

The Politics of “Entrepreneurial” Economic Development Policy in the U.S. States¹

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Abstract

“Entrepreneurial” economic development strategies at the state level in the United States, which focus on nurturing home-grown, high-growth businesses, lack immediate payoffs for politically powerful constituencies, a condition that would seem likely to limit their appeal compared to the alternative “locational” strategy of attracting large investments from elsewhere. Nonetheless, many U.S. states have added programs with entrepreneurial attributes to their economic development portfolios in recent years. This paper explores how the political obstacles to such programs have been overcome. In a few cases, an institutional innovation in the policy-making process drew in new participants who provided ideas for and support to programs with entrepreneurial attributes. More commonly, the preferences of the executive branch officials, especially governors, appear to have been critical to the enactment and implementation of such programs. The finding suggests that ED policy making may be more technocratic than is commonly believed.

KEY WORDS: economic development, state policy, entrepreneurship policy, governors, high-technology industry

Economic Development Policy in the U.S. States: Political Incentives Versus Policy Expertise

Economic development (ED) policy makers at the state level in the United States face strong political incentives to do the wrong thing. “Locational” ED strategies, which involve subsidizing existing firms in order to induce them to relocate (or to avoid their departure), win the support of powerful and easily identifiable constituencies and produce favorable publicity as well. Unfortunately, “smokestack chasing,” as these strategies are pejoratively known, is typically wasteful, producing a “race to the bottom” as states compete to claim credit for subsidizing high-profile projects. An emerging body of evidence suggests that “entrepreneurial” ED strategies, which focus on nurturing new high technology and other high-growth businesses, may be more effective in fostering sustainable economic growth. However, policies to implement such strategies lack obvious political constituencies, create few opportunities to win favorable media coverage, and tend to take more than one election cycle to pay off.

The growing popularity of entrepreneurial ED strategies among the states in recent years, alongside more traditional locational strategies (which still predominate), is therefore a somewhat surprising development. It has become an important theme in the work of the National Governors Association (NGA), including the initiative of the 2007 chair, Arizona Governor Janet Napolitano, called “Innovation America” (NGA, 2007). The State Science and Technology Institute (SSTI) reports that about forty gubernatorial “State of the State” messages mentioned an initiative of this sort in the past year (SSTI, 2007). Saiz and Clarke’s (2004) more systematic accounting of state ED policies, discussed in more detail later, detects a steady rise and spread of entrepreneurial strategies.

This paper is a preliminary exploration of how the political obstacles to entrepreneurial state ED strategies have been overcome. The primary database for the paper is a set of 16 short case studies of ED programs from around the country. The case studies draw on interviews of economic development agency staff, legislators, and others involved in enacting and maintaining the programs as well as on publicly available documents and media coverage. I find that entrepreneurial strategies rarely rely on support from their direct beneficiaries, even when institutions, such as public-private economic development partnerships, are created in order to identify and draw in such supporters. Occasionally, such institutions activate constituents, such as bankers, who claim to speak on behalf of entrepreneurs and thus serve as “proxies.” The rejection of these hypotheses leads me to generate an alternative, which centers on the preferences of the executive branch officials, especially governors, who appear to have been most often the driving forces in the enactment and implementation of ED programs with entrepreneurial attributes. Legislative involvement in the enactment of such programs also seems to add to their resilience.

The paper begins by laying out the main concepts and the historical evidence on state ED policy. I then set forth the study’s two main research questions and its methodology. The findings that follow suggest that neither of these hypotheses are supported, and I turn to the notion of executive dominance as an alternative. I conclude by suggesting that ED policy making may be more technocratic than is commonly believed, and that the educational efforts of policy experts, who generally favor entrepreneurial ED strategies over locational ED strategies, appear to have been fruitful and should be sustained.

The Pull and Peril of Locational State Economic Development Strategies

Interjurisdictional competition is one of the abiding principles of American federalism. The rise of the manufacturing economy in the northern states in the nineteenth century was followed some decades later by the relocation of many plants to the Southern states. Lower labor costs, weaker unions, and looser regulation were among the attractions for businesses considering such a move. Beginning in the 1930s, Southern state governments began to sweeten the pot with incentives for relocation that went beyond these “natural” attractions (Cobb, 1982). State governments elsewhere eventually responded, and a “war between the states” for economic assets, especially manufacturing plants, was begun that continues to this day (Chi & Hoffman, 2000; Markusen & Nesse, 2007). In March 2006, for instance, Georgia announced that it had landed the first Kia auto plant in the United States with a \$410-million package of state and local incentives, amounting to some \$160,000 for each job at the plant (Maynard & Peters, 2006).

The political forces that drive the states to adopt locational ED strategies, such as the one that Georgia used to attract Kia, are well understood. (Dewar, 1995; Markusen & Nesse, 2007) Large facilities provide employment and create spillover economic activity in the localities in which they are sited during both the construction and operational phases. The direct beneficiaries in these communities and in the relevant businesses sectors support the public officials whose largesse brought them the facility. Locational ED strategies also tend to enhance perceptions of the performance of elected officials among voters on a statewide basis. The facilities are

highly visible. They garner media coverage for deal signings and ribbon cuttings. Indeed, they may become the enduring legacies of the responsible officials. The headline on a December 2005 obituary that described a life of many accomplishments is indicative: "Ex-Gov. Carroll Campbell, 65; Lured BMW to South Carolina" (*New York Times*, 2005).

Interjurisdictional competition drives up the cost of locational ED strategies. The number of potential projects that will permit large-scale credit claiming is limited. Many of these projects may be sited in multiple locations; indeed, as transportation and communication costs have declined over time, the range of potential sites for projects has grown, expanding the number of competing jurisdictions (Bartik, 2005). Although competition is driving up costs, the fiscal impact of policies deployed by states to recruit facilities is often hidden or only becomes visible long after the fact. These policies typically involve foregone revenue and are budgeted over a number of years. Rigorous application of cost-effectiveness criteria to such policies at the time of the competition is often precluded by political pressure to get the deal done or overshadowed by media coverage framed in terms of winners and losers (Gabe & Kraybill, 2002; Markusen & Nesse, 2007; Saiz, 2001a).² ED policy makers thus have strong incentives to meet firms' demands. As Timothy J. Bartik (2005, p. 147) puts it, "the argument for doing something will win out over the argument for doing nothing."

