

**Impact of Economic Development Programs:  
Lessons from Six Ohio Cities**

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State and local governments continue to offer a wide range of often costly incentives to retain or attract business, in the face of abundant evidence that these incentives do no influence the location of economic activity. This behavior may be viewed as irrational, or it may indicate that the tools used to evaluate incentive programs were not well suited to assessing their impacts.

Offering incentives has symbolic and political value, which cannot be adequately evaluated by the cost-benefit models used in most evaluations. Public officials can take credit for addressing important public concerns and protect themselves from blame for not acting to prevent relocation of firms to other communities. They may also reap substantial political benefits “in the unlikely case the incentives were offered and they did work” or suffer significant political costs if they do not offer incentives and firms relocate to communities offering better “deal”; the magnitude of these costs or benefits is such that they outweigh the more likely, but much smaller, political benefit of “correctly” not offering incentives in situations where incentives would have been ineffective. (Wolman, 1988: 25)

Public officials are hampered in these decisions by their inability to obtain several pieces of critical information. First, they do not know whether any relocation options are available to a particular business. If a firm’s mobility is limited by market, transportation, or financial constraints, it does not need any incentives to remain at its present location. But such a firm gains nothing by revealing this information to public officials, and, instead, can benefit financially by accepting assistance. Under these conditions, public officials cannot limit assistance to only those firms which are able to relocate, and, consequently, unnecessarily offer assistance to firms whose locational

decisions will be unaffected by it. Such behavior can be considered rational however, because these officials are acting to maximize the expected value of a sequence of outcomes, and lack sufficient information about a firm's likelihood of relocation and the political and economic consequences of alternative courses of action to accurately estimate these expected values. These information constraints create conditions of bounded rationality, in which optimal outcomes are sought but seldom achievable.

### **Public Policy and Economic Growth**

Scholarly evaluations of economic development programs have provided few conclusive results that would aid decision makers. Review of these studies suggests that the relationship between policies and impact is affected by type of policy, type of firm, indicators of impact, and scope of analysis.

For example, Feiock (1986) found that employment growth was related to small business financing assistance but not to fiscal incentives or small business services. In general, however, he concluded that most local economic development initiatives "have little effect on businesses location decisions...local government subsidies and incentives are minor factors in the firms' location decisions and have little direct impact on capital investment." Feiock's later research (1991) showed that local economic development activities had a significant effect on capital investment, a moderate impact on growth in number of firms, but little effect on employment levels.

The geographical scope of a firm's locational decision may also affect the factors influencing its choice. Wasylenko (1984) concluded that the influence of taxes and fiscal incentives increases as the area under consideration diminishes, and transportation,

energy, labor cost, and market differentials decrease. Research in several metropolitan areas found property tax differentials within a metropolitan area to be a statistically significant determinant of location choice (Wasylenko, 1984; McGuire, 1985). McGuire, however suggested that the impact of tax rates may vary among metropolitan areas “depending on institutional details of the local governmental structure, assessment policies, etc.” (1985: 232)

In a similar vein, Schmenner et. al. (1987) proposed that locational decisions are made in two stages. In the first stage, a firm chooses among states, and state-level characteristics are of primary importance; these include labor costs, unionization, educational attainment, unemployment costs, climate, population density, and corporate income tax rates. (1987: 85-91) At the second stage, one state or site is selected, based on “secondary state-specific characteristics.” Their analysis of survey data on locational decisions for 164 plant openings by major firms over a 10-year period revealed that none of the variables they examined (labor costs, building and energy costs, workforce characteristics, property and income taxes, and government spending) were significantly related to the second stage of locational decisions. Even at the first stage, they concluded, the effects of state characteristics were modified by “decision-specific factors,” associated with a particular firm or its decision-making processes. (1987: 101)

Fox and Murray’s analysis of establishment entries into Tennessee counties over a six year period focused on the second stage of locational decision making, and identified “the general economic climate and the major private sector costs of doing business, such as wages and transportation” as the most important influences on the number of business locations and start-ups in a county. (1991: 117) Firms of different sizes and in different

industries responded differently to county policies and characteristics, such that “no single set of policies and county characteristics can broadly attract firms of all different types...counties and cities may individually determine that a somewhat unique mix of public policies is consistent with the economic goals each wants to achieve.” (1991: 118) The implication of this statement is that it may be possible to choose policies that will promote certain economic objectives. With the knowledge that certain types of businesses respond positively to certain incentives, officials who wanted to attract such firms could offer them appropriate incentives. Unfortunately, available research does not yet provide this degree of accuracy and specificity.

