

## Theory to Practice

### Article

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### Is the World "Flat" or "Spiky"? Rethinking the Governance Implications of Globalization for Economic Development

In the title of his bestselling book on the impact of globalization on economic development worldwide, *New York Times* foreign affairs columnist Thomas Friedman (2005) proclaims that *The World is Flat*. Basically, he argues that globalization in the information age has diminished the importance of location as a competitive edge in fostering economic growth. Richard Florida, author of *The Rise of the Creative Class* (2002) and *The Flight of the Creative Class* (2005a), counters: No, the world is spiky! In an *Atlantic* article, Florida (2005b) argues that while globalization has exposed many regions to heightened competition, the world is far from flat. It is still quite mountainous, or "spiky," because it is full of clusters where location matters, most notably in cities. Far from existing in obscure and competitive flatness, specific places maintain their prosperity and competitive edge through clustered relationships in which the combinations of infrastructure, technology, specialty activities, entrepreneurial culture,

human capital, and quality of life are quite significant for competitive economic advantage. As Florida puts it, for cities and localities to remain competitive in this global economy, they "need a [friendly] 'people climate' even more than they need a [friendly] business climate" (2002, 283).

This disagreement is no mere academic exercise; it has serious implications for elected officials, public managers, and scholars in the United States as they craft, implement, and evaluate economic development strategies or theories. If Friedman is correct that the world is flat, for example, American communities no longer have a great advantage in innovation because technologies such as the Internet and wireless communication increasingly allow anyone, anywhere on the globe, and particularly in places where wages for highly educated and skilled persons are lower, to be players in the global economy. Logically, then, a business-centered strategy for economic development

becomes appealing—one in which national governments focus on lifting educational standards across the United States while cities and localities reduce the costs of doing business in their communities through subsidies and incentives for regulatory relief.

Yet if Florida is correct that technology and communication advances produce the opposite effect, what might be called a more people-centered economic development strategy becomes appealing. Marshalling quantitative indicators obtained from various statistical sources, he argues that economic activity is zeroing in on particular places that are growing bigger and bigger with the concentration of the "creative class." Those cities doing better than others are luring creative people to their environs by offering amenities (e.g., the arts) and cultural climates (e.g., a tolerance of diversity) that appeal to this creative class of young, upwardly, and geographically mobile professionals who tend to stay single longer and look for community instead. The attraction and retention of these individuals thus becomes the centerpiece of economic growth.

So does geography matter or not, and, if so, how and with what implications for state and local government economic development strategies, administrators, and future research? This article critically examines the Friedman-Florida debate by first presenting their arguments in greater depth. Next, we place these two perspectives within a broader theoretical context, exploring their continuities and discontinuities with four major pillars of economic development strategy in the United States. We then argue that the governance implications of Friedman and Florida's work has gone unrecognized, particularly at a regional level. If *metropolitan regions* are the building blocks of global economies, the world is neither flat nor spiky; instead, it is rough and uneven,

marked by regional clusters that require intergovernmental coordination and regional governance strategies for successful economic development. After articulating how a regional governance perspective can become a bridge spanning Friedman and Florida's perspectives, we conclude by noting various strategies for overcoming the collective action problems inherent in building regional governance institutions, by reviewing several lessons that policymakers should *not* draw from the perspectives covered in our article, and by offering an agenda for future research.

### **The Friedman-Florida Debate: Competing Visions of the Global Economic Development Landscape**

#### ***The World is Flat!***

In *The World is Flat*, Friedman argues that technology has made the world smaller and flatter by breaking down geographic, political, and other boundaries to information flow, international trade, and collaborations. Throughout the 20th century, natural and political geography plus the high cost of communication created "mountains and oceans" of worldwide barriers making it difficult for people to work together. This is what provided a strategic advantage to nations, regions, and cities that could reduce frictions in the market by capitalizing on transportation, communication, and political cost advantages. Thus, economic development strategies focused on such investments made sense for attracting businesses to their jurisdictions.

Friedman argues, however, that a series of events have converged to flatten the world to a degree that geography is no longer a barrier to global commerce and collaboration. The widespread availability of inexpensive computers, standardized file formats and transfer protocols, excess international

fiberoptic cable capacity, outsourcing, and a handful of other trends have greatly leveled the international playing field. The dominant forces in this new flat world are not governments or corporations, but individuals with good ideas and access to capital.

Repetitive tasks can now be done wherever costs are low and there are enough moderately skilled workers available. But higher-paying jobs that require highly specialized training or skills gravitate towards countries, regions, or cities where—by virtue of either education or immigration—the highly trained and skilled specialists live. Thus, in a flat world, place does not matter for an ever-growing number of business and work activities, and locating a business activity depends far less than it used to on proximity to raw materials and physical access to consumer markets. Place matters even less when the products of intellectual capital can move instantaneously around the globe and employees can live almost anywhere.