Unfortunately, the economic benefits of the subsidies provided by states to large facilities usually do not match the political benefits to their champions. As Margaret Dewar (1995) puts it in her excellent case study of the Minnesota Economic Recovery Fund: "Highly visible activities, which lend themselves to announcements and groundbreaking ceremonies, do not necessarily bring about more economic activity than would have occurred anyway....." Econometric analyses have been somewhat more equivocal, with some researchers (notably Bartik, 1991) finding that tax breaks granted to induce relocation may have a modest net positive effect when the contending locations are geographically proximate, creating a classic beggar-thy-neighbor scenario. (Buss, 2001) In most instances, though, as Peters and Fisher (2004, p. 32) conclude, "economic development incentives have little or no impact." Bartik, in later work (2005, p. 146), concurs: "The problem is that many incentives currently being offered in the United States have costs that exceed benefits."

In principle, the federal government could step in to regulate this wasteful competition, although previous efforts to convince it to do so have not succeeded. State governments might also become more savvy in their negotiations with foot-loose firms. (Leroy, 2007; Weber & Santacroce, 2007) Yet, as the old saying goes, "you can't beat something with nothing." The growing popularity of an alternative ED strategy, focused on fostering entrepreneurship and technology-based growth, rather than attracting "foreign" direct investment, offers another potential avenue for reform.

The Emergence and Promise of Entrepreneurial State Economic Development Strategies

The emergence of this alternative is commonly dated to the 1980s. The deep recession early in that decade, accelerating international competition in key manu-

facturing industries and frustration with federal policies stimulated policy innovation at the state level. States experimented with a wide variety of programs, including support for academic research and development (R & D) and technology transfer, venture capital investing, loan programs for small businesses, workforce upgrading, and more. (Clarke & Gaile, 1989; Isserman, 1994; Pages, Freedman, & Von Barga, 2003; Waits, 2000) The central goals of these diverse efforts were to enable organic growth of existing businesses within the state and to nurture new ones, rather than to chase the elusive smokestacks from outside the state. Peter Eisinger captured the trend for scholars in his 1988 book *The Rise of the Entrepreneurial State*, and David Osborne popularized it the same year in *Laboratories of Democracy*. 4 □

These early experiments with entrepreneurial ED strategies spread widely and continued to grow over the past two decades. Eisinger (1995) revisited the issues raised by his book about a decade after gathering the original data. While expressing concern with regard to the continued appeal of locational strategies, he found that the bulk of programs begun in the intervening years fit the entrepreneurial mold and that the programs that he had highlighted in the book were generally being sustained. The founding of the State Science and Technology Institute in 1996 serves as another marker of the vitality of entrepreneurial state ED strategies in the 1990s. SSTI institutionalized knowledge exchange and facilitated career mobility among practitioners of technology-based economic development, carving a niche as a national clearinghouse for information, ideas, and job opportunities. The entrepreneurial thrust continues in the 2000s. A recent review of state initiatives in economic development by the National Governors Association (NGA), for instance, revealed a widespread effort to shift the basis of competitive advantage from cost reduction to knowledge creation, innovation, and entrepreneurship (NGA, 2006).

While most observers accept that there has been a change in state ED policy over the past two decades, its importance and extent are sources of contention, in part because of the challenge of specifying and measuring the “entrepreneurial state.” While incentives for relocation usually have a reasonably well-defined fiscal impact, entrepreneurial strategies often rely on institutional change, public-private partnerships, and other policy instruments that do not necessarily show up in state budgets. Saiz (2001b) provides one useful response to the measurement challenge, using program attributes as the metric. Programs with locational attributes seek to reduce business costs directly, are administratively passive, and do not target specific types of firms or economic sectors. Programs with entrepreneurial attributes, by contrast, are targeted to high-growth or high-risk firms or economic sectors, build the capacity of firms or individuals to engage in innovative economic activity, and leverage private investment capital with public funds. Saiz uses cluster and factor analyzes to demonstrate that state ED strategies are comprised of two major components, locational and entrepreneurial.

Saiz (with Susan Clarke, 2004) also assembles a time series of state-level indices of the two strategies. These indices reveal that the national mean of the locational index has declined since 1983, while the mean of the entrepreneurial index has risen. In other words, more states have more programs that target new and high-growth firms and that build the human and financial capacity upon which they can

draw, while fewer state programs focus on cost reduction to outbid other states to attract or retain facilities.

These trends do not mean, however, that entrepreneurial state ED strategies have eclipsed locational ones. Most states employ both strategies; indeed, as I describe further in the text, some programs have both kinds of attributes and may be used for either locational or entrepreneurial purposes, depending on the view of the implementing officials. And most observers agree that the locational strategy continues to soak up the bulk of state ED resources. Peters and Fisher (2004, p. 28), for instance, find that state and local ED incentives in 2000 totaled some \$50 billion, much of it surely devoted to relocation packages and "almost certainly much greater than all other spending on state and local ED initiatives combined."³ Bartik (2005), similarly, found that 75 percent of all ED resources in Michigan were provided as cash or near-cash to large businesses. Entrepreneurial strategies are on the rise, but locational strategies are still dominant in state ED policy.

