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Credible Commitment and Council-Manager Government: Implications for Policy Instrument Choices

The credible constraint of morally hazardous or opportunistic behavior can enhance efficiency. This idea is applied to an examination of local government institutions to identify how council-manager government constrains opportunism in economic development by substituting low-power bureaucratic incentives for high-power electoral incentives. A panel design isolates changes in the use of development strategies or instruments in 516 cities.

The central argument presented here is that the Progressive ideology of the separation of politics and administration, institutionalized in the council-manager plan, allows administrators and elected officers to more easily resist opportunistic behavior. Economic and political forces have significant effects that are different for mayor-council communities than for council-manager communities. The influence of strategic planning is evident in council-manager cities, but not in mayor-council communities. Under council-manager government, development is carried out in a discriminating manner, leading to lower levels of financial incentives but more loan and business-attraction programs. In conclusion, the authors discuss how the career patterns of city managers are shaped by the incentive structures created by the council-manager plan.

Questions about whether and how different forms of municipal government influence policy choices have occupied scholars of urban politics and administration for several decades (Lineberry and Fowler 1967; Ostrom, Bish, and Ostrom 1988; Ruhil et al. 1999). Much of the theoretical underpinning of this inquiry derives from the study of structural reforms introduced by the municipal reform movement. This article revisits the history of municipal reform and examines how different forms of governments influence the incentives of local actors and the problems of moral hazard and credible commitment.

As in other organizations, governance structures in cities create incentives for specific behaviors. Some high-power incentives produce benefits that can be realized directly by decision makers. In markets, high-power incentives lead to innovation and enhanced productivity as entrepreneurial leaders respond to profit motives (Williamson 1988). Nevertheless, high-power incentives

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in government may lead to political opportunism and rent seeking as actors seek private gain through public administration (Frant 1996; Feiock and Kim 2001). Many Progressive Era municipal reforms were intended to eliminate the corruption of machine party politics, often by reducing politicians' ability to deliver particularistic benefits. Reform proposals limited elected officials' ability to reward supporters and to punish opponents (Frant 1993; Knott and Miller 1987). From a transaction-cost perspective, these measures were institutional changes that replaced high-power incentives with low-power incentives (Frant 1996).

Progressive Era reforms sought to improve administrative efficiency and to break the influence of partisan politics on local decisions (Ostrom, Bish, and Ostrom 1988). The key municipal reform proposal was the council-manager form of government, in which an elected council and its employee—the manager—have distinct responsibilities that separate the articulation of policy from its execution. Recent findings drawn from several policy areas suggest the institutional rules of the game in reform governments create low-power incentives that emphasize citywide issues and constituencies and enhance the role of professional expertise in informing public decisions (Clingermayer and Feiock 2001; Feiock and Kim 2001; McCabe and Feiock 2001).

The Transaction Cost of Local Governance

The form of government embodied in the city charter operates as a constitutional contract that determines the transaction costs experienced by various actors and interests in their efforts to influence public choices (Maser 1985, 1998; Miller 1985). Centralized organizations of all types are distinguished by the broad powers of their leaders to intervene in lower-level decisions (Milgrom and Roberts 1990). Political intervention in policy and administrative affairs has been a primary concern of reformers because it can undercut the security of property rights and contract enforcement (Clingermayer and Feiock 1997). From the standpoint of business, developers, service suppliers, or other external actors, the uncertainty resulting from political opportunism makes entering into relationships with local government risky. Elected officials who are wary of displeasing contending coalitions or alliances of constituents may not be able to make credible commitments to important stakeholders. This is a problem of commitment because government leaders themselves wish to be publicly constrained from interventions that may promote their short-term electoral interests, but which harm the community and their electability in the long term. Constraining themselves ahead of time is a positive action that can enhance efficiency. Paradoxically, the long-run political and economic benefits to elected leaders are secured only by denying themselves short-term political gains.

Control of the apparatus of local government can be used to extract political rents that undermine the efficiency of government's actions (Olson 1964; Feiock 2002). Principal–agent approaches argue that efficiency is enhanced when the agent's goals are the same as the principal's. Following Schelling (1960), Miller (2000) argues just the opposite: The usefulness of the agent depends on the agent having preferences and pursuing goals that are quite different from the principal. Managers can best pursue the interests of citizens and the council by working toward professional goals rather than the political interests of the voters and the council.

