

## Theory to Practice

### *Response to Commentators*

### *Article*

## Public Administration Review

January | February 2008  
Volume 68 | Number 1

### **Regional Governance and Economic Development: A Reply to Lyons, Reese, and Morris and Watson**

**Richard C. Feiock**  
Florida State University  
**M. Jae Moon**  
Yonsei University  
**Hyung Jun Park**  
Sungkyunkwan University

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

**W**e very much appreciate the critical insights and thoughtful commentaries that Bill Lyons, Laura Reese, and John Morris and Douglas Watson have provided on our work. They are each generally supportive of the arguments we make, although all of them believe the policy distinctions we draw between Friedman's flat world perspective and Florida's creative class perspective are done too sharply. They also emphasize the competitive nature of economic development among local governments, as well as the difficulty of achieving regional cooperation on economic development, a position we strongly endorse.

Disagreements also exist, however. In her commentary, Reese turns the tables on us by

questioning what is new in our regional governance approach. She expresses "grave doubts" about embracing this approach as a path to economic prosperity, noting the fact that "much research on the most extreme forms of regional integration, city-county, or multi-city consolidations, shows little positive impact on economic growth [or] reductions in intra-regional competition." She suggests a simple alternative focused on "good government" and "running things well." Reese contends that good government ensures the right investments are made and necessary cooperation occurs (play nice with your neighbors). She then advances the proposition that good government promotes economic development by making communities desirable places for businesses to locate and residents to dwell. Morris and Wat-

son charge that we fail to account for the reality of competition and incentives for local governments to go it alone. They argue that our vision of regional governance would require the creation of regional government entities. They also claim that we do not adequately account for both competition and cooperation. We respond to these critiques by first addressing issues relating to Friedman and Florida's work, as well as our own. We then address the issues specific to our regional governance framework and extend the arguments presented in our original essay.

### **Competing or Complementary Perspectives and Approaches?**

We do not believe the approaches to economic development advanced by Friedman and Florida are incompatible; they can even complement each other. The points we attempted to make in our *PAR* article are that they are based on different causal theories and different scales, and that they have been framed in a way that yields radically different policy advice and prescriptions. Similarly, the Reese "good government" approach complements the other strategies, but leads to different policy recommendations for local officials. We believe that these different approaches are complementary to each other, but we also strongly believe that local governments are often faced with policy priority issues. In other words, they often need to make a policy decision regarding which approach they should take first for their short, intermediate, and long-term economic development plan.

Friedman proposes that investment in infrastructure and human capital generates growth; Florida proposes that investment in amenities generates growth. Reese adds the proposition that professional local government management generates growth. All three are empirical questions that deserve

more systematic investigation and rigorous testing. For example, Reese charges that Friedman and Florida's propositions are not easily measured, have not been fully tested empirically, and—where testing has occurred—they do not seem to operate as proposed. Yet there is even less systematic research of the link between good government or professional management and economic outcomes. A panel on "The Performance Premium of Professional Local Management" at the 2008 ASPA meeting in Dallas will present several empirical investigations of this question.

Likewise, and based on selected examples, Morris and Watson describe local and state governments as practical actors that mobilize political and economic resources to pursue economic development only within their own jurisdiction. We agree that the competitive nature of economic development games creates economic and political incentives to go it alone rather than work cooperatively with other jurisdictions. We do not advance a strict proposition that intergovernmental cooperation is always desirable or always generates growth. Nor do we deny the competitive nature of economic development games, particularly in some cases like site selections for high-profile firms or industrial parks. Instead, we argue that the important questions are twofold. First, what accounts for the instances of development cooperation that are observed in the real world? Second, how might those cooperative mechanisms be extended to the programs, policies, and investments that can attract firms and creative class residents? We believe that cooperation can facilitate both Friedman's flat world approach and Florida's spiky creative class approach. Regional cooperation might also be a precondition for the successful implementation of those approaches that aim at promoting economic development beyond particular jurisdictions.