Because economic development has regional impacts, many economic development agencies have regional responsibilities, and attempt to serve central city, suburbs, and outlying areas. But metropolitan area growth often occurs at the expense of decline in the central city, as firms seek to minimize taxes by relocating to low-tax jurisdictions in a metropolitan area. Governmental policies which contribute to growth in one part of a metropolitan area may foster economic decline in another. While such externalities should not be ignored, they are difficult to substantiate. In evaluating policies, the appropriate unit of analysis is the governmental unit financially and administratively responsible for a program or set of programs. Thus, for example, tax abatements provided by the City of Toledo are intended to generate business growth in Toledo, while a low-interest loan program operated by Lucas County Port Authority should be evaluated on the basis of its impact on businesses throughout that metropolitan area, and an assessment of the Ohio Department of Development’s grant and loan-guarantee programs should examine their effects on statewide business growth. But,

because economic development “policy” is an amalgam of programs operated by all of these levels of government, a business expanding its facilities may receive assistance from city, county, and state programs, and officials at all three levels of government may take credit for the same jobs and investment. Surveying firms can alleviate this problem, by linking assistance programs of different units of government with their effects on one recipient.

Survey data can also compensate for some of the limitations of aggregate employment or investment figures, which can dilute program effects, because the proportion of businesses in a community receiving assistance from local government is usually small. Micro-level data on assisted and unassisted businesses permit comparison of the performance of the two groups on such program-relevant goals and employment and investment. While random assignment of businesses to program and control groups is not feasible, careful matching on factors related to business performance, and the use of surveys to obtain information on program effects, can produce reasonably good estimates of impact, Bartik has suggested. (1991: 19, 24) Using individual firms or establishments as the unit of analysis permits aggregation to the city, county, and metropolitan area levels, so that differences in growth rates within metropolitan areas and intra-metropolitan employment shifts can be examined.

### **Economic Development in Ohio Cities**

This paper examines the effects of economic development programs on economic growth in Ohio cities, through comparing two sets of survey data on businesses in six metropolitan areas. The first survey was mailed to 600 firms in Cleveland, Cincinnati,

Dayton, Akron, Toledo, and Youngstown metropolitan areas that had received assistance from local economic development agencies. (Names were provided by the Toledo-Lucas County Port Authority, Citywide Development Corporation in Dayton, and the economic development departments of the cities of Cincinnati, Dayton, and Youngstown, and of Cuyahoga and Summit counties.) The results reported here are based on information in the 124 surveys that had been returned at the time of writing.

The second survey was sent to a stratified sample of businesses in these metropolitan areas, drawn from the Ohio Bureau of Employment Services (OBES) ES-202 database. Results of this survey were used to compare firms that did and did not receive governmental assistance. These surveys were sent to a sample of 500 establishments in each of the seven metropolitan areas. Responses were received from a total of 500 firms, representing all the metropolitan areas.

### **Employment Trends**

The metropolitan areas included in the study experienced growth in total employment and a decline in manufacturing employment during the 1982-1992 period, indicating that growth in other sectors compensated for the loss of manufacturing jobs. Overall growth rates ranged from a 29.5 percent increase in total employment in Cincinnati (Hamilton, Warren, and Clermont counties in Ohio, and adjacent counties in Indiana and Kentucky) to a low of 8.5 percent in Youngstown (Mahoning and Trumbull counties). Manufacturing employment in the six areas decreased by 9.6 percent; the greatest decrease was in Cleveland, 16.1 percent, and the smallest in Dayton, 1.8 percent. These variations suggest that, while all six areas have experienced a shift away from

manufacturing-based employment, local forces have influenced the nature and extent of “de-industrialization.”

All six metropolitan areas were heavily dependent upon manufacturing in the early 1980’s; manufacturing jobs comprised the largest share of employment, ranging from a high of 29.6 percent in Youngstown to a low of 24.8 percent in Toledo. By 1992, however, services had replaced manufacturing as the economic sector with the largest share of employment in all six regions.

