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The Rise of the Entrepreneurial State

State and Local Economic Development Policy in the United States

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The University of Wisconsin Press

Preface

THIS book was conceived and written in many different places over the past several years, so much so that I read in it with nostalgic pleasure the record of a satisfying academic itinerary across the national landscape. The genesis of this study lies in research I conducted in Atlanta and Detroit in the mid-1970s on the transition to black mayoralties in those cities. I was struck at the time that a major way both mayors, Maynard Jackson and Coleman Young, attempted to reach out to white elites was to promote private investment opportunities, mostly in the downtowns of their cities. That the mayors in these cities concentrated so avidly on commercial construction in their respective central business districts had a certain irony in these racially divided cities. Yet both men justified their attentiveness to what were overwhelmingly white interests by arguing that the jobs and tax revenues generated by these projects would benefit their black constituents both directly and indirectly.

Whatever skepticism or curiosity this argument aroused remained on hold until a visiting appointment at Columbia University in 1982–83 gave me an opportunity to begin to read the literature in the fields of urban and regional economic development, industrial location determinants, and job creation. From that year's reading I developed a course in the politics of economic development policy that I taught in two subsequent years at Wisconsin, once at the undergraduate level and once to graduate students in the La Follette Institute of Public Affairs.

It was in the classroom that my education in this policy domain began in earnest: some of my graduate students were actually employed at the time in the Wisconsin Department of Development (the state's economic development arm); others had worked as local public officials and had first hand experience with tax increment financing districts, UDAGs, and other arcana of the trade. In front of these students, and with their help, I framed what I believed to be the key questions that challenged social science scholars as well as practitioners in this field. Periodic reality tests were provided by visitors from state and local government and the private development community whom we asked to come to tell us how economic development really worked.

In 1984–85 I was asked to serve on the Advisory Committee of the Wisconsin Strategic Development Commission. The SDC, appointed by Governor Tony Earl, was charged with developing an analysis of the Wisconsin economy and a plan for its revitalization. The committee on which I served functioned principally as a sounding board for the commission staff, though the SDC executive director, Robert Milbourne, and assistant director, Carol Toussaint, surely taught me far more about economic development than I taught them. Both provided able and patient instruction on the limits and possibilities of state intervention in the local economy in the context of Wisconsin politics. In addition to my duties on the Advisory Committee that year, I was also commissioned to write several research papers on various topics, including tax abatements, industrial location determinants, and high technology job growth, for several of the specialized policy groups into which the Strategic Development Commission was organized.

In the summer of 1985 the La Follette Institute of Public Affairs at Wisconsin and its director and my colleague, Dennis Dresang, provided generous support for me to begin to outline this book. Then in the fall I moved westward to the Center for Advanced Study in the Behavioral Sciences in Palo Alto where I spent a golden year writing the first two-thirds of the manuscript. It is scarcely a novel observation among social scientists to say that there is probably no place on earth more pleasant or supportive to work than the Center. There is certainly no more stimulating group of colleagues, no better lunches, no more cutthroat volleyball. Partial support that year came from the National Science Foundation (grant number BNS-8011494), while the remainder came from the Wisconsin Alumni Research Foundation. I am grateful to both sources. I also wish particularly to thank Gardner Lindzey and Bob Scott of the Center for their encouragement and the CASBS librarians, Margaret Amara, Rosanne Torre, and Bruce Harley, for their efficient and good-natured help.

The thought of being coast-less after a year in California led me to the other edge of the country to accept a generous offer to join Brown University's Taubman Center for Public Policy as a visitor in 1986–87. Aided by the fine resources of the Taubman Center and two thoroughly competent undergraduate research assistants, Sandy Roth and Diana Edensword, I finished the book. Then I went home to Wisconsin.