In reality, Friedman is the latest in a line of commentators who describe the emergence of the global economy as a development with profound consequences for individuals, businesses, and communities. For example, Martin Wolf, associate editor and columnist for *The Financial Times* argues that:

Globalization's changes in technology and the economy...have complex cultural, social, and political effects. Changes in how people are able to earn their living, in what they can buy, in how readily they can move from place to place, in how easily they can transport things, in how they can disseminate and access information and ideas necessarily transform human societies and the individuals who live in them. (2004, 22)

Friedman thus joins Wolf in noting how advances in computers, transportation, and communications—from cellular telephones and the Internet to microchips, fiberoptics, digitization, and satellites—all make technologies for moving information less expensive and more widely available to individuals, communities, and businesses worldwide.

Other frequently noted factors that characterize globalization and that pose challenges for the economic vitality of U.S. cities and towns are rapid growth in the volume of trade, investment capital, and labor moving across borders, as well as continuing change in the international division of labor. The latter is especially true in manufacturing and thus in the comparative advantage of businesses in the United States relative to firms elsewhere. American firms in labor-intensive, lower-productivity manufacturing—for example, textiles or auto parts—face stiff competition from foreign firms that use the same technology but have much lower labor costs. Some similar effects are also occurring in services such as data entry, software, and call centers, but visible and painful losses in manufacturing have garnered the most public attention. All this, in turn, has led many cities and towns to try to overcome these globalization trends by offering a variety of tax incentives, deregulatory measures, subsidies, and infrastructure commitments to businesses they hope to retain or attract to their jurisdictions.

### ***No, the World is Spiky!***

In contrast to the challenges that Friedman sees globalization posing for U.S. cities and localities, Florida sees no leveling of communities competing to retain and attract businesses for economic development. In his spiky world, globalization creates and sustains inequalities among communities.

While global competition is worldwide, only some places experience economic prosperity; others fall into economic valleys. Although there are many factors that determine if a region or community becomes a peak or a valley, what is most significant is that traditional infrastructure tools such as subsidies and regulatory relief for the wrong kind of industries may actually decrease the competitive power of cities and localities. More important still, Florida insists, are investments in quality-of-life factors, or what he calls the "people climate" rather than the more venerable "business climate" historically targeted by cities.

Enhancing the people climate means actively nurturing a community that embraces diversity (racial, gender, ethnic, and sexual preference) and that invests less in retention and relocation incentives for businesses and more in lifestyle amenities. These involve economic development strategies that invest in sport and retail shopping complexes, the arts, urban parks, school systems, public safety, and bike trails. Why? These are desirable to young and mobile professionals who stay single longer and comprise such a significant proportion of the creative class. Florida questions why people who can work anywhere would move to, or stay in, a community with high taxes and poor quality services and amenities.

Not unlike Friedman's arguments, Florida's also are not without precedent. Although he does not invoke the name "Tiebout," for example, Florida's argument shares much in common with Charles Tiebout's (1956) thesis that people vote with their feet on the cost and quality of public goods by moving to whatever community provides the bundle of services they prefer. Florida's quality-of-life factors certainly are at least partially determined by public service provision in areas such as transportation, health care, parks,

recreational opportunities, public safety, and taxes. Likewise, while Florida's claim that returns to human capital and entrepreneurial activity have become more important than physical capital in production is not novel, this insight is still important. Teske et al. (1993) found, for example, that the market for local public goods is driven by a small set of affluent informed citizens. By analogy, if innovative and entrepreneurial people are mobile, what matters for economic development strategies is where higher proportions of talented people choose to locate.

To support his argument, Florida presents evidence that many regions tend to be centers of attraction for highly educated workers and occupations and that wage premiums for highly educated workers have been surging in recent decades. Some cities, in turn, attract this critical workforce by actively encouraging in-migration of creative types—including artists, gays, and techies—by removing discriminatory barriers and proactively promoting diversity and inclusiveness. The policy goal is to create safe, high-density, central-city neighborhoods that are characterized by vibrant day and nightlife. Natural amenities, of course, are beyond the control of governments. However, the quantity and quality of education, public services, and constructed amenities are *directly* shaped by state and local governments.

### **Is There Anything New Under the Sun?**

Despite the seeming breadth of their analyses and the hype given to them in popular media outlets, both Friedman and Florida paint only a part of the economic development picture and provide a limited treatment of a complex phenomenon. To understand this complexity better, as well as the real contributions and implications of Friedman and Florida's ideas for economic development strategies in the U.S., a review of four leading economic development and growth

theories related to their work is useful. These include theories of comparative production factor advantage, institutional theory, human capital theory, and social capital the-

ory. Table 1 summarizes how the ideas of Friedman and Florida build from and add to these four theories of economic development and growth.