While a preponderance of evidence shows that locational strategies do not pay off, evidence about entrepreneurial strategies is less conclusive, but more optimistic in that the public is getting some return on its investment. Saiz (2001a) finds a positive correlation between entrepreneurial strategies and manufacturing employment, although he argues that their broader impact is "marginal." Jenkins, Leicht, and Jaynes (2006) are similarly cautious, although they find that technology programs can raise high-tech employment. Peters and Fisher (2002) find that state enterprise zone programs had little impact on growth and employment, although they did enhance retention of existing businesses within the zones. Bradshaw's (2002) careful study of the California Small Business Loan Guarantee Program is less equivocal, demonstrating not only a positive employment effect for firms using the program, but also a net fiscal gain for the state government. Feldman and Kelley (2002) share Bradshaw's enthusiasm, showing that state programs can foster the capabilities of technology-intensive entrepreneurial firms.

This sampling of the still-slim evaluative work on entrepreneurial state ED strategies suggests that, at a minimum, they do less harm than locational strategies, not least because they are typically less expensive. A more positive interpretation is that these strategies may be refined through further evaluation and policy learning to emphasize the more effective elements and limit the less effective ones. This interpretation gains further credence in light of an emerging body of work that reveals a causal connection between entrepreneurship and economic growth in general (Acs & Audretsch, forthcoming). Although that work reaches no consensus as to whether and how public policy ought to try to foster entrepreneurship, it suggests that the objective of entrepreneurial ED strategy is sound.

The Politics of Entrepreneurial Economic Development Policy: Research Questions

If program evaluations and economic logic alone determined policy outcomes, the continued importance of locational state ED strategies would be an anomaly for political scientists to explain, because the jury is in on them. But, despite their economic illogic, the political logic of locational strategies is compelling. Businesses, communities, and individuals receive material benefits through relocation pack-

ages. In addition to receiving the support of these interests, elected officials benefit from the positive media attention attracted by their efforts to woo out-of-state investors. These rent-seeking and credit-claiming processes are enabled by hiding, ignoring, or deferring the costs.

Instead, the puzzle for political scientists is why entrepreneurial state ED strategies have caught on. Their economic and programmatic promise notwithstanding, their political logic seems to contain neither rent-seeking nor credit-claiming. At least at first glance, the direct beneficiaries of entrepreneurial strategies appear to be far more widely diffused and poorly organized than those of locational strategies. In fact, in the case of future start-ups, the individual beneficiaries are unknown and the corporate beneficiaries, nonexistent. Most of the economic gains that these beneficiaries produce will emerge long after those who instigated the policies have left office. The credit for this economic success, if it can be claimed by any policy makers at all, will not accrue to the instigators of the strategy, but rather to their successors in office. The contribution of state ED policy to the emergence and growth of new businesses and to economic dynamism generally will likely be hard to trace, potentially making it difficult even for these successors to claim credit. Media coverage of program initiation is likely to be limited by a lack of visual imagery and the relatively small scale of most entrepreneurial ED initiatives. (Hart, 2003) Yet, despite these apparent political weaknesses, more and more states are adopting more and more elements of the entrepreneurial strategy.

The research project reported in this paper takes a closer look at the rent-seeking element of the politics of entrepreneurial state ED strategies, deferring for future study the possibility that media coverage of entrepreneurial policies has become more favorable, thereby changing the conditions for credit claiming. Rent seeking is a powerful paradigm for understanding economic and regulatory policy in general, and it is invoked by virtually all scholars of state ED policy, including many who ignore credit claiming. Even scholars (and supporters) of entrepreneurial ED strategies, such as Eisinger (1988) and Bradshaw and Blakeley (1999), imply that the mobilization of expected and actual beneficiaries of these strategies helps to determine whether they are enacted and maintained. Their studies tend to focus, for instance, on states that are highly dependent on industries in which entrepreneurship is particularly important, such as high technology and services, and which therefore would be expected to be more receptive to entrepreneurial strategies. They have not, however, systematically assessed these assumptions.

The primary research question that I explore, then, is whether the putative beneficiaries of entrepreneurial strategies—entrepreneurs—have advocated and supported their enactment and maintenance. Given the diversity of policy instruments and targets of these strategies, the identities of these beneficiaries may vary widely from state to state and even from program to program within a single state. They may not be as uninformed and disorganized as they appear at first glance. At the same time, their identities may not correspond precisely with the high-technology and service sectors identified by Eisinger, Bradshaw and Blakely, and others. If, however, first impressions are accurate and the direct beneficiaries are indeed absent from the political process in this policy area, I seek to discover who drives through and defends the relevant programs. I label these supporters “proxies” for entrepreneurs, and they too may vary across entrepreneurially ori-

ented programs. Although they advocate for entrepreneurial ED strategies in the absence of an organized entrepreneurial interest, proxies may receive direct benefits from the programs they advocate (such as commissions in the case of bond brokers and R & D grants in the case of university presidents) and thus fit comfortably into the rent-seeking view.

I also pursue a secondary research question related to the potential impact of institutional change on the participation of the expected beneficiaries of these strategies in the policy process.

The creation of new institutions, such as public-private partnerships and networking consortia, is a common feature of entrepreneurial ED strategies. Such institutional change is endorsed in broad measure, for instance, by the Center for Best Practices of the U.S. NGA (Psilos, 2004). It is relevant here because it may lower barriers to participation that would otherwise deter entrepreneurs from getting involved with state government. For instance, partnerships that cross the public-private divide may be perceived by entrepreneurs to be more responsive than more traditional, formalized policy processes and, therefore, more worthwhile to invest time and energy in. These institutions may also reach out more effectively to entrepreneurs than traditional state economic development agencies and may facilitate their access to policy-relevant information and tools for taking political action. Thus, in those cases in which institutional change occurred in my set of case studies, I ask whether it indirectly supported the adoption and maintenance of entrepreneurial ED strategies by influencing the makeup of the coalitions that support these strategies.

