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The Era of Entrepreneurial Cities

Local political arenas are expanding as localities take on more entrepreneurial economic roles and broader political responsibilities.

In American cities, local officials face continuing imperatives to pursue local economic development activities, but with problematic authority and resources. Local economic health is shaped by national and international investment decisions over which local officials have little control. These external constraints and opportunities are likely to persist. Simultaneously, local officials face fiscal pressures and competing demands for local resources. On the one hand, they have a real stake in sustaining and enhancing local economic development processes because of their dependence on private investment for public revenues. On the other hand, they need to satisfy citizen demands for services as well as jobs. They literally cannot afford *not* to do so, in fiscal and political terms. For these reasons, the local search for new policy approaches is ongoing.

The policy objectives, then, are to work out local economic development strategies that will increase revenue stability, decrease vulnerability to external "shocks," provide good jobs to local citizens, and increase the overall satisfaction of city residents. These strategies must be sensitive to both economic uncertainties and political constraints and cognizant of the limited effects of previous strategies designed to increase local employment and income. Because they increasingly rely on local resources, local officials have strong incentives to find the most efficient uses of their funds for development purposes.

Here we provide an overview of the changing orientations of local development policy choices over time, linking policy characteristics to their particular historical and political contexts (for other classifications of economic development policy orientations, see Sternberg, 1987; Hanson and Berkman, 1991; Lowery and Gray, 1990; Leicht and Jenkins, 1994). We chronicle the development of these policy choices through the federal era, detail policy shifts in response to the national withdrawal from cities, examine the different waves of policy use in the postfederal era, and identify clusters of development policies used by cities.[1] Four overlapping waves of policy initiatives stand out:

First wave: locational strategies (historical)
Second wave: transitional entrepreneurial strategies (mid-1970s to mid-1980s)
Third wave: Postfederal entrepreneurial strategies (late 1980s through 1990s)
Fourth wave: globalization and human capital (mid- to late 1990s)

We trace the first three waves by defining the distinctive characteristics of policy orientations predominant during these periods. The entrepreneurial strategies documented in this chapter are transitional strategies, moving away from the industrially oriented locational strategies. If the changing work of cities unfolds in the ways scholars anticipate, this activist entrepreneurial approach should ease the move toward local strategies aimed at human capital development and global-local links. Our recent studies detect the emergence of this fourth wave: more initiatives that incorporate human capital concerns and infrastructure development appropriate for a global economy (see chapter 7).

It is important to note the overlapping nature of the waves of policy innovation. This is not a process of policy displacement but of layering of different approaches. Once adopted, strategies build constituencies around the benefits they provide, so policy termination is difficult and infrequent. With each successive wave, policies from previous waves are usually retained while new initiatives are explored for their fit with changing circumstances. Thus while the tool kit of policies expands, over time its composition may alter to reflect different emphases in approaches. Cities gain knowledge about many economic development approaches through participation in national programs and in specialized policy networks. After a brief discussion of the broad issues involved in data collection and methodology, we compare below local strategy choice during the period of active federal programs and later in the absence of federal resources.

The Historical Context of Local Policy Choices

Keeping in mind the structural imperatives and broad policy objectives present in every American city, the menu of possible local policy initiatives

is shaped by knowledge of policy options and the nature of competition and production processes at any historical moment. These policy options reflect local officials' understanding of contemporary growth processes as well as the influences and incentives proffered by national policy makers as they steer local choices.

First-Wave Strategies: Locational Incentives

As noted in chapter 2, locational incentives are designed to reduce the costs of production factors in a community relative to other locations in order to attract business relocations or expansions. For the city seeking a competitive advantage over other cities, the logic is to create an advantageous price structure for "production factors," thereby creating a comparative locational advantage. Eisinger (1988) labels these policies as supply-side approaches aimed at subsidizing production costs.[2]

A reliance on the taxing and regulatory authority of local governments is integral to locational strategies. Low-interest financing—frequently offered in the form of industrial revenue bonds, tax credits, abatements, deferments, and exemptions—subsidized industrial job training, and assistance with site selection and preparation are common locational policy tools (Fosler, 1988b, 312). The rubric of locational strategies also includes the notion of creating a "positive business climate." The aim is to project an image of a probusiness atmosphere. This deliberately vague concept usually includes low taxes and regulatory policies designed to keep production costs low, such as relaxed environmental legislation and right-to-work laws (Plaut and Pluta, 1983, 99). Overall, the defining characteristic of locational policies is the effort to produce lower costs for business relative to other cities. The local policy role entails calculating the city's comparative advantage and bidding for businesses; the public role remains subordinate to private sector decisions (Eisinger, 1988; Fosler, 1988a).

The reassessment of local development policies under way in many American communities is prompted in part by changing economic conditions. It is also buttressed, however, by a conviction that previous approaches to local economic development, particularly locational incentives, cannot be justified on grounds of effectiveness or efficiency (e.g., Lugar, 1985; Blair and Premus, 1987). Business attraction and retention strategies are criticized, for example, because no net national economic growth occurs, the firm itself garners the great bulk of the profit (according to rent models), and the profit to a firm located in the city may well "leak" to a multinational corporate conglomerate. The use of subsidies, tax incentives, and tax abatements also raises substitution issues regarding the use of public funds—would this investment have occurred anyway?

Second-Wave Strategies: Transitional Entrepreneurial Incentives

Although revenue imperatives and interjurisdictional competition for investment ensure that locational incentives will remain in local repertoires, the trends and changing economic conditions we have discussed encourage consideration of a distinctive policy orientation reflecting more market-based, or "entrepreneurial" (e.g., Eisinger, 1988; Harvey, 1989), economic development strategies. According to Eisinger, entrepreneurial policies shift the intent of the inducements from locational incentives to fostering "those indigenous capacities to serve new or expanding demands by providing resources that permit direct penetration or capture of a particular market or that permit a risky but potentially productive undertaking that would not have gone forward without government support" (1988, 230).

Like locational economic development policies, entrepreneurial economic development policies have roots in a theoretical understanding about the process of economic development. Conventional economic development strategies were based on the premise that the market had failed and therefore required direct public intervention in support of private business activities. Market-based strategies argue that market failure (e.g., unemployment) or market underdevelopment (e.g., low-wage or part-time jobs) can be redressed through the market system itself. Market-based public policy relies less on direct grants and more on leveraging with public funds and authority to minimize market imperfections in labor and capital markets (often due to information gaps) and to encourage market expansion in a locality.

Reducing market imperfections and encouraging market expansion are not new economic development strategies. What distinguishes market-based economic development strategies from more traditional approaches is the focus on facilitating value-creating processes by private investors and the investment and risk-taking role adopted by local officials (Vaughn and Pollard, 1986). Variously labeled "generative development," "enterprise development," and "entrepreneurial" strategies, these new approaches center on policies that support the creation of new economic activities by the private sector (Committee for Economic Development, 1986, 20). Their wealth-creating approach entails removing barriers to the creation and expansion of smaller firms and increasing the rate of enterprise development within the community. This is seen as enhancing the

adaptiveness and flexibility of local economies and thus hedging against external "shocks." Some analysts dispute the emphasis on small firms per se (Vaughn and Pollard, 1986), but there is general agreement that an emphasis on removing barriers to the formation of new enterprises is an essential policy objective.