Aggregate trends such as these provide an overview of the economic changes affecting these metropolitan areas, but they do not provide much information about policy responses to them, or the impacts of these policies. To infer differential policy impacts from impact from differences in the growth rates of metropolitan areas grossly oversimplifies a complex set of relationships. Numerous governmental entities (Counties, cities, villages, townships) and quasi-governmental agencies offer incentives for business relocation, retention, and expansion, often competing with each other – a county offering tax abatements to entice businesses away from a central city, for example. Rarely does a uniform set of economic development policies exist within a metropolitan area. Area wide trends may disguise intra-metropolitan variations – most typically, declining employment in central cities and growth in suburbs and outlying areas. Finally, as is confirmed by survey data, the proportion of businesses participating in assistance programs is so small that the effects of these programs are not evident in aggregate trends.



### **Assisted Businesses**

Of the 124 firms responding to the survey of recipients of government assistance, 73 (58.9 percent) had relocated to their present site. Nearly half of the relocating firms (47.9 percent) had moved from another location in the same city, 31.5 percent were within the same county, and another 12.3 percent within the same metropolitan area, confirming Wolman's suggestion (1988: 23) that public officials may be engaged in a zero-sum game in which economic activities are merely shifted from one location to another. The most frequently mentioned reason for relocation was the need for more space (79.5 percent), followed by the desire to replace an obsolete facility (27.4 percent). Only 17.8 percent of relocating firms mentioned a reason often associated with intergovernmental competition – business costs, and even fewer cited proximity to markets or suppliers as a reason for relocation (11.0 percent), probably because nearly all moves were within the same metropolitan area. Similar patterns were found in the sample survey: 49 percent had relocated, with 58 percent mentioning space and 13.9 percent mentioning costs as reasons for relocation.

More than half of the assisted firms (59.6 percent) reported having expanded their operations at their present location within the past five years, including a substantial majority of firms that had relocated (60.3 percent). Expansions resulted in the addition of 1,497 employees. Manufacturing firms comprised 54.1% of the businesses which expanded, adding an average of 25.6 jobs per firm; these jobs represented 68.3% of the increase in employment from expansion. Overall, the 55 manufacturing firms that responded to the survey experience a 33.5 percent increase in employment in the six

metropolitan areas. The manufacturing sector comprised a much larger share of employment among survey respondents (62.2 percent) than of aggregate employment in the six metropolitan areas in 1992 (20.4 percent), so, in this respect, at least, the respondents cannot be considered representative of all businesses in these metropolitan areas.

### **Types and Amounts of Assistance**

The 124 firms responding to the survey received a total of \$64,016,900 in assistance from state and local government programs, an average of \$516,265 per firm. Manufacturing firms, which comprised 44.4 percent of the respondents, received a disproportionate share of government support (66.6 percent). The average level of assistance per firm was \$774,729 in the manufacturing sector, compared with \$459,962 in the service sector. This discrepancy, however, is largely due to the larger size of these firms: manufacturing firms had an average of twice as many employees (74) as those in the service sector (37).

The most common forms of assistance were loans, with a total of \$24,489,300 received by 51 firms, and tax abatements, with an estimated value of \$10,683,300 received by 48 firms. Loans were used in 22 expansions, in which 274 jobs were added; 32 expansions were assisted by tax abatements, adding 755 jobs.

Total public funding for expansion projects was \$37,269,900, or an average of \$24,896 for each of 1,497 jobs added. As noted previously, most of these jobs were in manufacturing, and manufacturing firms received the largest share of funding, 65.7 percent. Service firms, although they received only 25.6 percent of total expansion

funding, received a much higher level of funding per job added, \$32,075 because they added very few jobs.

The quality of governmental assistance is an important factor in maintaining the positive business climate conducive to continued economic growth. Survey respondents were asked to rank programs and agencies on a scale from 1 (excellent, would refer others to it) to a 5 (very poor, experienced many problems) and to comment on their rankings. The number of responses was insufficient to compile rankings of particular agencies or programs, but comments of satisfied and dissatisfied respondents revealed several common concerns. “Bureaucracy,” “red tape,” delays and lack of flexibility were frequently mentioned as problems: “the bureaucracy was difficult to deal with. They would give me 1-2 days to come up with my paperwork and then they would sit on it for a month...It took a long time to get the money to me, which created a serious cash flow problem.” Another respondent rated an enterprise zone program “6”, and commented “very unresponsive to phone calls...weeks to get answers to simple questions...know of others who gave up in disgust trying to work with these people and the city. No one really cares.” Another criticized the number of steps and number of people involved in processing assistance requests, and noted that not all costs of doing business in the city were disclosed.

