

PROMOTING ECONOMIC DEVELOPMENT  
THROUGH FINANCIAL INCENTIVES FOR BUSINESS:  
AN ANNOTATED BIBLIOGRAPHY

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By

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This bibliography discusses findings of research into the effects of business incentives on regional economic development. Annotated beneath each listing are the major findings or policy implications of the study. Publications are listed chronologically to demonstrate how the literature has developed. The material is organized as shown below, though the reader will find topics frequently overlap.

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## A. STATE AND LOCAL BUSINESS INCENTIVE STUDIES

### 1. Overviews

Bridges, Benjamin Jr. (1965) "State and Local Inducements for Industry: Part I." National Tax Journal 18 (March): 1-15.

The first in a two part analysis (see below), this paper describes 1965 industrial development programs. Five types are examined: state industrial finance authorities, local industrial bonding, and tax concessions - all publicly financed, plus statewide and local development credit (or business development) corporations which are financed privately. State and regional use of these programs is reported and discussed.

Bridges, Benjamin Jr. (1965) "State and Local Inducements for Industry: Part II." National Tax Journal 19 (June): 175-93.

The second part of this analysis (see above) evaluates the effect of inducements on industrial development. The attitudes of business executives and the impacts of inducements on firm costs are examined. Bridges concludes that inducements are more important to location decisions within a region than between regions, and even then their impact is probably of secondary importance. Program benefits were thought to exceed costs for local revenue bonds, well-established state loan guarantees, and statewide development corporations. Credit gaps and wage-rate inflexibility arguments justify (from a national viewpoint) the use of development programs.

Cornia, Gary C., William A. Testa, and Frederick D. Stocker. (1978) State-Local Fiscal Incentives and Economic Development. Urban and Regional Development Series No. 4. Columbus, Ohio: Academy for Contemporary Problems.

Four types of fiscal incentives are commonly used to attract industrial development; the general "tax climate", tax incentives, industrial revenue bonds, and infrastructure amenities. Cornia, et al., examine factors influencing plant location decisions and evaluate (through a review of the empirical literature) these four incentives accordingly. State and local officials, they conclude, should recognize the limited effectiveness of these development tools, and realize that nonfiscal factors nearly always dominate business location decisions.

Wasylenko, Michael. (1981) "The Location of Firms: The Role of Taxes and Fiscal Incentives," in Urban Government Finance: Emerging Issues. Urban Affairs Annual Review 20: 155-90. Edited by R. Bahl. Beverly Hills, CA: Sage Publications.

Tax and fiscal incentives play no role in plant location decisions among regions, but evidence is less conclusive about intra-regional effects. Fiscal policies vary less among regions than do production costs and market availability. Therefore, firms as profit maximizers will be influenced by (regional) tax policies only when they are the deciding or marginal factor. Firms, generally, may be viewed like "Saturday shoppers," differing in their demands and willingness to pay for public services. They will not always avoid high-tax jurisdictions, provided the "right mix" of services exist. This paper bases its conclusions on an extensive and concisely described review of the economic literature.

Advisory Commission on Intergovernmental Relations (1983) The States and Distressed Communities: State Programs To Aid Distressed Communities. ACIR Information Report, Catalog of State Programs. Washington, D.C.

State programs to aid distressed communities are cataloged in this publication. Information gathered on twenty assistance program areas is divided into two groups. The first group includes targeted programs: housing subsidies, economic development incentives, and community development programs. The second group are nontargeted efforts: state-local fiscal relations and programs designed to increase local government 'self-help' capacities. In conclusion, recommendations are made for improving state aid to distressed communities.

Louisiana Department of Commerce. (1983) Recommendations for a Cost-Effective Business Incentive Program For Louisiana. State of Louisiana.

Eleven Louisiana State business development programs are analyzed and an equal number of recommendations for action are made. Among these: IRBs should be used selectively; the state should be allowed to issue IRBs; establish an umbrella bond program to aid smaller firms; establish a targeted loan guarantee program; provide land "write-downs"; institute a program of principle reduction payments complementary to loan guarantees; and use these programs to leverage private sector investments. These conclusions are made after investigators applied the development programs to (baseline) financial statements of simulated companies. The paper includes an overview of each program, and details of the analysis.

Stohr, Walter, and Franz Todtling. (1984) "Quantitative, Qualitative, and Structural Variables in the Evaluation of Regional Development Policies in Western Europe," in Regional Development: Problems and Policies in Eastern and Western Europe. edited by G. Demko, 157-73. New York: St. Martin's Press.

Policy evaluation methods have focused largely on quantitative variables for modeling regional impacts, thus ignore important qualitative and structural information. While acknowledging these latter variables are difficult to quantify or make operational, the authors argue their inclusion is a necessity in the increasingly complex policy environment. Numerous examples of qualitative and structural variables are tabled, and methodological problems are discussed.