> There is a value to citizens in a democracy in hiring public managers who have preferences that are distinct from those of citizens themselves. There is a benefit to be derived from training a body of professional bureaucrats who are granted a certain degree of discretion in the exercise of public trust. In the United States, that discretion has been enhanced by the Progressive reform prescription which has provided bureaucrats with a useful myth and protective ideology. The useful myth is that of the politics/administration dichotomy, and the protective ideology is the ideology of neutral professional competence. Together, these often provide a credible constraint on the efficiency-undermining rent-extraction activities of those in political power. (Miller 2000, 314)

The city management profession's commitment to professional standards and its attachment to the mythology of neutral competence enhance efficiency because they provide bureaucrats with political weapons that can help them fulfill the public trust (Miller 2000, 325). The politics–administration dichotomy may be no more than a myth, but it provides a structure for governance that is biased against partisan political interference and in favor of professional values and expertise. This is exactly the message of Lineberry and Fowler (1967), who argued that reform institutions insulate municipal government from private demands.

The council-manager form of government is presumed to allow for greater consideration of long-term interests, and therefore encourages long-term development projects, such as revenue bond-funded infrastructure projects. City managers' actions may also be constrained by professional norms embodied by organizations such as the International City/County Management Association (Nalbandian 1989). Conversely, the incentive structure of mayor-council government may lead officials to use development policy as a stage to promote personal and political goals. In cities experiencing economic decline, political leaders may maximize electoral support by promoting costly, high-risk development instruments such as financial incentives which can provide short-term political benefits. In general, mayor-council government has been regarded as responsive to popular demands and less likely to insulate local decisions from demands and pressures in the community (Lineberry and Fowler 1967; Lyons 1978). Mayor-council government can provide incentives for the emergence of narrow issues and constituencies, place constraints on the role of professional expertise in informing public decisions, and lead local officials to be more attuned to political credit-claiming opportunities (Clingermayer and Feiock 2001; Sharp forthcoming).

The Roots of Municipal Reform

The municipal reform movement of the late nineteenth and early twentieth centuries left an indelible mark on local government structure. The origin of municipal reform dates back to the early days of the Progressive movement (Hofstadter 1956). One target of the Progressives was electoral influence on bureaucracies, which was linked to inefficiency and corruption. The movement to reform government introduced a number of changes designed to professionalize local government. The crown jewel of municipal-level Progressive reform was the institution of the council-manager form of government.

Progressive reform efforts were rationalized as a response to the widespread corruption created by the patronage of urban political machines. The system of patronage politics can be traced to the Andrew Jackson administration and reached its peak toward the end of the nineteenth century. Groups that had been systematically excluded from the political arena coalesced and mounted full-fledged attacks against patronage politics (Shefter 1994). The National Civil Service Reform, formed in the late 1800s, played a major role in influencing the development and passage of the Pendleton Act in 1883. These efforts laid the foundation for the next generation of reformers—the Progressives, who directed their attention to the local level.

Efficiency was the theme of the Progressives; they sought to make local governments more efficient and professional. Revisionist historians, particularly Richard Hofstadter and Samuel P. Hays, argued the Progressive movement was led by elite, upper-class men of old wealth who had lost power after the Industrial Revolution, when newly rich corporate leaders allied themselves with the urban political-machine bosses. Progressivism, in short, was "led by men who suffered from the events of their time not through shrinkage in their means but through the changed pattern in the distribution of deference and power" (Hofstadter 1956, 135).

At the local level, the principal change in government institutions promoted by reformers was the replacement of the mayor-council form of executive government with the council-manager plan. A common set of municipal reforms was proposed in an effort to create a "nonpolitical, essentially technical organization and management" (Knott and Miller 1987, 3). Municipal reformers believed the best candidates for administrative positions would be those with professional training and technical experience. Council-manager plans essentially abolished the political position of the mayor. Instead, professional administrators were hired by municipalities to conduct the daily executive decisions to operate the city. If the position of the mayor was not completely eliminated, the mayor was reduced to little more than a ceremonial figurehead by making the mayor a part-time position and reducing the voting power of the mayor. Other municipalities also changed their method of electing mayors, so that the city council members were entrusted to select the mayor rather than relying on direct election.