**Table 1.** Four Theories of Economic Growth

Theories	Focus	Friedman	Florida
Comparative Advantage Theory	Resource	Low wage	Cultural wealth
Institutional Theory	Institutional Transaction Cost	Decreasing transaction cost from information and communications technologies International regimes	Reducing barriers to entry for creative class workers
Human Capital Theory	Education and Skill	Developing human capital through education	Attracting human capital through amenities and culture
Social Capital Theory	Trust, Community, Relationship	Technology driven collaboration Personalization of distance relationships	Social capital, cultural capital, economic capital Weak-tie relationships

***Comparative Production Factor Advantage***

For most of the last century, economic growth theory emphasized relative production factor costs and comparative advantage created by differences in production and transaction costs. Geography, of course, creates natural advantages in production costs. Proximity to land, labor, raw materials, transportation lines, and markets for finished goods endows some places with a strategic advantage. Yet this advantage has become a less compelling factor today due to the development of transportation and communication technologies. Again, Friedman was not the first to call attention to declining relative advantages defined by proximity to the factors of production, but his work was intended to sound its death knell. But even were the world not flat, some types of goods and services can be produced anywhere in the world and proximity to factors of pro-

duction is no longer strongly correlated with production quality or cost.

Florida, on the other hand, builds on the comparative advantage approach in a more nuanced way. Some place-based factors no longer matter, he argues, but others matter more than ever. If production can be carried out anywhere as Friedman contends, then desirable place-based characteristics of communities and regions increase rather than decrease in importance. This again is not an entirely new insight. Today's textbooks and practitioner manuals for public sector economic development almost invariably include quality of life as an important factor in development choices (cf. Malizia and Feser 1999). So, too, does research conducted on chief executive officers' considerations in business relocation decisions indicate the importance of cultural amenities

and the quality of life that a community offers. What *is* different, however, is the centrality, sequence, and priority that Florida assigns to people-friendly climates. Business activity does not automatically attract workers to cities and localities. According to the sequence described by Florida, local governments must first take action to create livable urban environments valued by talented and creative people. These policies then induce creative class workers to remain in or move to their cities, which then attract business and capital and produce economic growth.

### ***Institutional Theory***

One also finds aspects and embellishments of institutional theory in both Friedman and Florida's arguments. Nobel Prize-winning economist Douglass North (1990) describes institutions as the humanly devised constraints that structure human interaction. They consist of formal constraints (rules, laws, and constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Together, the institutions and technologies employed determine the transaction and transformation costs that add up to the costs of production.

Obviously, subnational governments play an important role in defining the rights, rules, organizations, and institutions that structure local economies, including property rights, governance mechanisms, financial resources, operational rules, and regulations. Among these, however, regulatory tools are unique in that they influence more than just the costs of production. In this vein, Denver Mayor John Hickenlooper (2005) warns that "local government cannot be an impediment to economic vitality," and he advocates cutting red tape in areas such as development

permitting and building inspection. Relatedly, if future rights and regulations cannot be anticipated, local governments create perceptions of risky investment environments and increased capital costs (Clinger-mayer 1989). For example, recent research at the state level demonstrates that economic growth is enhanced when transaction costs are lessened by administrative arrangements that reduce uncertainty over property rights (Feiock and Stream 2001). Nor is the stringency of regulations affecting land-use decisions alone a burden; also burdensome are long development reviews and uncertainty of approval (Jeong 2006).

Thus, reforms in regulatory processes that make property rights more secure and the future more predictable can reduce disincentives and provide a strategic advantage in development competition. Extending this logic to the international realm, Friedman describes China's decision to participate in the World Trade Organization, and thus its acceptance and conformance to the rules and constraints of that governing body, as facilitating offshoring, outsourcing, and the flattening of the global economy. These, in turn, have ripple effects on local economic development because of the mobility of labor and capital.

Institutions, of course, can be private as well as public. As an example, Friedman describes agreement on Internet protocols as one of the forces that flattened the world. They can also be informal as well as formal. Florida, however, elaborates and extends conventional applications of this concept to economic development by arguing that embracing diversity is a key factor in enabling places to mobilize technology and talent. This can be seen as an institutional argument because informal institutional arrangements

that discriminate are believed to disadvantage a community systematically in the competition for talented creative people.

### ***Human Capital Theory***

Theories of endogenous economic growth also are notable in Florida and Friedman's work, with Florida extending the insights of human capital theory beyond what is typically offered. As posited by human capital theory, long-term growth is a function of technological *and* human capital development (Romer 1990). More precisely, enhancing a nation's knowledge and skill base leads to economic growth through development of new forms of technology and efficient and effective means of production. While physical capital is subject to diminishing returns, the accumulation of human capital leads to increasing returns. Knowledge not only increases individuals' productivity, but it also increases the skill level and productivity of the whole work group (see Lucas 1988; Romer 1990).

It is also important to note that in endogenous growth models, an educated workforce plays a special role in determining the long-term rate of technological innovation and long-run growth. The greater the accumulation of human knowledge, the greater the long-range technological progress and productivity gain (Gould and Ruffin 1993). Consequently, government provision of education, training, research, and development influence returns on the factors of production. Public education reduces firm-level production costs and increases the net return to these same productive factors. Prior research confirms that state support for higher education has positive economic consequences (Jones and Vedlitz 1988; Storm and Feiock 1999) and that the power of educational investment does not rest exclusively in expenditures for primary and secondary

education. Recent marketplace shifts make it necessary for higher education institutions to play a more prominent role in the development and commercialization of new technologies. As a result, there has been a refocusing of economic development strategies to include investment in higher education to attract businesses by providing better trained workforces and more robust research and development capabilities.