Wassall, Gregory H., and Daryl A. Hellman. (1985) "Financial Incentives to Industry and Urban Economic Development." Policy Studies Review 4 (May): 626-40.

Financial incentives aimed at improving urban income and employment problems could be made more effective if the lessons from past policy evaluations were incorporated into current programs. Many studies report common failures or insights with important urban development implications. Employment gains do not allow accrue to local residents. Urban areas in the greatest need often participate the least in development activities. Short-term unemployment relief and long-term economic growth may be competing goals with different solutions. Targeting aid allows resources to be devoted to areas with the largest problems.

Blair, John P., and Robert Premus. (1987) "Major Factors in Industrial Location: A Review." Economic Development Quarterly 1 (February): 72-85.

Traditional economic factors (access to markets, labor, transportation, and raw materials) continue to be the most significant determinants in plant location decisions. Non-traditional location factors (taxes, education, community attitude, labor productivity, and infrastructure), however, are becoming increasingly important - especially, the authors speculate, as the nation's high-tech economy grows. Based on a review of industrial relocation surveys and econometric studies, this article is current, easy reading, and insightful.

## 2. Industrial Revenue Bonds

Apilado, Vincent P. (1971) "Corporate-Government Interplay: The Era of Industrial Aid Finance." Urban Affairs Quarterly 7 (December): 219-41.

Surveys and in-depth interviews of corporate and public officials show that industrial bonds are not a significant factor in plant location decisions. A majority of business users of industrial bonds indicated a willingness to locate without inducement. Thus, Apilado maintains, business savvy allows them to use threat or innuendo of selecting an alternative site to elicit community financial concessions. Municipal leaders, on the other hand, lack business and financial expertise, and as a result, little or no project cost-benefit analysis is done at the local government level.

Dewar, Margaret E. (1981) "The Usefulness of Industrial Revenue Bond Programs for State Economic Development: Some Evidence from Massachusetts." New England Journal of Business and Economics 7 (Spring): 23-34.

A survey of Massachusetts firms shows that industrial revenue bonds have little influence on firm location or expansion decisions. Respondents cited inefficient or undersized plants and poor work environments as primary reasons for relocation-expansions; bonds are never mentioned. Other interview responses reinforce the lack of regional or intra-regional influence from bond incentives on plant-siting decisions.

Pascarella, Thomas A., and Richard D. Raymond. (1982) "Buying Bonds For Business; An Evaluation of the Industrial Revenue Bond Program." Urban Affairs Quarterly 18 (September): 73-89.

The social costs of industrial revenue bonds (IRBs) outweigh their benefits, thus their use should be restricted, if not eliminated altogether. Pascarella-Raymond make this recommendation based on their analysis of IRB use in Ohio. The costs of IRBs (including lost federal tax revenues, over-investment in capital, bond market distortions, and administrative costs) are a poor solution for stimulating investment (in general or among economically distressed areas) or for reallocating capital toward small, risky firms. Their study finds no evidence of a correlation between IRB issues and a reduction in area unemployment. They instead argue that locational (IRB) subsidies shift production to high-cost areas at the expense of existing non-subsidized firm.

Joint Legislative Committee on Trade and Economic Development (1985)  
"Industrial Revenue Bond Program Evaluation: Summary Report." Oregon State  
Legislature.

Industrial revenue bonds failed to produce promised job creation over a 10 year period of use in Oregon. Only 27 percent of the jobs promised were created. Employment objectives were met by 16 percent of the firms that received bonds; 40 percent reduced their employment levels. A survey of firms that received bonding authority yet were unable to sell bonds demonstrates comparable employment results. Most firms that received bonds reported that they would have undertaken the investment even if bonds had not been available.

Stutzer, Michael J. (1985) "The Statewide Economic Impact of Small-Issue Industrial Revenue Bonds." Quarterly Review 9 (Spring): 2-12.

Stutzer argues that small-issue revenue bonds (SIRB) fail to create either their promised statewide employment gains, or any significant expansion of the aggregate (Minnesota) local property tax base. Three factors contribute to this failure: intrastate competition, interstate competition, and capital-labor substitution. The adverse effects on in-state competitors may largely offset gains of SIRB-firms when barriers to entry do not exist. On a national basis the use of SIRBs is widely thought to be a zero-sum game. Finally, capital subsidies can increase the property tax base, but labor cost reductions (such as job training or neutral cash grants) may more efficiently increase total statewide employment.

Legislative Budget and Finance Committee (1986) A Sunset Performance Audit of the Pennsylvania Industrial Development Authority, Joint Committee of the Pennsylvania General Assembly.

The Pennsylvania Industrial Development Authority (PIDA), which provides low-interest loans to industrial development projects, is important to the promotion of public welfare in Pennsylvania. This endorsement is made despite recognition of the programs' failure to get funds to the high unemployment counties it was designed to help. Recommendations for improvement are included. Rules and regulations concerning the programs' authority and management should be developed. Improvements should be made to the programs' performance-objectives measurement system. Provisions are needed to improve or assure Authority Board members qualifications and meeting attendance.