The federal lineage of many local entrepreneurial strategies is not well-known and rarely acknowledged. Although the advent of these market-oriented, entrepreneurial approaches onto state and local agendas is often traced to the period during and after the recession of the early 1980s (Clarke and Saiz, 1995; Lowery and Gray, 1990), their roots go deeper. Many market-oriented tools and financing techniques were introduced to local officials by involvement in federal economic development programs. Not every national program was amenable to entrepreneurial use. A few, however, are notable for providing local officials with flexible and relatively discretionary resources to respond to economic problems and opportunities in their jurisdictions. The programs permitting cities to use market-based strategies include the Economic Development Administration's Title II (Business Development Loans) and Title IX (Special Economic Development and Adjustment Assistance) programs; the Department of Housing and Urban Development's Community Development Block Grant program after 1978, when economic development became an eligible activity; and HUD's Urban Development Action Grant program.

The incentives and resources in these programs provide the distinctive characteristics of the second wave: cities often continued to pursue cost-reduction strategies, but they expanded their concerns to encompass new growth processes and gained experience in more entrepreneurial public roles. Originally, none of these programs envisioned local officials as entrepreneurs or direct participants in local economic development. In general, program funds most often were aimed at providing public services or facilities to encourage community development or at providing loans and grants to businesses either directly or through intermediary organizations. And in our interviews, local officials indicated that cities are not entrepreneurs across programs: cities may use one program conventionally and another in a more entrepreneurial fashion. This flexibility may reflect program differences and changes in program design over time but also is likely a response to local program constituencies and expectations.

Beginning in the mid-1970s, EDA Title II and Title IX laid the groundwork for local entrepreneurial efforts by encouraging the establishment of revolving loan funds and a wide range of local economic development activities. Given that many cities at this point did not have the legal capacity to make loans to either for-profit or nonprofit organizations, EDA's requirement that funds be used to make loans fostered the formation of quasi-public organizations and local development corporations to receive funds "passed through" by local government. By 1979, the Carter administration proposed to reshape EDA programs to emphasize business development in distressed areas through more locational incentives and increased credit availability. Although these ambitious plans were not realized, both Title II and Title IX offered cities, public corporations, and nonprofit organizations substantial, flexible economic development assistance. Most cities continued to use their EDA funds for planning, public works, and public facility provision efforts. Some cities, however, used these funds in more market-oriented ways, by setting up revolving loan funds, investing in industrial parks, or entering into joint ventures for rehabilitation or commercial revitalization.

The Community Development Block Grant program amendments of 1984 included two important features: (1) they allowed cities to use CDBG funds for an extensive range of special economic development purposes, and (2) they allowed cities to direct funds to private for-profit entities where "necessary and appropriate." Even economic development projects not explicitly listed as eligible, such as new housing construction, might be undertaken if sponsored by neighborhood-based nonprofit organizations, small business investment companies, or local development corporations. The program allocations vary widely each year at the city level (see Rich, 1993b). But by FY 1988, economic development spending accounted for 13 percent of CDBG program spending (U.S. Department of Housing and Urban Development, 1989, 14). Nearly half of that amount went into loans and grants to businesses, revolving loan funds, joint federal-private projects, and investment in activities generating program income; the rest was spent on conventional infrastructure improvements.

Urban Development Action Grants, the most market-oriented approach, started out in 1978 with local officials acting as contractual partners but functioning primarily as financial conduits for federal project funds. Over time, cities began to use UDAG funds in more entrepreneurial ways: instead of making grants or unrestricted loans to private sector partners, cities began to use UDAG funds as public investment capital. That is, cities used UDAG funds for equity participation in projects or committed funds in exchange for net cash-flow participation in project returns. They increasingly used loan repayments and program income to capitalize revolving loan funds or as venture capital for local projects. By FY 1988, more

than 66 percent of UDAG projects included equity participation providing future income streams (U.S. Department of Housing and Urban Development, 1989, 56). Cities, usually friends of business, had now become partners in both the planning and the profits.

Although these national programs inspired local entrepreneurial initiatives, cuts in program funds for local economic development began during the Carter administration and accelerated under the Reagan administration's New Federalism approach. During the 1980s, decreases in national program resources were accompanied by periodic efforts to eliminate or consolidate several community development programs. The volatility of federal resources, as well as absolute cuts in the level of resources, persuaded many local officials to turn to other sources of support for local economic development activities.

Third-Wave Strategies: Postfederal Entrepreneurial Incentives

In a growing number of American cities, local policy choices in this nonfederal period are characterized by market-based, "entrepreneurial" economic development strategies.[3] The complex, market-based local policy initiatives of the postfederal generation are less visible and less easily characterized than are nationally designed programs for local economic development. These initiatives are not embodied in specific programs or agencies, but rather in particular policy tools or strategies used by local officials to encourage entrepreneurial processes. These strategies encompass a number of different policy instruments, but they share certain features that distinguish them from previous policy approaches. Below is a list of features that characterize market-based, entrepreneurial strategies (Clarke and Gaile, 1989b):

Purpose: They tend to stimulate new enterprise rather than stabilize or protect (Dubnick and Bardes, 1983).

Focus: They tend to focus on using government authority to shape market structure and opportunity rather than to influence the functions of individual businesses (Sternberg, 1987, 152).

Criteria: They tend to use market criteria, such as maximizing rates of return, rather than political criteria in setting priorities for allocation and investment of public funds.

Finance: They tend to leverage public and private funds rather than rely solely on one or the other.

Public roles: They tend to rely on joint public-private ventures for implementation of economic development projects rather than on bureaucratic approaches.

Administrative ease: They tend to be easier to administer because they often are managed through quasi-public agencies rather than line agencies.

Decision processes: They tend to involve negotiated decisions on a case-by-case basis rather than juridical, standardized decision processes.

Linkages: They tend to establish contractual, contingent relations with those affected rather than linkages based on rights or entitlement.

Risk: They tend to tolerate risk and uncertainty regarding investment outcomes rather than operating on risk-aversive principles.

It is important to reiterate that cities adopt market-based policies selectively and differentially. Cities initiating these policies also use a variety of policies that are non-market based. Cities tend to compromise between the neoliberal market paradigm and the traditional liberal "service provision" and "safety net" paradigms. The market cannot effectively replace government in certain sectors of public interest, and the government is underappreciated for what it has accomplished in the public interest (Kuttner, 1997). Nonetheless, the market works effectively in certain areas of enterprise; cities are adopting strategies that coordinate with private sector interests to foster both public and private goals.

Constructing Policy Indices

To trace these waves of policy responses through time requires comparable measures. Detecting changes in policy orientations raises daunting measurement issues. For one thing, these changes cannot be measured in terms of dollars and cents and are not easily quantifiable in any terms. As Figure 3.1 shows, state and local spending over the past decades has been primarily on economic development, with little redistributive spending at the local level. It thus appears as if the public choice arguments made by Peterson and others are correct: interjurisdictional competition for private investment skews subnational agendas toward developmental goals.