For their part, Florida and Friedman both recognize that technology has enabled more people to participate in the global economy. Friedman asserts a need to increase efforts to provide better education in science, technology, engineering, and math to ensure Americans are competent in advanced technologies and are most creative in efforts to improve that technology, whether it is product or process oriented. Florida, however, concentrates on the environments that draw and encourage this new class of creative and highly educated people to choose one location over another. His focus on talent is thus an extension of human capital theories of growth. While human capital is typically measured by education, Florida substitutes a measure of creative occupations as a measure of human capital, thus emphasizing current work over past educational achievements. Places are endowed with certain stocks of technology or talent, and these stocks account for different rates of innovation and growth. But human capital is different from more traditional factors of production such as land or raw materials because it is a flow, not a fixed, stock. Creative people are a highly mobile element of production that flow into and out of places. Thus, cities and localities that ignore or cannot meet the quality-of-life concerns of geographically mobile artists, gays, and techies in the creative class risk forfeiting the economic development game to their rivals.

### ***Social Capital Development***

Finally, Florida's (more than Friedman's) analysis draws upon and extends contemporary theories of social capital as they relate to economic development. Opportunities for affiliation with like-minded and diverse others matter for economic development. Research by Coleman (1990) and Putnam (1993) previously linked the effective performance of economies and democratic governance to strong norms of interpersonal trust and civic community. In their view, building trust and consensual allocations of rights establish norms valued by individuals (Coleman 1990, 300), norms that are key elements of commercial and employment transactions (Miller 1992). Moreover, activities and exchange that require agents to rely on the future performance of others can be accomplished with lower transaction costs in an environment of mutual trust in which each actor's commitments are taken as credible and enduring. Conversely, a lack of norms of trust and voluntary cooperation drives up transaction costs and makes exchange more costly (North 1990). Cooperative norms also act as constraints on opportunism, leading individuals to contribute to the provision of public goods.

Several mechanisms link social capital and economic development. Institutional (Miller 1992; North 1990) and common pool resource (Ostrom 1990) economics point, for example, to the critical role of trust, cooperation, and credible commitment for effective markets. Social capital may also effect economic development indirectly through its influences on government performance (Knack and Keefer 1997). Civic involvement also might provide a check on rent seeking (i.e., corruption) and the proliferation of socially inefficient public programs

by helping citizens overcome collective action problems in monitoring public officials.

The question of how communities can enhance their stock of social capital to capture these economic benefits and gain competitive advantage has attracted much attention from practitioners and researchers in recent years. Some scholars link human capital and social capital by arguing that civic education is critical to the development of norms of trust and cooperation (McGinn 1996). Putnam (1993) linked social capital to participation in social organizations. By joining and participating in voluntary associations, citizens build norms and habits of behavior which foster effective collective action as they acquire knowledge, skills, attitudes, and behaviors that enhance self-governance. Putnam also posits that civic community determines both civic involvement and economic development.

To date, however, one finds little effort to test theories about the relationship between social capital and economic development. In an analysis of Italian regions using data from the early 1900s to the 1980s, Putnam (1993) found that civic involvement was strongly correlated with economic development. Conversely, a comparative study of civic community and economic development in the United States by Jennings and Haist (1998) found little support for a positive relationship between organizational activity and development. Yet more support for this thesis comes from a cross-country study of social capital and economic development by Knack and Keefer (1997). Like Jennings and Haist, they found no positive relationship between organizational activity and economic performance. However, when they directly measured trust, civic cooperation, and

confidence in government with survey data, they found a strong positive relationship between norms of trust and cooperation and economic growth.

Recent work at the local level has also found that development programs seeking to reduce inequality are effective in improving community-wide economic development (Tao and Feiock 1999). One explanation for this relationship is that reducing income inequality has resulted in social capital gains that translate into enhanced growth. A growing literature also points to the importance of face-to-face interactions and interpersonal networks for the development of both social capital (Ostrom 2005) and the formation of economic alliances that create strategic advantage (Gulati and Gargiulo 1999).

In these regards, Florida focuses on the broad relationship between culture and economic growth; this is a significant elaboration on social capital theory. He argues that culture operates by enabling and mobilizing the range of human creative possibilities rather than constraining them. An expansive, open culture that does not discriminate on the basis of race, gender, ethnicity, or sexual preference allows people to be themselves and to validate their varied identities. It also unleashes human creative potential and, in doing so, spurs innovation, entrepreneurship, and economic development.