However, local leaders holding hands and singing Kumbaya do little to advance regional development. Effective regional governance is much more than "playing well with others"; it also involves forging politically difficult agreements in situations with high levels of uncertainty and commitment costs. What the three commentaries miss is that regional governance is not a policy in and of itself, or as Morris and Watson describe it, one of the "weapons in the economic development arsenal." Instead, it is a mechanism to coordinate policy action among fragmented political units. It offers facilitating and accelerating effects. Whether the economic development challenges are defined in terms of the technological infrastructure and human capital (Freidman), cultural amenities (Florida), or administrative practices (Reese), the uncoordinated actions of local units will not be capable of effectively addressing the problem.

*Institutional collective action* (ICA) problems arise directly from the delegation of economic development responsibilities to a multitude of local governments in metropolitan areas. Fragmentation of policymaking among multiple government units imposes inefficiencies as decisions by one governmental unit impose positive and negative externalities on others. Thus, the strategies promoted by Friedman, Florida, or Reese cannot fulfill their potential when carried out unilaterally by a single local government.

The collective action problem in economic development stems from the basic competitiveness of individual governments in attracting new businesses. In fact, local economic development conflict is sometimes used to illustrate the prisoner's dilemma (Ostrom 1990). Diseconomies of scale, positive externalities, and negative externalities each

produce collective dilemmas for local governments.

Metropolitan regions have emerged as the dominant economic units in global society, and it is regional resources that are most important to large-scale investment decisions (Katz 2000; Scott 2001). Yet in most instances no single jurisdiction has the scale, resources, or authority to act regionally. Goods and services that enhance development and attract creative class workers, such as cultural and environmental amenities, will be underproduced if they generate positive externalities. The benefits of these amenities and the economic opportunities they generate are enjoyed by free-riding neighbors that do not contribute to their production. Fragmented authority creates incentives for local government to market and promote just their specific jurisdiction or offer incentives to attract businesses to their own jurisdictions. This allows them to add new businesses to their tax rolls and export some of the costs of growth onto neighboring jurisdictions.

This well-documented phenomenon has frequently led to calls for local governments to enter into alliances with other local jurisdictions to strengthen the region's competitive position relative to other regions (Eisenhardt and Schoonhoven 1996; Porter and Fuller 1986). The basic dilemma is that actors are motivated toward mutual defection, yet the greater social reward is obtained through mutual cooperation. Our framework extends theories of collective action among individuals to institutionally defined composite actors such as cities, counties, and government agencies, as well as other organizations (Feiock and Scholz 2007; Scharpf 1997). Externally imposed rules combine with the underlying collective action problem to determine the specific incentives facing each actor. If we assume that institu-

tional actors select the strategy that most enhances their short-term interest, in the absence of coordinating institutions, the collective action problem by definition dictates that the outcome of individual decisions will lead to the "go-it-alone" strategy described by Morris and Watson. The result will be collectively inefficient choices.

### **What's New about Regional Governance? Regional Integration Mechanisms**

While we agree with Morris and Watson's point that many local governments often prefer a go-it-alone approach to a cooperative one, we believe that global economic development competition to attract a qualified population, tourist flows, and productive investments has generated demand for regional action that make the go-it-alone approach more costly. This is especially true when local governments are interdependent economically and socially, because network relations constrain action and regionalism is often presented not only as a practical and feasible solution, but also as a good government, politically correct one.

What is particularly new in all this is the variety of mechanisms to coordinate and integrate development policy. Feiock and Scholz (2007) suggest the range of institutional mechanisms in the American context that have emerged to mitigate regional problems. These range from informal policy networks that fully preserve the local autonomy of the involved policy actors to consolidated governments that resolve the problem by centralizing decision authority over the involved area.