But we agree with Reich, Jessop (1993), and others (e.g., Scott, 1992)

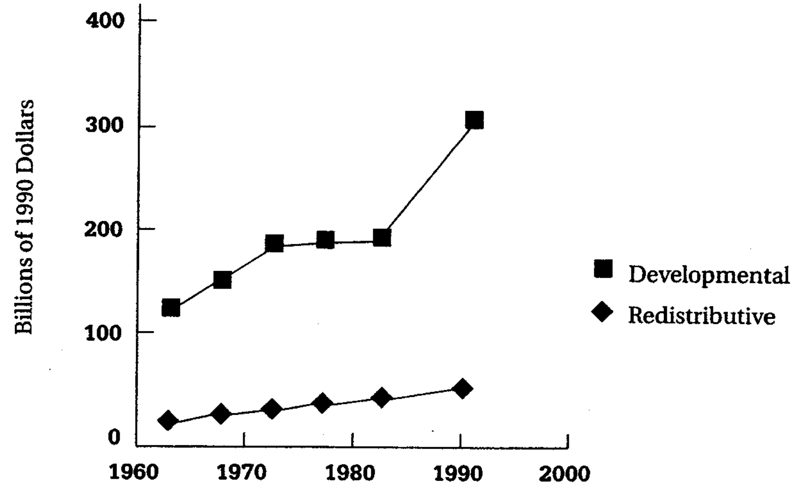

Figure 3.1. Local spending 1962–90 (based on data in Peterson, 1995)

who argue that new economic development roles at the local level may be the most significant responses to globalization. These would not necessarily be reflected by expenditure levels, but in programmatic orientations and strategic policy choices. In these new roles, the goals and mode of policy intervention are distinctive: in the context of globalization, local economic development moves away from the traditional place wars of the industrial era and toward a more facilitating, entrepreneurial approach to encouraging growth processes, structuring markets, and linking local and global economies.

Although the notion of an "entrepreneurial" local government may seem oxymoronic to some, such a government reflects the attributes we have described, embedded in a range of programmatic policy options emphasizing demand-side strategies that foster new market and growth opportunities, in contrast to traditional locational incentive strategies that subsidize firms (Eisinger, 1988; see also Bingham, Hill, and White, 1990). Our aim is to use these dimensions to categorize local policy tools as more or less entrepreneurial; these indices must be able to detect entrepreneurial attributes under two distinctive resource conditions—when cities are using federal resources and when they are using nonfederal resources. Thus we begin our search for the roots of entrepreneurial orientations in the national programs that brought many local governments into the economic development arena.

Data Collection

The core analysis centers on cities' choices under three resource conditions: when federal program funds were plentiful, as federal program funds began to dwindle, and current conditions. In addition to levels of activity, in the first two periods we focus on whether cities used federal funds in relatively entrepreneurial ways and whether they chose relatively entrepreneurial nonfederal strategies since 1980. We look at the current period for indications of both change and inertia and to try to understand the degree to which policy shifts are reactive or proactive.

The baseline population for the study includes all American cities (178) with populations above 100,000 in 1975. The study period for policy implementation—beginning in 1978—includes the peak period of national support for local economic development in the late 1970s; the programs analyzed were the major sources of federal funding for local economic development activities during this period. In the 1980s, federal resources tapered off and local officials could pursue local economic development activities only by drawing on other resources. We developed our data on local choices in four ways: we gathered program data on city use of EDA, CDBG, and UDAG funds; made field visits to cities active in these federal programs; conducted a national survey in 1989 of local development officials; and conducted a follow-up survey in 1996 of these officials to determine changes that have occurred in policy orientation.

The Federal Era

The data on local use of federal resources include all cities above the population threshold that received EDA, CDBG, and/or UDAG federal program funds for local economic development from 1978 to 1988. Program information was collected on the level of local program activity—the dollars spent—and, where possible, the nature of city fiscal roles. Measures of entrepreneurial choices using federal resources are based on how cities used these specific program funds.

Classifying Local Use of Federal Program Funds

City use of EDA Title II and IX funds was characterized as entrepreneurial on the basis of information in annual reports and management information provided by EDA staff. Entrepreneurial activities for projects from 1978 through 1981 included establishment of revolving loan funds, joint enterprises for rehabilitation, public enterprises, joint venture industrial parks, and other activities meeting the basic criteria set out above.

City use of CDBG funds was characterized as entrepreneurial on the basis of the relative allocation of CDBG funds in FY 1988 for economic development activities. This is a less satisfactory measure because it reflects local program reallocations rather than actual entrepreneurial usage, as in the above measures. Creation of comparable measures for local CDBG use is possible only if one individually codes each CDBG annual report archived at HUD for each community. The percentage measure used here is an indirect measure of cities' relative willingness to commit significant shares of CDBG funds to economic development purposes rather than more traditional purposes. The larger the reallocation, the more likely it is that the city is engaged in extensive economic development projects allowed by 1978 eligibility and the 1984 amendments.[4]

City use of UDAG funds from 1978 to 1981 was classified as more entrepreneurial if UDAG project grant agreements showed UDAG funds would be used for revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity pools, use of program income for other economic development projects, or other revenue-generating strategies rather than for a basic grant or loan to the developer (see Clarke and Rich, 1985). Data from all UDAG project grants were then aggregated by city.[5]

The Postfederal Era

In a series of field visits in 1989 to a sample of cities with distinctive federal program participation profiles, we carried out unstructured open-ended interviews with local officials. On these field visits, we developed instruments to collect comparable information systematically from the 178 cities identified (the total population of cities above the population size criterion). In each city, two government officials responsible for economic development were identified and asked to provide this information in a mail survey. Of the 178 cities in this population, usable responses were gathered from 101 cities.[6]

In our 1989 mail survey, we asked whether respondents had ever used each of forty-seven economic development strategies (see Appendix B) practiced by some local governments (see also Urban Institute et al., 1983; Bowman, 1987, for other national surveys; see Blakely, 1989, for a review of local strategies). The mail inquiries focused on (1) the use of economic development strategies that do not require federal resources, (2) the timing of strategy adoption, and (3) the assessment of strategy effectiveness. The forty-seven strategies included tools such as revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity pools, use of program income for other economic development projects, and other revenue-generating strategies that were present in some federal programs; most tools listed, however, were identified by local officials during the field interviews.[7]

Classifying Postfederal Entrepreneurial Strategies

Many policy choices in the 1980s, a period of reduced federal program funds, built on the strategies developed during the federal era. Our interest here was in sorting out market-based strategies first used by a city since 1980. We assumed this tapped entrepreneurial strategies adopted in the absence of federal funds supporting this approach. The indicators of postfederal entrepreneurialism include whether a city first used revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity participation, equity pools established by private-public consortia, or program income for economic development purposes in 1980 or later.

Current Orientations

To update the analyses, in 1996 we resurveyed the cities that responded in 1989. We specifically focused on policy changes since 1989, including current and proposed strategy use, the evolution of new strategies, and policy responsiveness to human capital and globalization trends. We continued to use the postfederal index of entrepreneurial strategies to track the use of such policies. The responses confirm our expectation of an emergent fourth wave of policy innovation, which we describe in more detail in chapter 7.