### **Missing Links: Thinking Regionally, Governing Proactively, Working Cooperatively**

As the previous discussion suggests, while both Friedman and Florida attempt to explain great economic and social trends that shape current societies and their economic development prospects and strategies, they differ markedly in many respects. As summarized in table 2, these include differences in focus, major actors, movement/orientation,

primary driving forces, linkages among different capitals (e.g., human and social), importance of place (geographic boundary), and the role of government and economic development professionals.

For starters, Friedman's focus is on globalization processes propelled by transnational corporations, while Florida pays most attention to the rising creative class in American communities and regions. This leads to different views on the direction and nature of society's trajectory, creating a kind of chicken-and-egg dilemma. The basis of Friedman's framework for understanding globalization is that connectedness, outsourcing, and borderless movements of human and economic "capitals" propel the process of international division of labor. In contrast, Florida argues that the concentrating or clustering of the creative class within a particular geographical boundary is an essential phenomenon for economic development. In linking these various "capitals," Friedman seems to view the supremacy of human capital in terms of skills and wages as primary assets that engage a society with the global economy and then produce economic capital and possibly cultural enrichment. However, Florida suggests that cultural wealth needs to come first to draw creative class members who later become the engine of economic growth.

Both authors also differ over the importance of "place" (or location) and the "role of government." Due to the emphasis on globalization and borderless outsourcing by multinational corporations, Friedman suggests that place becomes a less important factor for productivity and economic growth. But Florida views place as central for understanding the role of the creative class. What both *do* share, however, is a constrained view of the role of governance in economic development. Friedman gives a limited role to

**Table 2:** Comparison of Friedman's, Florida's, and Feiock's Frames

Dimension	Friedman	Florida	Feiock
Focus	Globalization	Localization	Regional governance
Imperative	Economic imperative	Socio/cultural imperative	Administrative imperative
Main Actor	Multinational corporations (e.g., IBM, Microsoft)	Creative class (creative core and creative professionals)	Local governments
Movement/Orientation	-Connecting -Borderless outsourcing -Convergence (flattening)	-Concentrating and bounded clustering -Divergence (spikiness)	-Coordination and collaboration -Agglomeration -Regional governance
Driving Forces	-Development of information and communication technologies -Human capital with comparative advantage of wage and skill -International division of labor	-Emergence of creative class -Human capital with comparative advantage of creativity	-Economy of scale for public services -Interjurisdictional collaboration -Industry clusters
Capital Linkages	Human capital (comparative advantage in skills and wage) →Economic capital →Cultural capital	Cultural capital →Human capital (comparative advantage in creativity) →Economic capital	Administrative capital →Economic capital
Importance of Place	Low	High	Medium/High (distance among local government matters)
Role of Government	Limited (to education)	Medium/High	High
Context	Competition among nations	Competition among regions and cities	Competition among regions and collaboration within regions
Policy Implication	Education-focused economic development	Culture-based economic revitalization	Regional governance and development partnerships

government in the areas of education, primarily from a national level. Florida offers more roles for government (e.g., in culture-based urban revitalization, economic growth, and education), primarily at the local level.

Florida describes the rise of the creative class in terms of regional forces, patterns, and trends. The unit of analysis then shifts from regions to cities in discussing policy prescriptions to develop a friendly "people

climate" for attracting and retaining the creative class. This reflects the reality of fragmented local political authority in the United States. Consequently, both authors pay insufficient attention to the role of *regions and regional governance* in promoting economic development. Metropolitan regions are now the central unit of economic activity as economic development in a globalized world becomes clustered through industry agglomeration and collective action among decentralized governmental authorities to create competitive economic advantage. Thus, the world is metaphorically rough and uneven rather than flat or spiky.

As typically conceived, regionalism as a development approach is distinctive. It encompasses the role of industry-specific regional clusters and the provision of regional public goods and infrastructure necessary for development (Feiock 2004). But while regionalism is a distinct approach to economic development, we argue that it can also be a *bridge* or *link* between the global perspective of Friedman and the local perspective of Florida on globalization and what implications globalization holds for economic growth strategies in the United States. Returning to table 2, readers can appreciate this point by comparing a regional governance approach, introduced elsewhere by Feiock (2007), with the Friedman and Florida's approaches.

### ***Toward a Regional Governance Perspective***

Turning to the specifics of this comparison, Friedman focuses on global competition in which the important actors are entrepreneurial individuals, firms, and nation states. Florida acknowledges the importance of regions and international competition, but his policy focus is on competition among American cities to keep and attract creative class workers. Instead, the regional govern-

ance approach seeks to align political and economic boundaries. Metropolitan regions are the building blocks of local, national, and global economies. Economists believe that metropolitan areas constitute coherent and at least partially integrated areas that are large enough to achieve economies of scale (Porter 2000; Faruquee et al. 2006). Yet metropolitan regions are also small enough to allow businesses to create working relationships and to develop trust among partners that are difficult to achieve on a global, national, or state level where less face-to-face interaction occurs.