A more positive impression emerges from comments on the helpfulness of individual economic development officials. One respondent observed, “They have been wonderful for small business,” and praised the mayor in particular for his “initiative.” Another noted that agency staff had been helpful in completing loan requests, and

commented that “without their assistance we would not have been able to tolerate the bureaucracy.”

Comparison of the results of the survey of recipients of government assistance with results of the sample survey suggested several differences between the two groups of businesses. The most dramatic of these was the very small proportion of respondents in the sample survey who had contacted a government agency. Only 9.0 percent (45 of 500) of businesses responding to this survey reported having contacted a government agency to request economic development assistance; of these businesses, 46.6 percent relocated (21) and 42.1 percent (19) expanded (of these, 11 firms both relocated and expanded). Firms that had requested government assistance for expansion or relocation comprised a very small proportion of all businesses that had expanded or relocated: 11.7 percent of those that expanded and 8.6 percent of those that relocated had requested assistance.

Most businesses that relocated stayed within the same metropolitan area (94 percent), but a much higher proportion of relocations were within the same city (60.8 percent compared with 47.9 percent of assistance recipients). Like the recipients of assistance, most respondents to the sample survey cited need for space as a primary reason for relocation (58 percent); replacement of an obsolete facility was the second most common reason for relocation, mentioned by 18.4 percent of respondents.

Businesses in the sample that had expanded also differed from the assistance recipients that expanded. Not only did fewer expand, the proportion that expanded and relocated was also smaller. The 155 respondent who reported having added jobs by expansion added fewer jobs (865) than the 74 assisted firms that expanded.

Manufacturing establishments represented 21.9 percent of expanding firms, but contributed 37.8 percent of the jobs added by expansion; in contrast, service establishments made up 43.9 percent of expansions, but contributed only 33.4 percent of jobs added by expansion. The mean number of jobs added by manufacturers, 9.62, was nearly twice the mean number of jobs added by all firms (5.58), but less than half the level among assisted manufacturers. Expansion by retail and service establishments contributed the fewest additional jobs: the mean jobs added by expansion were 3.64 for retail establishments and 4.25 for service establishments.

Total manufacturing employment among survey respondents, however, increased at nearly the same rate as employment among assisted manufacturers, suggesting that employment growth may not be a good indicator of the impacts of government assistance; most assistance programs are directed at capital investment – loans or grants for physical improvements to facilities or purchase of new equipment, or tax abatements on the increased value of a facility resulting from these improvements.

The proportions of manufacturing, service, and retail establishments among firms that had requested assistance were similar to those among the sample as a whole; service establishments predominated, comprising 55.6 percent of those requesting assistance and 49.6 percent of all respondents. Manufacturing firms represented only 19.4 percent of those requesting assistance; manufacturing employment, however, comprised 29.5 percent of employment in firms requesting assistance in 1990, decreasing slightly, to 27.8 percent, by 1994. The mean number of employees in manufacturing firms (34 in 1990, 38 in 1994) was 50 percent higher than that for service establishments (22 in 1990, 26.6 in 1994).

Examination of ES-202 employment data for the six metropolitan areas revealed that wages were higher in the manufacturing sector. Government assistance for expansion by manufacturing firms thus generates a higher payoff in two ways: first, employment levels are higher in these firms; second, these jobs pay more than jobs in other sectors. An indication of the wage differential between manufacturing and other sectors was obtained by comparing average wages for all sectors with average wages for those SIC codes representing manufacturing (20-39) and those representing service employment (70-89). Because the ES-202 data comprise quarterly data on wages and employment, the quarterly averages were multiplied by four to obtain an estimated annual average. Wage levels varied considerably among counties, but average manufacturing wages were consistently higher than average wages for all industries or in the service sector. For all counties, average annual manufacturing wages in the first quarter of 1993 were 59.4 percent higher than average service sector wages.

