=156	1=1%	2=0%	3=9%	4=28%	5=63%
Q39. Individuals on city or county staff N=155	1=3%	2=2%	3=13%	4=41%	5=41%
Q40. Chamber of commerce N=156	1=7%	2=19%	3=30%	4=22%	5=22%
Q41. Redevelopment agency N=152	1=16%	2=8%	3=5%	4=10%	5=51%
Q42. Economic development agency or department N=151	1=21%	2=2%	3=11%	4=22%	5=43%
Q43. Other business groups N=151	1=14%	2=13%	3=38%	4=22%	5=13%
Q44. Area's council of governments N=154	1=42%	2=25%	3=22%	4=8%	5=3%
Q45. Organized labor N=155	1=56%	2=21%	3=16%	4=4%	5=3%
Q46. Minority/ethnic group N=155	1=50%	2=21%	3=21%	4=5%	5=2%
Q47. Local newspaper N=155	1=34%	2=26%	3=27%	4=8%	5=5%

Q48. Neighborhood organizations
N=155 1=40% 2=30% 3=19% 4=10% 5=1%

Q49. Individual private sector entrepreneurs
N=156 1=14% 2=12% 3=23% 4=31% 5=19%

Q50. In the space provided, list any other individuals or groups that you believe are important in affecting your city's/county's economic development policies (open-ended, not coded).

Q51. In general, how controversial would you say economic development and redevelopment issues are in your city/county? Please mark one of the following. N=156

1. 14% The issues are generally NOT AT ALL controversial.
2. 53% They are SOMETIMES controversial.
3. 28% They are OFTEN controversial.
4. 6% They are ALWAYS controversial.

Q52. In what department or agency or office is economic development/redevelopment policy housed in your city/county? Check one of the following.

1. 7% Economic development department.
2. 20% Redevelopment agency.
3. 31% City manager's or mayor's office.
4. 12% Planning department.
5. 6% Have both economic and redevelopment agencies

(Remaining respondents indicated other, referred consultants)

Q53. For those businesses that are relocating to your city/county, are they, in your view, generally moving . . . . Please check one of the following.

1. _____ From within your city/county?
2. _____ From within Southern California?
3. _____ From other parts of California?
4. _____ From out of state?

Q54. Do your economic development/redevelopment policies generally assist new or existing businesses? Please check one of the following.

1. ______ Primarily new businesses.
2. ______ Primarily existing businesses.
3. ______ New and existing business about the same.

Q55. Which of the following businesses would you say receive the most attention from your city/county economic policies? Please check one of the following.

1. ______ Those under 50 employees.
2. ______ Those between 50 and 100 employees.
3. ______ Those between 101 and 199 employees.
3. ______ Those with 200 or more employees.

Q56. When your agency offers a specific incentive package to a business, how likely is it that that business will relocate to your jurisdiction? Please check one of the following.

1. ______ Very unlikely.
2. ______ Somewhat unlikely.
3. ______ Neither more nor less likely.
4. ______ Somewhat likely.
5. ______ Very likely.

Q57. In the spaces provided, please list those cities/counties that you believe compete the most with your jurisdiction for economic development/redevelopment projects and investments. Please list one to five cities or counties.

______ (Please check here if there is NO competition from other jurisdictions)

(List cities/counties in spaces provided)

Most competitive ____
Second most competitive __________________________________
Third most competitive ___________________________________
Fourth most competitive __________________________________
Fifth most competitive ___________________________________

Q58. Which of the following statements best describes the major emphasis of local economic development/redevelopment policies in your jurisdiction? Please check one of the following.

1. _____ The major emphasis of local policy is to increase jobs.
2. _____ Local policy tries primarily to increase the local tax base.
3. _____ Local policy equally emphasizes jobs and tax base.

Q59. In judging the effects of local policy on economic conditions, which ONE of the following statements do you believe best describes the situation in your jurisdiction? Please check one of the following.

1. _____ Our local economic conditions are worse as a result of our policies.
2. _____ Our local economic conditions are neither worse nor better as a result of our policies.
3. _____ Our local economic conditions are better as a result of our policies.

Q60. Approximately how many individuals does your city/county employ with economic development/redevelopment as their primary responsibility? Use the space provided, and if there are no individuals with economic development as their major concern, please indicate so.

_______ Number of employees with economic development as their primary responsibility.
_______ There are no individuals whose primary responsibility is economic development or redevelopment.

Q61. In the space provided, please indicate your official city/county title.