Legislative Audit Bureau (1986) A Review of Small Enterprise Economic Development Program. State of Wisconsin.

The Small Enterprise Economic Development (SEED) program in Wisconsin has been successful in meeting some of its economic development goals. New jobs anticipated by businesses receiving SEED low-interest (IRB) loans have been realized. However, these jobs may well have been created anyway. Poor performance indicators include the lack of statewide aid distribution, very few loans to women-owned firms, no loans to minority-owned companies.

Marlin, Matthew R. (1986) "Reevaluating The Benefits And Costs Of Industrial Revenue Bonds." Urban Affairs Quarterly 21 (March): 435-41.

Based on his analysis of industrial revenue bond (IRB) data from the Norfolk-Virginia Beach area, Marlin argues against the findings of Pascarella-Raymond (see above). IRB-financed projects are not induced by subsidy to locate at high-cost sites, as Pascarella-Raymond contend. Marlin faults their assessment of costs and benefits. Administrative costs are real, he agrees, but the diversion of resources from the public to private sector can as easily be classified as a benefit as it can a cost. If increasing overall investment is a goal, lower (IRB) interest rates achieve this by facilitating private capital formation.

Pascarella, Thomas A., and Richard D. Raymond. (1986) "Rejoinder to Matthew R. Marlin's Reevaluating the Benefits and Costs of Industrial Revenue Bonds." Urban Affairs Quarterly 21 (March): 443-47.

Pascarella-Raymond reiterate their belief that IRBs are inefficient and should be eliminated (see above), and criticize Marlin's study showing IRB's are an effective and beneficial capital formation mechanism. Alternative tax and fiscal policies would increase capital formation more efficiently, but Congress lacks the political will to replace the popular and established IRB.

### 3. Tax Exemption Programs

Ross, William D. (1953) "Tax Exemption in Louisiana as a Device for Encouraging Industrial Development." Southwestern Social Science Quarterly 34 (June): 14-22.

The Louisiana property tax exemption program is costly and ineffective. Ross asked managers how the program had affected their plant location or expansion decisions, and found that the state would have lost new investments worth much less than the exemptions cost. The form of the survey questions may have made the results of the program appear more favorable than they were.

Morgan, William E., and Merlin M. Hackbart. (1974) "An Analysis of State and Local Industrial Tax Exemption Programs." Southern Economic Journal (October): 200-05.

This study measures the costs and benefits of industrial property tax exemption programs in seven states. The authors conclude that for tax exemption policies to be efficient, costs (other than taxes) must be approximately equal between alternative plant location sites. Naturally, as more state and local governments use tax exemption programs to promote industrial development their effectiveness will diminish.

Kieschnick, Michael. (1981) Taxes and Growth: Business Incentives and Economic Development. Vol. 11, Studies in Development Policy. Washington, D.C.: Council of State Planning Agencies

Policymakers are wise to recognize the ineffectiveness of most tax incentive programs, and adopt one of two strategies. The "cheap" strategy involves making a token effort. According to Kieschnick, the appearance of a concern for business development may provide an advantage over the state or region offering nothing at all. The alternative, he argues, is to provide "serious" tax incentives to influence business location decisions. Such a strategy would go beyond a criteria-based targeting program, and provide discretionary funding on a case-by-case basis. These recommendations follow a lengthy development of how tax incentives work, a review of the empirical literature, and the analysis of survey data collected by Kieschnick.

Coffin, Donald A. (1982) "Property Tax Abatement and Economic Development in Indianapolis." Growth and Change 13 (April): 18-23.

Data from the Indianapolis area suggest property tax abatement does not affect either intra- or inter-regional business location decisions. Coffin tests the hypothesis that tax abatement increases the investment attractiveness of building improvements by calculating the present values of program benefits as a percentage of total building investment. No positive effects on economic development due to property tax incentives were evident, leading to the conclusion by Coffin, that a reversal in the decline of Center Township (the focus of his study), was in fact only relative to happenings in other areas of Indianapolis.

Wolkoff, Michael J. (1985) "Chasing a Dream: The Use of Tax Abatements to Spur Urban Economic Development." Urban Studies 22 (August): 305-15.

Full and indiscriminate tax abatement is an ineffective and costly economic development tool. The performance of property tax abatement can be improved, however, according to Wolkoff. Two important policymaking considerations are the effects of tax abatement on the firm's decision to invest, and the impact of that investment on the community. Wolkoff argues for the use of variable abatement awards, since they allow for a greater recognition of project costs and benefits, while acknowledging that different firms respond differently to tax incentives. More generous awards should be given where infrastructure costs are smaller, or where development is highly desirable. Awards might also be used more efficiently if annual limits were placed on the portion of the tax base eligible.