Reese supports her charge that regional governance is not new by equating it with centralized solutions such as city-county consolidation. Consolidated government internalizes unconsidered impacts within broad

metropolitan boundaries by uniting multiple local governments into a consolidated metropolitan general purpose government. Despite arguments that centralization of authority in this fashion promotes rational and efficient urban policy, efforts at city-county consolidation have been unsuccessful in the vast majority of cases in the U.S. The failures of consolidation efforts are attributed to high political and transaction costs and the availability of alternative, less costly coordination mechanisms (Carr and Feiock 2004). Moreover, centralization may shift but not solve externality problems. Thus, transaction costs just become an intra-organizational rather than inter-organizational problem (Brierly 2004). Consolidated or not, existing agencies and government units generally resist their loss of authority. The larger units gain efficiencies in production, but frequently at the cost of reducing the ability of local units to vary the provision of services to reflect different local preferences.

Morris and Watson make a similar assumption that regional integration "would require the creation of overlapping regional structures." Instead, we argue that recent approaches to regional governance rely more on self-organizing solutions. As Ostrom (1990) argued in *Governing the Commons*, locally evolved, self-governing institutions that are adapted to specific local circumstances may provide more effective resolution of collective action problems than central intervention in many circumstances. This type of approach builds from the "New Regionalist" emphasis on the interconnectedness of economic and environmental systems in metropolitan regions by emphasizing voluntary cooperation rather than top-down government to promote regional coordination (Barnes and Ledebur 1997; Dodge 1996; Katz 2000; Peirce 1993; Stephens and Wikstrom 2000; Wallis 1994).

Voluntary regional governance offers several advantages over government-based, top-down regional solutions. By preserving the autonomy of the actors, self-governing institutions avoid the inevitable political conflicts involved in revoking existing authority from local governments. By generally requiring consent of all members, self-governing institutions enhance the search for mutually advantageous resolution of conflicts involved, especially when majorities can impose solutions on unwilling minorities. By ensuring sufficient flexibility for rules, procedures, and exchanges to be decided locally, self-governing institutions can best customize these rules to fit the local conditions.

The institution that provides the greatest local autonomy is informal *policy networks* that emerge to coordinate central policies (Hecklo 1978). Often, policy networks complement and reinforce more formal mechanisms. Formal authority structures in political systems rely on informal, self-organized relationships among authorities for performance and stability similar to how "formal" market institutions are embedded in social relationships that provide critical support to the markets (Granovetter 1985). Formal authority structures are defined in statute, while informal network structures emerge unplanned from interactions among institutional actors and require no formal authority.

*Regional partnership* institutions such as regional economic development partnerships have become the institution of choice to integrate fragmented local government units and multiple levels of governments and private sector actors (Feiock, Tao, and Johnson 2004). They are formally constituted, but voluntary in the sense that members participate at will and must approve activities.

These institutions generally have limited authority to force members to do what they do not want to do, and the forces of both cooperation and competition operate within partnership arrangements.

### **There is No Easy Solution**

Voluntary cooperation has been rejected in favor of imposed centralized solutions not because it is undesirable, but because, like Morris and Watson, most observers believe it is near impossible to achieve. Unequal resource endowments and needs, inequities in negotiating and bargaining position, uncertainty, and other types of transaction costs add barriers to collective action. There are certainly limitations to self-organizing solutions and instances where the benefits cannot exceed the costs of collective action. Nevertheless, self-organized cooperative arrangements to promote economic development are not uncommon. In fact, recent empirical work indicates that both regional development partnerships (Olberding 2002) and informal development policy networks (Feiock, Steinacker, and Park 2008) occurred much more frequently than was anticipated. The well-known examples of successful regional clusters such as Silicon Valley and the Third Italy, as well as the example of Knoxville, Tennessee, that Bill Lyons contributes, provide empirical support for our arguments that institutional collective action to coordinate economic development on a regional scale is possible.

Information and bargaining costs, agency problems, and enforcement difficulties present barriers to self-organizing regional governance. These transaction costs need to be kept low in order for benefits to exceed the costs of collective action. The ability of local officials to self-organize is thus tied to state-level rules, transaction characteristics

of goods, spatial and demographic characteristics of institutional units, and their internal political structure (Feiock 2002, 2007).