____

____

FOLLOWING ARE A SERIES OF STATEMENTS/QUESTIONS THAT PROVIDE US SOME BACKGROUND MEASURES AND ATTITUDINAL CONTEXT FOR OUR STUDY.

Q62. If you had to use one of the following, broad generalizations, which of the following would you use to describe your general political orientation? Please check one of the following categories.

1. _____Very liberal
2. _____Liberal
3. _____Slightly liberal
4. _____Moderate
5. _____Slightly conservative
6. _____Conservative
7. _____Very conservative

Q63. Generally speaking, do you usually think of yourself as a Republican, an Independent, a Democrat, or other? Please check one of the following categories.

1. _____Republican
2. _____Independent
3. _____Democrat
4. _____Other

Q64. What is the highest educational degree that you have earned? Please check one of the following categories.

1. _____High school diploma
2. _____Associate's degree
3. _____Bachelor's degree
4. _____Master's degree
5. _____Law degree
6. _____Doctoral degree

Q65. Please indicate your gender in the space below:

1. _____ Male 2. _____ Female

Q66. Please indicate which of the following applies to you; check one of the following:

1. _____White
2. _____African American
3. _____American Indian
4. _____Asian American

5. _____Latin American
6. _____Other

Q67. Please indicate your age in the space provided.

________Age in years

Please return the survey in the enclosed envelope. Thank you for your valuable contribution to the study of economic development among local governments. The topic is an urgent public issue. With your help, I will try to improve the understanding and importance of local economic development efforts in California. Please feel free to contact me or to use the blank spaces for comments.

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Economic Development Survey, 1997

The following are local government actions and policies designed to promote economic development. Please indicate how important each of the following is to your community. Consider "1" to be "not very important" and "5" to be "very important."

	No.	Not at All Impor-tant	Rela-tively Impor-tant	Moder-ately Impor-tant	Rela-tively Impor-tant	Very Impor-tant
Q1. Low interest loans to business	75	16%	9%	32%	24%	19%
Q2. Financial grants to business	74	14%	20%	30%	19%	18%
Q3. Tax increment financing	98	7%	5%	16%	20%	51%
Q4. Rezoning for commercial use	121	25%	27%	26%	12%	9%
Q5. Streamlining license/permit review	137	3%	6%	15%	29%	47%
Q6. Encouraging industrial parks	106	17%	19%	23%	18%	24%
Q7. Consistent development rules	133	2%	5%	25%	29%	39%
Q8. Relief from payment of fees, etc.	106	24%	18%	28%	17%	13%
Q9. Subsidy for employee training	55	26%	13%	26%	13%	24%
Q10. Tax rebates to business	63	22%	18%	32%	16%	13%
Q11. Local enterprise zones	33	15%	6%	39%	18%	21%
Q12. Promote specific industry	95	7%	15%	24%	21%	33%
Q13. Joint ventures with other cities	96	7%	14%	38%	21%	20%
Q14. Establishing single agency	97	7%	14%	36%	18%	25%
Q15. Issue bonds for development	104	15%	14%	29%	17%	24%
Q16. Improve declining areas	127	3%	18%	24%	28%	28%
Q17. State enterprise zone	25	20%	16%	24%	16%	24%
Q18. Federal job training programs	59	12%	27%	27%	20%	14%
Q19. Military base conversion	22	14%	14%	18%	27%	27%
Q20. Subsidizing utility rates	28	36%	7%	25%	14%	18%
Q21. Networking with businesses	124	2%	9%	24%	25%	40%
Q22. Property/site referrals	129	4%	6%	25%	26%	39%
Q23. Community development block grants	124	6%	14%	23%	22%	35%
Q24. Advertising and public relations	113	9%	19%	29%	23%	20%
Q25. Assemble land for private	110	9%	9%	24%	32%	27%
Q26. Subsidize on/off site infrastructure	107	9%	13%	30%	28%	20%
Q27. Work with private groups	138	3%	10%	15%	31%	41%
Q28. Buy small parcels, sell as large	89	8%	11%	22%	32%	27%
Q29. Ombudsman service	106	2%	8%	33%	17%	40%
Q30. Permit higher densities/higher	83	32%	29%	28%	4%	7%
Q31. Improve local amenities	130	8%	11%	34%	25%	23%
Q32. Improve quality of local schools	105	10%	10%	29%	32%	19%
Q33. Work with local colleges/ universities	93	13%	14%	24%	32%	17%
Q34. Loans packages for start-ups	48	23%	21%	27%	19%	10%
Q35. Work with area councils of government	128	15%	12%	30%	22%	22%
Q36. Technical assistance for small businesses	84	20%	23%	25%	19%	13%

Q37. In the space provided, indicate policies or activities that were not listed in the preceding list, but which you believe are important in your efforts to promote economic development (open-ended, not coded).

