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**Local Economic Development, 1994−2004: Broadening Strategies, Increasing Accountability**

*Lingwen Zheng*

*Mildred E. Warner*

Cornell University

**Selected Findings**

The decade of 1994 to 2004 saw local governments shift away from first-wave business incentives. Whereas 88% of respondents in 1994 reported using at least one business incentive, that proportion declined significantly to nearly 55% in 2004.

Usage of a written business attraction plan increased from 16% in 1994 to 78% in 2004, indicating a higher reliance on accountability measures among those governments that use more incentives.

The percentage of local governments who identified foreign countries as a source of competition for private investment doubled between 1994 and 2004, reflecting their increasing awareness of being part of a global market.

Local governments engage in various economic development policies in order to promote local economic growth. To attract business, they have traditionally employed business attraction strategies: firm-specific incentives and subsidies as well as marketing and other promotional activities. These “first-wave” economic development policies became so common from the 1970s to the 1990s that local governments found themselves competing with each other to offer public subsidies.[[1]](#endnote-2) However, local economic developers and planners have long questioned the effectiveness of business incentives.[[2]](#endnote-3) Research and best practice suggest the need to broaden economic development approaches, and over the period of 1994−2004 researchers documented a second wave of policies focused on business retention strategies, and a third wave focused on broader community strategies such as small-business development.[[3]](#endnote-4)

ICMA conducts a survey of economic development every five years, making it possible to track trends in the use of local government economic development strategies. An examination of the survey data from 1994, 1999, and 2004 confirms not only that the average number of business incentives has declined, but also that the number of governments that use business incentives has decreased significantly.[[4]](#footnote-2) At the same time, local government use of business retention and small-business development activities is growing. Instead of one wave substituting for another, however, local governments now tend to employ all three approaches simultaneously. Encouragingly, they are also recognizing the importance of accountability in their use of business incentives and their conduct of their economic development activities un a more planned way.

**SURVEY METHODOLOGY AND RESPONSE RATE**

The ICMA 1994, 1999, and 2004 surveys were sent to chief administrative officers in cities and counties all over the United States, primarily to identify economic development trends in local governments across the country. In 1994, ICMA contacted all cities and counties with populations of 2,500 or more, as well as all those under 2,500 that were recognized by ICMA as having an appointed position of professional management; of the 10,243 local governments contacted, 1,781 responded for a response rate of 17% (Table 1/1).[[5]](#endnote-5) In 1999, surveys were sent to all cities with populations of 10,000 or more and all counties with the council-administrative or council−elected executive form of government; out of 3,308 local governments contacted, 1,042 responded for a response rate of 32%.[[6]](#endnote-6) In 2004, cities with populations of 10,000 or more, as well as counties with populations of 50,000 *and* with the council-administrative or council−elected executive form of government, were contacted; out of 3,703 local governments surveyed, 726 responded for a response rate of 20%.[[7]](#endnote-7) To ensure comparability of the three datasets, only jurisdictions with populations of 10,000 or more from each survey were considered for this article.

**Table 1/1 SURVEY RESPONSE RATE, 1994, 1999, 2004**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Classification | 1994 |  | 1999 |  | 2004 |
| No. | % of A |  | No. | % of A |  | No. | % of A |
| Total surveyed (A) | 10,243 | 100 |  | 3,308 | 100 |  | 3,703 | 100 |
| Total respondents |  1,781 |  17 |  | 1,042 |  32 |  |  726 |  20 |
|  Total respondents (population>=10,000) |  960 |  9 |  | 1,042 |  32 |  |  726 |  20 |
|  |  |  |  |  |  |  |  |  |
|  | No. | % of N |  | No. | % of N |  | No. | % of N |
| Total respondents (N) |  960 | 100 |  | 1,042 | 100 |  | 726 | 100 |
|  |  |  |  |  |  |  |  |  |
| City or county1 |  |  |  |  |  |  |  |  |
|  City |  678 |  71 |  |  912 |  88 |  |  637 |  88 |
|  County |  282 |  29 |  |  130 |  12 |  |  89 |  12 |
|  |  |  |  |  |  |  |  |  |
| Population |  |  |  |  |  |  |  |  |
|  Over 1,000,000 |  7 |  1 |  |  9 |  1 |  |  4 |  1 |
|  500,000−1,000,000 |  15 |  2 |  |  13 |  1 |  |  14 |  2 |
|  250,000−499,999 |  27 |  3 |  |  35 |  3 |  |  21 |  3 |
|  100,000−249,999 |  84 |  9 |  |  111 |  11 |  |  86 |  12 |
|  50,000−99,999 |  139 |  14 |  |  185 |  18 |  |  123 |  17 |
|  25,000−49,999 |  227 |  24 |  |  231 |  22 |  |  160 |  22 |
|  10,000−24,999 |  461 |  48 |  |  458 |  44 |  |  318 |  44 |
|  |  |  |  |  |  |  |  |  |
| Geographic division |  |  |  |  |  |  |  |  |
|  New England |  69 |  7 |  |  76 |  7 |  |  42 |  6 |
|  Mid-Atlantic |  75 |  8 |  |  86 |  8 |  |  54 |  7 |
|  East North-Central |  194 |  20 |  |  190 |  18 |  |  175 |  24 |
|  West North-Central |  124 |  13 |  |  114 |  11 |  |  57 |  8 |
|  South Atlantic |  202 |  21 |  |  199 |  19 |  |  142 |  20 |
|  East South-Central |  35 |  4 |  |  27 |  3 |  |  28 |  4 |
|  West South-Central |  72 |  8 |  |  102 |  10 |  |  79 |  11 |
|  Mountain |  59 |  6 |  |  65 |  6 |  |  45 |  6 |
|  Pacific Coast |  130 |  14 |  |  183 |  18 |  |  104 |  14 |
|  |  |  |  |  |  |  |  |  |
| Metro status |  |  |  |  |  |  |  |  |
|  Central |  180 |  19 |  |  225 |  22 |  |  185 |  25 |
|  Suburban |  467 |  49 |  |  595 |  57 |  |  415 |  57 |
|  Independent |  313 |  33 |  |  222 |  21 |  |  126 |  17 |