Methodological Issues

The purpose of the empirical analyses in the next two chapters is to rate cities according to the levels of their entrepreneurial policy use and then to determine the characteristics of those cities that use entrepreneurial policies. Further, the analyses represent an attempt to determine whether these policies, in sum or in part, can be considered effective (a topic we take up in the next chapter). These data also help establish a chronology of, or the existence of waves in, policy choice.

We began our analyses well aware of the significant methodological problems that have plagued many studies of urban economic development activities (Bartik, 1991). Two implicit assumptions mar many studies. In many cases, depending on the conceptualization of local economic development activities, there is an assumption that communities claiming they use certain programs use them in a persistent and continuous fashion. The lack of a temporal variable neglects the reality that the use of particular approaches may be temporary or sporadic, and is not always continuous. Furthermore, simple measures of the level of activity have limited utility; they fail to differentiate among different types of policies and, in weighing all policies equally, misstate policy achievements (Hanson and Berkman, 1991). In contrast to indices distinguishing among policies by dollars spent (Hanson, 1993; Hansen, 1989), we are interested in the aspects of local policies that signal the entrepreneurial orientations anticipated by the new localism models.[8]

We have attempted to improve on earlier analyses by constructing policy indices able to measure important variations in the nature of local economic development policy orientations over time. This entailed an accounting of the incidence of various market-based strategies when cities were using federal and nonfederal resources. The cities could then be compared according to an additive score reflecting their use of market-based policy activity at different time points. By developing comparable indices of market-based strategies at the first two time periods, we were able to rate cities empirically as more or less entrepreneurial based on their use of federal and nonfederal resources. Guided by these concerns, we constructed a set of entrepreneurial policy indices, which we detail later in this chapter.

An equally serious methodological flaw in most studies involves researchers' dealing with continuous space through the use of nominal variables to represent regions simplistically.[9] Given the significant regional socioeconomic patterns and dynamics that exist in the United States today, we concluded it was imperative to control explicitly for spatial patterns in all variables through use of trend surface analysis techniques (see Appendix A).[10]

Moving toward Entrepreneurial Policy Strategies

The Federal Roots of Entrepreneurial Activity

It is important to recognize that few cities took an active aggressive role in economic development before federal funds became available for this purpose. Although American cities have a historical, structural interest in economic development, the lack of resources and public authority (Sbragia, 1996) often dictated a passive and sporadic public role. Indeed, most cities were relatively inactive in local economic development projects before the 1970s. Of the more than one hundred large cities studied and surveyed here, 40 percent described themselves as somewhat active in local economic development projects before 1978, and 42 percent claimed to be not very active or never active during this period. Only 17 percent saw themselves as very active before 1978. The influx of national funds (and the increasing volatility of the economy) in the 1970s engendered new local roles and more consistent activism.

By the mid-1980s, federal program funds were the most important revenue sources for local economic development efforts. Of all the revenue sources for local economic development cited as important in our survey of 174 local officials on pre-1984 activities, 49 percent involved federal program funds. CDBG funds received the most mentions (20 percent), although UDAG (10 percent) and EDA (10 percent) funds were also important (this survey is fully described in the next chapter). Even during this period, local general funds were drawn on: they were 16 percent of the sources mentioned. Local economic development activity in the late 1970s and 1980s, therefore, was significantly subsidized by federal funds.

These funds not only supported more local development activity, they influenced the types of strategies cities chose to use. Table 3.1 ranks those cities characterized as using federal funds entrepreneurially by level of activity.[11]

Table 3.1
Cities using federal funds entrepreneurially

Moderately Active	**Very active**	**Most active**
Hollywood, Florida	Chicago	Hartford
St. Petersburg	Louisville	Minneapolis
Tampa	Lansing	
Atlanta	St. Paul	
Indianapolis	Albany	
Springfield, Massachusetts	Buffalo	
Worcester	New York	
Jackson	Tulsa	
St. Louis	Knoxville	
Syracuse		
Portland, Oregon		
Providence		
Fort Worth		
Hampton		
Madison		

Source: Based on an overall index of entrepreneurial federal fund use combining federal indices (reported in Table 3.3).

Making Entrepreneurial Use of Federal Resources

Communities used entrepreneurial strategies differently to match their local needs, even when using the same federal resources. Philadelphia, for example, committed $30 million of CDBG funds as a 2.5 percent construction loan (packaged together with a UDAG) to support construction of a $43 million hotel at the University City Science Center, a nonprofit research park owned by local colleges and universities, including the University of Pennsylvania. Located near one of the poorest neighborhoods in West Philadelphia, the center will share in the net cash flow of the project (Scism, 1990). An American Bar Association survey found that 27 percent of the UDAG projects surveyed included such "kickers," or provisions for sharing a percentage of cash-flow participation after the developer receives a specified rate of return on the investment (Hessel, 1988).

In Flint, Michigan, the city sponsored a group of minority entrepreneurs as equity partners in the city's UDAG for construction of a Hyatt Hotel; the net cash flow from the project was to be used for minority economic development. An American Bar Association survey of 775 UDAG projects in the mid-1980s found that 29 percent reported city equity participation, although this varied significantly across cities, as did the beneficiaries of these arrangements (Hessel, 1988). With more than fifty UDAG projects since 1979, Chicago generated millions of dollars in loan repayments and returns on the city's equity participation in projects. Both repayments of the loan principal and interest are considered as program income. Repayments of UDAG loans made by the city to private investors can be used only on CDBG-eligible projects; this recycles the funds back to development and housing projects benefiting low-income neighborhoods, as the city sees fit. Program income also includes any income generated by the city's position as an equity partner in a project, sharing the risks but also the potential profits of investment; this program income is not restricted and neighborhood organizations often propose it target affordable housing and local development corporations.

Revolving loan funds were created by cities such as Denver, Fort Wayne, and Dayton with EDA funds or capitalized with CDBG funds. With this initial capital, cities were able to make loans, often at below market rates, to firms unable to find conventional financing. Depending on the city, these loans could be targeted to particular types of firms, lenders, or areas. Repayment of the principal, interest, and administrative fees replenished the city's funds for further loans.

These are not always successful ventures. $10 million in industrial revenue bonds and another $7 million in loans went into development of Toledo's $18.5 million Portside Festival Marketplace, a 56,000-square-foot, two-story retail mall developed by James W. Rouse's Enterprise Development Company. But Portside opened in 1984, just as Toledo's economy began to suffer employment losses from corporate downsizing and mergers. Instead of stimulating downtown investment as hoped, the mall was plagued by high vacancy rates and, after a series of developer turnovers, a city takeover was proposed (Stoffel, 1990).

Responding to the Retrenchment of Federal Resources

What actually happened at the local level as federal development funds began to decline? City officials tell a complex story. The most obvious change is a tremendous increase in public-private cooperation during the 1980s. Nearly two-thirds of the cities studied in 1989 reported public-private cooperation on economic development as very active or extremely active. For 75 percent of the cities, this is a substantial increase in public-private activity compared with five years previously.