#### 4. Loans, Loan Guarantees, and Grants

Gold, Ronald B. (1966) "Subsidies to Industries in Pennsylvania." National Tax Journal 19 (September): 286-97.

This study reports significant employment gains by communities providing plant development subsidies to private industry. Subsidies to small and medium (net worth) firms brought "definite employment gains," while subsidies to large firms were a wasted effort. This early attempt at identifying employment growth determinants, however, suffers data and methodological shortcomings. The author notes that the estimation procedures make "the figures presented subject to, perhaps substantial error."

Sazama, Gerald W. (1970) "State Industrial Development Loans: A General Analysis." Land Economics (May): 171-81.

State industrial loans and loan guarantee programs may be merited, depending on state fiscal and employment conditions. Business survey data is examined, and state finance options (to tax or borrow) are considered. Sazama recommends adopting an industrial loan program only: (1) if a state's (social) discount rate is lower than the private sector's, then a tax financed program will reduce current (private) consumption and increase investment. (2) In situations of chronic unemployment, a program can be financed by borrowing or taxes to create (lower-wage, labor-intense) jobs. Borrowing implies a redistribution of wealth (into the state from outside); tax financing is an intra-state redistribution. (3) At times of full employment, state loans financed by borrowing should only be given to high-wage firms. To encourage low-wage, labor-intensive employment will induce in-migration and lower state per capita income.

Sazama, Gerald W. (1970) "A Benefit-Cost Analysis of a Regional Development Incentive: State Loans." Journal of Regional Sciences 10 (December): 385-96.

Sazama constructs a cost-benefit framework for analyzing state industrial loan programs, that is applicable to other incentive programs as well. A model is derived, specifying opportunity costs (forgone consumption and investment) and benefit measures (induced labor and capital incomes). It is then applied to selected state data. Sazama notes the importance of assumptions in cost-benefit models and discusses some of their implications.

Wiltshaw, Desmond G. (1985) "Jobs and Local Authority Subsidies." Urban Studies 22 (June): 433-37.

A direct labor subsidy to a small competitive industry can never destroy jobs (absolutely), but that may not be the case with an indirect subsidy for a particular type of input or property. Using a simplified econometric model, Wiltshaw looks at the demand for labor given changes in the price of other inputs - what economists refer to as "cross-price elasticities." Wiltshaw concludes that policy results would be improved if local authorities better understand product demand, cost structures, and input relationships before attempting to promote jobs with input or property subsidies.

## 5. Studies with Combined Program Results

McMillan, T. E. Jr. (1965) "Why Manufacturers Choose Plant Locations vs. Determinants of Plant Locations." Land Economics 41 (August): 239-46.

Communities should focus on those development factors over which they have the greatest control: good tax policy, maintenance of community facilities; and a positive community development attitude. Surveys and case studies demonstrate the importance firms attach to exceptional education, recreation, and cultural facilities. The author notes, however, that these facilities go unappreciated without site visits, and that firms routinely make preliminary selection decisions without such inspections. Communities are advised to pay primary attention to those factors that the largest number of firms rate important. Firms with large property holdings are particularly concerned about their tax liability; therefore, community officials need to articulate a tangible, understandable tax policy.

Williamson, Robert B. (1968) "Some Evidence in Support of State Industrial Financing Programs: The Southwestern Case." Land Economics 44 (November): 388-93.

State-sponsored industrial finance programs (revenue bonding, direct loans, and tax concessions) can be an effective, competitive tool in promotion of a state's economic development, according to the evidence gathered by Williamson. Personal income, industrial sector growth, and manufacturer survey data are used to support the thesis that a lack of industrial finance programs in Texas leads to its economic decline relative to four neighboring states. Causation, however, is weakly linked to effect. Williamson draws his conclusions from simple comparisons of percent change in state personal income and industrial sector growth over two 10-year time periods. Leading questions and poor sampling bias the survey results.

Deaton, Brady J. and Dan Gunter. (1974) "The Influence of Community Characteristics on Industrial Plant Location and Expansion: A Preliminary View." Tennessee Farm and Home Science 91 (July, August, September): 34-6.

Industrial bonding is rated of average or minimal importance, while tax incentives are considered a significant location determinant by firms locating in rural areas. Fire protection is the most important community attribute, followed by police protection, industrial water supplies, sewage treatment, and solid waste disposal. Important, though outside the direct influence of local communities, is access to a major highway, a pool of trained workers, and airport services. Deaton-Gunter make these conclusions after analyzing the U.S. Department of Commerce, Survey of Industrial Location Determinants (1971-75).

Hellman, Daryl, Gregory H. Wassall, and Herb Eskowitz. (1975) "The Role of Statewide Industrial Incentive Programs in the New England Economy." New England Journal of Business and Economics 1 (Spring): 10-29.

