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Like Politics, Most Economic Development Is Local

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

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The quest for economic development projects by state and local governments in the United States can be traced back to the beginning of the nation (Babcock 1990). For the past several decades, state and local governments have become even more heavily involved in economic development. Over the years, a significant body of literature has developed that examines this phenomenon in great detail and from different theoretical bases—political, economic, administrative, and social, to name the most common approaches. The overarching premise of this

work is that economic development is largely a local government issue and local governments take the lead in attracting and maintaining new businesses and industries to their area.

More recently, however, the focus of inquiry has shifted somewhat to address the effects of globalization on both the theory and practice of economic development. Illustrative of this more recent approach are Friedman's *The World is Flat* (2005) and Florida's *The Rise of the Creative Class* (2002) and *The Flight of the Creative Class* (2005). Each of these writers employs

vivid metaphorical imagery to describe the "shape" of the world as defined by their conclusions about the distribution of competitive advantage for economic development.

Feiock, Moon, and Park review these works and their conclusions, and suggest yet another metaphor to help visualize their modification of the previous images. In short, these authors suggest that collaboration and cooperation between governments change the landscape of economic development and thus require a modified metaphor that is neither "flat" nor "spiky," but "rough and uneven." While we agree with Feiock, Moon, and Park that cooperation and collaboration are important weapons in the economic development "arsenal," we believe their conclusions fail to account for the realities of economic development in American states and communities. We begin this commentary by reviewing the major points that the authors offer, and then turn our attention to a discussion of the shortcomings of their article. We conclude with some suggestions for a more integrative image of the realities of economic development in the United States.

"Flat," "Spiky," or "Rough and Uneven?"

Feiock, Moon, and Park argue that the governance implications of Friedman and Florida's works have been largely ignored. They then contend that the real lesson of these works is their implications for governance. Furthermore, they suggest that these issues have significant implications for both practitioners and academics working in the area of economic development.

Feiock, Moon, and Park begin their inquiry by comparing the works of Friedman and Florida across a set of related theories—comparative advantage theory, institutional theory, human capital theory, and social capital theory. The works are largely diver-

gent across these four theories, and each work thus comes to a very different conclusion about the effects of globalization on domestic economic development. Moreover, the authors argue that Friedman and Florida ground their respective works in fundamentally different foci: Florida focuses on the role of the creative class in society, while Friedman focuses on the role of transnational corporations. Both Friedman and Florida rely heavily on the importance of "place" to make their points, but in opposite ways: Friedman argues that place doesn't matter, while Florida contends that place matters in terms of the quality of life that various jurisdictions offer.

From this review, Feiock and his colleagues conclude that neither thesis adequately captures the complexity of economic development and that the appropriate bridge to link the two metaphors is a focus on regional governance structures. These regional structures result in a world "that is neither flat nor spiky... [but] ...rough and clustered." The interconnectedness of the modern world means that new structures are needed to create comparative advantage, grow social capital, and develop a workforce that can compete on a much broader stage. These regional institutions "must then direct local government programs and fiscal policies to attract or produce that environment."

Finally, the authors argue that "it is a mistake for practitioners to narrowly frame their work in terms of the implications and prescriptions offered by Friedman and Florida...." We agree wholeheartedly with this statement. Their premise that regional governance is both possible and preferable, and that such a premise is ripe for further exploration, is indeed reasonable. However, the gulf between the normatively preferable approach offered by the authors and the observable realities of the world of economic

development is not insignificant. The next section of this paper offers a critique of the focus on regional governance structures for economic development.

"Rough and Uneven" as a Metaphor: Is it Theoretically "Rough and Uneven?"

Over the past 25 years, all 50 states and almost all of America's local governments over 10,000 population have committed resources to economic development. Some have established departments within their own governments, others have created city-county agencies, and others have partnered with the private sector. In fact, state and local governments have increasingly engaged in competition for economic development, which includes investment of many kinds. The success of elected and appointed officials is often determined as citizens weigh the success of their efforts in economic development. Herein, however, lies the first significant barrier to regional governance for economic development.

Political pressure to create jobs, investment, and new tax revenue within their jurisdictions has led to a highly competitive situation among state and local governments. The increasing competition has led to a dizzying escalation in the types and magnitude of incentives offered by these governments. Unlike how they are evaluated on other expenditures for local services, economic development professionals are judged by the number and size of projects that they bring to the jurisdiction. This has led to a situation that Herbert Rubin described as, "Shoot everything that flies, claim anything that falls" (Rubin 1988).