Methodology: Case Studies of Economic Development Programs

The research questions advanced previously—whether entrepreneurs support entrepreneurial state ED strategies (and, if not, who does) and whether institutional change enables such support to emerge—are explored through 16 brief historical case studies of state ED programs. The program (or, before enactment, the initiative) was chosen as the unit of analysis because it is the organizing unit of policy making. Programs are typically established or modified through specific legislative acts and administered by specific bureaucratic units. Political actors, such as elected officials, government agencies, interest organizations, and concerned citizens, coalesce into coalitions that support or oppose programs (Sabatier & Jenkins-Smith, 1999). The coalitions associated with program establishment and maintenance provide the vehicles through which newly mobilized groups get involved, if they do so at all. Policy advocates often design programs with an eye toward mobilizing winning coalitions for them in a particular institutional setting, whether legislative or administrative. They may also seek to modify institutional authority over policy making and the rules by which institutions operate in order to change the requirements for a winning coalition (Orren & Skowronek, 2004).

The study's research design tries to balance the strengths and weaknesses of depth with those of breadth. The questions require the policy process to be understood in some detail, going beyond what little is revealed by public records and media coverage. In addition to providing information about the political activities of entrepreneurs, the process-tracing approach allows the generation of alternatives

to this rent-seeking hypothesis, in order to investigate to some degree the question “if not entrepreneurs, then who?” This flexibility is important given the paucity of prior research on this subject. Of course, any single case, however detailed, is subject to the criticism that it is unrepresentative. The more cases in the study, the more this criticism is allayed, especially if some care is taken in case selection. But this style of research is labor-intensive. Resource limitations ultimately determined the number of cases that could be pursued to a sufficient depth to yield provisional answers to the research questions in this study. I believe that 16 cases is a large enough n to produce reasonably robust hypotheses, but not to provide conclusive evidence. Further work can add both breadth and depth to our understanding of the subject.

The universe of cases for the study is the *Directory of Incentives for Business Investment and Development in the United States* (NASDA, 1983–2002). Published approximately every four years by the National Association of State Development Agencies, this comprehensive reference seeks to list every state ED program in the country. In the most recent edition (2002), 1,103 such programs were included.

Two groups of cases were selected from the *Directory of Incentives*. Half of the cases were drawn randomly, using what Gerring (2007) calls the “diverse” technique of case selection. The purpose of this selection method is to get a sense of how frequently entrepreneurs and other actors are involved in making any state economic development policies that have been enacted, regardless of the goals of the policy makers and the tools they employ. In order to increase the diversity of the cases, I also varied them by state (allowing no more than one program from each state), by gross state product (GSP), and by share of GSP in services (so that half of the cases fell into the top half and half into the bottom half on these two measures).⁴

The other eight cases were selected by using what Gerring (2007) calls the “deviant” technique. These cases are ED programs with entrepreneurial attributes that have been sustained for a long time under adverse circumstances. “A long time” means that these programs have survived for more than a decade (since the 1994 edition of the *Directory of Incentives*). “Adverse circumstances” means that their neighbors rely heavily on locational strategies, a situation which generally leads states to reduce their reliance on entrepreneurial strategies (Saiz, 2001a).⁵ If rent seeking is an important explanation for the enactment and maintenance of ED programs with entrepreneurial attributes, we are more likely to observe entrepreneurs advocating and supporting the strong and durable programs in this group of cases than others that are weaker and shorter-lived. If we do not observe entrepreneurs participating in the policy process in the deviant cases, it is unlikely that they are important constituents of programs that are more easily sustained.⁶ Table 1 lists the cases.

The case studies rely heavily on interviews, supplemented by public documents, media coverage, and materials provided by those interviewed. Although interview-based data are subject to the vagaries of memory and to selective recount, there are no alternative sources for these data. Media coverage of state ED policy making is sporadic and inconsistent across states. Legislative records are incomplete and sometimes unavailable. Archival records of state policy making, if they exist at all (and many simply do not), are only accessible on-site in state capitals and therefore would have been too costly to investigate for such a large group of cases. Forty-eight

Table 1. List of Cases

"Diverse" Selection

Colorado Existing Industry Training Program (102)
 Kentucky Tourism Development Act (377)
 Louisiana Customized Computer Software Development Credit (390)
 Mississippi Major Economic Impact Authority (516)
 Nevada Industrial Development Bonds (584)
 North Dakota Bank of North Dakota Small Business Loan Program (750)
 Pennsylvania Development Financing Authority (844)
 Tennessee Fast Track Job Training Program (937)

"Deviant" Selection

California Enterprise Zone Program (82)
 Florida Black Business Investment Board (171)
 Kansas High Performance Incentive Program (347)
 Maryland Challenge Investment Program (446)
 New Mexico Venture Capital Investment Fund (657)
 North Carolina Biotechnology Center (739)
 Oregon Capital Access Program (820)
 Washington High Technology Business Tax Incentives (1018)

ID # (in parentheses) refers to the 2002 *Directory of Incentives*.

interviews, or an average of three per case, were conducted for the study. (The interview protocol can be found in the appendix.) Those interviewed included key program administrators, drafters of legislation and budgets, and representatives of business and professional organizations. The interviews were cross-checked with one another and with the supplementary materials to the extent possible. A narrative was then prepared for each case. These narratives are not reproduced in full in this paper, but rather provide the basis for the facts asserted in the following sections.

Results: Entrepreneurs, Institutional Innovation, and State Economic Development Policy Making

The results of the study are summarized in Table 2. One preliminary observation worth making is that the diverse subset of cases supports the finding of Saiz and Clarke (2004) that entrepreneurial state ED policy is not rare. Although one cannot draw firm conclusions from eight cases, four of them are classified either as entrepreneurial or as having both entrepreneurial and locational attributes.

More central to the study is the finding that entrepreneurs are rarely involved in state ED policy making in either subset of cases. Only in Florida and Louisiana did programs that have entrepreneurial attributes involve entrepreneurs in a significant way.