Four policy observations are made following an examination of the effectiveness of loan guarantee, loan and revenue bond programs in New England. First, revenue bonds are the more effective method of increasing an area's net investment, though a new and selective loan program may be needed for new ventures. Second, a tradeoff appears to exist between long-term growth and immediate unemployment relief. Third, the most severe unemployment areas may be best served, not by capital subsidies, but from training or migration programs. Finally, the purpose of industrial incentives must be clearly defined and programs operated with these in mind.

Mulkey, David, B. L. Dillman. (1976) "Location Effects of State and Local Industrial Development Subsidies." Growth and Change 7 (April): 37-43.

The use of industrial subsidies appears to have little intra-regional effect on location decisions but may have some impact across regions. Mulkey and Dillman review the literature on the effects of tax concessions and capital subsidies as development tools. They share the view that such programs should be reserved for below average economic conditions. Policies should also reflect concern for each community member's welfare (commercial, industrial, and residential) and be based on sound cost-benefit analysis.

Schmenner, Roger W. (1982) Making Business Location Decisions, New Jersey: Prentice-Hall, Inc.

Manufacturing plant location decisions are viewed from the business management perspective. Surveys, interviews, and management theory are used to show the corporate mechanisms behind the plant-siting process. Site characteristics and their suspected influences, plus various demographic and geographic trends are discussed. Fortune 500 case studies further demonstrate the decisionmaking flow, while a final chapter examines the reasons behind plant-closures.

Carlton, Dennis W. (1983) "The Location And Employment Choices Of New Firms: An Econometric Model With Discrete And Continuous Endogenous Variables." Review of Economics and Statistics 65 (August): 440-9.

This paper models the location and employment decisions of new plants for three industries (fabricated plastic products, communications transmitting equipment, and electronic components) locating within Standard Metropolitan Statistical Areas (SMSAs). Carlton finds state tax

and incentive programs have no major effect on these decisions. A technically capable workforce (number of engineers in the region) mattered only to the highly sophisticated electronics industry. Existing concentrations of employment are more important to industries with a smaller average plant size.

Digby, Michael F. (1983) "Evaluating State Industrial Development Programs." Southern Review of Public Administration (Winter): 434-49.

According to Digby, state industrial development programs increase state job growth. While many financial aid and tax inducement programs were ineffective, right-to-work laws, equipment sales tax exemptions, and free land to industry were associated with manufacturing growth. Wholesale-retail sector growth was strongly related to per capita state development agency expenditures. These conclusions, however, were made from data collected with a poorly constructed survey, bringing into question their validity.

Hamilton, William, Larry Ledebur, and Deborah Matz. (1985) Industrial Incentives: Public Promotion of Private Enterprise. Washington, D.C.: Aslan Press.

This book reviews the financial and tax policy instruments common to industrial development programs. Debt, equity, grants, and tax abatement use are explained in a detailed, common language format. Tax concessions are the most frequent form of subnational industrial development, but industrial revenue bonds are the most cost effective instrument available to state and local governments, essentially due to the IRB's tax-exempt nature. The authors also view loan guarantees and principle reduction payments as effective uses of industrial development funds.

Ambrosius, Margery M. (1986) "Effects of State Economic Development Policies on the Health of State Economies: A Time-Series Regression Analysis." Paper presented at the Midwest Political Science Association meeting, Chicago, April.

The effectiveness of 38 economic development policies broadly classified as distributive, upwardly redistributive, or downwardly redistributive are examined by time-series regression methods. Value added and state unemployment rates are used as measures of economic health. The author concludes no positive effects on either indicator are consistently demonstrated with the implementation of these policies, nor are there sizable negative effects. These conclusions are used to support an underlying argument that special interest groups (primarily business) seek to manipulate state development policies for their own gain.

Kirby, Andrew. (1985) "Nine Fallacies Of Local Economic Change." Urban Affairs Quarterly 21 (December): 207-20.

Kirby rejects many non-technical beliefs in development theory, and offers nine specific paradigms for change. Each of the following points are diligently argued. Local economies are and always have been dynamic. Economic change is not uniformly distributed, but (spatially) specific. Job redistribution shares equally with job creation. Local initiatives may not result in local benefits. Local initiatives must be carefully examined for cost effectiveness. Progrowth coalitions are a prerequisite for economic development, but not a guarantee. Taxes are as important as jobs in growth politics. Local affairs are steeped in intergovernmental relations. Local affairs are anchored in a national and global economy.

#### B. FEDERAL PROGRAM EVALUATIONS

Levitan, Sar A. (1964) Federal Aid to Depressed Areas: An Evaluation of the Area Redevelopment Administration. Baltimore: John Hopkins Press.

The Area Redevelopment Act (ARA) legislation, policies, and programs are examined, and a review is made of the structure and conditions for administering community (loans, grants, and jobs training) programs. The history of ARA loan and grant programs was too short for Levitan to make any conclusions about their effectiveness, but he argues against a more rigid set of eligibility criteria as unjustified and unworkable. Through-out the book a special emphasis is given to the politics and perspectives of the Kennedy White House and Congress. The program information is dated, but the political insights are still interesting.