Note: Percentages may not total 100% because of rounding.

1For a definition of terms, please see “Inside the *Year Book,”* x−xii.

A note of caution is necessary here. Normally ICMA bases its survey percentages on the number of respondents answering each particular question; thus, if a respondent does not answer a question, that respondent is not included in the base for that question. Similarly, if a question on usage, for example, is preceded by a yes or no filter, only those who answered yes constitute the base for the items pertaining to that question. However, because this article compares findings across three survey years, all data in tables and figures are based on a common denominator of total respondents for that survey year (960 in 1994, 1,042 in 1999, and 726 in 2004) across all questions. Consequently, the percentages reported here are lower than those reported previously by ICMA and published in earlier editions of *The Municipal Year Book.* Nevertheless, while the figures are not comparable, the methodology is consistent across all three surveys and shows comparable trends.

Although the number of respondents varied across the three survey years, respondent pools maintained a fairly consistent population distribution. Over the years, there was only a slight increase in mid-size jurisdictions (50,000−99,999 and 100,000−249,999) and a slight decrease in smaller jurisdictions (under 50,000). Similarly, representation of the geographic divisions remained fairly stable, notwithstanding a small increase of East North-Central and West South-Central localities and a small decrease of West North-Central ones. In all cases, city governments (71% in 1994, 88% in 1999 and 2004) were more heavily represented than county governments. Finally, in all three survey years, the majority of respondents were from suburban areas. In 1994, there were more independent (rural) localities reporting, but in 1999 and 2004, the percentages of responses from central (metro) and suburban communities increased while those of rural communities declined (Table 1/1).

**THREE WAVES OF ECONOMIC DEVELOPMENT STRATEGY**

Each year that they are conducted, the ICMA economic development surveys ask local governments to identify the strategies that they have used to promote economic development. The consistent survey design has made it possible to track trends in local government economic development strategies over time. To date, three waves of such strategies have been documented: business attraction, business retention, and broader community development strategies.[[8]](#endnote-8)

**Business Attraction: Incentives and Promotion**

Business attraction strategies, known as first-wave economic development policy, are primarily characterized by financial incentives or subsidies designed to target specific businesses and entice them to locate (or relocate) in the community. These strategies have become so pervasive that local governments have had to compete with each other in the interests of self-preservation, a situation that can turn economic development policy into an unhealthy “race to the bottom” that leads to little benefit.

 As has been noted, the three surveys reveal a gradual shift away from first-wave business incentives. In the 1994 survey, the average number of business incentives used was 4.6; this number decreased to 4.3 in 1999 and to 3.3 in 2004.[[9]](#endnote-9) More importantly, the proportion of governments that used at least one business incentive declined significantly, from 88% in 1994 to 68% in 1999 and to nearly 55% in 2004. Of those governments that still used business incentives in 2004, the number of incentives they used also dropped. Whereas 16% of the survey respondents in 1994 reported using just one or two incentives, that percentage decreased to just 6% in 1999 and remained there in 2004. Heavy use of incentives (three to five) dropped from 37% in 1994, to 23% in 1999, and to 20% in 2004, and the percentage of governments that reported using six or more incentives also declined slightly over the decade (Table 1/2).

