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What Works in Economic Development Practice? An Evaluation of Strategies & Tools

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WHAT WORKS IN ECONOMIC DEVELOPMENT PRACTICE?

AN EVALUATION OF STRATEGIES AND TOOLS

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INTRODUCTION

What Works in Economic Development reviews evaluation literature relevant to economic development strategies. While economic development programs are difficult to evaluate, the literature reveals important information about the level of success achieved by various programs. It also demonstrates how positive results can be realized. A "what works" matrix follows the review of the evaluation studies. The matrix highlights the significant findings and key lessons that can be learned from this work.

In determining "what works" in economic development, a number of factors must be considered. First and foremost, what are the criteria by which economic development programs are to be judged? Is the goal to reveal whether the program has been implemented as intended or is the goal to assess the impact of the program?

An important distinction has been made between process evaluations and impact evaluations. Process evaluations focus on how a program is delivered; impact evaluations focus on program results (Bartik & Bingham 1997). The vast majority of economic development evaluations examine process. While they can be useful in helping to avoid problems in program implementation, they offer little in the way of measuring program success.

The tendency toward process evaluations largely springs from the difficulty of conducting impact evaluations. Establishing appropriate measures can be difficult in an evaluation, but may be particularly challenging when assessing the effectiveness of economic development programs.

To determine program effectiveness requires the ability to distinguish between changes due to the program and those due to factors unrelated to the program (Bartik and Bingham 1997). Establishing causal links is clearly a difficult task. It is also impossible to determine what might have occurred had the program not been initiated. Furthermore, it may be difficult to determine the appropriate time frame or geographic scope at which to assess the program.

The results of many economic development programs may not be immediately apparent. At what point should program effectiveness be assessed? Geography offers a similar dilemma. For example, should a work force development strategy be assessed according to its impact on regional labor force patterns or in terms of its ability to affect the distribution of employment within the region?

The goals of the program must always be kept in mind. According to Bartik and Bingham, "most economic development programs are so small relative to the community, any impact will be difficult to detect, but the impact may be large relative to the size of the program" (Bartik & Bingham 1997).

Some evaluators have focused on cost-benefit analyses to determine program effectiveness. Cost-benefit analysis is intended to show whether program benefits outweigh the costs of delivering the program. The advantage of this approach is that it addresses the issue of efficiency. The fact that program goals have been met does not necessarily mean the program was worthwhile.

Whether the project accomplished what leaders wanted it to accomplish, even if it did not make money (Pagano & Bowman), is often the measure of success. Cost benefit does not escape the problems of outcome evaluations, however. Evaluators must apply a monetary value to program benefits in order to conduct such an analysis. As if this were not a great enough challenge, determining program costs is also not a straightforward task. Cost to whom and benefit to whom?

In response to some of these issues, researchers have begun exploring the usefulness of new methods of evaluation being developed in other academic fields, such as the theory of change approach. The theory of change, which has attracted a great deal of attention, was first developed in an effort to establish better ways of assessing comprehensive community initiatives. It has been defined as "a systematic and cumulative study of the links between activities, outcomes and contexts of the initiative" (Connell & Kubish 1998).

This requires determining the intended outcomes, the activities implemented to achieve those outcomes, and the contextual factors that may have an effect on those activities and their ability to achieve the outcomes. The theory of change approach is appealing to some in the field of economic development because economic development programs share some of the same complexities as comprehensive community initiatives. While the approach does not totally eliminate the problems associated with establishing causal arguments, it is believed to reduce these problems by stating up front how activities are expected to lead to long-term outcomes.

Evaluation of economic development programs is still fairly limited. In addition to the methodological issues, political issues are involved. There is often fear that negative findings will have political consequences for those who have supported funding for the program. Economic development is practiced in a politically charged atmosphere with limited resources, a situation that can discourage honest evaluation.

When reviewing the findings of program evaluations, it is important to keep in mind the issues described above. However, another caution is worthy of mention. While program evaluation is important to understanding the value of different economic development practices, it is essential to remember the role of local context. What works in one area may not work in another. Each economic region has its own opportunities and its own constraints. This should always be kept in mind when assessing or developing economic development strategies.

CHAPTER ONE: LAND

Revitalizing commercial districts or identifying development opportunities for vacant or underutilized land has been a key strategy for fostering economic growth. Real estate development projects often require significant financial resources and have long-term impact on the physical development of a region. This underscores the importance of understanding the effectiveness of property development strategies in enhancing regional wealth. The following section provides an overview of evaluation studies that focus on economic development strategies intended to affect land markets.

MARKET-RATE HOUSING

Simons and Sharkey (1997) have analyzed subsidizing new inner city housing in Cleveland, Ohio. The subsidy programs support both affordable and market-rate housing. The researchers focus on the fiscal costs and benefits to the city and assess the effectiveness of subsidy programs by examining 10 new housing projects started between 1990 and 1993. Costs include expenses for preparing lots, making infrastructure improvements, granting property tax abatements and offering financial incentives to facilitate purchase. Benefits include increased property taxes (in the long run), indirect property tax increases from neighboring properties, income tax revenue from new residents and income tax from construction jobs.