[Table 1]

Average wages, by county, 1993

County~	Average wage in~ manufacturing	Average Wage in~ service sector	Average Wage for all~ sectors
Clark	\$31,108	\$18,372	\$21,344
Clermont	37,140	20,136	22,444
Cuyahoga	36,668	23,232	26,804
Fulton	25,412	17,068	20,816
Geauga	26,160	19,844	21,732
Greene	28,728	23,668	21,204
Hamilton	37,500	22,968	26,756
Lake	31,888	20,544	23,360
Lucas	40,516	21,164	24,296
Mahoning	25,952	20,248	20,248
Medina	25,864	18,372	20,044
Miami	27,396	18,524	21,080
Montgomery	39,128	24,000	26,004
Portage	28,712	21,792	21,916
Summit	35,004	22,276	24,816
Trumbull	42,888	18,764	27,236
Warren	26,012	18,056	19,068
Wood	32,328	23,556	23,640
18 County Avg.	35,289	22,140	25,243

Although the types of businesses seeking assistance paralleled the overall distribution among manufacturing, service, and other major sectors, the rate of employment growth was much higher among those seeking assistance. Apparently, businesses that were doing well were more likely to inquire about the availability of assistance for expansion or relocation. Nevertheless, more than one-third (35.6 percent) of businesses that inquired about government programs neither expanded nor relocated; nearly identical to the proportion of all businesses that neither expanded nor relocated (35.1 percent).

The most commonly sought type of government assistance was loans, mentioned by 31 percent of those requesting assistance. Grants, tax abatements, training assistance, infrastructure assistance, site acquisition assistance, site information and financing referrals were each mentioned by 10-15 percent of those who had requested assistance, while 22.2 percent had requested only program information. In contrast, among recipients of assistance, loans and tax abatements were nearly equal in frequency (41.1 percent and 38.7 percent, respectively), and other types of assistance were rarely mentioned, confirming that most assistance is limited to these two forms. The distribution of contact topics among businesses in the sample survey suggests a diversity of needs that may exceed the scope of government programs.

### **Estimating Need for Economic Development Programs**

That the overwhelming majority of businesses that expanded or relocated did so without government assistance strongly suggests that government economic development



programs did not fill important needs for these businesses. Determining those needs and ways in which government can meet them, however, is difficult. Public officials lack information that would allow them to offer incentives to only those businesses whose locational decisions would be affected by them. Indicators of need such as inability to obtain bank financing may also be difficult to ascertain. In contrast, need for other public services can often be estimated from neighborhood characteristics: need for police services, for example, is linked to a neighborhood's crime rate, and need for housing code enforcement is related to age and conditions of housing. Need for other public services is often inversely related to an individual's ability to obtain them in the private market; thus, low income persons have a greater need for parks or public transportation because they cannot afford private club memberships or personal automobiles; this pattern more closely resembles the correlates of business need for economic development services. Because of the nature of the housing market in most cities, individuals of similar SES tend to live in close proximity, and demographic characteristics of a neighborhood can be used as surrogates for the characteristics of the individuals who live there. This is not the case with businesses; those that are unable to obtain bank loans or afford their own job training may be distributed throughout a governmental jurisdiction. Programs such as enterprise zones, empowerment zones, or the "renaissance zones" proposed by Michigan governor John Engler, which define their clienteles geographically, may not adequately serve many businesses who need the services they offer, because those businesses are not located within the boundaries of the zone.

Delivery of economic development services on the basis of need then requires obtaining information from individual businesses, and incorporating these criteria of

eligibility into the design of programs. Frequently other criteria are also employed, limiting assistance to capital expenditures, requiring the hiring of a certain number of employees, setting a maximum amount that a firm can receive, or requiring that a certain proportion of private financing be obtained. Access to these services is further restricted by their delivery in response to demand: unlike, for example, building inspections, which are performed routinely by a city department without any citizen contact, economic development incentives must generally be requested. The effect of these criteria and rules is that the most needy receive few services, because they lack information and private financing, and the least needy (best informed) also receive few services because they can afford to rely totally on private funding. Thus as Jones et al. (1980: 77) found in relation to citizen contacts, requests for economic development services are likely to come from those in the middle of a scale of economic well-being, and the benefits from these services to be concentrated among this group.

