

INSTITUTIONAL COLLECTIVE ACTION AND ECONOMIC DEVELOPMENT JOINT VENTURE

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Institutional Collective Action and Economic Development Joint Ventures

Economic development is typically characterized by a competitive environment in which communities vie with each other to attract firms and high paying jobs through general development policies or specific incentive packages. Only recently has attention turned to economic development efforts that involve cooperation or collaboration among jurisdictions in a metropolitan area (Steinacker 2003, 2004; Feiock 2004; Gerber and Gibson 2005; Carr and LeRoux 2005; Kreuger 2006). Cooperation among local governments can be viewed as collective action generalized to governmental institutions (Ostrom, Tiebout and Warren 1961; Feiock 2004). The scope of cooperation can be small, as when neighboring jurisdictions enter into a joint venture to share the cost of promotional advertising, or large, as in collaborative efforts to develop an industrial or research park. In each case cooperative actions are expected to arise when potential benefits exceed the transaction costs of negotiating, monitoring, and enforcing an agreement. While potential benefits from cooperation in economic development can be large, the transaction costs tend to be correspondingly high, making economic development one of the toughest cases for institutional collective action (ICA). As in all collective action situations, incentives to free-ride exist, as well as to engage in opportunistic defection from voluntary agreements. Inability to agree on a 'fair' division of the gains from regional economic development, uncertainty about other cities' trustworthiness, and the uneven distribution of costs and benefits over time and across cities are additional reasons cooperation in economic development is a challenge. Given

these problems, it is not surprising that much of the literature assumes that centralization of authority and consolidation of decentralized governmental units is necessary for effective action.

Over thirty years ago Hawkins (1971) argued that economic development does not require consolidation of municipalities. In practice, interlocal agreements for service provision, development, and even redistribution do exist. Gillette (2002:234) documents a number of instances of interlocal agreements, justified by claims that suburbs should subsidize central cities. Parks and Oakerson's (1993) studies of Pittsburgh and St. Louis documented numerous agreements to produce local public goods, including several with suburban commitments to protect the central city's tax base. Summers (2000) found regional cooperation between the central city and its suburbs in each of the 27 metropolitan areas she examined. With the exception of Houston, each area participated in some form of regional tax sharing. More recently, Johnson and Neiman (2004) reported that economic development "joint ventures with other cities" were common. Finally a recent national study of regional partnerships for economic development reports that agreements to share the costs and benefits of promotional activities in a metropolitan area frequently occur (authors, forthcoming).

The question then is why do some local governments engage in cooperative agreements while others do not. To answer this question we outline the transaction problems that present obstacles to interlocal cooperation, including bargaining, information, agency, enforcement, and division problems. We then advance an institutional collective action explanation for horizontal intergovernmental cooperation on economic development, which focuses on the conditions under which these

transactions costs are low. The costs associated with interlocal cooperation are anticipated to be influenced by the demographic characteristics of communities, local political institutions, and the nature of regional government networks. Empirical analysis based on a survey of local development officials demonstrates that city attributes that reduce division, agency, and information costs problems increase the likelihood that cities will cooperate to promote economic development.

Transaction Costs and Cooperation in Economic Development

Voluntary agreements emerge from a political contracting process among local governments facing a collective action problem. According to the Coase Theorem (1960), if transaction costs are sufficiently low, rational parties will achieve a Pareto-efficient outcome through voluntary bargaining. Application of the theorem to intergovernmental relations suggests that under the right conditions local governments can negotiate agreements to capture spillover effects from growth (Ostrom 1990; Weber 1998; Lubell, Schneider, Scholz and Mete 2002). When the actions of one jurisdiction impose costs on others, say through approval of a shopping center that will increase traffic congestion in a neighboring city, compensation could be negotiated for the affected jurisdiction.

Alternatively, when one city's economic development efforts attracts growth to the metropolitan area but not their specific city, say through funding an aggressive marketing campaign, those positive spillovers could also be captured by creating a voluntary marketing cooperative or a tax base sharing arrangement. However, for successful Coasian bargains to be achieved, transaction costs from the following five sources need to be minimized (Inman and Rubinfeld 1997; 2000):

1. Bargaining Costs - there can be at most small resource costs associated with the process of negotiating a deal
2. Information Costs - information on the preferences of all participants over possible outcomes and on their resources must be common knowledge
3. Agency Costs - bargaining agents must perfectly represent the interests of their constituents
4. Division Costs - the parties must agree to a division of the bargaining surplus
5. Enforcement Costs – there can be at most low costs associated with monitoring and enforcing the agreement.

In the area of economic development, the issues of information, agency, and division costs are critical. Information problems include both incomplete information for all participants and differences in information levels across the participants. The incomplete information may prevent governments from recognizing the potential gains from joint action. The information asymmetry may also impede recognition of desirable joint outcomes, and it can increase concerns about the motivations or trustworthiness of potential partners as each seeks to gain a strategic advantage by concealing information (Inman and Rubinfeld 1997). A large number of potential participants in an agreement and spatial distance between them make communication costly and results in information problems that can preclude formation of interlocal agreements.

The government officials that negotiate cooperative agreements are agents for their communities, thus, principal agent problems can complicate the calculus of cooperation. Agency costs arise because the preferences of public officials negotiating interlocal agreements may depart from the preferences of citizens they represent (Feiock

2002). Principals and agents may differ in their preferred outcomes, the timing of the outcomes, or their attitudes toward risk. The greater these differences the less likely that a cooperative agreement acceptable to both can be created. The extent to which agency problems are manifest has been linked to the structure and powers of public offices as well as the political security of those who hold them, because these arrangements influence the value local officials place on cooperative ventures.