In 1912, Sumter, South Carolina, became the first city to adopt the council-manager plan. Over the next two decades, Progressive reformers succeeded in changing the forms of government in hundreds of cities across the country (Karning and Welch 1980; Ruhil et al. 1999). While the municipal reform movement originated in the Northeast, the movement had its most significant impact in the Southwest. The Progressives had some success in the Northeast, but it was in the racially and economically homogeneous West and Southwest that their goals of professional public management were most fully realized. Urban scholars' focus on the reform attempts in the urban settings of the Northeast, to the neglect of other regions, may have led them to underestimate the true impact of the Progressive movement (Bridges 1997).

Opportunism and Local Economic Development

Economic development presents a policy arena in which high transaction costs can create a barrier to efficiency, and high-power political incentives are likely to be present. Evaluations of economic development programs report some success in attracting new firms and investment, but these efforts often do not substantially improve employment opportunities in a community (Feiock 1991). This has been especially true for financial incentives, which often are criticized as zero-sum (or negative) transfers or as corporate welfare. This raises a question: Why do so many cities aggressively pursue development programs despite their failure to generate jobs? Empirical research suggests the answer lies in political opportunism. In cities that face a loss of population or jobs, development policy provides opportunities for elected officials to use certain policy instruments that allow them to visibly reward loyal constituents or to solidify political support (Wolman 1988; Clingermayer and Feiock 2001).

While the form of government is often included as a variable in explanatory models of development policy (Fleischmann, Green, and Kwong 1992; Neiman and Fernandez 1996; Neiman and Lewis 2001), the extant work does not adequately capture whether council-manager governments insulate citizens from high-power incentives, for two reasons. First, most research treats institutional effects as additive rather than interactive. This specification masks the mediating role of institutions in shaping responses to political and economic forces. Second, the literature often does not differentiate among the policy development instruments that are employed. This is critical because some instruments (such as financial incentives) provide much greater potential for opportunistic behavior. Each of these issues will be discussed in turn.

The Mediating Role of Governance Institutions

Rather than directly determining policy and administrative choices, the form of government influences development decisions through its influences on incentives—and thus the propensity to respond to political and economic changes in a morally hazardous manner. Reformed government structures are expected to attenuate the relationship between certain economic conditions, administrative organizations, and economic development activity—an interactive rather than an additive effect. The council-manager form of government has long been viewed as a means of insulating local decisions from external political pressures (Lineberry and Fowler 1967; Lyons 1978). By insulating development processes, council-manager governments provide local officials an opportunity to respond to underlying economic problems and to match development policies to specific needs, rather than simply responding to political pressures for development.

While most scholars have examined the additive effects of reform institutions, the literature provides limited empirical support for interactive institutional effects on instrument choice. Sharp (1991) examines how the form of government conditions the link between fiscal stress and the number of financial-incentive programs offered by development agencies. She found that "the pressure to respond to fiscal stress with financial incentives and the adoption of many development strategies appears to be negligible in reformed settings [council-manager], but substantial in unreformed settings [mayor-council]" (1991, 142). However, her conclusions are based on a comparison of bivariate correlation coefficients between distress and policies selected under different forms of government which is inadequate for evaluating conditional relationships (Wright 1976; Aiken and West 1991). Sharp's recent work on local morality policies examines multivariate relationships between issue characteristics and policy responses separately for communities with city managers and mayors (Sharp forthcoming). She finds that the more politicized character of mayor-council government translates into outcomes that are responsive to interest-group activism and mass political pressures. Mayor-council government was found to be more favorable toward entrepreneurial action and its associated credit-claiming opportunities. The following section extends this approach to test how government structure mediates the influence of social, economic, and political contexts on cities' choices of development-policy instruments.

Instrument Choice and High-Power Incentives

In recent years, the public policy and welfare economics literature has directed attention to the specific policy instruments that governments employ to pursue policy goals (Salamon 1989, 2002; Weimer and Vining 1999; Peters and van Nispen 1998). Policy instruments refer to the different means available to governments to achieve a particular outcome. While a growing literature explores how context can affect the choice of policy instruments, most attention has narrowly focused on comparison of markets with public bureaucracies. Moreover, this work has focused on national-level policy, to the neglect of instrument choices at the local level.