During the years of writing this work I have presented segments in various lectures and conferences in the United States and Canada, and various people have read and commented on my work. Among the latter

I wish especially to thank Tom Anton, Bob Bates, Dick Bingham, Otis Graham, Bob Milbourne, Nelson Polsby, John Portz, and Graham Wilson. I wish also to thank Gordon Lester-Massman, my editor at the University of Wisconsin Press, for his loyal stewardship, and Robin Whitaker for her meticulous and helpful editing.

Finally, I wish to thank my family: between 1982 and 1987 my two children, Jesse and Sarah, went to a new school every year as we trekked back and forth across the country. They survived the modest traumas of annual dislocation with a wonderful equanimity and a perpetual sense of adventure. They even seem to have learned something in the process. I am genuinely grateful for their capacity for adjustment. And of course I am grateful to Erica, whose appetite for this journey was easily as great as my own.

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Part I

GROUNDWORK

CHAPTER 1

An Introduction to State and Local Economic Development Policy

SOMETIME after the mid-1970s there emerged on the state and local scene an intense preoccupation with economic development that has been marked by a level of consensus and expectation unusual in American politics. Other domestic policy issues have swept in similar fashion to the top of the political agenda in recent decades, commanding nearly universal engagement or interest: civil rights, the environment, energy, and even the "social agenda" of the New Right are examples. But the divisions that characterize politics in these passionate arenas stand in contrast to economic development, in which common purpose, the public interest, and partnership are key terms of discourse.

This is not to claim that there are neither disagreements about means nor competition for resources among places and interests in the politics of economic development. Rather it is to suggest that this policy domain is marked by an extremely broad agreement as to the desirability of substantial government involvement in the creation of private-sector employment. Acceptance of this proposition is not, of course, universal, but nevertheless it comfortably crosses partisan lines, urban-rural divisions, the racial cleavage, and regional boundaries. Many Americans seem convinced that they can truly help to shape the economic destinies of their states and communities through public intiatives. In the technical language of tax abatements, venture-capital pools, industrial revenue bonds, tax incremental financing, and high-tech incubators, people see hope for salvation from a world of harsh competition and impersonal economic transformations. If those other policy arenas that so dominated American politics in their time entailed deep conflicts, sacrifice, and for some the prospect of defeat, economic development appears to hold out the possibility of prosperity for all.

Economic development policy refers to those efforts by government to encourage new business investment in particular locales in the hopes of directly creating or retaining jobs, setting into motion the secondary employment multiplier, and enhancing and diversifying the tax base. In the United States, economic development involves efforts to foster subnational economies, even when economic development policies originate with the federal government. Questions of national economic efficiency or well-being are often lost in the competitive struggle to achieve local prosperity and security. The result of such a focus in practical terms is that the national economy is to some degree the sum of its subnational parts, some developed and prosperous, some not, and all in mutual competition for private investment and resources.

To the extent that Americans in the modern period have sought deliberately to foster *national* economic development (the word "national" almost never modifies "economic development" in American politics), it has been largely through the blunter tools of macroeconomic tax and spending policy and monetary controls. Development models that involve selective national intervention at the firm or industry level—commonly a component of national industrial policies—have failed to take hold in national politics in the United States. The reasons for this outcome are manifold, but the failure is at least partly a function of the uneven geographical distribution of particular industries. A national industrial policy would thus have the effect of forcing the federal government to make politically unacceptable choices among *regions* as it went about favoring certain industrial "winners." This is one constraint that does not inhibit states and cities, however; firm- and industry-specific instruments of intervention, applied in varying degrees according to strategic considerations, have proliferated at the subnational level.

These policy instruments have emerged so quickly and in such variety that the field has outpaced broad-gauged efforts to reflect upon it from a global perspective. The purpose of this book is to do just that, namely, to characterize and analyze the policy domain of subnational economic development as a whole by exploring its modern origins, its justifications and practical elements, and the basis of its dynamics.

There are at least three important reasons for this enterprise. One is that economic development is an increasingly important government activity—a point I shall amplify in the next chapter—but we know surprisingly little about it of a systematic nature. Much literature is pitched to the needs of practitioners, and scholarly work on the subject is often narrowly focused and fragmentary. There are no established frameworks. The field lacks an analytical synthesis and a critical interpretation.