Division problems also plague economic development agreements. Even when officials pursue constituent interests with complete information, achieving agreement on the allocation of costs or benefits can be costly. Joint gains may exist that would improve the position of all participants, and yet no agreement will be reached if they cannot settle how to divide the gains. Negotiation of an acceptable distribution of benefits will be affected by asymmetries in preferences and political strengths between actors (Heckathorn and Maser 1987). The greater the heterogeneity of the participants and the more clear-cut which party benefits most, the higher the political opposition to a cooperative solution may be.

The examples of interlocal cooperation described earlier suggest that local governments are sometimes able to overcome these transaction cost barriers to cooperation and craft mutually beneficial accords (Parks and Oakerson 1993; Summers 2000; Gillette 2002). What these examples share is a configuration of community contexts, political institutions, and network relationships that reduced the costs described above. Standard solutions to transaction costs focus on establishment of reputations, repeated interactions among the participants, ability to make credible commitments, compatible incentive structures, and linkage across issues (Heckathorn and Maser 1987;

Dixit 1996; Frant 1996). In cases of local government cooperation, the conditions for these solutions can be found in the demographic and economic characteristics of the community, the structure of local government political institutions, and both the formal and informal network structures in which local actors are embedded.

Joint Gains

The necessary condition for any cooperative agreement is an increase in benefits, and the larger that gain, the more likely it will outweigh the transaction costs necessary to achieve it. The more serious the underlying problem, the larger the aggregate gains from resolving it, and the greater the likelihood of a cooperative arrangement to do so (Libecap 1989; Ostrom 1990; Ostrom, Gardner, and Walker 1994; Lubell, et al. 2002).

Communities experiencing economic or fiscal hardship tend to value any development more highly, leading to greater cooperation with neighbors to secure growth. The opportunity to capture a large scale development, such as a major manufacturing plant, should also generate cooperation with neighboring governments. The substantial benefits from the project signals potential gains for all participants, plus the ability to attract such a business may require resources or the infrastructure capacity from several local governments.

Not all cities value greater economic development. Highly residential suburbs may have little interest in increasing their commercial or industrial base, and therefore little interest in joint ventures with other cities. On the other hand, communities that rely on sales tax revenue may be eager to attract large commercial developments, also with negative effects on cooperation. When cities rely only on property taxes for revenue, the

benefits from a new development will be greatest in the city where it is located, but there are likely to be significant spillover effects in neighboring jurisdictions as well.

Employees live in surrounding communities, driving up their property base. Businesses in neighboring communities may see an increase in demand for their goods or services.

These benefits across the metropolitan area may lead cities to cooperate in attracting new growth even if it is not located within their boundaries. Sales tax revenue, however, reverts only to the jurisdiction where the development is located. The greater concentration of benefits to only the locating jurisdiction may decrease the incentives for cities to collaborate in attracting retail growth when sale tax is an important source of revenue.

Division of the joint gains

Even when the potential for aggregate gains is large, conflict over the distribution of the gains among participants can prevent coming to an agreement. Allocation of the joint gains is affected by the level of asymmetry between players in terms of their preferences and political strengths. The greater the heterogeneity of the participants, the more clear-cut which players win the most, and the higher the political opposition to any cooperative solution may be.

Economic and demographic homogeneity across cities reduces the likelihood of problems with division of the joint gains. Homogeneity across jurisdictions indicates common interests and service preferences, narrowing the range of acceptable outcomes, and making cooperative agreements more probable (Libecap 1989; Hackett 1992; Lubell, et al. 2002). Homogeneity also tends to equalize bargaining power. With large power

differentials, the stronger partner is more likely to push for the bulk of the gains from cooperation. The weaker partner then has little incentive to participate and may walk away from the agreement. If the weaker partner pushes to receive a fraction of the gains disproportionate to their bargaining strength in the mistaken belief that they are critical to the endeavor, no mutually acceptable split of the joint gains may be possible. With similar cities, the 'fair' division of equally splitting the gains becomes the focal point of the negotiations, increasing the probability that a deal acceptable to all can be reached.

Agency Costs

Demographic and economic homogeneity *within* a city is also beneficial in that it reduces agency costs for the government officials negotiating interlocal agreements on behalf of their constituents. Similarity in residents and across land uses provides a clearer signal of the principal's desired outcome and makes the agent's task easier. Battles over development are some of the most contentious issues within cities. To the extent growth issues are a source of political controversy, the government agent will find it difficult to craft a cooperative agreement acceptable to a majority of his or her constituency.

The type of local government institutions can also aggravate the extent of the agency problem, through its impact on the incentives faced by government officials. Both city mayors and managers have incentives to promote interlocal agreements, but differ in their attitudes toward the timing of them (Feiock 2004; McCabe, et al. 2006). The professional standing and career opportunities of city managers are improved by a record of service innovations and efficiency improvements at both the city and regional

levels (Feiock and Clingermayer 2004). Interlocal agreements have the potential to achieve both – improve efficiency in capturing economies of scale or scope and create a reputation for innovative policies. Thurmaier and Wood’s (2002) account of interlocal agreements in the Kansas City metropolitan area highlighted the role of professional administrators. Department directors identified opportunities for cooperation in specific service areas and the city manager, with the chief financial officer or an assistant manager, put the deals together.