Q38. In thinking of all the items mentioned above, what is the one activity or policy that your community is doing that you believe most encourages new economic activity? (open-ended, not coded).

Q39. How important, in your view, is encouraging economic development in comparison to other local policies or other local objectives? N=139 valid responses.

1.	0%	Not at all important.
2.	7%	Somewhat important.
3.	16%	Important.
4.	77%	Very important.

Q40. In your view, does your community devote time or resources to determine what other communities are doing to attract new business? N=135 valid responses.

1.	35%	Yes.
2.	65%	No.

Q41. In the space provided, please list up to five cities that you believe compete the most with your community for economic development/redevelopment (open-ended, not coded).

Q42. Can you think of economic development actions or policies that your city has adopted as a result of competition with other cities? N=132 valid responses.

1.	61%	Yes.
2.	39%	No.

Q43. Would you say that competition with other communities for economic development causes your community to offer more incentives to business than would be the case without such a sense of rivalry? N=132 valid responses.

1. 65% Yes.
2. 35% No.

Q44. When it comes to the overall effects of the various incentives your community provides to business, how significant would you say these incentives are in influencing businesses? N=138 valid responses.

1. 15% Not at all influenced.
2. 70% Somewhat influenced.
3. 14% Significantly influenced.

Q45. In general, how controversial would you say the use of incentives to attract new business is in your community? N=138 valid responses.

1. 28% Not at all controversial.
2. 56% Sometimes controversial.
3. 15% Often controversial.

How important would you say each of the following governments are to your community's efforts to promote local economic development.

Q46a. County government

1. 37% Relatively unimportant.
2. 44% Somewhat important.
3. 20% Very important.

Q46b. State government

1. 25% Relatively unimportant.
2. 46% Somewhat important.
3. 30% Very important.

Q46c. Federal government

1. 56% Relatively unimportant.
2. 33% Somewhat important.
3. 11% Very important.

Q47. Considering the role of various groups and individuals in economic development policy in your community, how important would you say each of the following is? "1" is "not at all important" and "5" is "very important."

	Not at All Impor-tant (1)	(2)	(3)	(4)	Very Impor-tant (5)	No. Valid Re-sponses
Q47a. City staff	0%	0%	12%	17%	72%	138
Q47b. Chamber of commerce	3%	18%	23%	30%	26%	137
Q47c. Redevelopment agency	9%	6%	7%	18%	60%	134
Q47d. Economic development agency	20%	6%	6%	14%	54%	110
Q47e. City council	0%	3%	9%	24%	64%	138
Q47f. Other business groups	8%	16%	31%	30%	14%	131
Q47g. City manager or mayor	0%	4%	7%	22%	66%	138
Q47h. Local newspaper	16%	26%	28%	18%	12%	137
Q47i . Neighborhood/residential organizations	22%	26%	28%	18%	12%	137
Q47j. Individual, private entrepreneurs	7%	19%	27%	23%	6%	137

Q48. In reviewing the past four years, would you say that economic/business conditions in your community have improved or gotten worse? N=138 valid responses.

1. 33% Have improved a lot.
2. 44% Have gotten better.

3.	18%	Stayed about the same.
4.	5%	Worsened.

Q49. Do you believe that competition among communities for business and economic development is a beneficial or harmful feature of California's economic climate? N=124 valid responses.

1.	52%	Beneficial.
2.	48%	Harmful.

Q50. In thinking about the pattern of policymaking for local economic development and redevelopment policies in your community, which best describes the situation in your city? N=128 valid responses.

1.	38%	Issues are non-controversial, widespread citizen support.
2.	3%	Economic development policy is basically formed by and for local business elites.
3.	16%	Local economic development policy is the product of competition and bargaining.
4.	43%	Economic development involves complex, often informal ties between government officials and business elites, other public objectives are achieved through other plans.

Q51. In considering businesses that already exist in your city and those whom you are attracting, would you say that your local economic development policies generally assist new or existing business? N=135 valid responses.