Resource Constraints

Cities see the lack of resources, constricting state laws, land availability, federal restrictions, and loss of federal funds as major constraints on present local economic development efforts. In our first survey of local development officials, 237 total problems were noted. The lack of resources stands out: lack of funds, tight budgets, and lack of staff were mentioned most frequently (24 percent) as major problems. State laws restricting local fiscal powers and fiscal authority are also perceived as serious barriers, making up over 9 percent of problems mentioned. Fragmented public voice is also a problem; 9 percent of the problems cited involved the lack of political consensus and leadership and the absence of focus for economic development efforts. Many cities are limited by land availability problems; these issues constituted more than 7 percent of all problems mentioned. Aging infrastructure and the lack of amenities or perceived image problems limit some cities (7 percent of mentions). Finally, federal restrictions on (1) program eligibility, (2) fund uses, and (3) environmental effects, as well as the loss of federal funds, are seen as constraints in 6 percent of the mentions, but rank behind lack of resources, state laws, and land availability issues.[12]

Local responses to the loss of federal program funds take three forms: shifting to reliance on local general funds (25 percent), reallocating CDBG funds to economic development purposes (18 percent), and utilizing revenues or program income from successful redevelopment projects (7 percent). The first two suggest reallocation of funds across functional areas; in the absence of federal funds previously used to assist local economic development efforts, cities turn to general funds or CDBG funds. Cities increasingly devote CDBG funds to economic development: the median share of local CDBG funds allocated to economic development in FY 1988 (10 percent) is double the median reported by these cities five years previously. Increased reliance on tax increment financing and program income from previous redevelopment projects point to efforts to make economic development a self-financing local enterprise.

State Programs

With the exception of state enterprise zones, traditional state programs for job training, infrastructure improvement, and financing were seen as most useful in the first survey. State enterprise zone programs were mentioned more often (17 percent) than any other state program. Although other innovative programs such as business incubator and high-tech programs were noted (5 percent), they were not regarded as being as useful as conventional programs (infrastructure assistance (11 percent), revolving loan funds (10 percent), linked deposit schemes (10 percent), job training programs (8 percent), and marketing and promotion efforts (7 percent), including international trade promotion. The diffuse endorsement of state programs and the 9 percent specific mentions that state programs are not useful signify that state governments have yet to fill the gap left by the removal of federal funds.

New Local Roles

In most cities, mayors have taken the lead in promoting economic development. Economic development line agencies reporting to the mayor, city manager, or city council have primary responsibility for economic development policies in most cities. Thus the design of economic development policy rests with elected officials or those appointed by them. More than 50 percent of cities surveyed place lead responsibility in economic development line agencies, separate from community development or planning agencies. Many of those citing the importance of the mayor's office mention that deputy mayors have special responsibilities in this area.

In contrast, economic development line agencies often share implementation responsibilities with special authorities or citywide development corporations. Cities often turn to these quasi-public organizations, especially special authorities such as redevelopment agencies and port authorities, to carry out economic development projects. Many of these organizations have special financing authority or resources not available to line agencies; furthermore, they are able to bring expertise and resources from the private sector that are especially germane to economic development projects.

Policy Shifts

Local officials report that the policy shifts prompted by cuts in federal economic development programs led to changes in local objectives, smaller projects, more diverse projects, and smaller public shares of development costs, but not to changes in sectoral, spatial, or minority targeting efforts in most cities. Nearly 40 percent of the cities responding to the first survey report that federal cuts resulted in more diverse economic development objectives. In many instances, these objectives included more housing and social programs. About one-third (29 percent) of the cities see these cuts as negative, leading to restricted, narrower local objectives. Most cities are involved in smaller projects (55 percent), and many report that local projects are more diverse (38 percent), often because the choices are market driven. Public shares of development costs have decreased in many cities (46 percent). Targeting efforts appear to be unchanged in most cities, although the proportions of cities claiming to do more minority (17 percent) and low-income (20 percent) targeting are similar to the proportions claiming to do less (15 percent and 21 percent, respectively).

In comparison to five years previously, cities characterize their current policies as oriented more toward risk taking, job growth, downtown development, job creation, local concerns, market feasibility, and aiding local firms; they see the city's role as a public developer engaged in contractual relations rather than entitlement obligations. This profile of policy orientations signifies that cities are rethinking traditional strategies in favor of orientations emphasizing job creation and new, locally based growth. This accommodates more risk taking by local officials, who are likely to see themselves more as public developers than as regulators of development. Accordingly, local officials are likely to view their relationships with groups more in contractual terms than as entitlement obligations; they are also likely to take market feasibility rather than social criteria into account in making development decisions.

Policy Choices in the Postfederal Era

We also asked officials more directly about specific local strategy choices. Of those cities responding to our request for information, at least 50 percent reported using twenty-five core strategies. Of those twenty-five, seven were first used after 1980 by at least half the cities. Table 3.2 shows that various planning, management, and marketing strategies are prominent. Land acquisition and building demolition and infrastructure improvement to support development are other standard local development tools used by many cities. These strategies, based on traditional local land use controls and fiscal authority, are complemented by approaches based on federal initiatives. Revenue bonds, general obligation bonds, historical tax credits, and use of program income reflect past federal initiatives; with the exception of program income, these local strategies depend on federal tax code provisions that encourage local investment.[13] In the 1980s there were serious efforts to eliminate or modify these provisions. Historical tax credits were reduced and restrictions were placed on the amount and uses of revenue bonds. In the case of program income resulting from previous investment of public capital, the federal government challenged cities' claims on these revenue streams and attempted to recover program income from projects initially capitalized by federal funds. Eventually, the federal government lost in court, and cities were allowed to keep and reinvest these revenues.

Indirect legacies of federal programs are also evident in current strategies. Federal programs spread, or diffused, more widely the use of revolving loan funds, local development corporations, enterprise zones, strategic planning, below-market-rate loans, and community development corporations. Thus today's local economic development strategies are partially shaped by federal efforts, past and present. Some of the local strategies used most frequently since 1980, however, reflect state influences rather than federal funds or fiscal regulations. The state-influenced strategies include tax increment financing, trade missions abroad, and more metropolitan and regional cooperation.

The strategies reported as least used by more than 75 percent of the cities responding are those that would interfere with private investor decision making or compete with private investment capital. Five strategies sharing this distinction are mechanisms allowing cities to pool public and private capital or to influence the use of private investment funds. These "never used" strategies include using pension funds for economic development (95 percent), using equity pools with private-public consortia (87 percent), linking deposits (87 percent), issuing zero-coupon bonds (86 percent), and coordinating venture capital funds (82 percent). As the recent Orange County, California, debacle suggests, this may be with good reason; these tools demand a high tolerance for risk. Many cities cannot invest pension funds for economic development purposes because state personnel systems control these funds. And few cities have the technical capacity or private sector cooperation to undertake highly sophisticated financing strategies. However, the results of the follow-up survey, which we discuss in chapter 7, suggest continued consideration of these initiatives.