Elected officials are expected to be primarily responsive to their current constituencies, but they also may be interested in election or appointment to regional or statewide office in the future. Local elected officials with ambition for higher office may utilize intergovernmental relations to promote themselves to a larger constituency. Alternatively, intergovernmental cooperation can reflect incumbents’ efforts to protect themselves from electoral threats (Stein, Post and Bickers 2006). Elected officials can also seek advancement within their political party or employment in the private sector after their term of office is complete. These forms of career advancement may be furthered by efforts to promote regional interests through development of interlocal agreements (Gillette 2000).

The primary differences between the two types of local executives come from their time horizons and related level of risk aversion. Elected officials are directly accountable to city residents every two or four years, providing a shorter time horizon in which to establish a record of accomplishment. This shorter horizon may lead to more risk adverse behavior, where the need to finalize an advantageous agreement soon will lead the mayor to make greater compromises with other participants than if he could

afford to prolong the negotiations (Steinacker 2002). The mayor-council form of government has been linked to greater risk aversion in policy choices and differences in preferred economic development policies (Clingermayer and Feiock 2001; Feiock, Jeong, and Kim 2003). Both the shorter time horizon and greater risk aversion suggests that mayors will be more likely to commit to cooperative agreements than city managers.

The city council is not expected to play as direct a role in formulation of interlocal agreements, but they do function as 'veto players' in the political system (Tsebelis 2002). Their approval typically is necessary to ratify these arrangements. Situations that involve multiple agents (in this case the chief executive and city council) have higher agency costs as each jockey to create a contract that is more advantageous to themselves while still acceptable to the principal (Dixit 1996). A council elected at-large is more likely to share the preferences of the executive, while district councils will be advocates for their subsection of the city. District interests may not be compatible with city interests – e.g. the district slated for a new Wal-Mart or auto dealership with attendant traffic congestion may oppose the development while the rest of the city strongly supports it. District city councils may be less willing to approve interlocal development agreements as they lose influence in the siting of projects and mitigation of development costs.

Information Costs

Finally, high information costs may reduce the possibilities of cooperative action among local government. Proximity to other jurisdictions plus the pattern of network interactions can act to reduce these costs. Governments in proximity, especially those with common borders, must deal with each other on a variety of issues over long periods

of time, providing extensive information about the participants. These repeated interactions also occur across policy and administrative issues presenting opportunities to link issues in ways that increase cooperation.

Two common hindrances to cooperative agreements are differences in the temporal distribution of costs and benefits and the nontransferability of costs or the asset specificity problem (Williamson 1985; Heckathorn and Maser 1987). Typical solutions to these problems involve ability to make credible commitments over time, so that a city which pays more for economic development efforts initially, with the anticipation that benefits will be delivered later, does not need to worry that the other participants to the agreement will defect when it is their turn to absorb costs. For example, under a tax sharing plan the initial winners of new development must give up some of the tax revenue to their partners, with the expectation that these partners will not withdraw from the arrangement if they succeed in attracting a very large development in the future. If the increase in tax base from this project is sufficiently large, it could provide an incentive for defection with the city keeping the entire gain and foregoing future benefits from development in other cities. Asset specificity issues arise if the development policy involves a substantial infrastructure investment. Initial investment on upgrading roads or water treatment capacity may fall on a single local government; once the asset has been built, other cities have an incentive to demand renegotiation of their contribution to repayment of the costs.

The prospect of future interactions with the same cities enforced by their geographic immobility constrains these types of opportunism, making it in the interest of each government to cooperate with other neighbors who cooperate (Feiock 2002). These

linked fortunes may lead to explicit partnerships around dual issues – extension of the water treatment system linked to tax base sharing – so the early winners on one issue would be the early contributors on another. Net gains at each stage could be made more equal, minimizing the harm to any participant of future defection by another. Proximity to many other cities would increase the opportunities to create these linked partnerships and would highlight the interrelated nature of city and suburban futures (Savitch et al. 1993; Voith 1998; Stein and Post 2000).

The existing structure of formal and informal agreements among local governments also can increase the likelihood of future cooperative action by reducing information costs. Networks add information beyond that in conveyed in a simple dyadic relationship between local government units. If each unit also participates in other agreements with other local governments, the ensuing series of dyadic relations evolves into a regional network. Over time these embedded relationships capture each participant's reputation for reliability and competency (Gulati and Gargiulo 1999).

Three aspects of network relationships are considered important in increasing cooperative efforts among participants. One is the role of strong ties which can lead to relational embeddedness (Granovetter 1973; Gulati and Gargiulo 1999). We expect that cities with more strong ties, as indicated by frequent contacts with the other participants, will be more likely to enter into additional collaborative relationships with both new and existing partners. As the network becomes more tightly clustered with many players interacting extensively with each other, the credibility of commitments among network members is enhanced (Scholz, Feiock, and Ahn 2005).