**Table 1/2 USE OF BUSINESS INCENTIVES**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 1994 |  | 1999 |  | 2004 |
| No. | % of N |  | No. | % of N |  | No. | % of N |
| Total respondents (N) |  960 | 100 |  | 1,042 | 100 |  | 726 | 100 |
|  |  |  |  |  |  |  |  |  |
| No. of business incentives used |  |  |  |  |  |  |  |  |
| Mean |  4.6 |  − |  |  4.3 |  − |  |  3.3 |  − |
| Standard deviation |  3.25 |  − |  |  3.97 |  − |  |  3.71 |  − |
| Minimum |  0 |  − |  |  0 |  − |  |  0 |  − |
| Maximum | 16 |  − |  |  18 |  − |  |  15 |  − |
|  |  |  |  |  |  |  |  |  |
| Distribution of business incentives |  |  |  |  |  |  |  |  |
| 0 |  111 | 12 |  |  336 |  32 |  | 330 |  45 |
| 1−2 |  153 | 16 |  |  64 |  6 |  |  41 |  6 |
| 3−5 |  352 | 37 |  |  242 |  23 |  | 142 |  20 |
| 6−10 |  294 | 31 |  |  319 |  31 |  | 181 |  25 |
| More than 10 |  50 |  5 |  |  81 |  8 |  |  32 |  4 |

Note: Percentages may exceed 100% because of rounding.

Of all the business incentives listed by ICMA, infrastructure improvements and zoning/permit assistance were the most commonly used strategies in all three survey years, reported by the majority of respondents in 1994 (57% and 64%, respectively) (Table 1/3). While infrastructure improvement can be costly, zoning and permit assistance is relatively inexpensive. However, the use of both strategies dropped significantly over the decade to just 37% in 2004. Local governments have given increasing attention to streamlining zoning and permit review, so special, firm-specific assistance may no longer be necessary. And since infrastructure improvements (e.g., water, sewer line, or road extensions) are often targeted to a single firm, they are abandoned when a firm moves on⎯a factor that may cause local governments to proceed with caution.

After zoning and permit assistance and infrastructure improvements, the next most common business incentives reported were tax abatement and tax increment financing, the latter of which has become a popular economic development financing strategy.[[10]](#endnote-10) Use of these incentives remained consistent over the years at more than 30% of respondents, even though tax abatements have been criticized as ineffective. Among the other incentives listed in the survey instrument, the use of locally designated enterprise zones, free land/land write-downs, training support, regulatory flexibility, low-cost loans, and one-stop permit issuance all decreased by 8 percentage points or more over the decade.

 From a specifically promotional standpoint, traditional strategies such as promotional/advertising activities and participation in trade shows/conferences prevailed in 1994 and were among the top strategies used in 1999 to attract business. Calling on prospective companies was also a major strategy, pursued by more than 40% of local governments in all three survey years (Table 1/3). Use of a website as a business attraction strategy, added to the survey in 1999, accounted for nearly three-fifths of all respondents; in 2004, it gained another six percentage points. Two new strategies added to the survey in 2004⎯cooperating with the chamber of commerce and offering a high quality of life⎯accounted for 62% and 54% of respondents, respectively. This suggests that over the decade, local governments’ use of business attraction strategies shifted toward more innovative strategies with a strong reliance on technology, public-private cooperation, and quality-of-life concerns.