Table 3.2

Most used: Economic development strategies ever used by 50 percent or more of cities responding

Economic Development Strategy	% use
Comprehensive planning	93%
Capital improvement budgeting	91
Marketing and promotion	86
Land acquisition and building demolition	80
Infrastructure as in-kind development contribution	83
Revenue bonds	79
Strategic planning	74
Revolving loan fund	73
Streamlining permits	73
Selling land	69
Industrial parks	68
Below-market-rate loans	67
General obligation bonds	65
Local development corporations	63
Annexation	62
Historical tax credits	60
More metro and regional cooperation	58
Tax increment financing	56
Industrial development authorities	55
Enterprise zones	55
Using program income for economic development	55
Special assessment districts	54
Community development corporations	52
Land leases	52
Trade missions abroad	50

Note: Strategies shown in italics are those that a majority of cities first used after 1980.

Comparing Policy Choices When Using Federal and Nonfederal Resources

Is there any relationship between cities using federal funds entrepreneurially and cities making entrepreneurial choices now? Constructing policy indices allows us to compare the strategies employed by cities when using federal and nonfederal resources (see Table 3.3). Based on the entrepreneurial policy features identified above, we developed two aggregate measures of more entrepreneurial development policies. These additive indices are used to derive standardized policy scores that help sort out local strategies according to their entrepreneurial nature (Clarke and Gaile, 1989b, 1992).

The relationships between market-based strategy usage in the federal and postfederal eras are less linked than we had anticipated. Overall, we find the use of market-based strategies over time (COMBINDX) is modestly associated with the level of participation in federal economic development programs. However, there is no statistically significant relationship between overall use of federal funds for market-based strategies and present use of market-based local economic development strategies.

Counter to our expectations, we find that UDAG entrepreneurial use indices (Fiscal Entrepreneur, Social Entrepreneur) are not significantly associated with new (NEWINDEX) or overall (COMBINDX) entrepreneurial use; with one exception, there is no evidence that past entrepreneurial use of federal money in these cities shapes present entrepreneurial strategies. Current use of a specific tool promoted in UDAG projects—net cash-flow participation—is directly related to past use of this tool, but there are no other clear relationships between past and current strategy choices.

There is, however, evidence that the past ability to generate relatively high amounts of private investment with UDAG funds is associated with present entrepreneurial strategies.[14] Past private investment in UDAG projects, on a per capita basis, is positively associated with recent entrepreneurial policy adoptions (NEWINDEX). Thus successful deal making on past federal projects, reflected in relatively high levels of private investment rather than use of specific financing mechanisms, seems most important in shaping current usage.

Learning through Federal Program Participation

Why the lack of a stronger relationship between past federal fund use and postfederal use? The most obvious explanation is that these are different cities: Were those currently using entrepreneurial strategies eligible for or active in past federal economic development programs? Yes! More than two-thirds of those cities scoring high on the nonfederal market-based New Index were also active in the UDAG program, particularly after the introduction of "pocket of poverty" eligibility criteria. Thus the lack of relationship is not a function of comparing different sets of cities.

Table 3.3

The policy variables: Measures of local market-based strategies when using federal and nonfederal resources

Federal program resources

Index of Federal Economic Development Program Participation (Total Fed $ Per Cap): Total federal dollars per capita from CDBG, UDAG, and EDA programs during 1978–84 (trend surface residual data used).

Index of Use of UDAG Funds (Fiscal Entrepreneur): Whether city used UDAG funds for revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity pools, or other revenue-generating efforts in projects, 1978–84.

Index of Use of UDAG Funds (Social Entrepreneur): Whether city used UDAG funds for revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity pools, or other revenue-generating efforts and also imposed social conditions on the private partner, such as low-income housing set-asides, day-care center provision, and other noneconomic requirements, 1978–84.

Index of Use of EDA Title II and IX Funds: Whether city used EDA Title II and Title IX funds for revolving loan funds, interest subsidies, joint ventures, or other revenue-generating efforts, 1978–81.

Index of Use of CDBG Funds: The percentage allocation of CDBG funds for economic development purposes in FY 1988 and 1983 and the change in percentage allocation over time (1988 minus 1983).

Nonfederal resources

Index of Current Level of Activity Using Nonfederal Resources (CURRENT): Whether city is currently using any of 47 economic development strategies relying on nonfederal resources.

Combined policy indices

Index of Market-Based Strategies Ever Used by City (COMBINDX): Whether city ever used revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity participation, equity

Table 3.3 *(continued)*

pools established by private-public consortia, or program income for economic development purposes.

Index of Market-Based Strategies First Used by City since 1980 (NEWINDEX): Whether city first used revolving loan funds, venture capital, net cash-flow participation, interest subsidies, equity participation, equity pools established by private-public consortia, or program income for economic development purposes in 1980 or later.

Note: Variable names appear in parentheses. Except where it is clearly stated that an index is based on dollars spent or percentage use, these indices are additive, such that a yes answer on an item in the list is valued as a one.

Another argument is that local officials adapt their risk-aversive behavior to the source of revenues. Those willing to risk federal dollars on more entrepreneurial strategies such as net cash-flow participation are less likely to do so when using their own revenues. This explanation would be more strongly supported if we found a negative relationship (versus the absence of a relationship) between market-based use of federal resources and present strategies; nevertheless, the lack of a strong positive relationship suggests some backing off from entrepreneurial strategies when local dollars are at risk.

It is also possible that this lack of relationship signifies the diffusion of entrepreneurial approaches beyond cities active in earlier federal programs. As the analyses in the next chapter will show, different types of cities used entrepreneurial strategies in these two periods. In the nonfederal period, more economically and socially disadvantaged cities adopted entrepreneurial strategies.

Learning through Policy Competition

A policy history perspective of learning through policy competition is essentially a temporal argument: the experiences and strategies learned at one point in time are transferred or carried over to another. Those that did not learn specific skills in an earlier period are less likely to display them in a later period. Further, there is a distinct inertial tendency plus a tendency to be reactive versus proactive, which suggests that policy lags are likely. Although there is some evidence for the importance of participation in federal development programs, the policy history argument is not sufficient to explain current patterns.

The spatial competition perspective on policy learning is more intrinsically persuasive. Given the interjurisdictional competition for investment driving local economic development policy choices, it is reasonable to expect cities to mimic the policy choices of neighboring or competing or successful cities in order to maintain their competitive advantages with those cities. Although this "learning" often has the desultory suboptimal consequences we describe in chapter 2, it is a plausible explanation for why cities would choose a particular strategy. Our findings, however, do not support the emulation-of-neighbors hypothesis: there are no statistically significant relationships between geographic location and policy adoption.[15]

Given the near universal acceptance of the adage that cities are locked into a "bidding war" with other localities, this nonfinding merits further attention. We suspect that the aphorism of urban competition needs to be redefined in a global era. Although it is possible that all city officials wish to engage in this cutthroat competition, their opportunities to do so are highly variable. Many are constrained by state prohibitions limiting their policy options, by the absence of state enabling legislation allowing less traditional strategies, by high ratios of tax-exempt property, by sufficiently weak tax bases, by stalemated local political factions, by lack of institutional capacity, and by other local features that preclude their merely mimicking the policy choices made in other communities. Furthermore, globalization alters the types of locational incentives that make sense.