Friedman also sees economic activity as shaped and driven by network connections to entities (firms, governments, systems of regulation, and populations) that do not collocate and that may locate outside any one metropolitan area (or even country). Cities and regions are merely local nodes within global webs. Agglomerative forces are not irrelevant. However, they coexist in dynamic tension with technological and organizational innovations that facilitate relationships at a distance. In contrast, a regional perspective views *trust* as built through proximity and repeated interaction, which then stimulates collaboration, new technologies, and innovation.

It is also well established that firms and workers often find one another through the intersection of their regional social networks (Granovetter 1985). North Carolina's Research Triangle and California's Silicon Valley are prominent examples in the U.S. of face-to-face interactions where network-based trust stimulated growth and innovations (Dreier, Mollenkopf, and Swanstrom 2001; Orfield 1997; Pastor et al. 2000; Pierce 1993; Porter 2000). Moreover, the tendency of firms to locate near one another produces regional specialization that fosters efficiency and innovation through the mix of

competitive and cooperative relationships among firms, local institutions, and local governments that, in turn, leads to cluster development.

### ***Toward Regional Governance Tools?***

As noted, conventional economic development strategies have focused on building better business climates. In the process of offering various business incentives, competition among state and local governments operates like an economic market. Rather than functioning in a perfectly operating global market for jobs and new development, however, local governments operate in a quasi-market that is subject to market failures and driven by political, not just economic, considerations (Feiock 2002). As such, we agree with Freidman and Florida that the flattening of the world and the rise of the creative class has important implications for economic development strategies. They alter how and with what tools U.S. local governments must compete and collaborate with each other, as well as with urban areas in other countries. To be successful, local officials need to develop the regional institutions to mobilize physical, human, and social capital that will best enhance their economic position. They must then direct local government programs and fiscal policies to attract or produce that environment.

Twenty-five years ago, in *City Limits*, Peterson (1981) contended that the critical pool of labor for cities to capture was affluent taxpayers who would directly enhance the revenue-acquiring capacity of city governments. Building on the work of Tiebout (1956) noted earlier, Peterson also argued that local governments seek to improve their market position and attractiveness as a locale for economic activity through policies that maximize the economic capacity of land, labor, and capital. Because land is fixed at

the local level, local government strategies are confined to creating an institutional environment that promotes growth through land-use regulation and other institutions. Because labor and capital are not fixed at the local level, local governments seek to develop them internally or compete in a political market with each other to acquire desirable labor and capital through services, incentives, and inducements.

Florida builds on this work, but he narrows its target labor pool and reverses the causal mechanism between labor and capital. To him, the critical pool of labor is highly educated, young, and innovative people who indirectly enhance the economic position of a city by attracting technology and innovation-focused businesses rather than vice versa. Moreover, while Peterson (1981) also argued that progressive or redistributive policies pushed out affluent taxpayers, Florida takes almost the opposite position. He claims that this critical labor force of educated, young, and technologically savvy and innovative persons is attracted to cities that offer a certain mix of arts and cultural amenities that proactively promotes and embraces diversity and progressive values. All this, however, may mean higher rather than lower taxes.

We argue that a regional governance perspective can again bridge these approaches. Human capital is particularly productive when deployed in dense urban environments where the interaction of knowledge workers generates spillovers. Consequently, firms are more dependent on regional labor pools, whereas workers are attracted by networks of jobs and occupations rather than by specific firms. Prior research also suggests that investments in the physical infrastructure and human capital of regions significantly affect economic development and agglom-

eration economies, especially in information and innovation-based industries (Dahlenberg, Partridge, and Rickman 1998).

Economic development organizations, administrators, and institutions also need to move beyond "city limits" and coordinate regional networks of local governments and other actors. The difficulty, of course, is that in providing infrastructure and public goods at a regional level, network collaboration among local governments and private actors is critical. Coordination among local governments is inherently challenging, however, because information, agency, and division-of-gains problems typically pose barriers to joint action. More precisely, incomplete information and differences in information levels frequently prevent governments from recognizing the potential gains from partnering. They also increase concerns about the motivations or trustworthiness of potential partners because actors suspect each other of seeking to gain a strategic advantage. Also, agency costs arise if the preferences of public officials negotiating development agreements depart from the preferences of the citizens they represent. Meanwhile, bargaining and division problems frequently impede regional strategies. Even if everyone in the region gains, agreement may not be reached if the parties cannot settle how to divide the economic gains (Carr and LeRoux 2005). Nevertheless, theoretical and empirical work demonstrates that local governments can overcome transaction cost barriers to promote cooperation in regional economic development endeavors (Feiock 2004, 2007; Feiock, Park, and Steinacker 2007; Park and Feiock 2006; Parks and Oakerson 1993). Standard solutions focus on establishing positive reputations, repeating interactions among participants, making credible commitments, creating compatible incentive structures, and linking issues (Dixit 1996; Heckathorn and Maser 1987).