Review of reasons for not seeking government assistance (reported in an open-ended question in which as many as three reasons could be given) may help illuminate the deficiencies of these programs. More than half of those responding to this question (203 of 354) commented that they did not need assistance. Need for the types of assistance offered by government programs (mainly for capital investment and job training) may be greater among manufacturers than other sectors, and this may explain their over-representation among recipients of assistance. Manufacturers, however, despite their over-representation among assistance recipients, were not more likely than other types of firms to seek government assistance.

Procedural as well as substantive concerns are evident in the second and third most common reasons for not seeking government assistance: 17.6 percent of those who had not contacted government agencies were unaware of what types of programs were available, while 11.6 percent mentioned “red tape” and difficulties in dealing with government agencies as deterrents to seeking assistance. Negative attitudes toward government were also evident among the comments of the 10.1 percent who did not want any help from government, and the 9.8 percent who believed that (for various reasons) they would not receive any help if they applied. Taken together, these comments comprise nearly half (49.1 percent) of the reasons given for not seeking government assistance; while public policy may not be able to alleviate the anti-government sentiments of some of these respondents, policy changes could enhance awareness of assistance programs, and reduce some procedural deterrents.

The factors associated with contacting/not contacting economic development agencies closely parallel the correlates of citizen-initiated contacts identified in studies of municipal services delivery bureaucracies: a problem or need, awareness that government can help, and knowledge of where to contact, and the perception or belief that the contact will be effective, that government not only can, but will provide the needed assistance (Jones et al., 1980: 42.52).

Among businesses, lack of awareness and feelings of inefficacy may be stifling demand for needed services. Among public officials, lack of information about business needs can negatively affect program design and reduce impacts. Economic development agencies, like service delivery agencies, must devise methods of acquiring information

about the “targets” of their services: businesses in need of financial or other forms of assistance.

Because such businesses are not geographically concentrated, neighborhood characteristics cannot be used to identify them. Instead, like other service delivery agencies, economic development agencies must choose between citizen-initiated contacts and what Jones termed “routine search behavior” (1980: 86) as a means of obtaining information about service targets. These choices, according to Jones, are shaped by level of resources, frequency of targets, probability that citizens will report targets, and “agency aggressiveness.” (1980: 87) In a context in which each party is poorly informed about the needs and resources of the other, reliance on citizen-initiated contacts is unlikely to promote effective service delivery. Unlike service delivery agencies that rely on citizen contacts, economic development agencies have numerous potential targets (all businesses in their service area and surrounding areas) and a low probability that targets (businesses in need of government assistance will be reported by citizens. But, like those agencies, they often lack resources, and may rely on contacts as a means of reducing demand for their services.

Of the four factors that Jones identified as influencing an agency’s choice of “routine search” or citizen contacts to locate service targets, two seem to favor routine search, one favors citizen contacts, and the fourth “general agency aggressiveness,” is contingent on the agency. Passive agencies, which wait for those with service needs to come to them, are likely to be less effective in promoting economic growth than more aggressive ones who seek out potential targets and inform them of programs. Agency aggressiveness, however, is more difficult to operationalize than the other factors: one

might, however, hypothesize that those agencies mentioned as having been contacted were “more aggressive” because businesses were aware of them and their programs. It is also likely that those agencies that provided names of beneficiaries (the basis for the first survey) were more aggressive in their approach to economic development, and had more resources than those that would not or could not provide this information. It is not possible, however, to determine whether such agencies were more effective in promoting economic growth, because of the problematic relationship between programs and growth and the conflicting evidence provided by different measures of program impact.

However, agencies engaging in routine search can be assumed to reach a broader range of targets than those relying on citizen contacts; this may account for the difference between types of businesses represented in the two surveys: by engaging in routine search, the agencies participating in the recipient survey may have reached labor intensive small manufacturers, who did not seek out the service of more passive agencies. Because they were labor intensive, expansion by these businesses added more employment to their local economies than did expansions in the service sector.