Research on the tools of government action has classified a variety of instruments available to address government and market failures (Hood 1986; Linder and Peters 1989; Salamon 1989; Weimar and Vining 1999; Feiock and Stream 2001). While policy-instrument typologies sometimes apply different labels to strategies, each describes generic policy instruments that address the failure of markets or government to efficiently deliver goods or services. A wide array of policy instruments is available for governments seeking to attract economic development. At the aggregate level, economic development programs combine various generic policy instruments and reflect the interests of multiple constituencies. In the analysis that follows, we identify separate policy instruments as interventions with unique implications resulting from distinct institutional contexts and opportunity structures.

Several distinct types of policy instruments characterize economic development policy. These include loan programs that provide or guarantee funding to private firms to support development; incentive programs to subsidize new development through supply-side tax incentive policies; business attraction, which consists of promotional activities to advertise a community as a desirable place for investment; regulatory reform, which seeks to streamline the development approval and permitting processes; and land management, which seeks to organize, assemble, and manage land to be used for new development. In addition, historic preservation, infrastructure, and aesthetic improvements can be coordinated with development goals to make a community more attractive to investors. While all seek to enhance economic growth, each policy instrument has a unique political economy (Salamon 1989) and varies in terms of cost, visibility, targetedness of benefits, and other potentially salient dimensions. We contend that the desirability of various instrument choices reflects the incentives created by specific institutional arrangements for local governance.

The political incentives of mayors and council members to gain reelection can result in policy-instrument choices that are inconsistent with the interests of the median voter. The costs of financial incentives are diffuse or are borne by groups that are not politically mobilized. On the other hand, the benefits of economic development are often highly visible and provide politicians with opportunities to claim credit and reward specific constituents or supporters that provide instrumental political resources. This can give local officials a short-term incentive to pursue growth through these instruments, even when the economic costs exceed their benefits (Feiock 2002). Reese and Fasenfest (1996) explicitly link this moral-hazard problem with development competition: "An increasingly intense and destructive competition results in incentive packages that become remarkably similar. As in any auction market, the highest bidder wins. Because it is the community (defined as its residents), not the actual bidder (the local government officials or planners), who pays, the scope for moral hazard is wide. Elected officials 'buy' jobs at any price with other people's money, because this is both the scientifically recommended course of action and the self-interested means to retain their own jobs" (1996, 200).

Previous work has found that economic and demographic forces—such as income, poverty, population change, owner occupancy, and previous development—can be linked with political and organizational factors—such as the locus of development policy, debt, and the use of strategic planning—to aggregate economic development policy activity (Sharp 1991; Feiock and Kim 2001). To examine the implications of government form for specific instrument choices, we observe the influence of these political and economic forces on communities' reliance on specific policy instruments in both mayor-council and council-manager cities.

Analysis

Extant work almost exclusively focuses on the aggregate number or level of policy tools or programs relied upon at a specific point in time. This static approach is problematic because it cannot test dynamic explanations of policy changes. A panel design that controls for development policies in place five years earlier is employed to address this design limitation. Policy instruments used in 1984 and 1989 were examined for the same sample of cities. Cities' use of various development strategies were isolated by merging city level data from 1984 and 1989. This allows estimation of the use of economic development strategies and specific strategies in 1989, controlling for past use of these policy instruments.

The effects of bureaucratic arrangements on development policy adoption were tested using data from surveys conducted by the International City/County Management Association (ICMA). In 1984 and 1989, the ICMA surveyed more than 2,000 local governments regarding their economic development policies and programs (Farr 1990). The ICMA surveys encompass a wide array of development policy tools adopted during this period. Many of the questions on the 1984 survey were replicated in 1989. Information on the use of specific development programs in both years for 516 cities was obtained. This represents 53.4 percent of the 1989 respondents.[1]

During the late 1980s, the U.S. economy experienced major structural change that caused cities to become increasingly innovative, active, and competitive in their use of economic development. The survey reported the use of various strategies and the specific policy programs or tactics employing a particular strategy. For each strategy or instrument, we coded programs 0 if it was not used and 1 if it was used, and we sum the programs within each strategy for each year. The specific programs used in 1984 within each of the 12 categories reported for the subsample of 1984 respondents included in our panel were factor-analyzed to identify whether the strategies delineated on the ICMA survey constitute unique policy instruments (Fleischmann, Green, and Kwong 1992). Eight of the 12 strategies were unidimensional and consistent with the full sample. Revitalization activities were eliminated from further analysis because questions on specific programs were not replicated on the 1989 survey. The remaining seven strategies constitute unique policy instruments that cities employ to promote development. Additive indices of the number of programs used each year were constructed for these seven strategies.