The nature of the policies themselves also may alter the grounds for policy competition. The diffusion of smokestack-chasing locational incentives appears to have been through spatial policy competition patterns, because communities were seeking to minimize the differences between their localities and neighboring ones in the eyes of investors. This encouraged emulation of other cities' cost-reduction strategies and homogenization of place. But entrepreneurial strategies presume differentiation of place, the need to create a niche by shaping local markets and establishing the uniqueness of a particular locale. They may also anticipate globalization and human capital enhancement arguments. This demand-side market-shaping approach, rather than a supply-side cost-reduction strategy (Eisinger, 1988), is inherently less supportive of policy emulation because strict emulation defeats the purpose of differentiation. Thus we would not expect to see entrepreneurial policies diffused by emulation and policy competition to the same extent as locational incentives.

Our spatial statistical analyses of potential diffusion processes revealed no evidence of such processes. We believe that trend surface analysis, used in this testing, provides a more precise means of measuring the effects of geographic relationships than do the dummy variables frequently used in analyses of policy diffusion. Thus our counterintuitive nonfinding may reflect better measurement of the impact of relative location. It allows us to argue that the policy arena is a national one. Although policies may indeed diffuse and emulation still plays a major role in cities, the evidence suggests they do so on a national basis and that regional differences in entrepreneurial policy selection are essentially nonexistent.[16]

Ranking City Entrepreneurial Policy Use

Responding cities indicate varying levels of use of these entrepreneurial strategies. Table 3.4 ranks the cities responding to the survey based on their overall levels of entrepreneurial strategy use activity (COMBINDX). Asterisks in the table indicate cities where the majority of entrepreneurial strategy use began after 1980.

Table 3.4

Cities that responded ranked on overall entrepreneurial policy activity

Very Active	Active	Somewhat Active	Inactive
Birmingham*	Akron*	Ann Arbor*	Albany
Chesapeake*	Albany	Aurora*	Beaumont
Chicago	Atlanta	Austin*	Cedar Rapids
Hartford	Buffalo	Bakersfield	Colorado Springs
Lincoln*	Charlotte*	Boise City*	Durham
Louisville	Chattanooga	Canton*	Fremont
Milwaukee*	Garden Grove*	Cleveland*	Fullerton
Minneapolis	Hammond*	Corpus Christi*	Houston
Oklahoma City	Hampton*	Dallas*	Independence
Rockford*	Jacksonville*	Davenport*	Livonia
St. Paul	Lansing	Denver*	Mesa
St. Petersburg*	Lexington*	El Paso	Norfolk
Savannah*	Los Angeles*	Eugene	Roanoke
Tacoma*	New York	Evansville	Salt Lake City
	Orlando*	Flint*	Seattle
	Oxnard*	Fort Worth	Stamford
	Peoria*	Grand Rapids*	Sunnyvale
	Portland, Oregon*	Greensboro*	Tempe
	Raleigh*	Hollywood, Florida	Topeka

Table 3.4 *(continued)*

Very Active	Active	Somewhat Active	Inactive
	Rochester	Huntsville*	Waco
	St. Louis	Indianapolis	Youngstown
	San Diego*	Irving*	
	Spokane*	Jersey City*	
	Springfield, Alabama	Kansas City, Missouri	
	Tampa	Las Vegas*	
	Waterbury*	Little Rock*	
	Winston-Salem*	Lubbock*	
		Miami	
		Newport News*	
		Pittsburgh	
		Portsmouth*	
		Santa Ana	
		Springfield, Illinois*	
		Stockton*	
		Syracuse*	
		Tulsa*	
		Wichita	
		Worcester	

*Cities where the majority of entrepreneurial activity reported began after 1980 (NEWINDEX).
Source: Based on scores on COMBINDX

Waves of Policy Innovation

As the work of cities changes, the policy responses change both reactively and proactively. The data show three waves of policy adoptions in which cities move toward the roles of risk takers and development partners, similar to the roles Jessop (1993) and others (Norton, 1995) theorize. The first wave of policy adoptions—those reported as first used before 1980 by at least 30 percent of the cities responding—still rely heavily on cities' abilities to regulate and facilitate development through land use controls, public services, and provision of infrastructure (Table 3.5). There are only limited, traditional financial tools entailing debt or cheap loans and scant evidence of higher-risk strategies.

Table 3.5
Waves of economic development strategies

The first wave: Locational orientation

Economic development strategy	% used before 1980
Comprehensive planning	84
Capital improvement budgeting	77
Revenue bonds	69
Land acquisition and building demolition	67
Infrastructure as in-kind development contribution	64
Selling land	59
General obligation bonds	59
Industrial parks	57
Annexation	53
Marketing and promotion	47
Strategic planning	46
Industrial development authorities	40
Local development corporations	38
Special assessment districts	37
Land leases	37
Land banks	34
Below-market-rate loans	33
Enterprise funds for public services	33
Historical tax credits	31

The second wave: Transitional entrepreneurial orientation

Economic development strategy	% used after 1980
Streamlining	59
Enterprise zones	52
Revolving loan funds	45
Business incubators	40
Trade missions abroad	39
Marketing and promotion[a]	39
More metro and regional cooperation	36
Below-market-rate loans[a]	34
Use program income for economic development	33
Tax increment financing	32

Table 3.5 *(continued)*

Anticipating the third wave: Postfederal entrepreneurial orientation

Economic development strategy	% under study in 1989
Business incubators[b]	21%
More metro and regional cooperation[b]	14
Tax increment financing[b]	12
Special assessment districts[b]	11
Foreign trade zones	10
Strategic planning[b]	10
Land banks[b]	10
Export and promotion	10
Equity participation	10
Taxable bonds	9
Streamlining[b]	7
Tax abatements—targeted at new business	7
Equity pools: private-public consortia	7
Tax abatements—targeted at selected sectors	6
Enterprise zones[b]	6
Enterprise funds for public services[b]	5
Venture capital funds	5
Local development corporations[b]	5
Linked deposits	5

[a]Also reported in the first wave.
[b]Also reported in the first or second wave.

In the transitional entrepreneurial second wave, city policies are characterized by a stronger investment and entrepreneurial approach (Table 3.5). The use of revolving loan funds, below-market-rate loans, and program income from successful projects reflects a public finance role. Furthermore, both enterprise zones and tax increment financing districts let cities reorganize their local economic bases to direct future revenues through allocation procedures outside the usual budgetary processes. In this sense, revenues come into the city on the basis of public investment decisions, rather than on the basis of tax policies or federal programs; future resources may be allocated with little public notice or accountability. Finally, attention to markets and business start-ups—two hallmarks of entrepreneurial approaches—also characterizes strategies using nonfederal resources.