- *Florida.* The Florida Black Business Investment Corporation emerged from a reaction by black business owners to what they perceived to be favoritism by the state government toward Cuban refugees who arrived in the 1981 boat lift. Governor Graham brought key leaders of this group into policy making through a new advisory council. The council in turn formulated the proposal for the new program.
- *Louisiana.* The customized computer software tax credit languished in the legislature for several years due to opposition from localities. In 2002, it finally

Table 2. Summary of Findings

Diverse Cases	Program Attributes	Business Role in Enactment	Main Advocates of Enactment	Institutional Innovation During Enactment?	Flexible Implementation?	Institutional Innovation in Implementation?
Colorado	Entrepreneurial and locational	Large firm support (Metro Denver Chamber)	Legislator	No	Yes. Governor's office.	Yes. Restructuring of Governor's ED function.
Kentucky	Locational	Advice and support from Tourist Council	Governor	No	Yes. Legislative expansion.	Yes. Tourism Development Finance Authority.
Louisiana*	Entrepreneurial	<i>Start-up high-tech association lobbies along with traditional associations</i>	Legislator initiated, Governor crucial to passage	<i>Possibly. Start-up high-tech association.</i>	No	No
Mississippi	Locational	None	Governor	No	Yes. Legislative expansion.	No
Nevada	Locational	General business support	Governor	No	Yes. Dept. of Business and Industry.	No
North Dakota	Entrepreneurial	Banks support	Governor	No	No	No
Pennsylvania*	Entrepreneurial and locational	Bankers and bond counsels help formulate in ED Partnership.	Governor	<i>Yes. ED Partnership (public private collaboration).</i>	Yes. Dept. of Economic and Community Development.	No
Tennessee	Locational	General business support	Governor	No	No	No
California	Entrepreneurial and locational	Diverse business inputs via hearings and community mtgs.	Legislators.	No.	Yes. Dept. of Commerce. Legislative expansion.	Yes. New office within Dept. of Commerce.
Florida**	Entrepreneurial	<i>Black business community formulated and supported.</i>	Governor's Advisory Council on Minority Enterprise Dev.	<i>Yes. Advisory council.</i>	Yes. Decentralized administration through regional investment corps.	Yes. Investment board and investment and support corporations.
Kansas*	Entrepreneurial and locational	Existing industries represented in Kansas Inc., which formulated the bill.	Dept. of Commerce, Kansas Inc, Kansas Chamber of Commerce.	<i>Yes. Kansas Inc. (public-private partnership)</i>	No.	No.
Maryland	Entrepreneurial	None	Governor	No	Yes. Dept. of Econ. and Employ. Dev.	Yes. New office in DEED and advisory council.
New Mexico	Entrepreneurial	Lockheed-Martin supports in first round	Legislators in first round, Governor in revision.	No	Yes. State Investment Council.	Yes. Oversight agency, advisory council.
North Carolina	Entrepreneurial	General business support	Legislator initiated, Governor crucial to passage	<i>Possibly. Legislative study committee.</i>	Yes. NC Biotechnology Center	Yes. Private nonprofit.
Oregon	Entrepreneurial	Supported by bankers association	Legislator initiated. Governor supported.	No	No	No
Washington	Entrepreneurial and locational	General business support	Governor	No	No	No

**Case answers one major research question in the affirmative (as italicized).

*Case supports both major research questions in the affirmative (as italicized).

passed, in part because a new Association of Louisiana Technology Companies (ALTC), made up of software firms from outside the New Orleans area, was formed to give it a push. In the words of the bill's sponsor, Rep. Steve Scalise, ALTC brought the high-tech industry to "the next level" of political effectiveness.

Institutional change was not an important factor in the preponderance of cases either. Only three of the ED programs that I studied clearly came about because of an institutional innovation in the policy-making process. All three of these innovations led to programs with entrepreneurial attributes. However, none of them produced that result because it mobilized entrepreneurs politically. Proxies, such as financial institutions and leaders of existing industrial sectors, stood in for entrepreneurs in two of the new institutions, while mobilization preceded institutional innovation in the other.

- *Florida.* Although the Governor's Advisory Council on Minority Enterprise Development was an institutional innovation, it followed and responded to the mobilization of minority entrepreneurs in the state, rather than catalyzing it.
- *Kansas.* The High Performance Incentive Program was the result of deliberations within a new public-private partnership called Kansas, Inc. In this case, the main private actors were representatives of existing industrial sectors, rather than entrepreneurs, and they served as proxies for entrepreneurial interests.
- *Pennsylvania.* The Pennsylvania Economic Development Financing Authority (PEDFA) was the brainchild of a task force of the Pennsylvania ED Partnership, a public-private entity that was created by Governor Casey just after his election in 1986. Bankers and bond attorneys, who stood to reap financial gains from the increased flow of bond deals, were the key private sector representatives on the task force of the partnership that put forward the proposal that became PEDFA.

Two other programs with entrepreneurial attributes might be interpreted to support a linkage between institutional innovation and entrepreneurial ED strategy, although the evidence is ambiguous.

- *Louisiana.* ALTC (described previously) appears to be a relatively conventional industry association, albeit one comprised largely of small high-technology firms, rather than a new public-private institution of the sort typically associated with entrepreneurial ED strategies. Members of the industry played the leading roles in putting the association it together, motivated by the "heart attack" moment when their tax bills arrived. [6]
- *North Carolina.* The North Carolina Biotechnology Center (NCBC) was proposed by a legislative study/research committee in 1983 that included members of both chambers of the legislature and consulted a variety of external experts. Of the latter, the most influential participant in the process was Dean Stuart Bondurant of the University of North Carolina Medical School. The legislative study committee is not a new institution *per se* but it might be

argued that it is a flexible institutional form that may lead to more diverse participation in policy formation than traditional legislative committees.

The bottom line on the two main research questions that motivated this project, then, is negative. Entrepreneurs rarely provide critical political support to entrepreneurial ED policies. Institutional innovations may help to catalyze the formulation of such policies, but not usually by involving entrepreneurs. Proxies who speak on behalf of entrepreneurial interests have been mobilized by new institutions to get involved in ED policy making in a few cases.