1.	25%	Primarily help new businesses.
2.	18%	Primarily help existing businesses.
3.	57%	New and existing businesses are helped about the same.

Q52. Although it is somewhat speculative to make such judgments, if you were to evaluate the positive effects of all the policies your community does to improve local and business conditions, how much do you believe these policies have to do with the overall and economic conditions of your community? N=137 valid responses.

1.	0%	Local policies have no effect.
2.	29%	Local policies have a minor effect.
3.	71%	Local policies have important effects.

Q53. Generally speaking, would you say the major emphasis in your city of local economic development or redevelopment policies in your community is to provide jobs for local residents or to increase the local tax base? N=137 valid responses.

1.	45%	Major emphasis is to increase tax base.
2.	5%	Major emphasis is to reduce unemployment, increase jobs for local residents.
3.	50%	There is equal emphasis on jobs and taxes.

Q54. Which of the following businesses would you say receive the most attention from your city's economic development and redevelopment policies? N=128 valid responses.

1.	43%	Under 50 employees.
2.	34%	50–100 employees.
3.	12%	101–199 employees.
4.	11%	200 or more employees.

Q55. For those businesses that are relocating to your city, are they generally moving from within your county, from other parts of California, from outside the state? N=103 valid responses.

1.	58%	From within county.
2.	36%	From other parts of California.
3.	6%	From outside the state.

Q56. In thinking about your local efforts to encourage economic development, how would you compare your policies with your neighboring local governments?

1. 33% We do less than other cities.
2. 35% We do about the same as other cities.
3. 18% We do somewhat more than other cities.
4. 14% We do much more than other cities.

Q57. In assessing the effect of your local policies on various elements of your community, how much would you say each has benefited?

Q57a. Community as a whole? N=135 valid responses.

1. 2% Not benefited at all.
2. 47% Benefited some.
3. 52% Greatly benefited.

Q57b. Real estate/development firms? N=134 valid responses.

1. 10% Not benefited at all.
2. 64% Benefited some.
3. 25% Greatly benefited.

Q57c. Low income areas? N=132 valid responses.

1. 24% Not benefited at all.
2. 59% Benefited some.
3. 17% Greatly benefited.

Q57d. Jobs for residents? N=133 valid responses.

1. 10% Not benefited at all.
2. 64% Benefited some.
3. 17% Greatly benefited.

Q57e. Older parts of town? N=136 valid responses.

1. 15% Not benefited at all.
2. 54% Benefited some.
3. 29% Greatly benefited.

Q57f. Central business district? N=131 valid responses.

1. 13% Not benefited at all.
2. 50% Benefited some.
3. 37% Greatly benefited.

Q57g. Existing businesses? N=136 valid responses.

1. 4% Not benefited at all.
2. 76% Benefited some.
3. 17% Greatly benefited.

Q57h. City image? N=136 valid responses.

1. 3% Not benefited at all.
2. 33% Benefited some.
3. 64% Greatly benefited.

Q57i. Affluent neighborhoods? N=134 valid responses.

1. 39% Not benefited at all.
2. 55% Benefited some.
3. 6% Greatly benefited.

Q57j. Local tax base? N=136 valid responses.

1. 4% Not benefited at all.
2. 49% Benefited some.
3. 46% Greatly benefited.

Q57k. Individual property owners? N=136 valid responses.

1.	10%	Not benefited at all.
2.	74%	Benefited some.
3.	17%	Greatly benefited.

Q58. In the space provided, please indicate your formal title (open-ended, not coded).

Q59. Approximately how many full-time employees are there in your city whose jobs are directly focused on economic development and redevelopment?

1.	42%	Fewer than 3 employees.
2.	24%	3–5 employees.
3.	34%	More than 5 employees.

Q60. In the space below, please name the one department, agency, or office that you consider to be the most important in making local economic development and redevelopment policy (open-ended, not coded).

Q61. How many years have you been involved in dealing with economic development and redevelopment issues, whether in the public or private sector?

Mean	= 13 years.
Median	= 12 years.

Q62. If you had to use one of the following broad generalizations, which of the following would you use to describe your general political orientation?

1.	4%	Very liberal.
2.	10%	Liberal.
3.	14%	Slightly liberal.

4.	32%	Moderate.
5.	21%	Slightly conservative.
6.	15%	Conservative.
7.	4%	Very conservative.