The third wave features postfederal entrepreneurial strategies, which predominate in the many programs reported by local officials in 1989 as "under study" (Table 3.5). The importance of business incubators as a recent (Table 3.5) and current (see chapter 7) strategy underscores the salience of approaches encouraging new business start-ups, and perhaps enabling human capital, rather than conventional "smokestack chasing." There is also a clear interest in reorganization of the local tax and resource base. In particular, many cities are carving their local tax bases into foreign trade zones (responsive to the globalization trend), special assessment districts, tax increment financing districts, and enterprise zones. In each instance, these spatial arrangements tend to reduce the revenue base allocated by normal budgetary processes; tax revenues from these arrangements often are dedicated to debt service and further areal redevelopment rather than deposited into the general fund. The interest in greater metropolitan and regional cooperation on development issues suggests that cities may find economic teamwork more palatable than political consolidation. Finally, local officials are adopting a more business-oriented approach toward use of local assets; land use control strategies under study emphasize the flexible management of land rather than permanent transfers or sales in which land passes from public to private control. Similarly, there is a growing inclination to view public capital in terms of its investment potential, with the greater public risk taking that implies.

Our 1996 follow-up survey of cities confirms the entrepreneurial policy movement (the third wave) predicted from the 1989 survey. Table 3.6 illustrates the growing adoption of entrepreneurial policies by cities responding to the 1996 survey. These strategies, foreshadowed in Table 3.5 based on the 1989 survey, have now become established practice in many cities and will likely remain in use, even as a new "fourth wave" of strategies featuring globalization and human capital is added to the strategy tool kit of local economic development practitioners.

Different Policy Paths

Finally, we present another way of looking at these patterns of local choices. Although the statistical analyses used here are standard approaches for analyzing policy choices, a more contextual way of analyzing these policy strategies is through cluster analysis of bundles of policies. Here the emphasis is not on the linear relationship of policy options, policy history, location, or specific city characteristics, but on how cities bundle policy choices together. This approach allows us to uncover the complexity and diversity of policy portfolios constructed in cities (Miranda and Rosdil,

Table 3.6
Use of third-wave strategies in the 1990s

Economic development strategy	% first used since 1989	% use 1996
Streamlining licensing and permits	22.6	83.2
More metro and regional cooperation	46.0	74.9
Strategic planning	30.4	73.3
Local development corporations	20.0	71.5
Special assessment districts	22.2	67.7
Enterprise zones	20.4	63.6
Tax increment financing	26.3	62.6
Tax abatements—targeted at new businesses	33.9	56.9
Equity participation	35.9	56.3
Tax abatements—targeted at selected sectors	26.3	55.8
Land banks	14.3	55.4
Business incubators	18.5	45.1
Taxable bonds	21.1	41.9
Export production promotion	24.0	41.1
Foreign trade zones	12.7	37.3
Equity pools: public-private consortia	25.5	33.2
Venture capital funds	27.8	33.2
Enterprise funds for public services	7.3	32.7
Linked deposits	11.1	16.7

1995). The cluster procedure sorts the cases—here, the strategies—into groupings most like each other and most different from all others. Cluster analysis is a classificatory rather than explanatory device; it illustrates the different economic development policy paths cities choose, as the cities characterize them rather than as imposed by the analyst.[17] The results are portrayed as packages of development strategies with patterns of joint use. We see them as depicting different development policy paths. The cluster analysis highlights four clusters of policy choices:

Low-Use cluster: capital oriented, investment related, state regulated

Territorial cluster: uses spatial redefinition and local authority

Classic cluster: core conventional and widely used entrepreneurial strategies

Organizational cluster: organizational innovations that foster new investment

The Low-Use cluster includes twenty-three strategies, twenty-one of which were not used by the majority of the cities in the survey. Although many cities did use them, the profile reflects policies used by less than a majority: equity pools, zero-coupon bonds, export production promotion, sale-leasebacks, loan guarantees, general tax abatements, foreign trade zones, enterprise zones, use of pension funds for development purposes, venture capital funds, cash-flow participation, donation of land, interest subsidy, land lease, trade missions abroad, sectorally targeted tax abatements, loan deposits, taxable bonds, export promotion, procurement assistance, tax abatements targeted for new business, land banking, and earmarking of tax revenues.

Many of these are capital-oriented strategies, and several are investment-related strategies; many cities may be deterred from using these tools because of the absence of state enabling legislation or more risk-aversive stances when own funds are at stake. We characterized five of these strategies as entrepreneurial, as described above: equity pools, venture capital funds, interest subsidies, export promotion, and cash-flow participation. Two strategies used by a majority of cities fall into this Low-Use cluster: enterprise zones and land lease programs. Most states created state enterprise zone legislation in the 1980s in anticipation of a federal program; these programs vary widely in their eligibility criteria and development features. Although cities must apply for participation in the enterprise zone program, the zones depend on state initiative.

The Territorial cluster includes annexation, metropolitan and regional cooperation, tax increment financing, and special assessment districts. These entail territorial or spatial redefinitions for development purposes; they indicate efforts to capture new investment at different scales. In contrast to the investment orientation and capital-intensive nature of many of the strategies in the Low-Use cluster, the Territorial cluster exemplifies employment of local land use authority for development purposes. Another strategy, use of public enterprise funds for public services, is included in this cluster; this is often used by cities in states with conservative local fiscal authority because it creates independent financing capacity for fee-based services. Although a majority of cities do not use these funds, cities choosing territorial strategies are more likely to also use these funds.

The Classic cluster includes the core strategies used by the greatest number of cities; many conventional economic development options, such as infrastructure development and industry parks, are in this cluster, but it also includes relatively entrepreneurial strategies, such as revolving loan funds and generation of program income from development projects. The strategies in this cluster are industrial development authorities, infrastructure as in-kind investments, capital improvement budgeting, historic tax credits, selling land, use of program income, industrial parks, land acquisition, comprehensive planning, revenue bonds, strategic planning, marketing and promotion, below-market-rate loans, general obligation bonds, revolving loan funds, and streamlining. Of these sixteen strategies, six are investment oriented, five are land oriented, four are capital oriented, and one—industrial development authorities—is organizational.

This eclectic menu suggests the direction of local policy in the absence of federal resources, given that most of these tools are contingent on state authority or dependent on local capacity. The two more entrepreneurial choices very likely were capitalized in earlier federal or state programs; localities are now reallocating these funds for their own agendas.

The Organization cluster could be merged with the Classic cluster in terms of use patterns, but it is distinct enough to stand on its own. It includes three strategies: business incubators, community development corporations, and local development corporations. In each instance, localities are choosing organizational innovations that foster new investment; these are often at the neighborhood level and often targeted at small businesses (Vidal, 1992).

Conclusions

Overall, our findings indicate that many American cities did not respond to cuts in federal economic development funds by adopting more risk-aversive stances. Indeed, cities increasingly are using entrepreneurial strategies that entail some risk of their own revenues and substantial opportunity costs. A number of subtle shifts in policy orientation mark this entrepreneurial orientation: ascendance of market feasibility criteria over social criteria, resurgence of the downtown as the locus for redevelopment, reliance on nonprofit organizations rather than government agencies for implementation, and redefinition of city responsibilities as a public developer.

Neither policy history nor policy competition appears to explain these choices. A history of extensive participation in federal local development programs is not associated with current entrepreneurial policy choices, nor is previous entrepreneurial policy experience associated with current use of entrepreneurial policy approaches. Furthermore, we find little support for the argument that cities choose policy strategies in response to the choices of their neighboring or competitive cities. These policy choices appear to be more context specific; understanding these patterns requires more attention to city economic and political characteristics.