An Alternative Interpretation: Governors as Public Trustees

Rather than a conventional rent-seeking explanation, the bulk of the case studies suggest that public officials, especially governors and their senior economic development staff, have discretion to create and pursue entrepreneurial or locational ED strategies as they choose. In a number of cases, there is little evidence that I have been able to gather that any nongovernmental interests, including business organizations, played an important role in formulating, passing, or implementing the program. Moreover, there is no correlation in this limited data set between the governor's party affiliation or the state's fiscal condition and the adoption of ED programs of a particular type (NGA, 2007, U.S. Census Bureau). In these cases, elected officials seemed to have functioned as trustees of the public interest as they perceived it, rather than responding to narrow rent-seeking interests, in determining which ED strategy would best serve their states.

For example, the four programs that have only locational attributes were pushed forward primarily by governors. They perceived the public interest to lie in competing with other states for large facilities for a variety of reasons. They mobilized general-purpose business organizations to support their proposed policies, rather than the other way around. However, once these programs had been established, legislators were able to expand the programs' scope to include projects with very little economic justification in at least three of the four cases, Kentucky, Mississippi, and Tennessee. One way to interpret this group of cases is that the programs themselves served as institutional innovations that help to mobilize rent-seeking interests that operated through the legislature. (The California case, considered in the next section, also provides some evidence for this argument.)

- *Kentucky.* Governor Patton, who had a business background and who had been active in ED policy as Lieutenant Governor, was directly involved in designing the Tourism Development Act (TDA) in 1996. He perceived tourism to be a major economic opportunity that he thought would be cost-effective and had been overlooked by the prior administration. TDA has been amended in every legislative session since 1996, to include subsidies for theme parks, among other things.
- *Mississippi.* The Major Economic Impact Authority (MEIA) was devised in 1989 by the then-new Department of Economic and Community Development to attract highly skilled workers to a proposed NASA facility that the state's leading public officials hoped to site in the northeastern corner of the state.

That recruitment process failed. The authority was largely dormant for the next several years, but remained in the books. Over the past ten years, it has been rediscovered by governors and legislators, and used to support the siting of a regional retail shopping mall along with many other projects.

- *Nevada*. The Industrial Development Revenue Bond program was enabled by federal tax legislation in 1981. The program stemmed from concern within the executive branch that the state economy was too dependent on the gambling industry and needed to be diversified to avoid the cyclical ups and downs of that industry. The program aimed to attract new businesses to the state and won wide support from the existing business community.
- *Tennessee*. The Fast Track Job Training (FTJT) program was put in place by Governor Bredesen in 2003 in order to fulfill his campaign promise to cut red tape. It was codified by the legislature following year. The program has occasionally been supplemented by special appropriations for large projects, including Nissan and Toyota plants.

The executive branch also initiated and enacted with little legislative opposition six programs that had at least some entrepreneurial attributes. These programs seem to have been more resistant to legislative tinkering in the service of parochial interests than those with only locational attributes, although the Washington case, in which retention of Microsoft was a major concern during the legislation's renewal, is a partial exception. In the Maryland case, the executive branch used its discretion during the implementation phase as well as the enactment phase to accentuate the programs' entrepreneurial attributes. The implementation phase of the Pennsylvania case is another partial exception in this group of cases; the executive branch added locational elements to the program studied.

- *Maryland*. The Maryland Challenge Investment Program was originally formulated as a grant program by Governor Donald Schaeffer and his staff in 1989. It became a venture capital investment program in 1994, when a new director was recruited from the private sector and given *carte blanche* to redefine it. Since then, the program has focused on investments in biotechnology and information technology start-ups.
- *North Dakota*. The Business Development Loan Program (BDLP) of the Bank of North Dakota was created by the Governor's staff in the late 1980s and faced "no opposition whatsoever" in the legislature. The BDLP funds small business start-up and expansion that commercial banks find too risky to finance. It has been modified slightly since then by the bank, but not by the legislature.
- *Pennsylvania*. Along with private-sector members of the Pennsylvania ED task force (discussed in the previous section), executive branch officials were key players in the establishment of PEDFA in 1988. PEDFA staff also drafted a major revision of the enabling legislation that was enacted in 1993 in order to gain greater flexibility in the program's implementation. This flexibility was used to finance large projects, such as manufacturing plants, and permitted the program's rapid expansion. Although legislators sit on PEDFA's board, they do not initiate projects.

- *Washington*. The high-technology business tax incentives originated in the Governor's office in 1993. Those interviewed for this study disagree about whether the original bill was motivated by a desire to retain Microsoft's employment growth in Washington, but they agree that this concern weighed heavily in the 2004 extension. Microsoft is the largest beneficiary of the incentive, but it is used by start-up businesses as well. Business organizations generally supported this bill in both iterations.
- The *Florida* and *Kansas* cases are discussed earlier in the paper. These programs were enacted with little legislative input and were not altered very much during implementation.

A Corollary to the Alternative: Legislative Involvement and Program Resilience

In the remaining six cases, legislators took a more active role, either formulating programs independently or in a collaborative fashion with the governor and his representatives. Of these six, four are deviant cases; that is, they are programs with entrepreneurial attributes that have been sustained for a long period of time, despite competitive pressure from neighboring states to pursue locational ED strategies. Extensive legislative involvement in policy formulation is thus somewhat correlated in this study with resilience in entrepreneurial ED strategies, a possibility that may be worth investigating further. However, even among these six cases, the executive branch usually acted as a trustee in the implementation phase. Governors and executive agencies used their discretion to move programs designed by legislators in both the entrepreneurial direction (as in New Mexico and North Carolina) and the locational direction (as in California). In the Colorado case, the state administration went in both directions over time, first stressing the program's locational attributes and later emphasizing its entrepreneurial attributes.