**Table 1/3 USE OF ECONOMIC DEVELOPMENT STRATEGIES**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Strategies | 1994 |  | 1999 |  | 2004 |
| No. | % of N |  | No. | % of N |  | No. | % of N |
| Total respondents (N) | 960 | 100 |  | 1,042 | 100 |  | 726 | 100 |
|  |  |  |  |  |  |  |  |  |
| **Business attraction** |  |  |  |  |  |  |  |  |
| Incentives |  |  |  |  |  |  |  |  |
| Tax abatement | 364 | 38 |  |  378 |  36 |  | 226 |  31 |
| Tax credits | 138 | 14 |  |  173 |  17 |  |  94 |  13 |
| Locally designated enterprise zones | 213 | 22 |  |  192 |  18 |  |  96 |  13 |
| Tax increment financing | 325 | 34 |  |  350 |  34 |  | 231 |  32 |
| Grants | 270 | 28 |  |  320 |  31 |  | 151 |  21 |
| Infrastructure improvements | 544 | 57 |  |  523 |  50 |  | 265 |  37 |
| Free land or land write-downs | 255 | 27 |  |  274 |  26 |  | 122 |  17 |
| Subsidized buildings |  75 |  8 |  |  75 |  7 |  |  36 |  5 |
| Employee screening | 136 | 14 |  |  111 |  11 |  |  59 |  8 |
| Training support | 307 | 32 |  |  254 |  24 |  | 116 |  16 |
| Utility rate reduction | 103 | 11 |  |  133 |  13 |  |  50 |  7 |
| Zoning/permit assistance | 618 | 64 |  |  507 |  49 |  | 271 |  37 |
| Regulatory flexibility | 209 | 22 |  |  163 |  16 |  |  49 |  7 |
| Relocation assistance |  99 | 10 |  |  125 |  12 |  |  69 |  10 |
| Low-cost loans | 291 | 30 |  |  281 |  27 |  | 133 |  18 |
| One-stop permit issuance | 302 | 31 |  |  276 |  26 |  | 164 |  23 |
| Special assessment districts | 144 | 15 |  |  129 |  12 |  |  94 |  13 |
| Federal/state designated enterprise zones | − | − |  |  190 |  18 |  | 131 |  18 |
|  |  |  |  |  |  |  |  |  |
| Promotion |  |  |  |  |  |  |  |  |
| Community resource databases | 399 |  42 |  |  464 |  45 |  |  − |  − |
| Promotional and advertising activities |  − |  − |  |  − |  − |  | 336 |  46 |
|  Promotional material | 649 |  68 |  |  700 |  67 |  |  − |  − |
|  Media advertising | 303 |  32 |  |  376 |  36 |  |  − |  − |
|  Direct mail | 352 |  37 |  |  344 |  33 |  |  − |  − |
| Participation in trade shows/conference |  − |  − |  |  − |  − |  | 284 |  39 |
|  Participation in trade shows | 391 |  41 |  |  427 |  41 |  |  − |  − |
|  Attendance at conferences | 460 |  48 |  |  526 |  50 |  |  − |  − |
| Calls on prospective companies | 416 |  43 |  |  446 |  43 |  | 306 |  42 |
| Hosts special events | 225 |  23 |  |  253 |  24 |  |  − |  − |
| Ambassador program |  95 |  10 |  |  106 |  10 |  | 100 |  14 |
| State-sponsored trade missions |  93 |  10 |  |  116 |  11 |  | 153 |  21 |
| Regional approaches (pooling resources) |  − |  − |  |  365 |  35 |  |  − |  − |
| Website |  − |  − |  |  603 |  58 |  | 462 |  64 |
| Works with the chamber of commerce |  − |  − |  |  − |  − |  | 452 |  62 |
| Offer high quality of life |  − |  − |  |  − |  − |  | 395 |  54 |
|  |  |  |  |  |  |  |  |  |
| **Business retention** |  |  |  |  |  |  |  |  |
| Calls on local company | 556 |  58 |  |  633 |  61 |  | 406 |  56 |
| Calls on national company headquarters | 130 |  14 |  |  190 |  18 |  | 130 |  18 |
| Surveys of local businesses | 462 |  48 |  |  510 |  49 |  | 313 |  43 |
| Business roundtable | 285 |  30 |  |  351 |  34 |  | 247 |  34 |
| Revolving loan fund program | 319 |  33 |  |  306 |  29 |  | 161 |  22 |
| Ombudsman program | 156 |  16 |  |  188 |  18 |  | 114 |  16 |
| Achievement awards | 158 |  16 |  |  205 |  20 |  | 136 |  19 |
| Local business publicity program | 220 |  23 |  |  272 |  26 |  | 175 |  24 |
| Replacing imports with locally supplied goods |  43 |  4 |  |  23 |  2 |  |  15 |  2 |
| Export development assistance | 109 |  11 |  |  96 |  9 |  |  62 |  9 |
| Partnering with NGOs (public-private partnerships) |  − |  − |  |  664 |  64 |  | 421 |  58 |
| Partnering with other local governments |  − |  − |  |  358 |  34 |  | 272 |  37 |
| Business clusters/industrial districts |  − |  − |  |  − |  − |  | 138 |  19 |
|  |  |  |  |  |  |  |  |  |
| **Small-business development** |  |  |  |  |  |  |  |  |
| Revolving loan fund | 341 |  36 |  |  367 |  35 |  | 167 |  23 |
| Small-business development center | 269 |  28 |  |  303 |  29 |  | 190 |  26 |
| Executive on loan/mentor |  63 |  7 |  |  85 |  8 |  |  35 |  5 |
| Management training | 119 |  12 |  |  109 |  10 |  |  72 |  10 |
| Business incubator | 142 |  15 |  |  154 |  15 |  | 100 |  14 |
| Vendor/supplier matching |  86 |  9 |  |  56 |  5 |  |  29 |  4 |
| Marketing assistance |  − |  − |  |  179 |  17 |  | 117 |  16 |
| Matching improvement grants |  − |  − |  |  200 |  19 |  |  98 |  13 |
| Microenterprise program |  − |  − |  |  158 |  15 |  |  63 |  9 |

**Business Retention**

The second wave of economic development policy focuses attention on retaining businesses already in the community. Although business retention efforts still rely on providing business incentives and public subsidies, they also address broader concerns that affect clusters of local businesses and industries⎯namely, entrepreneurship, industrial clusters, and public-private partnerships.[[11]](#endnote-11) Accordingly, both business attraction and business retention strategies tend to focus mainly on the private sector, with benefits being reaped primarily by private firms and high-skilled workers. Low-income and low-skilled workers are often overlooked.[[12]](#endnote-12)