Summary statistics for these strategies in 1984 and 1989 are presented in table 1. Even though the mean number of development programs used in 1989 increased only a small amount from 1984, this masks substantial variation in the use of specific strategies. The use of regulatory reforms and historic preservation for development purposes declined between 1984 and 1989. On the other hand, more aesthetic improvement programs, land management, business attraction and retention programs, and financial and

Table 1 Mean Policy Instruments for Economic Development, 1984 and 1989

Policy instruments	1984		1989		Wilcoxon signed ranks test	
	Mean	N	Mean	N	Z-score	Significance
Loan incentives program	.392	513	.806	515	8.495	.00
Financial incentives	.795	513	1.136	515	5.433	.00
Business attraction / retention	1.643	512	3.118	515	15.269	.00
Regulatory reform	2.633	510	1.544	513	4.762	.00
Development land management	2.070	510	3.814	515	7.09	.00
Historic preservation	2.881	511	.763	515	12.953	.00
Aesthetic improvements	2.027	513	2.248	515	6.973	.00
Total development instruments	16.17	490	16.35	513	.184	.854

loan programs were reported in 1989. In addition to comparing mean differences, a Wilcoxon signed ranks test was used to evaluate differences between the 1984 and 1989 samples. This nonparametric statistic identifies differences across two related samples (Siegel and Castellan 1988). As table 1 shows, significant differences exist across the two samples. However, even though the use of specific policy instruments changed, the total number of programs remained relatively stable.

While these data indicate the extent to which a particular policy instrument has been employed, they do not measure resource efforts. Nevertheless, the use of particular development programs and strategies, even if unaccompanied by extensive resource commitments, provides signals to external actors about the business climate which can reduce transaction costs (Mintrom and Ramsey 1995). The use of these development strategies was examined based on the form of government and the factors previously linked to development policy. The form of government was classified as mayor-council (coded 0) or council-manager (coded 1). For each equation that estimated development policy strategies in 1989, the number of programs used in 1984 was included as a lagged dependent variable.

Empirical models were specified to include the factors empirically linked to development policy in previous research. The 1984 ICMA survey collected information on whether the locus of organization for development policy is public or private. The locus of development was coded 0 if a quasi-public or private organization led development promotion efforts, and coded 1 if a government organization led those efforts. An indicator of whether the local government had officially adopted a strategic plan for economic development as reported in the 1984 survey was added.[2] In addition, indicators of cities' economic condition and population characteristics were included. Respondents to the 1984 ICMA survey assessed whether the economic base of the community had experienced rapid expansion (greater than 25 percent); moderate growth (10 percent–25 percent); slow growth (greater than 10 percent); no significant growth or decline; modest decline (less than 10 percent); or significant decline (greater than 10 percent) over the previous five years. Population growth or decline was measured as the percent population change between 1970 and 1980. We expect economic and population decline to result in increased economic development activity, particularly for incentive programs under mayor-council government. Personal income, the percentage of the population below the poverty level, owner occupancy, and per capita municipal debt were also included to capture economic needs or demands. Larger cities are also expected to adopt more programs, both because of their diversity of resources and the pressures to do so (Fleischman, Green, and Kwong 1992; Neiman and Fernandez 1996; Neiman and Lewis 2001). Metropolitan status, based on whether a community is a suburb, was coded 1, and central cities and independent cities were coded 0. Because suburbs benefit from the dispersion of activity within metropolitan areas and have less need to promote growth, we expect less development policy activity in suburban communities. An indicator of whether cities are located in the Sunbelt South and West census regions was also included.