- *California*. The California Enterprise Zone Program was a highly controversial program that gestated in the legislature for several years in the context of divided government. Its ultimate form involved the merging of two legislative proposals, one oriented toward recruiting outside businesses to the zones and the other aimed at expanding existing businesses within them. The new EZ Office set up by Governor Deukmejian to implement the program aggressively pressed a locational interpretation and generally ignored opportunities to promote entrepreneurship. Like the locational programs discussed previously, this program has also been expanded by legislators from time to time over its 20-year existence and now includes parts of the state that are very wealthy as well as the poor areas that were its original target.
- *Colorado*. The Colorado Existing Industries Customized Training Program was intended by its legislative sponsor to allow existing small firms to enhance their capacities to adopt new technologies. Its provisions, however, gave the executive branch substantial interpretive flexibility, which the governor's office used to help get "hides on the wall," that is, as an element in recruitment packages in negotiations with firms that were considering relocating to Colorado. When

Governor Romer was reelected some four years later, he appointed a new director of economic development who used the program's flexibility to move its focus closer to the intentions of its original legislative sponsor, targeting small businesses, such as manufacturers of fishing rods and salsa.

- *Louisiana.* The customized software tax credit originated in the state legislature, as described earlier, but Governor Foster played a key role in assuring its passage. He incorporated it into his strategic plan for economic development, and it was approved by the legislature during a special session called by the governor to consider this plan. In endorsing the bill, the governor overrode opposition to the credit from the state's Department of Revenue, which supplied estimates of revenue loss that ultimately proved to be about an order of magnitude too large, as well as from localities. There is little discretion involved in implementing this program.
- *New Mexico.* The New Mexico Venture Capital Investment Fund was created in 1994 by legislators representing districts that included the Sandia National Laboratory. Lockheed-Martin, which was a major Sandia contractor, sought assistance in commercializing spin-offs from the lab. The fund was not implemented aggressively in its early years. Governor Richardson brought an end to the stalemate in 2002, pushing through legislation that expanded its size, reformed its mandate to allow the state to invest directly in start-up firms, and insulated it from political influence.
- *North Carolina.* Governor Hunt participated actively in the deliberations of the legislative study committee that created the North Carolina Biotechnology Center in 1984. As the biotechnology industry grew in the state, the NCBC adapted its programs so that it could continue to facilitate entrepreneurship despite the presence of larger and older firms in the industry. It has placed a special focus in recent years on assisting the state's universities to spin off new firms that use technology developed on campus.
- *Oregon.* The Capital Access Program originated in the legislature in 1989, which modeled it on a pioneering program for high-risk small business loans in Michigan. Governor Goldschmidt quickly signed on to the legislation, which fit his strategic plan for economic development as well as that of the key legislative committee, and the administration and its successors enthusiastically implemented it. The program is funded with lottery proceeds, and a substantial fraction of its loans go to start-ups.

Conclusion: Toward a More Technocratic Perspective

This study of the history of 16 state economic development programs leads to several tentative conclusions. The most important is that the political mobilization of entrepreneurs, whether on their own initiative or as a result of institutional innovation in the policy process designed to involve them, is not typically a key element in the enactment and maintenance of entrepreneurial state ED strategies. A more plausible hypothesis that flows from this group of case studies is that the views of public officials, particularly governors and their appointees to senior ED

policy positions, largely determine the emphasis of state ED policy. The executive branch was almost always a key player (and sometimes the only player) in the enactment of the programs that I studied, and it often had the flexibility to interpret ED policy in order to pursue its preferred strategy during the implementation phase, even when it was not very involved in enactment. To put it another way, governors and senior executive branch officials seem to act as policy entrepreneurs in shaping (or failing to pursue) entrepreneurial ED strategies. (Kingdon, 1995, Sabatier & Jenkins-Smith, 1999) The study also yields some evidence that legislative involvement in policy formulation may help ED programs with entrepreneurial attributes to be more durable and resistant to rent-seeking interests during implementation.

The rent-seeking interpretation seems to be too simplistic to capture fully the politics of state ED policy. Although there are certainly cases in which this interpretation provides a reasonably complete understanding, scholars typically need to account for other factors. These factors should include the ideas of public officials about economic development⁷ (Furner & Supple, 1990; Hall, 1993). This study does not explore in detail where these ideas come from, but some anecdotal evidence suggests that the views of experts help to shape them. In some cases, experts were appointed to government positions and were delegated responsibility for policy design or implementation. In others, governors and legislators relied on experts for advice. In short, the state ED policy-making process seems to be more technocratic than the rent-seeking interpretation suggests. As expert views on the most effective ED policies have evolved to favor entrepreneurial ED strategies in the past couple of decades, public officials have moved in this direction. The technocratic interpretation is consistent with studies of other policy areas in which ideational change among policy experts contributes to change in policy outcomes (Eisner, 1991; Kingdon, 1995).

I want to be clear that I am not arguing that only the ideas of experts matter, nor that expert opinion necessarily rules out locational ED strategies, nor that governors ignore the interest group and electoral implications of their policy choices when they heed experts. Experts appear to be one important influence among several on state ED policy making in this area, but one that is often neglected or not given adequate weight by scholars. I would also grant that political factors sometimes bias how experts engage with policy makers, so that expertise plays a legitimating rather than a formative role in policy making. On balance, though, I would speculate, based on the admittedly limited evidence available, that experts tend to stay true to their professional beliefs and, through their advice to public officials and actions in public capacities, move public policy toward the dominant position in the expert community, which lately has favored the entrepreneurial approach over the locational approach.

Locational ED strategies are not going to disappear. They can and do coexist with entrepreneurial strategies within a single state. However, there is a deep tension in the logics of economic growth and the appropriate roles of state government that the two types of strategies embody. The expert community should be hopeful that the swing in emphasis toward entrepreneurial strategies will continue. The "paradigm shift" (Teitz, 1994) among experts seems to have slowly filtered upward to elected officials and perhaps outward to the public at large as well. The

perceived electoral pressure to go "smokestack chasing" is, hopefully, declining. The impact of expert opinion is not accidental, but rather the result of an ongoing effort to educate public officials carried out by many individuals and by organizations such as the NGA and SSTI. Sustaining this effort and continuing to reach out to those who may hold important positions in coming years seems to be a valuable way to help state ED policy makers do the right thing.