A second reason for this effort is to document an unusual development in the way in which government in America relates to the economy. Government involvement with the market in the United States has typically been described in terms of a "weak state" model: one of its crucial distinguishing features is that investment and production decisions are left almost entirely to the private sector (Zysman, 1983, p. 19; Krasner, 1978, p. 61). Government pursues no conscious development strategy. Its primary economic role is to provide a supportive macroeconomic and regulatory climate for business.

The weak state is contrasted with European and Japanese models of public intervention, in which government action is informed by long-term market developments (Johnson, 1982). Among other initiatives, governments set up pools of public money to invest in particular economic sectors, offer loans at favorable rates to selected firms or industries, and subsidize civilian research, all in response to the elements of centrally planned strategic guidelines. Unlike the macroeconomic manipulations that more or less define the limits of American intervention in the economy (the Chrysler loan notwithstanding), intervention in the strong state is as likely to occur at the level of the economic sector or the firm. As Krasner writes of the Japanese strong state, such a level of intervention blends "a high regard for private enterprise . . . with a belief that the government should act as a well-intentioned guide" (1978, p. 60).

What is taking place in American subnational politics in the economic development domain falls somewhere between the strong- and weak-state models, a distinctive mix of elements much influenced by its American environment and limitations. But on balance it is apparent, even as this nascent development that I have called the entrepreneurial state takes shape, that its dominant features owe more to the tradition of intervention that marks the strong state. Entrepreneurial-state policies represent a clear departure from the system of public support for company-led economic decision-making that has typically characterized joint public–private-sector relationships in the American political economy.

A third reason for this study is to suggest the importance of attending to subnational policy developments in the United States, for to overlook these generally in favor of a focus on Washington, particularly in the field of economic policy-making, is to come away with only a partial grasp of the nature of American political impulses and possibilities. What is so striking about the domain of economic development policy, aside from the sheer fireworks of policy invention, is the disjunction between subnational and national economic strategies. Although some of this disjunction is the product of rhetorical flourishes, it nevertheless reflects genuinely different levels of engagement. At the national level during years in which the entrepreneurial state took shape, the critical ideas were deregulation, privatization, the free market, voluntarism, and the supply-side macroeconomic doctrine. Yet the entrepreneurial state is based on a strategy of intervention, guidance, and initiative in the economy. The 50 states and many of their communities are in the process of fashioning, with varying degrees of vigor and coherence, separate little industrial policies, self-conscious attempts to foster selected industries judged to provide comparative local advantage or to be critical to the local economic future.

The case of economic development policy thus demonstrates several points about American politics. It illustrates the versatility of a federal arrangement that permits governments at the two different levels to pursue quite different (though not necessarily conflicting) courses of policy. It provides yet more evidence of the pragmatism of American politics, where policy choices may be less governed by ideology than necessity and the desire for results. And it suggests finally that much of the effort to shape the American economic future has devolved to the state capitals.

The Idea of a Policy Domain

The focus of the present analysis is the substance and context of a distinctive policy domain. The term has a simple, though particular, meaning. A policy domain is an arena in which actors seek to craft and implement solutions and responses to one or a set of given public problems. The ultimate problem in the economic development domain in the simplest terms is to oversee the creation of sufficient, stable, well-paid employment to ensure and enhance the collective well-being.

The relevant actors who populate this domain constitute a fairly small elite. At the center are political chief executives, governors and mayors, for whom economic development has become a major responsibility. Their function is to articulate development goals and create the coalitions to generate and implement policy initiatives. In addition, they have long functioned as major promoters of the state or local business climate. They also serve as zealous sales representatives abroad for local products and even particular firms. Development professionals in both the private and public sectors—economic planners, state labor economists, industrial-site development specialists, corporate officers charged with government liaison, chamber of commerce officials and the like—are also constant and critical actors. Their functions include the invention, promotion, and implementation of economic development policy

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