In the process, state and local governments have become increasingly more aggressive in their efforts to gain an edge on competing governments. Consider, for example, the numerous variations on efforts that local

governments are making to be competitive with other communities. Many cities fund and operate business incubators for startup companies, often as partnerships of state and local governments and research universities. Others offer grants or loans, allow free utility connections, build infrastructure, construct speculative buildings, and provide free land for larger projects. These programs are in addition to tax abatements that most state and local governments offer.

Some of the programs are innovative ones that develop from recognition of unique local opportunities. One example is the venture fund created by North Greenbush, New York, when Rensselaer Polytechnic Institute located its high-tech park there. Other examples are the duplications by some cities of the apparent successes of other cities, such as happened with festival marketplaces (Watson 1995, 23-24, 27-28). Currently, efforts to build "cool cities," as described by Feiock and his colleagues, are good examples of imitation projects.

When Alabama provided approximately \$350 million in incentives to Mercedes-Benz to locate near Tuscaloosa in 1993, officials from Georgia and other competing states were shocked by the size of Alabama's incentive package (Watson 1995, 69-70). In the years since the location of Mercedes-Benz, Honda, Hyundai, and dozens of suppliers have moved to the state, creating thousands of good-paying jobs for Alabama residents. Because of these successes, the political pressure to attract large employers has led to increasingly larger incentive packages.

In short, the problem of a regional governance approach is that it fails to account for the very real incentives in place to promote a "go-it-alone" approach by individual units of government. For every winner in the compe-

tion for economic development, there are likely several losers. If a city competes successfully with surrounding cities to attract a small manufacturing firm to its industrial park, there are other cities that do without. Likewise, the state that provides a winning set of incentives to attract a new automobile assembly plant prevails over all other states that unsuccessfully sought the same project. Mercedes-Benz, Honda, and Hyundai brought their businesses, and that of their suppliers, to Alabama, not to Georgia, Mississippi, Florida, or Tennessee.

Economic development also takes many different forms. While automobile assembly plants are a very visible and large-scale form of economic development, projects also can include the development of a city's new central business district, the redevelopment of a closed military base, the location of a sports stadium, or the development of a transportation corridor between cities in a metropolitan area (see Watson and Morris 2008). Some of these projects are decidedly local in nature, while others are indeed regional. In this case, the "prize" may not be brick-and-mortar facilities directly, but rather the infusion of capital to make such projects feasible. In each case, however, there are likely to be both winners and losers.

In some respects, the regional governance approach is reminiscent of a central premise of the public choice literature, in which the appropriate size and scope of the governmental entity is determined by the size and scope of the problem addressed (see, for example, Ostrom 1989; Ostrom and Ostrom 1972). If the problem and its effects are limited to a small, localized area, then the appropriate governmental unit is one limited to that area. On the other hand, if the problem affects a large area, then the appropriate unit of government to address the problem is one similar in size to that of the problem. By de-

fining economic development as a regional issue, Feiock, Moon, and Park are thus defining the appropriate size of the governmental entity appropriate to address the issue.

If this "size/scope" premise is accurate, then the solution to the problem must go significantly beyond efforts to broaden the views of local officials. While it is true that such efforts are necessary, the heart of the problem is that the institutional structures defined by national and state constitutions create a system in which the "winner takes all." Taxing authority, for example, follows political jurisdictional boundaries; the same is true of electoral districts. Thus, the incentive of an elected official is to represent the interests of the citizens of his or her electoral district. If an economic development project locates in that jurisdiction, the immediate economic effects of that project are claimed by the jurisdiction and its citizens—tax dollars, new jobs, etc., become the reward of that jurisdiction to the exclusion of others. This model is replicable from the smallest wards of a small town to international competition.

In the context of the United States, to achieve the vision suggested by Feiock and his colleagues would thus require a significant revision to sub-state governmental structure—not an insignificant exercise. Moreover, it would require the creation of overlapping regional structures, as the relative benefits of some economic development projects will be more or less than those of other projects. The outcome might well be new levels of complex and overlapping jurisdictions placed over existing (complex and overlapping) jurisdictions.

Integrating Regionalism: "Survivor" Meets Economic Development!