The second characteristic of the network structure is the extent to which there is a “star” configuration in which only a few central actors have many connections with other actors (Freeman 1979; Gulati and Gargiulo 1999). Cities may develop these central positions because they have a special interest in managing the network and creating collaborative outcomes, typically because they gain disproportionate benefits from the network (Meier and O’Toole 2001; Provan and Milward 1991; Thurmaier and Wood 2002). Given the high levels of uncertainty in economic development, the problem for cities is to find a good partner with which to pursue development projects. One option is to join with a “star” or well connected government (Scholz et al., 2005; Berardo and Scholz 2006). Cities may feel more secure in accepting the risks inherent in joint ventures when they see that many organizations have relationships with their potential partner. Each relationship suggests that the participants found the core government to be a credible partner, increasing the strength of that government’s reputation. The well-connected government also has access a large network of actors that can provide information, resources, and technologies critical to economic development. The value of these connections is even greater if the actor has a brokerage position in the network as the “star” player does (Burt, 2005).

Finally, network analysis has suggested that while direct interactions between participants may provide the most reliable data on a potential future partner, indirect ties fostered through common associations also provide valuable information (Granovetter 1985; Walker, Kogot, and Shan 1997). Membership in a regional organization may increase information about a larger number of potential partners beyond those with whom the city already has established a working relationship. The reputation of unknown city

officials can be vouchsafed for by other members of the organization, while city officials gain some direct knowledge of the individuals themselves through organizational functions. These weaker ties, due to more limited contact, extend to a much larger group of potential partners, increasing the likelihood of finding appropriate partners for joint ventures.

Research Design and Analysis

To examine the influence of transaction costs on the choice to participate in a joint economic development venture with another government, we employed data from a nationwide mail survey of city governmental officials responsible for economic development activities. In fall of 2004 questionnaires were mailed to the lead development official in the 522 U.S. cities with populations over 50,000 in 1990. Responses were received from 252 cities, a response rate of 48.4%. Data on political system characteristics were collected from the ICMA Form of Government surveys, data in various volumes of the ICMA Municipal Year Book, and municipal web pages. Calls were also made to city clerks if data were not available electronically. Community demographics were gathered from the 2000 Census of Population, online Census data reports, and data extracted from the Lewis Mumford Center online archive. Land area and geographic data were collected from the city-data.com website. The sample of survey respondents is generally representative of all cities with populations over 50,000, although cities with mayor council governments and very large populations are somewhat under-represented.

Dependent Variable

Joint ventures with another local government(s) provide a novel measure of voluntary interlocal cooperation that involves critical levels of exchange, sharing, or co-development and can result in an enduring commitment between partners (Feiock 2004). The dependent variable is measured by a survey question asking whether the respondent's local government "*has engaged in joint ventures with other cities to encourage development.*" Seventy-two of the 252 respondent cities (28.3%) engaged in one or more of these joint ventures. Table One reports summary statistics for the model variables and a comparison of these statistics for both cities participating and not participating in joint ventures.

Table One here

Independent Variables – Joint Gains

The transaction cost perspective on intergovernmental agreements maintains that cooperation will only occur when the benefits to an agreement outweigh the costs of achieving it. The greater the potential benefits from a joint development venture the more likely this benefit/cost ratio will exceed one. As argued previously, a city is likely to value any development more if it is suffering from economic or fiscal stress. It then is more willing more likely to enter into interlocal agreements as a development strategy and be willing to take a smaller proportion of the joint gains. Economic stress was measured by city officials' assessment of the level of economic growth over the last three years across seven economic sectors¹. Perception of growth captures the government officials' view of whether their city is struggling or prospering. With a high level of growth a city may feel less pressure to obtain new development, and in negotiations with

other cities it could use this advantaged position to demand a large split of any joint gains. If growing cities value economic development less at the margin and demand greater concessions from partners, then we would expect these cities to participate in fewer cooperative agreements.

Two other measures were used to capture a city's preference for economic development. First, a dummy variable was created to indicate if the city's current land use was predominantly residential (over 50%) or not. Residential communities were assumed to have less interest in attracting commercial or industrial growth and therefore less need for and involvement in cooperative ventures with other cities. More directly, cities were asked to rate the priority of five targeted areas in their economic development strategies: commercial/retail, office/business services, wholesale, manufacturing, and mixed use. Each was rated one to five, with higher values indicated higher priority. Values across the five targets were summed to indicate the emphasis place on development other than possible residential growth. Cities with higher scores placed greater emphasis on economic development and therefore were potentially more open to joint ventures that would help them achieve these goals.

Cities were also asked the size of the businesses that were the primary target of the city's economic development policies, with a range from 'under 20 employees' to 'over 200 employees.' Efforts to attract larger businesses are more likely to require multiple partners to provide necessary services, plus such establishments provide larger benefits to all involved. Cities that target larger firms were expected to participate in more joint ventures.

Information on the city's tax structure was also used to assess likely benefits from cooperation where sales tax revenue could be important. A dummy variable identifies cities that have access to a sales tax add-on. Cities that can use only the property tax are expected to cooperate at a greater rate because the economic benefits from new growth may spread across many communities in the metropolitan area. Those that also rely on sales tax revenue are expected to cooperate less as the value of new retail development is concentrated only in the city where the development is located. Joint gains from development under the latter system would be less.

Independent Variables -- Division of gains

Conflict over division of the joint gains is expected to be greater whenever one of the participants has a stronger bargaining position than the others. This situation leads to demands for very unequal divisions, suggesting the other parties do not gain enough to overcome their transaction costs or they walk away because they feel the outcome is 'unfair'. Population size was used as a proxy for bargaining power. Larger cities would be more likely to demand a greater share of any benefits from a joint venture, increasing the division problem and lowering the likelihood that these cities would participate in interlocal agreements. Because the impact of population was not expected to be linear, city size was measured by with a series of dummy variables: less than 100,000 population; between 100,000 and 175,000; between 175,000 and 250,000; and greater than 250,000. The smallest category was omitted from the estimation. Larger values of city size were expected to be negatively related to the dependent variable.