Chinitz, Benjamin (1971) "National Policy for Regional Development." in Essays in Regional Economics, edited by John F. Kain and John R. Meyer, 21-39. Cambridge: Harvard University Press.

National economic development legislation is graded against four "good policy" criteria. The first, is to establish a clear rationale, and objectives. Congressional mandates call for improving the lot of low-income, unemployed, yet Chinitz argues, many programs focus wrongly on areas, not people. The second, is to establish eligibility criteria, and delineate project areas. Here, politics tempers economics, and prioritized, best-use, budget fail to materialize. Planning and local participation are a third, critical element. The current process - local planning, federal review - leads to conflicts and bureaucratic waste. Finally, Chinitz claims the philosophy of legislation can be seen in the tools given to those charged with administration. A congressional pre-

occupation with capital-intense projects, leads to a disregard for achieving higher yields from investments in research, planning, and technical assistance. He concludes that federal economic development legislation "is so structured as to inhibit a cumulative process of policy formation and action".

Cumberland, John H. (1971) Regional Development Experiences and Prospects in the United States of America. Paris: Mouton and Co.

This book recounts the evolution of U.S. development policy. Early infrastructure efforts (canals and railroads) and land use planning activities are discussed, before the author turns to a review of federal and regional development programs. Praising the Area Redevelopment Administration (ARA) as a promising first effort, Cumberland criticizes the programs lack of focus and coordination. The Economic Development Administration -- which succeeded the ARA -- suffers these same shortcomings. Despite skepticism about the Appalachian Regional Commission's heavy emphasis on infrastructure, the author finds success and innovation in the programs short history.

Milkman, R., C. Bladen, B. Lyford, and H. Walton. (1972) Alleviating Economic Distress: Evaluating a Federal Effort. Massachusetts: Lexington Books.

The Economic Development Administration (EDA) activities are the focus of this book on development program evaluation. The first section reviews the politics and program history of EDA efforts. The second, and more important, section develops the framework for evaluating program effectiveness, and applies it to EDA projects using a case study approach. The analysis found in part that the EDA business development loan program had been effective in locating jobs and firms in EDA-designated areas.

Hansen, Niles. (1980) "Policies for Nonmetropolitan Areas." Growth and Change 11 (April): 7-13.

Federal economic development policies - tainted by an urban bias - fail to address the needs of nonmetropolitan areas, particularly in the low-income South. Social, political, and economic change exacerbate rural policy problems. The Economic Development Administration, the Appalachian Regional Commission, and Title V programs are examined for their effectiveness as rural development tools. The problem is summarized, not as a lack of workable proposals, but by the lack of political will. Without a clear rural development policy, the conflict between development, environment, and other nonspatial, quality of life issues will only worsen.

Miernyk, William H. (1980) "The Tools of Regional Development Policy: An Evaluation." Growth and Change 11 (April): 2-6.

This article examines and compares two regional development programs; the Economic Development Administration (EDA), and the Appalachian Regional Commission (ARC). Miernyk shows a poor correlation between state per capita EDA expenditures and state rankings for two key measures of the EDA mission statement - state per capita income and state unemployment rates. By contrast, the growth center strategy of ARC, with its focus on development highways, is cited as a contributing factor in the economic improvement of Appalachia.

Newman, Monroe. (1980) "The Future of Multistate Regional Commissions." Growth and Change 11 (April): 14-18.

Regional commissions are a fixture in America politics, which are rapidly converging to a national commission system. Noting "all of the nation can not be below its average", Newman fears a digression to regional autarchy or isolation should regional commissions loss sight of their original intent - relieving economic distress - and begin promoting regional development indiscriminately. This argument is supported by a critique for effectiveness and mission performance of the Appalachian Regional Commission and the Title V program. A distinction is made between industrial development and economic development, the latter adding quality of life measures to jobs and income. With quality of life factors increasingly important to development success, Newman believes in areas free of economic distress, commissions should focus more on growth management, blending economic performance with environmental concerns.

Isserman, Andrew M. and John Merrifield. (1982) "The Use of Control Groups in Evaluating Regional Economic Policy." Regional Science and Urban Economics 12: 43-58.

The problem in evaluating regional policy is to compare what happened with the policy to what would have happened without it. Control groups in a quasi-experimental design can help to deal with constructing the "counterfactual," what would have happened. Using this method, Isserman and Merrifield show that Economic Development Administration (EDA) aid had a significant effect on a county in West Virginia. Methodological questions mean the results should be investigated further in order to conclude that the effects were due to the EDA program.

Office of Program Analysis and Evaluation (1986) State-Designated Enterprise Zones: Ten Case Studies. U.S. Department of Housing and Urban Development. Washington, D.C.