Notes

- 1 The author thanks Gretchen Ehle, Baykal Eyyoboglu, Juan Julio Gutierrez, and Pat O'Neill for research assistance, John Gerring for methodological advice, participants in the 2005 Tinbergen Conference, the 2006 APPAM Fall Research Conference, and the 2006 GMU Entrepreneurship Research Conference for substantive comments, and the Kauffman Foundation's Multidisciplinary Entrepreneurship Program for financial support.
- 2 Mejia, Nordstrom, and Schweke (2007) provide an interesting recent case study of the impact of economic models on ED policy making.
- 3 Peters and Fisher's define incentives as spending targeted on firms, so they may capture some of what Saiz includes in entrepreneurial strategy.
- 4 The data for the economic and population variables come from the U.S. Census Bureau.
- 5 To identify whether states are in "good" or "bad" neighborhoods in this regard, I use Saiz and Clarke's (2004) index of locational ED policy for 1998 and average the scores of all neighboring states.
- 6 There is one exception to this case selection method. The Maryland case is deviant in the sense that it is a durable, award-winning program. However, this state is not in a "bad neighborhood."
- 7 The ideas of the press and the public as to what constitutes "good" ED policy might also be added to the list of factors to be included in further study. As I noted previously, media coverage of entrepreneurial ED strategies may have become more favorable, thereby changing the conditions for credit-claiming. The ideas of these groups, too, are probably shaped in some fashion by expert opinion.

About the Author

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Appendix: Interview Protocol

- I'd like to get a little background information about you before we talk about the [XXXXX] program:
 - Check spelling of name if that might be problematic
 - Current title
 - How long have you been involved with economic development policy in [STATE]?
 - Elicit other positions held, what dates, and what responsibilities
- Thanks very much. Let's turn to [XXXXX]. What events or trends triggered the original policy initiative that led to it?
- Did the idea for [XXXXX] come out of the legislature?
 - {If yes}: which committee or member?
 - {If no}: the governor's office? Some other organization?
- Who (by which I mean individuals or organizations) took the lead in writing the legislation for [XXXXX]?
 - Who else was involved, as far as you know, as an advisor or contributor?
 - Are there particular ideas or elements of [XXXXX] associated with particular people or organizations?
- What happened after the idea was first proposed?
- {If these points are not answered in responses to the foregoing}:
 - Who were [XXXXX]'s other main advocates, if any? About when did they get involved?
 - Did [XXXXX] run into significant opposition? Who were the opponents? Why did they oppose it?
 - Were any entrepreneurs involved in the establishment of [XXXXX]? What role did they play?
- Were any new organizations or institutions created, or old ones significantly modified, during the establishment of [XXXXX]?

- {Follow up prompt}: These might include advisory councils, partnership organizations, special committees, executive authorities, and the like.}
- {If yes}: Do you think [RESPONSE TO PREVIOUS] affected the outcome in the case of [XXXXX]? How?
 - Did it affect the involvement of entrepreneurs?
- Did the administrators of [XXXXX] have a lot of flexibility in implementing it? For instance, did they select recipients of public funding? Or were their decisions strictly limited by the law or for some other reason?
 - [ASK FOR AN EXAMPLE OF THIS KIND OF FLEXIBILITY]
- If there was a lot of flexibility in running [XXXXX], who made the key decisions? Were individuals or organizations outside of the program consulted?
- Has [XXXXX] undergone major revisions or faced challenges to its existence?
 - {If yes}: [OBTAIN SIMILAR INFORMATION AS ABOVE FOR EACH MAJOR CHANGE: INITIATORS, ADVOCATES, OPPONENTS, INSTITUTIONAL CHANGE, ETC.]
- Thanks! Who else do you think we should contact for this project?
 - Are there any relevant documents that you can send us or that we ought to try to get hold of?

AUTHOR QUERY FORM

Dear Author,

During the preparation of your manuscript for publication, the questions listed below have arisen. Please attend to these matters and return this form with your proof.

Many thanks for your assistance.

Query References	Query	Remark
1	Au: Is the short title ok? If not, please provide one.	
2	Au: Dewar 1998 has been changed to Dewar 1995 so this citation matches the list. Is this correct?	
3	Au: Dewar 1998 has been changed to Dewar 1995 so this citation matches the list. Is this correct?	
4	Au: Should the Pages, Friedman, & von Borgen, 2003 has been changed to Pages, Freedman, & Von Borgen, 2003 so as to match the reference list?	
5	Au: Clarke and Gaile 1992 was changed to Clarke and Gaile 1989 so this citation matches the reference. Is this correct?	
6	Au: Please check whether the sentence 'Members of the industry played the leading roles in putting the association it together' is correct. Should 'it' be 'IT' or should it be removed?	
7	Au: Acs and Audretsch (forthcoming) was changed to Acs and Audretsch (in press. Is this ok?). Also, please update the year of publication when and if available.	
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9	Au: Leroy 2007: Please confirm if the state is correct.	

10	Au: The year of the reference to NASDA was changed to 1983–2002. Is this correct?	
11	Au: Please provide the year for this reference entry to the NGA database, <i>Governors</i> . And it seems this entry has not been found in the text. Please indicate where it should be cited or delete this reference.	
12	Au: Volume not found; First Page not found; Last Page not found; Single Page not found;	
13	Au: SSTI 2006 has not been found in the text. Please indicate where it should be cited or delete this reference	
14	Au: SSTI 2007: Please provide the page range.	
15	Au: U.S. Census Bureau: Please provide the years of publication if possible.	