Choice of economic development strategy, then, seems to be shaped by both situational and organizational factors. The number of businesses that could utilize agency resources and the low probability of their contacting the agency, make routine search an appropriate approach. Low levels of resources, however, push agencies in the direction of citizen initiated contacts, unless staff members are committed to aggressively seeking out needy businesses. Rates of employment growth among assisted firms, especially in manufacturing, which exceeded prevailing employment trends, suggest the

potential benefit of such a strategy, despite relatively high costs (nearly \$25,000 per job added by expansion).

### **Retention as a Development Strategy**

While most relocated businesses moved to another location in the same city or county, the proportion of relocations across municipal boundaries varied considerably among the seven central urban counties. The percentage that relocated in the same city ranged from a low of 37.5 percent in Mahoning County to a high of 77.5 percent in Lucas County. A surprising 90.3 percent (28 of 31) of the Lucas County firms relocated within the city of Toledo. That 26 of these 28 firms relocated from prior Toledo locations suggests that retention of existing firms may have greater payoffs than efforts to attract firms from nearby municipalities, at least among the small businesses which predominated within this sample. This retention was not atypical: of the 245 relocated businesses, 111 (45.3 percent) reported prior locations in central cities, and 73.9 percent of these relocated within that city. Of those firms that had relocated to central city locations, 77.4 percent came from another site in the same city; of those firms that had relocated to non-central city locations, only 21.7 percent came from central cities. These data do not support the contention that central cities are losing vast numbers of jobs and businesses to suburban and rural locations. Yet another statistic that indicates favorable rates of business retention by central cities is that only 25.9 percent of businesses that moved from a central city location relocated to a non-central-city site. It is also notable that government assistance played almost no part in these relocations: only 7.2 percent of firms relocating from central city locations reported requesting government assistance.

Of those firms (8) which requested assistance, 3 stayed in their central city locations and 5 moved to a suburban location.

There is some evidence in the survey results that suggests that assisting business expansions may be a more fruitful role for government than efforts to influence relocation. The proportion of expanding businesses that requested governmental assistance (11.1 percent) was slightly higher than the share of relocating businesses (8.6 percent) or the share of all businesses (9.0 percent). While expansion and relocation frequently occur together (18.6 percent of all businesses reported expanding and relocating), this occurred more frequently among businesses that requested assistance (24.4 percent). Furthermore, among businesses that requested assistance, the majority of relocated businesses (11 of 21, 54.6 percent) expanded; for all businesses, only 38 percent of all relocated businesses expanded. Among recipients of assistance, expansion was slightly more common than relocation (59.6 percent v. 58.9 percent) but both were more common than for all businesses (34.3 percent for expansion, 49 percent for relocation).

Assisting with expansion is a more feasible strategy for a local economic development agency than assisting in relocation, because identification of need can be limited to firms already located in its jurisdiction, while identification of relocation needs must cover other cities and counties, and the incidence of actual targets in this universe of potential targets is so low as to make routine search an inefficient strategy. More importantly, the evidence reviewed here indicates that supporting expansion by “homegrown” industries has greater payoffs, in the form of more and better paying jobs, than competing with other municipalities in a zero-sum relocation game.

Program effectiveness, however, is often not an important consideration in decisions to adopt or continue economic development policies, for several reasons. First, a causal linkage between policies and growth is difficult to demonstrate, because of the diverse factors that influence business location and expansion. Second, because policy makers seldom have access to information which influences locational decisions, incentives may not correspond to the needs of a business. Third, operationalizing “effectiveness” is problematic: alternative measures (employment and investment, for example) yield different conclusions; the appropriate balance between quantity of jobs and quality of jobs ( and how to measure quality) is also a concern. Fourth, the climate of inter-jurisdictional competition that has characterized economic development activities has made keeping ahead of what others are doing an important force in policy formation. Finally, political as well as economic costs and benefits influence both general policies and specific incentives. Because the stakes are higher in major projects, in terms of media and public attention as well as employment and revenues, general policies may be shaped by the needs and demands of a specific developer or project. The concerns of smaller businesses, as well as the economic impacts of incentives are often neglected in this context. This is unfortunate, because as has been demonstrated by the survey results examined here, small businesses that receive assistance from government programs experience significant employment growth. Targeting of programs to the needs of these businesses and the assumption of a more active role by government agencies in seeking out potential beneficiaries of their services would greatly enhance the payoffs from local government economic development programs.



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