To lend support to the potential of federal enterprise zone legislation, ten case studies of 'successful' state-designated enterprise zones (including Thief River Falls, MN) are reviewed. Each example provides a summary of the state programs involved and characteristics of the community. An accounting is made of the impacts of the program on the enterprise zone.

### C. EXPERIENCES FROM THE UNITED KINGDOM

Brown, A.J. (1972) "Effects of Policy." Chap. 11 in The Framework of Regional Economics in the United Kingdom. London: Cambridge University Press.

Brown analyzes the variance in employment between regions to conclude regional employment losses and gains are probably more a result of structural changes in a regions economy than due to development policy. The author notes a bias in British development policy toward capital-intensive industries, which are commonly thought to be fast-growing, high-wage employers, but no clear relationship among either industries or regions between high earnings and high capital-intensity could be demonstrated.

Moore, B. C. and J. Rhodes. (1973) "Evaluating the Effects of British Regional Economic Policy." Economic Journal 83 (March): 87-110.

Development Area employment gains follow from British regional policy initiatives according to the empirical analysis conducted by Moore and Rhodes. The estimated growth in new jobs ranged from 20,000 to 75,000 between 1968 and 1970 - depending on the assumptions made concerning the effects of non-financial policies. An inability to account for time-lags between policy cause and effect, however, leads to the emphasis of uncertainty surrounding the job growth estimates.

Moore, B. C. and J. Rhodes. (1974) "Regional Policy and the Scottish Economy." Scottish Journal of Political Economy 21 (November): 215-35.

A following-up to their earlier regional policy analysis (the article above), the authors narrow the scope of investigation to Development

Areas in Scotland, and attempt to account for the time-lag between policy and jobs. Confirming their findings of policy induced employment gains, the authors try to explain the subsequent lack of change in the Scottish/U.K. unemployment differential. They conclude that as regional policies increase Development Area labor demands, the effect on labor supply is mitigated by a hidden pool of (undocumented) unemployed, and the lack of outmigration which would have occurred in the absence of a development policy.

Buck, T. W. and Atkins, M. H. (1976) "The Impact of British Regional Policies on Employment Growth." Oxford Economic Papers 28 (March): 118-32.

Buck and Atkins examine regional growth and industrial composition to determine the effectiveness of British regional development policies. They conclude that policies which address regional industrial disparities are more likely to enhance employment opportunities. They further contend that prior to 1967, and the introduction of the Regional Employment Premium (REP), British policies were more effective in creating new jobs in Development Areas. It should be noted, however, that the supporting empirical evidence is for the most part statistical insignificant.

Moore, B. C. and Rhodes, J. (1976) "Regional Economic Policy and the Movement of Manufacturing Firms to Development Areas." Econometrica 43 (February): 17-31.

Policies which induce the movement of firms to Development Areas account for the largest portion of employment gains in those regions. Regionally differentiated capital expenditure subsidies are responsible for creating almost half of the new jobs each year as a result of these relocations. The greatest impact on employment, however, is attributed to an aggressive government factory building program in Development regions, (and the concurrent restriction of factory construction in non-development areas).

Schofield, John A. (1976) "Economic Efficiency and Regional Policy." Urban Studies 13 (June): 181-92.

Cost-benefit methods are applied to Britain's Distribution of Industry (DI) development policy to show how other studies have overstated program benefits, thus raising questions about the programs true effectiveness. Schofield demonstrates how widely variable the results become by using a range of assumptions while estimating program benefits. Benefits ranged from 54 pounds to 1000 pounds, well below the widely accepted 2,500 pound range.

Dessant, J. W. and R. Smart. (1977) "Evaluating the Effects of Regional Economic Policy: A Critique." Regional Studies 11: 147-52.

The policy evaluation methods of Rhodes-Moore (1973) are critically analyzed, and greater disaggregation of the data is recommended. By example, disaggregation of one of Rhodes-Moore's study regions shows no growth in the sub-region thought to be favored by policy, while in the remaining two sub-regions clear employment gains are visible. The bias for analyzing manufacturing industries illustrates other concerns. Programs and their evaluations have focused on the troubled, male-dominated industries (mining, transportation, and steel), but this fails to recognize 1) the importance and growth of service and other non-traditional industries, and 2) the importance and growth of female employment in these sectors.

Schofield, J. A. (1979) "Macro Evaluations of the Impact of Regional Policy in Britain: a Review of Recent Research." Urban Studies 16 (October): 251-71.

In a review of studies applying simple statistical, shift-share, or regression techniques to policy analysis, Schofield concludes the latter is the more useful approach to defining counter-factual situations (ie. what would have happened without intervention). Simple statistical approaches have numerous fundamental shortcomings, and do not account for non-policy and lag effects. Shift-share methods calculate the difference between off-policy and on-policy regional impacts, but must be applied to a narrow set of industries, and lack tests for statistical significance. Regression methods, despite specification and other problems, allow the modelling of lag-effects and non-policy variable, plus procedures for significance testing.