Heterogeneity across cities was also expected to reduce the prospects for cooperation. A city that has a very different economic or demographic composition than others in its region may find it has few common interests to pursue with them. Moreover, these differences may lead to greater disagreement over division of any joint benefits. Two variables were used to capture a city's difference from other locations in its metropolitan area: the absolute value of the difference between the city median household income and the MSA household income and the absolute value of the difference between the city percentage non-Hispanic white and the MSA percentage. The larger these values, the more different a city is from its neighbors, and therefore the less likely it is to form cooperative agreements.

Independent Variables -- Agency Costs

Agency costs arise from differences in perspective between the principals (city residents) and their agent (the mayor/manager). The probability of agency costs hindering joint ventures is greater when the city population or land uses are more heterogeneous, so it is harder for the agent to represent all interests, when economic development is a politically contentious issue in the city, and when the political structure is a manager system with a larger percentage of council seats elected by district, reflecting agency distortions from the election imperative.

Population heterogeneity was measured by the percentage non-Hispanic white in the city. This measure captures the level of the majority demographic group, with the expectation that similar racial composition suggests similar preferences and minimizes political conflict. Higher values suggest less diversity in the population and, hence,

fewer problems for the agent in representing resident interests. Racial homogeneity should be positively associated with use of cooperative agreements. Economic divisions were measured by the ratio of the city's mean household income to the median household income. The more skewed the income distribution, indicating greater disparities, the higher the mean value tends to be in relation to the median. Greater economic heterogeneity should have a negative relationship with the dependent variable.

One final source of diversity within a city is the difference between residential and businesses interests. This was measured by calculation of a land dissimilarity index based on data from a survey question on current land use. Following the general dissimilarity index formula this value was: the square root of $(1 - \text{the proportion of land in residential use}^2 - \text{the proportion in manufacturing use}^2 - \text{the proportion in commercial use}^2 - \text{the proportion in office use}^2 - \text{the proportion in other use}^2)$. Higher values occur with a more equal distribution across the categories, indicating more diverse land uses. This is expected to create greater tension in future economic development decisions among these different business and residential interests, and decreasing the ability of the agent to negotiate an interlocal agreement that would be acceptable to a majority of his constituency.

The economic development survey also asked about the level of agreement on development issues within the city, asking respondents to rate "*how often are economic development issues controversial in your community,*" on a four-point scale from 'never' to 'always.' Agency problems would be greater when these issues are controversial, making it less likely that the executive could craft an acceptable joint venture agreement.

Mayors are subject to greater agency problems, primarily due to reelection concerns. Electoral demands subject mayors to a shorter time horizon to satisfy their constituents and greater risk aversion in failing to do so. They prefer to commit to a cooperative venture, even if they have to give up more of the joint gains, rather than risk losing the opportunity to demonstrate their ability to get things done.

At-large elected council members are expected to be in greater accord with the chief executive's preferences and approve joint ventures, while district council members may oppose these agreements because they lose control over development projects and ability to protect their districts' interests (Gerber and Clark 2005). City political institutions are measured by the form of municipal government (mayor-council or not) and the percentage of city council seats that are elected by district, with the former expected to have a positive relationship with joint ventures and the latter a negative relationship.

Independent Variables -- Information Costs

Information costs about local governments are shaped by two factors – physical proximity and networks connections. A city is likely to have more and better information about its neighboring communities, increasing trust among them and enhancing reputational effects. With a larger number of close neighbors, there is a larger pool of known potential partners available for a joint venture. The number of neighboring communities for a city was measured by the number of cities with which it shares a border and the number of cities located within ten miles of the original community with

only unincorporated territory between them. This variable is expected to have a positive impact on the probability of joint ventures.

The network structure of interlocal relations is also critical to the information available to potential partners in a joint venture. Greater information on past behavior in other interlocal agreements establishes a credible reputation for the likelihood of future cooperation rather than opportunistic defection. We examine relationships between three types of network linkages and joint ventures with other local governments, all expected to increase the probability of collaborative undertakings. First are strong-tie links with other city governments. Frequent contacts with development officials in other cities helps establish the reputation of particular individuals and information on the needs of their cities, thereby increasing the probability of new cooperative agreements. We measured these networks based on responses to a survey question that inquired about “*the frequency of interaction your local government has with officials/agencies in other cities regarding economic development.*” Interaction frequency is measured on a 5- point scale ranging from ‘no contact’ to ‘weekly or more frequent’ contact. This measure differs from those used in the existing literature because it captures the strength, not just the presence, of these linkages.

Second, we measure the existence of star, or central actor, in the network structure. Greater centrality increases the level of information about that government and its visibility in the network, leading to greater likelihood of additional ventures with other governments (Berardo and Scholz 2006). The survey asked cities to identify which groups they dealt with on economic development issues from a list of 18 organizational actors. The variable is the count of the number of groups identified.² Higher values

indicate the extent to which a city holds a central or star position in the network structure and are expected to be positively related to the probability of engaging in joint ventures.