Table 2 reports ordinary least squares estimates for reliance on each of the seven development strategies for mayor-council and council-manager cities. While the impact of most variables is consistent across government types, we find important differences in the direction and magnitude of certain factors in mayor-council and council-manager government. To test whether the slopes for the mayor-council models are different from the council-manager models, we compared full models with interaction terms, allowing different slopes within each type of city with restricted models that had the restriction that the slopes for each type of city were equal. The F-test, which compares explained variance in the restricted and unrestricted models, was statistically significant for each equation.[3]

For cities with mayor-council government, economic factors were important in distinguishing policy instrument choices. When financial incentives, which provide the greatest potential for opportunistic behavior, were compared with the other instruments, dramatic differences were found. The proliferation of financial incentive programs is related to decreased population, declining economic base, and low median incomes. Income had an inverse relationship with the use of each of the development strategies in mayor-council cities, and this relationship was statistically significant for loans, financial incentives, and business attraction. Lower median income encouraged mayor-council cities to be more active in their choice

Table 2 Estimates of Development Instruments Adopted for Mayor-Council and Council-Manager Cities

	Loan policies		Financial incentives		Business attraction		Regulation reform		Land management		Historic preservation		Aesthetic improvement	
	Mayor-council	Manager-council	Mayor-council	Manager-council	Mayor-council	Manager-council	Mayor-council	Manager-council	Mayor-council	Manager-council	Mayor-council	Manager-council	Mayor-council	Manager-council
Policy 1984	.376**	.301**	0.0384	.144*	.321**	.298**	.027	.175**	.225*	.109*	.164**	.152**	.361**	.210**
	(–2.59)	(–3.64)	(–.32)	(–2.15)	(–2.85)	(–4.09)	(–.22)	(–3.28)	(–2.17)	(–2.09)	(–3.44)	(–5.62)	(–2.94)	(–3.15)
Population	.0005	.0011	.0074	.0025*	.0207**	–.0005	.0085*	.0035**	.0014	.0041	.0017	.0011	.001	.0017
	(1.19)	(–.81)	(–1.6)	(–1.67)	(–4.12)	(–.24)	(–1.66)	(–2.17)	(–1.34)	(–1.13)	(–.45)	(–.90)	(–1.38)	(–.79)
Population change	.0265	.0285	–2.240*	.091	4.676	.0168	5.371	–.0198	1.970**	.0265	3.279	–.0118	1.232	.0299
	(–.89)	(–1.34)	(–1.64)	(–.37)	(–1.16)	(–.56)	(–1.31)	(–.77)	(–2.4)	(–.49)	(–.10)	(–.62)	(–.21)	(–.84)
Economic decline	–.63	.0637	.3798*	–.0094	–.0495	–.0107	–.092	–.0299	–.12	–.197*	.110*	.0327	–.0235	–.0517
	(–.76)	(–1.62)	(–1.87)	(–.19)	(–.49)	(–.17)	(–.87)	(–.55)	(–.59)	(–1.80)	(–1.8)	(–.85)	(–.16)	(–.71)
Poverty	–.0625*	.0356*	–.0209	.0293	–.0644	.0479*	.0123	.0149	–.016	.0239	–.0197	.0453**	.031	.0405
	(–1.75)	(–2.08)	(–.48)	(–1.46)	(–1.38)	(–1.98)	(–.23)	(–.69)	(–.17)	(–.52)	(–.52)	(–2.86)	(–.45)	(–1.37)
Median income	–.099**	–.0013	–.0642*	–.0026	–1.614**	–.0374	–.0517	–.0048	–.0079	–.0036	–.0329	.0011	–.0188	–.0011
	(–2.79)	(–.09)	(–1.72)	(–1.43)	(–3.49)	(–1.63)	(–1.09)	(–.24)	(–.86)	(–.87)	(–.90)	(–.77)	(–.28)	(–.39)
Government locus	.117	.113	.376	.0687	.488*	.0415	.288	.0915	.785*	.0344	.0525	.019	.338	.0767
	(–0.56)	(–.95)	(–1.5)	(–.48)	(–1.79)	(–.24)	(–1.02)	(–.61)	(–1.92)	(–.11)	(–.02)	(–.17)	(–.85)	(–.37)
Strategic plan	–.234	.185*	.109	–.497*	–.297	.199*	.008	–.125	–.192	–.152	–.0618	–.0636	–.0685	.0188
	(–1.09)	(–1.96)	(–.42)	(–1.85)	(–1.02)	(–1.76)	(–.01)	(–.83)	(–.33)	(–.48)	(–.28)	(–.59)	(–.16)	(–.09)
Suburb	–.440*	–.217	–.481	–.0057	–.362	–.667**	–.139	–.0298	–.529	–.419	.143	–.263*	.137	–.0936
	(–1.67)	(–1.55)	(–1.52)	(–.34)	(–1.06)	(–3.18)	(–.39)	(–.16)	(–.76)	(–1.12)	(–.52)	(–1.94)	(–.27)	(–.38)
Sunbelt	–.119	–.306**	.686**	–.0733	.252	–.296*	–.152	.336*	.479	.549*	.0098	.11	.346	.331
	(–.49)	(–2.51)	(–2.29)	(–.51)	(–.77)	(–1.67)	(–.448)	(–2.19)	(–.72)	(–1.7)	(–.03)	(–.97)	(–.74)	(–1.58)
Debt	–.0489	.0545**	–.0682	.0283	.1042	.0259	–.0083	.001	–.0603*	.0021	–.0321**	–.0041	–.0487**	.0022
	(–.42)	(–2.84)	(–.49)	(–1.08)	(–.70)	(–.80)	(–.55)	(–.36)	(–1.98)	(–.35)	(–2.77)	(–.20)	(–2.23)	(–.57)
Owner occupancy	0.0089	–.0036	.01791	.0075	.0213*	.0129*	–.0108	.0107	–.0306	.0128	–.0058	.0763	–.0188	.0666
	(–.91)	(–.69)	(–1.51)	(–1.19)	(–1.68)	(–1.66)	(–.81)	(–1.55)	(–1.18)	(–.89)	(–.56)	(–1.51)	(–.99)	(–.71)
Constant	2.655	.599	.651	.812	4.214	2.742	1.552	.42	6.83	3.486	1.089	–.647	2.282	.994
N	98	343	98	343	99	341	97	341	99	340	97	342	98	343
Adjusted R^2	.35	.21	.24	.09	.44	.22	.12	.09	.27	.08	.37	.2	.26	.08