Appendix B

The Factor Analysis

Given the survey responses, the first step in understanding local economic development policy is to assess whether certain local economic development policies tend to cluster together in ways that are substantively meaningful or whether we have to examine each individual action as a separate policy. For 1997, that would require thinking of each policy as unrelated to all the others. On the other hand, do the individual policies actually hang together in smaller clusters? If so, is it possible to employ these measures in some composite measurement of policy? The technique used here to explore the data-reduction issue is exploratory factor analysis. In this application of factor analysis, the policy measures are examined to determine whether they can be summarized in terms of clusters of variables (termed "factors"). The main task involved is to determine the number of factors and which policy actions tend to be correlated with individual factors. In the analysis reported below, the method employed was principal components, employing varimax rotation and the Kaiser criterion to determine how many factors should be extracted. Each factor is subsequently summarized through the use of a factor score based on the correlation of the individual policies with the respective factors. Table B.1 reports the results of an exploratory factor analysis of the local community's policy options used in the respective surveys. Although all the policy variables were used in all stages of the factor analysis, only those variables with factor loadings of ± .600 or higher are reported in the table. In principal components factor analysis with varimax rotation, measures tend to "load" or correlate with a factor at higher levels; high loadings on a factor imply that these measures tend to be correlated with one another as well, but not with measures that have higher loadings on other factors.

Table B.1

Factor Analysis of Economic Development Policy Actions for 1990, 1994, and 1997

1990 Results		1994 Results		1997 Results	
Factor I (30.6%)		Factor I (30.0%)		Factor I (28.3%)	
Sales tax rebates	.917	Assemble land/clearance	.832	Property/site referrals	.670
Development fees relief	.880	Rezone for commercial use	.831	Streamline licensing permits	.639
Business loans	.802	Public improvements	.753	Assure consistent development rules	.633
		Assemble land for private use	.709	Network with businesses	.632
		Subsidize infrastructure	.682	Improve local amenities	.618
		Industrial parks	.641	Work with regional governments	.600
		Tax increment financing	.619		
Factor II (17.1%)		Factor II (10.1%)		Factor II (7.9%)	
Facilitate licensing	.880	Financial grants	.877	Assemble land for private use	.835
Assemble land for private use	.839	Subsidize employee training	806	Assemble land for clearance	.789
Increase density/height	.789	Fee relief	.748	Tax increment financing	.787
		Business loans	.602	Subsidize infrastructure	.694
				Issue bonds for development	.635
Factor III (10.7%)		Factor III (8.6%)		Factor III (6.5%)	
UDAG/EDA	.931	Enterprise zones	.775	Subsidize employee training	.764
Tax abatement	.784	CDBG grants	.740	Establish enterprise zones	.747
				Target declining areas	.693
				Federal job training	.658
				Loan packaging for start-ups	.641

Table B.1 (continued)

1990 Results		1994 Results		1997 Results
Factor IV (8.6%)		Factor IV (7.9%)		
Industrial parks	.871	Tax abatement	–.747	
Tax increment financing	.744	Establish economic development agency	.654	
Subsidize infrastructure	.668	Network with existing businesses	.644	
Establish economic development agency	.603	Public/private cooperation	.643	
Factor V (8.1%)		Factor V (7.9%)		
Rezone for commercial use	.931	Facilitate licensing	–.660	
Site regulation relief	.738			
Factor VI (6.5%)		Factor VI (5.3%)		
Network with existing business	.852	Business ombudsman	.635	
Utility discounts	.738			
Factor VII (5.5%)				
Public/private cooperation	.893			
Advertising/public relations	.710			

The results indicate that in 1990 there were seven factors. However, in only two factors are there more than two policies correlated with that factor. This is important because it is easier to ascribe what the underlying quality of the factor is the greater the number of higher loading variables there is for that factor. For example, Factor I in 1990 comprises three policy actions that each deal with direct subsidies to businesses. As the number of measures correlating with a factor declines, the more difficult it is to assess what the underlying quality is that might be tying these measures together.

The data indicate that by 1997 a fair number of policy measures are clustering into three fairly clear factors. These have been labeled as streamlining, traditional redevelopment, and intergovernmental assistance factors, each of which has at least five policy actions associated with it. On the other hand, 20 other policy actions appear not to cluster at all, and insofar as communities are taking these actions, their appearance seems to be linked to other policies. Consequently, military base conversion issues, small business assistance, joint ventures with other cities, or promoting specific industries or businesses are such "independent" policies. In other words, such policies seem to appear in a community independently of how much emphasis a community places on streamlining, redevelopment, or intergovernmental assistance.

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