The third network measure is of weak-tie associational relationships. Weak tie networks emphasize relationships across actors in different groups rather than the intensity of connections within a specific group. They are expected to increase the probability of future cooperation among governments that were not a part of the same group of actors with strong ties in the past. Weak ties in this case were evaluated by participation in a regional economic development partnership or council. Participation in the council provides the opportunity to interact with other members, gathering information about common needs and the reputation of other development officials. The pool of potential joint venture partners is increased significantly, while concerns about partner reliability are diminished through the indirect information provided by other members.

Results

We estimate the influence of the potential for joint gains and the various transaction costs on a city's propensity to engage in joint economic development ventures using a maximum-likelihood probit estimator, with Huber/White/Sandwich variance estimates to acquire robust standard errors. Overall fit of the model was good with 81% of the cases correctly predicted and pseudo- R^2 of .60.

Table Two Here

The results reported in Table Two show strong support for the transaction costs model in explaining the likelihood of interlocal cooperation. Three of the variables indicating potential for joint gains were statistically significant at a 95% confidence level.

Cities that placed a high priority on multiple types of development and that targeted larger businesses were more likely to participate in joint ventures. Suburbs that had more than 50 percent of their land in residential use were less likely to participate. All three suggest that when a city sees economic development as critical, it is more likely to pursue any effort to attract growth, including engaging in cooperative ventures that may require sharing some of the benefits of that growth.

Perceptions of economic stress did not have an effect on joint venture behavior. The expectation was that cities where government officials saw stagnant or declining growth would value more highly the gain from any activity that could increase development, including joint ventures with other governments. One possible reason for this variable's insignificance may be the timing of the economic stress measured by the survey. Cities are expected to initiate joint ventures in response to perceptions of current stress, but these ventures then continue for some time into the future. The level of joint venture activity at any point in time may reflect the cumulative actions taken during earlier periods of economic stress, rather than reflecting a response to just the recent condition. The result would be that the current level joint venture activity may be unrelated to current economic stress.

Reliance on sales tax revenue also did not have an effect. The expectation was that cities which relied on sales tax revenue would be more competitive because only the city that won the retail development would capture the tax benefits. There are several reasons the sales tax disincentive may not have been effective. Property tax revenue may still be such a larger percentage of the revenue even in more diverse tax systems that the value of cooperation on some projects outweighs the potential gains from competition at

the retail level. The nature of the joint ventures in these cities may also simply shift to only those projects that would produce spillover benefits, leaving retail development to the individual cities. The level of cooperation does not change, only its form.

The results also illustrate the importance of reducing transaction costs from division, agency, and information problems. The division problem was captured by the measures of economic and racial differences across cities in their metropolitan areas and city size. The greater the difference between the city's median income and that of the rest of its potential partners (Regional Economic Heterogeneity) the less likely that the city would form a joint partnership with any of them. Differences in racial composition did not significantly decrease cooperative efforts. Given the focus on economic development, the fact that financial differences, but not racial ones, were significant is plausible. Joint economic development agreements can affect the tax base or cost sharing on projects – issues on which common economic preferences are critical. Greater economic differences across cities suggest fewer common interests around which to cooperate and greater difficulty in coming to agreement on allocation of the joint gains from cooperation – leading to a decreased probability of joint ventures. Population size also was not significant. The expectation was that larger cities would be less likely to participate in joint ventures because they would be the dominant partner and demand more of the benefits. Small or moderate cities would be more likely to prefer collaboration with others of their same size. Apparently, city size does not have this effect on bargaining power over economic development.

Transaction costs arising from principal-agent differences were expected to be lower when the city population and land uses were more homogenous, when

development was not a contentious issue, and under a mayoral system with a city council predominantly elected at-large. Racial diversity did not have an impact, consistent with the finding that race was not a cross-cutting division at the regional level either.

Economic factors again appear to be more important. Greater variance in income across residents appears to decrease the likelihood of the city crafting an acceptable joint venture, although the effect is only significant at the 90% confidence level.

Heterogeneity in land use, also reflecting diversity in economic interests, has an even stronger negative effect on the prospects for collaborative ventures. This pattern suggests that the greater the divisions among groups related to economic issues the harder it is for the city representative to negotiate an intergovernmental agreement acceptable to this range of constituents. The specific survey question on the level of controversy surrounding economic development did not have a significant effect, but it is likely that the divisions above captured much of that same variance.

Government institutions also had the significant effects on the probability of collaborative outcomes. Both variables reflect the strength and nature of the bargaining position of the city's chief executive. Mayors were significantly more likely to pursue joint ventures, corresponding to the idea that their short electoral time horizons drive them to establish a record of doing something. District city councils have the potential to undercut these development efforts. District-based representation had the expected negative effect, with council members who represent more parochial rather than citywide interests able to successfully stymie pursuit of joint ventures.

Finally, lower information costs appear to increase the likelihood of cooperation among cities. The number of neighboring cities had a positive effect on the probability of

participating in a joint venture. This variable represents the size of the opportunity set for a city – the cities where geographic proximity forces repeated interaction among the players over a variety of issues and generates sufficient reputational information to establish trustworthiness. As that opportunity set increases, the likelihood of joint ventures increases as well.

Network structure also plays an important role in interlocal cooperation. Both strong tie network relationships indicated by frequent contacts with other cities and weak tie associational links had the predicted positive influence on formation of joint ventures. Interestingly, cities with a more central network position, as indicated by connections to more economic development actors, were not more likely to engage in joint economic development ventures.