Morris and Watson are correct that local governments often "go it alone" for their own economic development in competition with other governments. Lyons is also correct that the type of industry should be part of the picture. Depending on the type of industry, as well as local and regional characteristics, each local government should prioritize its policy options. But regional cooperation is a springboard for both flat and spiky approaches.

It would be naïve to assume that local governments will engage in collaborative relationships if it is not in their individual interest to do so. Moreover, it is not enough that regional approaches produce greater benefit than individualistic action. The institutional arrangements and relationships among jurisdictions must create incentive-compatible mechanisms to reduce transaction cost barriers to collective action. This may not be possible for every relevant policy, thus competition and cooperation co-exist and can even complement each other (Feiock 2007; Hawkins 2008). The example of Hartford, Connecticut, and Springfield, Massachusetts, that Morris and Watson note supports, rather than refutes, the institutional collective action argument we offer.

Reese is also correct that racial diversity can polarize communities and produce high barriers to development cooperation. Homophily (preference for similarity) and the advantages of common policy preferences ease the relationships among homogeneous units. For public officials that are the bargaining agents for their governments, knowledge that counterparts in other jurisdictions represent similar constituencies signals similar political and economic interests. Thus, re-

gional collective action becomes, as Reese suggests, more difficult for local officials in more diverse communities.

### **Conclusion**

We conclude by reiterating some of our arguments. In order to present a potential solution to regional economic development problems, collaborative efforts need to be targeted to the activities that can attract business investment or creative class workers. This is especially important when local governments are under economic stress and need to obtain economies of scale. We argue that collaborative regional governance can complement the ideas advanced by Friedman and Florida.

Can voluntary collaborations among local governments provide solutions to the regional economic problems confronting metropolitan areas? Solutions to fragmented authority are often imposed by statute and are designed and created by a hierarchical coordinating agency. In metropolitan areas, institutional complexity makes the imposition of standardized solutions difficult or impossible. Consequently, our regional governance framework instead focuses on alternative types of integrating institutions that are emergent and self-governing in nature.

Survey-based investigations of the conditions under which economic development collaborations emerge confirm that both the attributes of actors and relations among them contribute to the explanation of how and why local governments decide to collaborate (Feiock, Steinacker, and Park 2008; Hawkins 2008). A city's demographic similarity to its neighbors and its centrality in a social network of local actors influence the likelihood of joint ventures. Both strong-tie networks of frequent interaction among jurisdictions and participation in weak-tie associational networks increase the likelihood

of development collaboration. The implication of these results is that structured venues for local government interactions build networks and related social capital that contribute to cooperative solutions for regional economic development problems.

A final issue for the study of federalism in general and economic development policy in particular is the sustainability of voluntary cooperative relations. Morris and Watson's analogy of the *Survivor* television series illustrates this problem. How can incentives be aligned to reduce the risk of defection from collective agreements? The institutional collective action framework focuses on the role of state governments in defining the powers and fiscal incentives of local units (Feiock 2007). State structures and incentives were addressed by each of the commentators to our essay. We also believe that the career incentives of local leaders are salient. Where progressively ambitious elected leaders have an eye on higher office, there may be political benefit from promoting regional development collaboration (Bickers, Post, and Stein 2007). Likewise, the career market for city managers may reward development success and collaboration (McCabe, Feiock, Clinger, and Stream 2008).

Regional collaboration may be fragile, but experiments based on game theoretic models and empirical studies from other policy arenas suggest that incentive-compatible mechanisms can be sustained (Berardo 2007). The empirical studies of successful economic development by way of joint ventures referenced above indicate competition and collaboration complement each other. Informal policy networks, regional partnerships, and other self-organized governance mechanisms work within the existing constitutional structures and systems of governments. For this reason, their critical integrat-

ing role is often unobserved and underappreciated.

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