Note: *t*-scores are in parentheses; *significant at .05 with 1 tail test; **significant at .01 with 1 tail test

of development instruments. Debt also had a significant negative effect on development policy instruments which was not evident in council-manager cities. Where local government played the lead role in development, the result was greater overall use of business-attraction and land-management instruments. While the locus of development was important under mayor-council government, it made no difference to policy choices under the council-manager system.

The results for council-manager cities differed in several respects. Population and population change generally had less effect in council-manager than in mayor-council communities. The form of government dramatically affected the relationship between population and economic decline on the use of financial incentives. That is to say, population and economic decline led to the use of more financial incentives in mayor-council cities, but these effects were completely absent in council-manager communities. Mayor-council and council-manager cities also diverged with regard to the influence of poverty. In council-manager communities, financial incentives were more likely in the context of population growth, not decline. Moreover, low income levels and economic decline did not stimulate the use of financial incentives.

The proportion of the population below the poverty level was positively related to several development programs in council-manager cities, but not in mayor-council cities. Perhaps development activities are used as an alternative to redistribution in council-manager cities (Tao 2001). Perhaps the most interesting institutional finding to emerge regards strategic plans: The presence of a strategic plan had no effect under mayor-council government, but it influenced several development strategies under council-manager government. The influence of strategic planning on development was in different directions depending on the particular strategy. Strategic plans led to less use of financial incentives, but greater use of loan and business-attraction strategies in council-manager cities. This discriminating effect is consistent with the goals of strategic planning.

Discussion

Our results suggest that the form of government makes an important difference in the choice of policy instrument. In understanding how the institutional reforms of the Progressive movement reduce transaction costs and high-power incentives, we examined the interactive or mediating effect for council-manager government, not its additive effect. The findings demonstrate that government structure mediated the effect of political and economic conditions on development policy. Council-manager government constrains administrative officials' opportunistic behavior by substituting low-power bureaucratic incentives for high-power electoral incentives. The Progressive ideology of the separation of politics and administration, which has been institutionalized in the council-manager plan, allows administrators and elected officers to resist opportunistic behavior.