One possible reason may be that these are also the largest, most powerful cities in their metropolitan areas³. They have less need to engage in joint ventures, and therefore, would demand the greatest share of joint gains from the endeavor. While their central position may enhance their desirability as a partner by reducing the uncertainty of other cities about working with them, their larger size also decreases the likelihood of the other cities capturing any significant benefit from the interaction. In addition, if some level of competition across cities in a region still exists, the smaller players may fear that partnering with the dominant government will change the relative balance of power too much. The dominant government demands most of the benefits, leaving other participants only slightly better off in absolute terms and worse off in relative terms. The smaller cities may prefer joint ventures with those more similar to themselves, where gains are evenly distributed so relative positions among the collaborators do not change,

but the joint venture strengthens their collective position *vis a vis* the central player. The result would be that the central player is a partner in few joint ventures.

This pattern of results is highly suggestive that the transaction costs framework is useful in explaining the occurrence of cooperative intergovernmental behavior. Cities that placed a greater value on the gains from economic development were more likely to engage in intergovernmental ventures to help achieve those gains. High division costs as seen by greater economic heterogeneity across cities decreased cooperative outcomes. Economic divisions within the city aggravated principal-agent issues, while the political incentives of the agents -- both mayor and council members -- affected use of cooperative economic development policy in the expected way. Network connections and proximity to multiple potential partners, expected to reduce information costs and strengthen the credibility of participant reputations, did improve the chances of cooperation across cities.

Conclusion

The empirical findings reported here confirm the utility of the institutional collective action framework for studying cooperation in fragmented metropolitan areas. Despite the strong emphasis on competitive relationships among local governments in the extant literature, substantial levels of cooperation also exist. The critical question is under what conditions will cooperation emerge. By focusing attention on the transaction costs of interlocal cooperation, ICA provides a coherent explanatory model for cooperation behavior and identifies policy variables that may increase the prospects for cooperation, specifically the development of informal policy networks.

While transaction costs could be reduced through movement to a consolidated form of regional government, comparable to the benefits from vertical integration in industries (Dixit 1996), they also can be reduced by political and informal arrangements that structure organizational interactions in a metropolitan area. The results reported here suggest that interlocal cooperation is a viable outcome in some metropolitan areas, providing a feasible alternative to consolidation of government units as a method to achieve policy coordination across locales.

We found that certain city attributes expected to reduce problems with division, agency, and information costs are linked to interlocal cooperation to promote economic development. Having more direct neighbors creates interdependencies that safeguard cooperative action and provide a larger opportunity set of reliable partners from which to develop new ventures. Economic homogeneity among cities places them in similar bargaining positions and makes an even split of costs a workable solution to bargaining problems. Greater internal homogeneity of preferences for economic development also reduces the principal-agent conflict with a city's chief executive, enabling him to use a wider range of economic development activities. Finally, political incentives of the multiple agents in the city affected the prospects of cooperative ventures. The mayoral form of government provides incentives to pursue innovative policies such as greater interlocal cooperation, while district council members with different development goals have been successful at limiting the use of joint ventures.

These factors suggest where cooperative endeavors are most likely to spring up, but they provide few levers to increase the likelihood of those activities. Network activity may offer the greatest opportunities for change. Both strong tie networks with

frequent interaction among cities and weak tie associational networks that involve only minimal participation were associated with greater use of interlocal partnerships.

Structuring occasions for local government and other organization officials to interact can help build the networks and related social capital that lead to cooperative solutions to metropolitan problems. In particular, the finding that even weak tie membership in a regional association enhances the likelihood of partnership activity is a positive sign, suggesting that development of informal structures may be effective in generating cooperative benefits in the future.

Much network research has focused on relationships between actors to the neglect of actor attributes. Work on networks derived from the sociological tradition in particular focuses on the structure of ties in which actors are embedded and directs attention away from the attributes of actors that shape their interest in cooperation. We argue that both the attributes of actors and relations among them need to be accounted for in explanations of how and why they decide to cooperate with others. The empirical results demonstrate both characteristics of a city and their position in a social network of local actors influence the likelihood of joint ventures. These findings suggest that interlocal cooperation among local governments provides a realistic alternative mechanism to address policy externalities. Even in competitive policy arenas like economic development, voluntary agreements can emerge from a dynamic political contracting process among local government units.

Future work that maps the structure of networks among local governments in a few metropolitan areas will help us tease out the empirical implications of the ICA model

and enhance our understanding of the potential and limitations of policy cooperation in polycentric metropolitan areas.

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ENDNOTES

1. An index of overall economic growth was constructed by summing survey responses regarding growth levels in the last three years across five sectors: commercial/retail, office/business service, wholesale, manufacturing/industrial and residential.
2. This is the sum of interactions with 18 types of groups or agencies; regional planning commission/MPO, chamber of commerce, council of government, local public-private development organization, county/regional public-private development organization, private consultants, neighborhood associations, citizen advisory group, university/college, community college/technical institute, religious organization, private lending institutions, real estate or property developers, utility companies, officials/agencies in other cities, county government officials/agencies, state government officials/agencies, and federal government officials/agencies.
3. Since it is population relative to the rest of the cities in the MSA, this would still be consistent with the finding that absolute population size was not significant.