Thomson, Lydia (1981) "Industrial Employment Performance and Regional Policy 1952-71: A Cross-Sectional Approach." Urban Studies 18 (June): 231-38.

A variety of regional development policies and an expanding national economy are responsible for attracting firms (and jobs) to United Kingdom development areas from 1952-71. The combined affects were particularly strong in industries characterized as mobile, fast growing, capital-intense, and utilizing predominantly female labor. Thomson cautions, however, about the limits to mobile firm expansion, and observes how firms tended only to make capital investment during periods of capital development grants. She also notes that the problem of hard-core male unemployment had not been significantly affected, and that more low-paying female jobs will not improve regional income disparities.

Moore, B.C., J. Rhodes, and P. Tyler. (1982) "Urban/Rural Shift and the Evaluation of Regional Policy." Regional Science and Urban Economics 12: 139-57.

Recognizing the shift in manufacturing jobs from urban to rural areas of the United Kingdom does not significant effect the findings of prior regional policy evaluations. Such a dynamic does, however, need to be considered in future studies. Moore et al. support their previous conclusion that employment gains in Assisted Areas are the result of development policy, in part by presenting evidence of a proportional (urban to rural) employment shift between Aided and non-Aided regions. In the absence of convincing evidence to the contrary, the extent to which employment shifts cross Aided/non-Aided boundaries is assumed negligible. Viewed overtime, some correlation is discovered between acceleration of the (urban/rural) shift and a period of "active" policy involvement, but this is dismissed as inconclusive.

Nicol, W. R. (1982) "Estimating the Effects of Regional Policy: A Critique of the European Experience." Regional Studies 16 (3): 199-210.

It is generally agreed that British regional development policies are effective, but the impact of individual policy instruments is less clear. Nicol analyzes the modeling of regional policy factors among various assessment methods in terms of their analytical approach, estimation technique, and treatment of regional policy. When compared to trend analysis or standardization methods, explicit modelling can best delineate individual policy effects.

Diamond, Derek, and Nigel Spence. (1983) "The Effects of Regional Policy in Scotland." Chap. 6 in Regional Policy Evaluation: A Methodological Review and the Scottish Example. England: Gower House.

Scottish development policy effects are discussed following a review of the U.K policy study literature, and after setting the criteria for evaluating policy implications on labor, capital, the environment, and social welfare. The authors conclude that manufacturing jobs, the focus of U.K. development initiatives, have played a minor role in the growth of the Scottish economy, while service jobs, spurred by North Sea Oil development, have provided the bulk of new employment. Regional policy has, however, contributed significantly to the movement into Scotland of manufacturing capital. No substantive conclusions can be drawn about the effects of regional policy on social welfare or the physical environment, since existing empirical methods have not been constructed for such an evaluation.

Lindsey, N. (1983) "Fostering New Enterprises: Enterprise Workshops in Birmingham." Regional Studies 17 (June): 208-10.

Enterprise workshops in Birmingham, England offer entrepreneurs workshop space and common support facilities in the hope of creating jobs and inspiring innovation. Some lessons have emerged in the programs short history. Net employment gains from establishing workshops are likely to be low. Physical infrastructure alone is not enough, management training and support staff must also be available. The Birmingham workshops, directed towards traditional manufacturing skills, should encourage non-manufacturing enterprises as well. Workshop firms appeared to contribute little in the way of manufacturing innovation, while fostering this goal may indeed cost job growth. Uncertain returns from the workshops must be weighted against their potentially high establishment cost.

Armstrong, Harvey, and Jim Taylor. (1985) "Measuring the Effects of Regional Policy." Chap. 14 in Regional Economics and Policy. Oxford: Philip Allan.

Concluding this book on regional economics and development policy formulation, Armstrong and Taylor discuss the effects of U.K. development policy. British regional policy, by one estimate, produced a half million jobs between 1960 and 1976. Another study suggests this figure is closer to 350,000, after adjustments are made for urban-rural industry shifts. Among other findings reviewed, a survey of business found financial incentives the most influential location factor after labor supply considerations. Location controls followed a distant third.

Willis, K. G. (1985) "Estimating the Benefits of Job Creation from Local Investment Subsidies." Urban Studies 22 (June): 163-77.

The cost effectiveness of creating jobs through local investment subsidies (advanced factor building) is heavily dependent on the methods and assumptions which underlay the analysis. Willis reviews many of the costs, benefits, and methods for evaluating job creation programs, and discusses their relevance in the context of British policy studies. Two points are strongly argued. First, not all those unemployed would remain so in the absence of a local initiative, therefore the benefits of an initiative should reflect less than 100 percent of the current unemployment compensation expense. Second, a distinction should be made between new subsidy-created employment, and existing employment which is simply diverted to the new job opportunity.