In spite of the objections raised above, we

do agree that there is an important and appropriate role for regional action in economic development. Indeed, such activity is already in place. In terms of the metaphors mentioned in the preceding sections, one might view a large metropolitan area as a "rough" area punctuated by spikes. Before the Dallas Cowboys decided to relocate from Irving, Texas, to Arlington, Texas, various cities in the Dallas/Fort Worth metropolitan area competed to become the new home of the sports team. At the same time, all of the participants agreed it was important to keep the team in the region (see Aaron 2008). However, when the Cowboys chose Arlington over Dallas, Irving, and other cities, the apparent clear winner in the competition was Arlington—a spike within a larger rough area.

A second example is the "Team New England" project conceived and facilitated by Northeast Utilities Services, a gas and electric utility in New England. This multi-state partnership has as its goal the continued economic development of the northeast region (Lombard 2008). The fundamental presumption is that these states, and individual cities within these states, can cooperate with one another to better attract new economic development to the region. By pooling their resources, they can be more competitive collectively than they can individually (resulting in a rough, uneven area). On the other hand, the outcomes are unevenly distributed (spiky)—a project that locates in Hartford, Connecticut, for example, concentrates the benefits in Hartford to the exclusion of Springfield, Massachusetts. The tax benefits flow to Hartford, and it is unlikely that Springfield officials would claim a "victory" for this outcome. While they work together to attract new development to the region, they compete to be the specific location of the development because there are clear benefits that flow to the winner.

We have termed this process "coopertition" (see Watson and Morris 2008, Chapter 1). Different jurisdictions cooperate to increase their individual chances of success. A popular television program, *Survivor*, provides an apt parallel: each game begins with many participants, but only one of the participants can survive to win the single prize of a million dollars. Individual players that attempt to compete as "loners" are rarely successful; the winners are typically those that work with other participants to eliminate other players along the way. In the end, though, it is a "winner-take-all" outcome. Those that do not win may still gain something (appearance fees, fame, promises of future entertainment work) over non-participants, thus creating a rough and uneven group, but the million-dollar winner still represents a big spike in the group! We can imagine a very different outcome if the rules were altered to allow prize money to be shared among several participants. In the same vein, unless the rule frameworks established in the Constitution and in state laws are altered to allow (and encourage) a redistribution of the benefits of economic development, even regional cooperative efforts will likely result in outcomes with clear winners and losers.

Conclusion

In sum, we applaud Feiock, Moon, and Park in their efforts to integrate the previous works, and we fully agree that there is significant danger for both practitioners and academics who attempt to define their efforts in the rather simplistic prescriptions suggested by the metaphors offered by Friedman and Florida. Economic development is a complex process, and simplistic metaphors are likely to lead both practitioners and academics astray. At the same time, we believe that the perspective offered by Feiock and his colleagues, while promising, is incomplete, inasmuch as it fails to account

for the fundamental realities of economic development. Put another way, several decades of work describing economic development in terms of competition cannot be entirely wrong. Any governance theory of economic development must be able to account for both competition and cooperation, and must do so within the confines of the larger governance (constitutional) framework. Finally, we echo the call for further research and theoretical development as a means to better understand the important and complex processes of economic development.

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Continuing Bios...

Dr. Morris currently is the graduate program director for the PhD program in public administration and urban policy at Old Dominion University. He also served as a faculty member at Mississippi State University. He received his PhD in public policy and administration from Auburn University in 1994. He also has served as a senior research associate and research coordinator at the Center for Governmental Services at Auburn University and with Policy Studies Associates, Inc., in Washington, DC. He has published widely in leading journals such as *Public Administration Review*, *Policy Studies Journal*, *the Journal of Politics*, *Politics and Policy*, *Public Works Management and Policy*, and *Environmental Politics*, among others. Dr. Morris is the co-editor with Douglas J. Watson of *Building the Local Economy: Cases in Economic Development (forthcoming 2008)*.

Dr. Watson teaches courses in economic development, organization theory, and local government management in the Master of Public Affairs program and the PhD in Public Affairs program at the University of Texas at Dallas. A former city manager who served three cities over 30 years, Dr. Watson won numerous awards for his work as a practitioner, including the National Public Service Award from the American Society for Public Administration/National Academy of Public Administration, the L.P. Cookingham Award for Career Development, and the Orin Nolting International Award, the latter two from the International City-County Management Association. He is a prolific contributor to leading journals in public administration and the author/co-author of several books, including *Building the Local Economy: Cases in Economic Development with John C. Morris (forthcoming 2008)*, *Spending a Lifetime: The Careers of City Managers (2006)*, and *Civic Battles: When Cities Change Their Forms of Government (2006)*.

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