The form of government interacts with economic forces to shape development policy. While population and median income are more important influences on development policy in mayor-council cities, poverty and owner occupancy are more powerful forces in council-manager communities. It is notable that the divergence between the influence of population and economic decline on development activity in council-manager and in mayor-council communities is greatest for financial incentives. This strategy includes tax-exempt bonds, cash contributions, and deferred tax payments, which are some of the most costly and controversial development programs. Despite their questionable effectiveness, they may be politically advantageous because they provide targeted and visible benefits. In mayor-council cities, the use of financial incentives is strongly linked to declines in population and economic base, yet financial incentives are unaffected by these economic declines in council-manager systems.

This analysis brings new evidence about the role of government institutions in local economic development. The credible constraint of morally hazardous or opportunistic behavior can enhance efficiency in development policy. Our results highlight the value of measuring the specific tools or policy instruments that communities employ to promote economic development, rather than using a measure of aggregate development policy activity.

Our findings also have implications for the role of strategic planning in local government. The influences of strategic planning on development policy were evident in council-manager cities, but not in mayor-council communities, and the direction of the effects of strategic planning depended on the particular strategy. Strategic plans led to lower levels of financial incentives, but more loan and business-attraction policies. This discriminating effect may enhance the rationality of development decision making by facilitating selection among policy strategies and options, as opposed to indiscriminate proliferation of all instruments with development as their goal. Strategic plans constrain development programs and may institutionalize professional-development norms (Kemp 1993). The differences reported here indicate that strategic development plans are more effective in discriminating among development strategies under council-manager systems of government.

Finally, this article has argued that the separation of administration from electoral control enhances efficiency because it removes high-power incentives for executives, reduces transaction costs, and makes commitment more credible for elected officers. If this argument has merit, the city management profession and scholars of local institutions may be too sanguine about the movement toward adapted cities in which council-manager governments alter the architecture of local institutions by adding a directly elected mayor (Frederickson and Johnson 2001).

For several generations, social scientists have bemoaned the fact that reformed institutions are intended to make government less responsive to citizens. This may be one reason for the success of the adapted model; it makes the council-manager form more political. The analysis presented here suggests this may be an unacceptable trade-off if one values efficiency in local government institutions. In the economic development arena, nonreformed cities are more responsive, but the price of responsiveness is high: It results in costly development choices that are largely symbolic and ineffective at the ostensible purpose of creating jobs. In this context, the ICMA's endorsement of adapted city charters is difficult to understand. Perhaps the popular legitimacy of council-manager government has been secured at the price of undercutting the institutional incentives that make this form efficiency enhancing in the first place.

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Notes

1. While more recent survey data are available from ICMA, the surveys conducted in the 1990s had a substantially reduced response rate. Some regional bias has been demonstrated in the ICMA surveys (Fleischmann, Green, and Kwong 1992). Our panel of respondent cities underrepresents the Northeast by 13 percent and overrepresents the West by 7 percent (see Feiock and Kim 2001 for a more detailed description of this data set).
2. Cities that use strategic planning are expected to adopt fewer costly financial incentives than their less discriminating competitors (Flesichmann, Green, and Kwong 1992, 680). However, limited evidence suggests that cities with a strategic plan used more, rather than less, development incentives than cities without one (Flesichmann, Green, and Kwong 1992). Nevertheless, this may indicate that cities with a larger number of incentives in the first place adopt a strategic plan to manage their development efforts, rather than strategic plans encouraging the nondiscriminatory adoption of multiple development instruments. By constraining the range of policy options considered, strategic planning should lead to more rational development decision-making processes. For this reason, we expect strategic plans to encourage the expansion of some development strategies but discourage the use of others, particularly the use of costly financial incentives.
3. We modeled the interactions between the form of government and the independent variables in two ways. First, we estimated our models separately for each form of government to examine differences in the coefficients for each of the independent variables under each form of government. Second, we estimated an unrestricted model for all cities which included interaction terms for the products of council-manager government form and each independent variable in the model. This allowed us to test whether differences in the effects of the political and economic factors under each form of government are statistically significant. A full model that included interaction terms and allowed different slopes for each type of city was compared with the restricted models from column 1, which had the restriction that the slopes for each type of city are equal. The F-test, which compares explained variance in the restricted and unrestricted models, was statistically significant, as were interaction terms for population, population change, poverty, and strategic planning.

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