 Of all the business retention strategies presented in the survey in 1994, the ones most commonly used were calls on a local company, reported by almost 60% of local governments, and surveys of local businesses, reported by 48% (see Table 1/3). These are two of the core elements in any business retention and expansion program. In 1999 ICMA expanded the list of business retention strategies, adding partnering with nongovernmental organizations (NGOs)⎯that is, public-private partnerships⎯and partnering with other local governments. In both that survey and the next, partnering with NGOs, which was identified by at least 58% of respondents, emerged as the most commonly used strategy⎯not surprisingly, given that business retention activity is often conducted in collaboration with nonprofit organizations such as universities and cooperative extension programs. Then in 2004, the use of business clusters/industrial districts was added to the survey and was reported by almost one-fifth of respondents. The cluster approach has gained popularity in recent years as a way to serve a group of businesses connected by similar technologies, labor needs, or market strategies.[[13]](#endnote-13)

 Other widely used business retention strategies in 1999 and 2004 include use of a business roundtable and partnering with other local governments⎯an indication that city administrators have come to realize the benefits of a regional approach. The only business retention strategy that showed a significant drop is the use of a revolving loan fund program, which decreased from 33% in 1994 to 22% in 2004 (Table 1/3). These data highlight the wide acceptance of business retention strategies and recognition of the importance of public-private partnerships, regional collaboration, and a focus on clusters to increase locational advantage.

**Broader Community Strategies**

A third wave of economic development strategy began to emerge in the 1990s: in this wave, local governments’ economic development efforts are targeted to small businesses, microenterprise programs, and low-income communities.[[14]](#endnote-14) The overall focus is more broadly on community-based economic development and public investment to improve quality of life.

 ***Small-Business Development*** The list of small-business development activities presented on the survey remained fairly consistent from 1994 to 1999, the only change being the addition of market assistance, matching improvement grants, and microenterprise program in 1999.[[15]](#endnote-15) However, these activities were used by only a fraction of governments (Table 1/3). As with business retention, the use of small-business development strategies remained relatively stable over the decade, except for the use of revolving loan funds, which decreased by 13 percentage points from 1994 to 2004. However, revolving loan funds, at 23%, were still the second most commonly used small-business development strategy, topped only by small-business development centers at 26%. In 1999 and 2004, business incubator, marketing assistance, and matching improvement grants (for physical upgrades to business) were also commonly used strategies.

 ***Increased Attention to Quality of Life*** Concern over quality of life is also gaining attention⎯a natural outgrowth of the creative economy and high-skilled labor attraction strategies popularized by Richard Florida.[[16]](#endnote-16) Accordingly, local governments are engaging in other progressive third-wave economic development strategies, such as community development loan funds, welfare-to-work, and child care programs (including after-school and parks/recreation programs). For example, when ICMA added child care programs to the survey in 2004, over 18% of respondents reported that they use it as a strategy to promote local economic development (not shown). This suggests increasing recognition of the economic importance of child care as a critical piece of social infrastructure that facilitates local economic development.[[17]](#endnote-17)

**INCREASED ATTENTION TO ACCOUNTABILITY**

The effectiveness and efficiency of business incentive and attraction strategies have long been questioned. Anticipated benefits from having the attracted business in the community often fail to materialize, and experienced economic developers have recognized the need for performance agreements, cost-benefit analysis, and other documents to ensure that businesses receiving incentives can be held accountable for their performance. In 1994 approximately half of all local governments reported that they write performance agreements as a condition for providing incentives and that they engage in cost-benefit analysis. While the proportions reporting both measures increased in 1999, they declined by 2004. In the meantime, the percentage that reported having developed written eligibility criteria for receiving incentives increased from 34% in 1994 to 43% in 1999[[18]](#endnote-18) (Figure 1/1).

Figure 1/1 *Accountability measures used by local governments, 1994, 1999, and 2004*

Backing up such agreements and criteria are specific accountability measures. The surveys present respondents with a list of business incentive accountability measures and ask whether their local governments have used any of those measures. In 1994, over 60% of the respondents reported employing some kind of measure to ensure business incentive effectiveness (Figure 1/1). The two most commonly used accountability measures reported were number of jobs created (64%) and amount of money invested in construction materials and labor (31%). This is appropriate, as job creation and contribution to the local tax base are the two primary reasons for engaging in business attraction strategies.