When it comes to regional economic development, the conditions for these collective action problem solutions can be found in various formal and informal networks that link communities in a region (Feiock 2007). Existing agreements among the parties increase the likelihood of future cooperative action by reducing information and enforcement-related transaction costs. Moreover, existing networks add information beyond that found in the simple dyadic (one-to-one) relationship between contracting local government units. If each organization also participates in related agreements with other local governments, the ensuing series of dyadic relationships evolve into a regional network.

Over time, these embedded relationships capture each participant's reputation for reliability and competency (Gulati and Gargiulo 1999). Cities choose partners for new collaborative ventures on the basis of their direct prior experience with other governments, as well as their indirect knowledge of other units through common third parties in the network (Granovetter 1985). The common party in effect vouches for the government units that have not had direct experience with each other. As the network grows more extensive, information about all participants increases because members will have at least indirect information about competency and past performances of other government units.

Regional intergovernmental networks also increase the credibility of any commitments made by transforming short-term relationships into repeated ones and linking participants across several policy domains. Increased in the process are opportunities for punishment if a city engages in opportunistic behavior in any of the regional interactions. A highly clustered, dense network structure also contributes to building social capital

within regions by providing extensive monitoring mechanisms and by facilitating development of mutual reciprocity, trust, and conformance to the rules of the game (Coleman 1990).

At the same time, moves toward metropolitan government can provide mechanisms to streamline the regulatory and development approval process, thus reducing transaction costs for firms needing to gain development approvals from multiple agencies (Feiock 1994; Feiock and Jeong 2002). And while structural consolidation of governments is rare, cooperative development efforts by governments in a region are becoming more common. Bowman (1988) explains that jurisdictions are likely to cooperate when they can each derive benefits. When they occur, regional economic development partnerships become "alliance[s] formed by local governments, often with the help of private sector firms and nonprofit organizations, which ha[ve] a mission of enhancing the economy of a multi-jurisdictional area" (Olberding 2002, 253).

Animated in this fashion, regional reform has evolved in places into partnerships that both coordinate and support marketing and recruitment efforts, as well as impose constraints on member governments (Feiock, Tao, and Johnson 2004; Olberding 2002; Park and Feiock 2006). In this way, collaborative networks and partnerships have been linked to regional vitality (Pierce 1993). For example, 32 mayors in the Denver area recently collaborated on what the city's mayor termed the "most ambitious transit initiative in the country" (Hickenlooper 2005). Intergovernmental policy networks at the regional level also can reinforce advantageous linkages among firms. Putnam (1995) argues that participation by community leaders in business and civic networks increases col-

laboration and reduces mistrust among those leaders when they interact in the public policy arena. What is more, prior research suggests that innovation, research and technology transfers, and job searches are more efficient when embedded in social networks (Weissbourd and Berry 2004).

### **Learning the Right Lessons**

Understanding the mechanisms by which growth occurs is fundamental to designing policies to promote economic development, as well as to scholars seeking to understand, anticipate, and evaluate growth strategies. Thus, globalization, building cultural and social capital, and building networks of regional governance have important policy implications for scholars studying—and administrators engaged in—economic development at every level of government. Yet economic growth is a complex phenomena and care must be taken not to interpret either Friedman or Florida's insights, or our integrative prescriptions, too narrowly or to use them as the basis for simplistic policy prescriptions. Unfortunately, one does not have to look far to find examples where this has happened.

The application of culture-based regeneration strategies is an example of such misplaced prescription. Taking Florida's view that economic development is greatly affected by the concentration of creative class workers who are interested in cultural richness, some cities have set out to create culture-based urban regeneration projects. These are aimed ostensibly at revitalizing a community and fostering economic growth, rediscovering heritage, promoting environmental sustainability, attracting cultural workers and artists, and creating cultural infrastructure. In the same spirit, other cities have pursued cultural governance initiatives involving a collaborative institutional ar-

rangement among different sectors (e.g., governments, cultural organizations, and businesses) for cultural enrichment.

In practice, however, these types of initiatives often have been either intentionally diluted or misguided, with observers frequently taking the wrong lessons from them. In terms of the former, the Newcastle/Gateshead case in the United Kingdom is illustrative (see Bailey, Miles, and Stark 2004 for additional details). It is trumpeted internationally as a successful culture-based urban regeneration project. But while premised on enhancing economic growth, the target was not luring the creative class into its environs. Rather, Newcastle/Gateshead focused on the kind of economic growth that primarily comes from tourism, as well as the improvement that might come from local or regional identity. Unfortunately, many observers have not appreciated the importance of community ties and local identities and sought to emulate its methods when trying to lure the creative class into their cities.