Table 1. Summary of statistics

	<i>N</i>	<i>Mean</i>	<i>Min</i>	<i>Max</i>	<i>SD</i>
Joint Venture	254	.2835	0	1	.4515
Strong-Tie City Network (frequency of city interactions)	JV=0:182	3.357	1	5	1.076
	JV=1: 72	3.916	1	5	.8999
	Total :254	3.515	1	5	1.058
Degree Centrality of Economic Development Ties: (star network)	JV=0:182	15.5	2	18	.2497
	JV=1: 72	15.8	2	18	.2412
	Total :254	15.6	2	18	.2471
Loose-Tie Associational Network (Membership in Regional Partnership or Council)	JV=0:182	.6923	0	0	.4628
	JV=1: 72	.9166	1	1	.2783
	Total :254	.7559	0	1	.4303
Number of Neighbor Cities	JV=0:182	5.796	0	12	2.565
	JV=1: 72	6.888	2	11	2.139
	Total :254	6.106	0	12	2.497
Form of Government (Mayor Council)	JV=0:182	.2252	0	0	.4189
	JV=1: 72	.4444	1	1	.5003
	Total :254	.2874	0	1	.4534
District Representation (% of seat that are elected by district)	JV=0:182	.4317	0	1	.4313
	JV=1: 72	.4224	0	1	.4004
	Total :254	.4290	0	1	.4228
City racial Homogeneity (% non-Hispanic white)	JV=0:182	59.79	2.7	96.76	23.62
	JV=1: 72	65.02	12.14	94.68	18.88
	Total :254	61.27	2.7	96.76	22.47
City economic heterogeneity (median city household income / mean city household income)	JV=0:182	.7871	.62	.91	.0645
	JV=1: 72	.7741	.59	.90	.0683
	Total :254	.7834	.59	.91	.0657
Economic development controversy	JV=0:182	2.038	1	4	.6162
	JV=1: 72	1.986	1	4	.5689
	Total :254	2.023	1	4	.6025
Land use heterogeneity (Land use dissimilarity index)	JV=0:182	.8054	.3388	.9989	.1167
	JV=1: 72	.7442	.3256	.9572	.1442
	Total :254	.7877	.3256	.9989	.1290.
Perceived Economic Growth	JV=0:182	11.85	2	21	3.916
	JV=1: 72	11.99	2	23	4.548
	Total :254	11.86	2	23	4.096
Size of Business Targeted	JV=0:182	2.510	1	5	1.159
	JV=1: 72	3.194	0	5	1.229
	Total :254	2.704	0	5	1.217
Land Use difference (% residential > 50%)	JV=0:182	.5550	0	1	.4983
	JV=1: 72	.3750	0	1	.4875
	Total :254	.5039	0	1	.5009
Tax Structure (0/1 State permits local sales tax)	JV=0:182	.4175	0	1	.4945
	JV=1: 72	.3888	0	1	.4909
	Total :254	.4094	0	1	.4927
Pro Business development policy	JV=0:182	17.03	4	25	3.911
	JV=1: 72	17.83	7	25	3.749
	Total :254	17.25	4	25	3.875
Population	JV=0:182	128591	50278	656562	107532
	JV=1: 72	150392	51466	1223400	195461
	Total :254	134771	50278	1223400	138170
Regional economic heterogeneity [MSA median income – city median income]	JV=0:182	7558	20	31490	6460
	JV=1: 72	7819	112	37091	7174
	Total :254	7632	20	37091	6657
Regional racial heterogeneity [MSA % non-Hispanic white – city % non-Hispanic white]	JV=0:182	13.99	.14	51.65	10.21
	JV=1: 72	12.67	.15	48.56	10.69
	Total :254	13.62	.14	51.65	10.34

Table 2 Probit Estimates of City Participation in Joint Economic Development Ventures with other Governments

	<i>Independent Variables</i>	<i>Co-efficient</i>	T-value
INFORMATION VARIABLES	Strong-Tie City Network (frequency of city interactions)	.3411**	3.01
	Degree Centrality of Economic Development Ties: (star network)	-.0269	-0.60
	Loose-Tie Associational Network (Membership in Regional Partnership or Council)	1.0570**	3.34
	Number of Neighbor Cities	.1648**	3.46
AGENCY VARIABLES	Form of Government (Mayor Council)	.5754*	2.42
	District Representation (% of seat that are elected by district)	-.7159*	-2.53
	City racial Homogeneity (% non-Hispanic white)	.0075	1.34
	City economic heterogeneity (median city household income / mean city household income)	-2.5499	-1.69
	Economic development controversy	-.1355	-0.74
	Land use heterogeneity (Land use dissimilarity index)	-4.0111**	-3.26
JOINT GAINS VARIABLES (Perceived & Actual)	Perceived Economic Growth	-.0055	-0.18
	Size of Business Targeted	.3275**	3.51
	Land Use difference (% residential > 50%)	-.4252*	-1.97
	Tax Structure (1= State permits local sales tax)	.0746	0.32
	Pro Business development policy	.0709*	1.97
DIVISION VARIABLES	City Population	.2957	0.63
	Population 100,000 – 175,000 (= 1, dummy variable)	-.1732	-0.47
	Population 175,000 – 250,000 (= 1 dummy variable)	-.3451	-0.56
	Population over 250,000 (= 1 dummy variable)	.5555	0.60
	Regional economic heterogeneity [MSA median income – city median income]	.00003*	-1.96
	Regional racial heterogeneity [MSA % non-Hispanic white – city % non-Hispanic white]	.0011	0.10
	Constant		
		Number of observations	254
	LR chi2(18)	96.35	
	Prob > chi²	0.0000	
	McKelvey & Zavoina's R²	0.602	
	% predicted	81%	

** $p < .01$, * $p < .05$ T-statistics reported in parentheses