 Although overall use of business incentive accountability measures decreased somewhat in 1999, almost 60% of local governments still used at least one measure to ensure that their incentive strategies were accountable. Five years later, however, the use of most performance measures covered in the survey decreased. One possible reason for this decrease could be the high percentage of jurisdictions (45%) that ceased using business incentives (Table 1/2). Not surprisingly, use of accountability measures is higher among those governments that use more incentives.[[19]](#endnote-19)

Performance measures of the effectiveness of economic development efforts are still uncommon. As of 2004, less than 10 percent of respondents measured inputs, and just 16% or less measured outputs or efficiency measures (Figure 1/1).

Local governments also clearly recognize the greater need for planning and accountability in business attraction strategies. One tool for accomplishing this is written plans, which force economic developers to state their goals and then measure their performance against those goals. While only 26% of survey respondents in 1994 reported having a written business attraction plan, this figure tripled to 78% in 2004 (see Figure 1/2), reflecting a greater awareness of the need for transparency and accountability in the use of public subsidies. Local governments have responded to public outcry and academic research that has challenged economic developers to base their incentives on plans linked to community goals and priorities.[[20]](#endnote-20) Although survey results show that written plans for business retention and small-business development were not as widely implemented as those for business attraction and that their usage decreased slightly over the decade, these second- and third-wave strategies are less costly than first-wave incentive strategies, so adherence to written plans may be less critical for accountability.

Figure 1/2 *Economic development strategy plans, 1994, 1999, and 2004*

**FACTORS AFFECTING THE USE OF LOCAL ECONOMIC DEVELOPMENT STRATEGIES**

The ICMA surveys also ask a series of questions pertaining to factors that can influence local governments’ decisions about their economic development policies. Such factors include the primary economic base, participation in the local economic development process, barriers to economic development, and the presence of interlocal competition.

**Primary Economic Base**

The survey asks respondents to identify which industry is the local government’s current primary economic base and which will be its major focus over the next five years. Seven industries were measured in the 1994 survey. Technology/telecommunications (as a new industry) was added to the survey in 1999, and mixed industry (“mixture”) was added in 2004. In all three survey years, retail/service, manufacturing, and residential community emerged as the top three industries, and in 1999 retail/service surpassed manufacturing as the primary economic base for more communities (Figure 1/3). However, the percentage of local governments reporting agricultural industry as their primary economic base fell significantly⎯from 11% in 1994 to 5% in 2004.

Figure 1/3 *Current primary economic base, 1994, 1999, and 2004*

Notes: Agricultural industry includes farming and supporting industries; institutional industry includes military, government, nonprofit, etc.; and residential community includes commuters.

In 1994 and 1999, over two-thirds of respondents expected that both the retail/service industry and manufacturing would continue to be the major foci for their local governments’ economic development activity (Figure 1/4). Although emphasis on both sectors dropped dramatically in 2004 to just around 25% of respondents, they remained the primary targets for economic development activity. Local governments also recognized the importance of hi-tech industries as a major economic force: even though only 4% of respondents identified technology/telecommunications as their current primary economic base when was added to the survey list in 1999, 50% predicted that the industry would be their economic development focus over the next five years. Surprisingly, this percentage dropped to a little under 15% in 2004,[[21]](#endnote-21) possibly as a result of the bust of the dot.com sector. Also important was the declining emphasis on warehousing and tourism: while more than a third of respondents in 1994 and 1999 identified it as the focus of their economic efforts in the coming five years, only 4% did so in 2004. Two reasons for the decline might be the low-wage nature of many tourism jobs, and the change in transportation and warehousing to major distribution nodes, which limit warehousing as an investment target for most communities.

Notes: Agricultural industry includes farming and supporting industries; institutional industry includes military, government, nonprofit, etc.; and residential community includes commuters.

Figure 1/4 *Focus of economic base/efforts in the next five years, 1994, 1999, and 2004*

**Citizen Participation**

The ICMA surveys also ask local administrative officers to identify the constituencies in their local economic development process. City government and chamber of commerce were the economic development participants identified most often across all survey years (Table 1/4). County government, citizen advisory board/commission, and private business were also widely cited.

**Table 1/4 PARTICIPANTS IN THE ECONOMIC DEVELOPMENT PROCESS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Participants | 1994 |  | 1999 |  | 2004 |
| No. | % of N |  | No. | % of N |  | No. | % of N |
| Total respondents (N) | 960 | 100 |  | 1,042 | 100 |  | 726 | 100 |
|  |  |  |  |  |  |  |  |  |
| City | 806 |  84 |  |  939 |  90 |  | 560 |  77 |
| County | 488 |  51 |  |  490 |  47 |  | 320 |  44 |
| Chamber of commerce | 708 |  74 |  |  776 |  74 |  | 421 |  58 |
| Private business/industry | 510 |  53 |  |  557 |  53 |  | 269 |  37 |
| Citizen advisory board/commission | 516 |  54 |  |  506 |  49 |  | 231 |  32 |
| Public-private partnership | 288 |  30 |  |  414 |  40 |  | 231 |  32 |
| Private or community economic development foundation | 215 |  22 |  |  224 |  21 |  |  65 |  9 |
| Utility | 301 |  31 |  |  292 |  28 |  | 177 |  24 |
| State government | 302 |  31 |  |  307 |  29 |  | 212 |  29 |
| Ad hoc citizen group |  − |  − |  |  152 |  15 |  |  57 |  8 |
| Federal government |  71 |  7 |  |  84 |  8 |  |  63 |  9 |
| Economic development corporation |  − |  − |  |  − |  − |  | 284 |  39 |
| Regional organizations  |  − |  − |  |  − |  − |  | 239 |  33 |
| Planning consortia |  − |  − |  |  − |  − |  |  83 |  11 |
| College/university |  − |  − |  |  − |  − |  | 207 |  29 |