Another simplistic application of Florida's ideas is the effort to create "cool cities." Florida explicitly argues that governmental efforts should emphasize uniqueness and authenticity, but many readers have not heard that message. The most cited example is Michigan Governor Jennifer Granholm's call to "create cool cities" in her 2004 State of the State address: "Over the last year, we've begun an important dialogue about how we can stimulate the rise of such cool cities in Michigan—cities that attract these young workers and the businesses that rely on their talents" (2004, 5). This scenario is little different from the much derided efforts by cities to induce industries such as biotechnology to relocate to their area when they have no unique advantage in that field. Moreover, when misinterpreted and misapplied in this fashion, generic campaigns to promote how

cool, hip, or trendy a city is can actually undermine a community's uniqueness. Critics also claim that focusing on lifestyle issues distracts attention from underlying social and economic problems that are the real barriers to economic development. Kotkin (2005), charges that "rather than address serious issues like housing, schools, transport, jobs and security, mayors and policy gurus from Berlin and London to Sydney and San Francisco have adopted what can best be described as the 'cool city strategy.' If you can somehow make your city the rage of the hipster set, they insist, all will be well."

### **Conclusion and Research Agenda**

We have argued in this article that it is a mistake for practitioners and scholars to narrowly frame their work in terms of the implications and prescriptions offered by Friedman and Florida, respectively. Globalization has produced a world that is neither flat nor spiky. More apt is a metaphor portraying the economic world as, if you will, more clustered and rough (regionally focused) than flat (globally focused) or spiky (locally focused). Put simply, economic development success gravitates toward interconnected regional entities whose competitive advantage lies in collaboration. Thus, regional strategies matter most, can serve as bridges linking flat and spiky world diagnoses and prescriptions, and require proactive and effective governance that overcome collective action disincentives to cooperate.

Whether focused on cities, regions, or both, building business and/or people-friendly environments like those discussed in this article require public investment in the infrastructure needed to create future growth. Yet this is a risky strategy for economic development officials; they typically operate in political environments with short-term rather than long-term time horizons. In fact, the wrong lessons and misapplications of

Friedman and Florida's ideas described above probably reflect the desire for either short-term solutions or quick fixes for declining economies. Recent studies of the policy instruments used in pursuit of economic development also reveal that these kinds of perverse political incentives also lead local governments to employ zero-sum targeted incentives that produce no net gains for a region (Feiock, Jeong, and Kim 2003).

As we have suggested, many institutional and organizational vehicles are available for advancing regional governance. They range from voluntary networks of bilateral and multilateral contracting among jurisdictions and other actors to regional partnership organizations in which either public or private organizations can take a leading role (Feiock 2007). But in each case, local actors must overcome collective action difficulties as they try to initiate, nurture, and sustain them.

All of which leads to a robust and important research agenda for scholars. There is a need to investigate regional collaborations among specialized and fragmented governmental units in relation to the economic and social networks in which they are embedded. This type of research program requires unique concepts, measures, and analytic techniques for analyzing relational linkages in longitudinal network datasets.

Extant applications of network analysis to development collaboration provide interesting insights into network management of economic development, but they have been descriptive in their approach. Future work needs to advance a more analytical approach to the investigation of formal and informal collaborative governance mechanisms. It also needs to statistically test hypotheses

about what leads to the emergence and evolution of creative regions which work collaboratively to promote economic development.

Recent work has begun to fill this lacuna by examining community characteristics, political institutions, and network structures together rather than separately. This institutional collective action framework directs attention to the dynamics of decentralized systems of governance. Limitations in studies of collective action, transaction costs, and networks alike are their focus on the comparative analysis of different institutional structures and their relative ignorance of the dynamics by which the institutional structure emerges (Feiock and Scholz 2007).

The development of interorganizational trust illustrates one means of understanding the dynamics involved in economic development. As collaborations provide benefits to member organizations and governmental units, they can help participants build reputations for being trustworthy, providing in the process a feedback mechanism that enhances future cooperation and collective action. The way these endogenous mechanisms operate deserves greater theoretical and empirical attention.

Recent and ongoing projects investigate the conditions under which economic development collaborations emerge. A national survey of local development officials reports evidence that political institutions and inter-governmental networks among both elected and administrative officials facilitate regional economic development initiatives. Relationships with neighboring jurisdictions also produce interdependencies that safeguard cooperative action and provide a set

of reliable partners from which to develop joint ventures (Feiock, Steinacker, and Park 2008).

Both frequent interaction among cities and other development organizations (strong-tie network relations) and participation in regional associations (weak-tie network relations) have been shown to increase development collaboration. One implication of these results is that creating venues for local officials to interact helps build networks and social capital that lead to cooperative and creative regions. Even membership in a regional association—a weak-tie relationship—was found to enhance the likelihood of partnership activity. This suggests that informal network structures may be effective in generating cooperative benefits in the future. By the same token, voluntary agreements can emerge from a dynamic political contracting process among local government units. Moreover, prior research shows that these can develop even in competitive policy arenas like economic development. Thus, regional governance can provide a public sector complement to regional industry clusters.

The research agenda outlined here is quite promising. It can enhance our understanding of how communities and regions overcome barriers to joint action and how these institutions evolve over time. This work will not only inform theory, it can help practitioners identify incentives for overcoming existing and future barriers to tailoring economic development strategies to the realities of globalization. This will be the case whether the world is flat, spiky, or somewhere in between.

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