 Over the decade, the survey list was expanded to include ad hoc citizen group in 1999 and economic development corporations, regional organizations, planning consortia, and college/university in 2004. As the list expanded, it became clear that participation among local economic development constituencies was becoming more diversified. By 2004, however, the proportion of governments in which citizen advisory boards/committees and ad hoc citizen groups participated in their local economic development process had decreased significantly (from 49% to 32% and from 15% to 8%, respectively) (Table 1/4). At the same time, 39% of respondents identified the newly added economic development corporations as participants, which suggests the growing importance of community economic development strategies. Similarly, the addition of regional organizations and college/university indicates that regional collaboration and education are being recognized as critical components of a local economic development strategy. While the range of constituencies involved in economic development is broadening, it is more likely that the interests of professionals will be represented rather than those of citizens.

**Economic Development Barriers**

The list of considered economic development barriers included on the ICMA surveys doubled over the decade. In 1994 eight barriers were presented; these focused on availability of land, labor, and capital, as well as on traffic congestion and citizen opposition. Two additional barriers were added in 1999: limited number of major employers and lack of political support. Nine new barriers were then added in 2004, highlighting infrastructure, environmental regulations, taxes, distance from major markets, cost of labor, and quality of life. Although most barriers still focus on the private sector, local governments have recognized that poor quality of life can also hinder local economic development.

The two major economic development barriers cited across all survey years are the availability of land and the cost of land. Over half of the survey respondents in 1994 identified lack of capital/funding as an economic development barrier, but this fell to just 28% in 2004 (Table 1/5). Recognition of a shortage of skilled labor increased from 21% of local governments in 1994 to 45% in 1999. Also in 1999, more than a quarter of respondents worried that a limited number of major employers⎯one of the additions to the survey list⎯had a negative impact on the local governments’ economic development efforts.

**Table 1/5 ECONOMIC DEVELOPMENT BARRIERS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Barriers | 1994 |  | 1999 |  | 2004 |
| No. | % of N | No. | % of N | No. | % of N |
| Total respondents (N) | 960 | 100 |  | 1,042 | 100 |  | 726 | 100 |
|  |  |  |  |  |  |  |  |  |
| Citizen opposition | 313 |  33 |  |  317 |  30 |  | 123 |  17 |
| Availability of land | 426 |  44 |  |  571 |  55 |  | 324 |  45 |
| Cost of land | 375 |  39 |  |  413 |  40 |  | 298 |  41 |
| Lack of skilled labor | 198 |  21 |  |  468 |  45 |  |  97 |  13 |
| Lack of capital/funding | 491 |  51 |  |  387 |  37 |  | 201 |  28 |
| Declining market due to loss of population |  86 |  9 |  |  52 |  5 |  |  28 |  4 |
| Traffic congestion | 200 |  21 |  |  271 |  26 |  | 132 |  18 |
| Too many similar products/services |  71 |  7 |  |  − |  − |  |  − |  − |
| Limited number of major employers |  − |  − |  |  273 |  26 |  | 180 |  25 |
| Lack of political support |  − |  − |  |  125 |  12 |  |  57 |  8 |
| Lack of building availability |  − |  − |  |  − |  − |  | 253 |  35 |
| Inadequate infrastructure |  − |  − |  |  − |  − |  | 156 |  21 |
| High cost of labor |  − |  − |  |  − |  − |  |  62 |  9 |
| Taxes |  − |  − |  |  − |  − |  | 101 |  14 |
| Distance from major markets |  − |  − |  |  − |  − |  |  87 |  12 |
| Lengthy permit process |  − |  − |  |  − |  − |  |  72 |  10 |
| Environmental regulations |  − |  − |  |  − |  − |  | 124 |  17 |
| High cost of housing |  − |  − |  |  − |  − |  | 115 |  16 |
| Poor quality of life |  − |  − |  |  − |  − |  |  29 |  4 |

In 2004, the concerns that ranked third, fourth, and fifth after availability and cost of land were building availability (35%), lack of capital/funding (28%), and limited number of major employers (25%) (Table 1/5). Of the other new barriers listed, inadequate infrastructure (21%), environmental regulations (17%), high cost of housing (16%), and taxes (14%) were the most commonly identified. On the other hand, citizen opposition shrank by almost half, from 30% in 1999 to 17% in 2004, and lack of skilled labor dropped by two-thirds⎯from 45% in 1999 to just 13% in 2004. Because 1999 was a stronger economic year for respondents than 1994 or 2004, it is no surprise that labor shortage was a more common barrier in that year.

**Interlocal Competition**

Local governments were asked to identify their competition in attracting investment to their jurisdictions. Throughout the decade, nearby local governments and other local governments within the state remained the most common sources of competition identified by survey respondents, even though both dropped by 15−20 percentage points between 1994 and 2004 (Figure 1/5). Meanwhile, competition with local governments in surrounding states held relatively steady. This suggests that governments recognize the importance of regional collaboration within states. Although only a small portion of local governments in 1994 and 1999 identified foreign countries as a source of competition in attracting private investment, this percentage nearly doubled in 2004, an indication of the increasing awareness among local governments that they are part of a global market. Otherwise, competition in attracting investment declined from 1999 to 2004, which may be related to the decreasing use of business incentives.

Figure 1/5 *Competition identified by local governments, 1994, 1999, and 2004*

**CONCLUSION**

A look at the last decade of ICMA’s economic development surveys shows that local governments have diversified their economic development strategies. The percentage of local governments that were still using first-wave business incentive strategies to attract local businesses declined between 1994 and 2004, as evident in the significant drop in the average number of business incentives being used. By the end of that decade, the governments that were using business retention and small-business development strategies to promote economic development appear to have been using those second- and third-wave strategies to supplement rather than replace traditional business attraction policies, especially business incentives. What the data seem to show is that local governments are now tending to employ the three waves of economic development strategies simultaneously.

 Among all the economic development strategies measured, business attraction (promotion, website), business retention (calls on local companies), and collaboration (public-private partnerships) were the most popular. As of 2004, business retention strategies had become almost as common as business incentive strategies, while small-business development strategies were still underused.

 Local governments that continued to rely on business attraction activities appeared to recognize the importance of applying accountability measures: by putting more planning into their business incentive strategies, they were able to enhance transparency and evaluate the performance of the firms that accepted those incentives. The surveys also show increased recognition of more community-based economic development strategies focused on infrastructure and quality of life (child care programs, housing, etc.).

Over the years, local economic development constituencies have become largely diversified. Groups related to third-wave economic development strategies, such as community development corporations, universities, and regional organizations, have become more active in the process. However, from 1994 to 2004, the involvement of ad hoc or voluntary citizen groups declined. Local governments also recognized a broader set of economic development barriers. By 2004, land availability and cost were still the primary concerns, but increasing attention was being given to markets, infrastructure, and quality of life. And with economic development activities focused more on business retention, local governments were giving greater attention to regional collaboration, leading to a decline in interlocal competition.

The trends in evidence between 1994 and 2004 indicate that there is no longer a primary focus on offering incentives to footloose firms that previously created destructive competition among local governments. Accountability, regional cooperation, and a focus on business retention and quality of life show local government managers are learning how to target their economic development to investments that build the local economy.

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3. Reese and Fasenfest, “Critical Perspectives.” [↑](#endnote-ref-4)
4. Support for this research was provided in part by the Alternative Finance Technical Assistance Consortium which focuses on child care finance and is supported by the W. K. Kellogg Foundation. [↑](#footnote-ref-2)
5. See Adam J. Prager, Philip Benowitz, and Robert Schein, “Local Economic Development: Trends and Prospects,” in *The Municipal Year Book 1995* (Washington, D.C.: ICMA, 1995), 21–35. [↑](#endnote-ref-5)
6. See Lisa Milligan, “Economic Development Trends in Local Government,” 9−20, and Mildred Warner, “Local Government Support for Community-Based Economic Development,” 21−27, in *The Municipal Year Book 2001* (Washington, D.C.: ICMA, 2001). [↑](#endnote-ref-6)
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9. Local governments are asked to check all applicable business incentives they used. The total number of incentives used by each government is calculated as the sum of that government’s answers on all listed business incentives. The average number of business incentives used in a survey year is calculated as the quotient of the total number of business incentives used by all governments over the total number of respondents. These figures were not reported in the prior ICMA published articles. [↑](#endnote-ref-9)
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13. Rosenfeld, *Networks and Clusters.* [↑](#endnote-ref-13)
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18. In 2004, this question is not asked. [↑](#endnote-ref-18)
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21. The question wording was changed between 1994/1999 and 2004. In 1994/1999 the question was “What is your economic base over the next five years?” In 2004 it was changed to “What is the focus on your economic development efforts?” Responses to the new question wording were lower in all cases. [↑](#endnote-ref-21)