In their sample, they found an overall cost-benefit ratio of 2:1. While this suggests that housing subsidies are not economically efficient, the authors recognize that the cost-benefit ratio excludes many important non-quantifiable or intangible benefits (e.g., benefits of homeownership to residents and neighbors, removal of blight), as well as positive effects on neighboring jurisdictions.

While the level of support extended by the city did not appear to be sustainable in the long run, the subsidy programs did appear to succeed in generating new housing starts, which was the desired outcome. The researchers argue that the cost-benefit ratio of new construction should be compared with that of older housing unit rehabilitation to determine which approach is more efficient.

However, they acknowledge that the political benefits of rehabilitation often do not match those associated with new construction. They also recommend that policy makers weigh the political and fiscal advantages of attracting middle-income residents back into the central city by supporting market-rate housing rather than upgrading the housing of existing residents.

BUSINESS SITE LOCATIONS

Weisbrod and Pollakowski (1984) examined how downtown improvement efforts affected the entry, growth and exit of retail and service establishments in those areas. They studied eight downtown revitalization projects that reflected geographic diversity and a range of city sizes from medium to large. Downtown improvement projects are generally intended to stimulate the revitalization of declining retail districts; they rely heavily on improvements in physical amenities and aesthetic image to increase the attractiveness of the downtown shopping district.

The researchers measured differences in establishment profile and growth trends between the downtown improvement zone, the rest of the central business district and other retail districts in the central city. They found significant variation in the impact of the projects, ranging from large increases in new entry and growth of existing establishments to a continuation of trends of establishments leaving the area.

They determined that variation in retail and service activity reflected the health of the local metropolitan economy and the relative importance of the central business district as a commercial center. However, they found no evidence that areas that had experienced growth in retail and service activity did so at the expense of other nearby retail areas. They also found that improvement projects tended to affect establishment entry more than it affected the growth of existing establishments.

Weisbrod and Pollakowski concluded that the most successful projects included coordination of sponsored activities and promotions, improvements in transit services, trash collection, street and sidewalk maintenance, but stopped short of a complete ban on vehicular traffic. The less successful strategies relied on the physical-design strategy of building a pedestrian mall without specific strategies for sponsored activities, promotions and improving auto or transit accessibility.

A report issued by the Brookings Institution (Murphy 1998) documents the 15-year experience of Cleveland's MidTown initiative, a private-sector-driven effort to stimulate reinvestment in an inner city commercial and industrial district. The city's midtown corridor was characterized by serious physical decline and social problems.

After a six-month feasibility study, 46 corporate, small business and institutional leaders in the immediate area made the decision to incorporate. Their goal was to address issues of security, neighborhood appearance, public image, productive uses of land and buildings and development of a cohesive business community.

MidTown Cleveland defined an agenda for physical development and sought state and federal grants and loans for a land-banking project that would make central city brownfields more competitive with suburban greenfields. They participated in a Job Match program to help make the link between residents and jobs and they adopted a marketing strategy to change the public perception of the area.

Between 1983 and 1997, the midtown corridor experienced an increase in assessed values in commercial (55 percent) and industrial (47 percent) real estate that far exceeded that of the city, the central county and suburban counties. There was also evidence of a rise in reinvestment activity that included 425 new companies; 400 expansion, renovation, new construction or expansion projects; 6,000 jobs retained due to expansion, substantial capital investment and/or relocation of existing companies within MidTown; and 5,500 new jobs gained from expansion and/or relocation.

Several lessons were learned from the MidTown experience: the private sector can mobilize its economic power to increase the competitive advantage of inner cities; the private sector can help shape a competitive market environment by changing both the perception and reality of safety; to be competitive, central business areas must be safe, clean, green and outfitted with updated infrastructure; competitiveness strategies must include consistent, sophisticated public relations and marketing programs to promote the advantages and products of an inner-city location; reinvestment successes bring increasing demand for shrinking supplies of marketable land and buildings, and some inner-city areas are surprisingly rich with employment opportunities.

Lugar and Goldstein (1990) studied the impact of research parks on regional economic development. They conducted a case study of North Carolina's Research Triangle Park (RTP) as well as a broader examination of research parks across the country.

For the RTP case study, the researchers surveyed businesses in the park vicinity after the park was created. For those who located outside the park, 41 percent reported that the presence of RTP was of high or moderate importance to their location decision, but 59 percent said it was of minor or no importance. One-third of those who located within RTP said it was unlikely or very unlikely they would have located in the region had the park not existed; however, 44 percent said the opposite was true. Those who reported that they would have located in the region even if the park were not there cited the proximity of the three research universities as being key to their location decision.

The researchers concluded that the park has been responsible for a considerable amount of technology-related employment in the region, but that park-induced growth accounted for less than 25 percent of the overall employment growth in technology-related businesses. They reasoned that the primary engine of economic development in the region has not been the park itself, but the three research universities.

Lugar and Goldstein's broader analysis compared employment growth rates in counties with research parks to employment growth rates in counties without research parks but with the same metropolitan status and population size and within the same census region. They found that half of all research park start-ups failed as real estate ventures. Half of those that remained were converted from research to more general business parks. While this may have turned them into successful real estate ventures, it did not meet the original goal, which was to attract research and development activity. Furthermore, of the parks that remain in existence, only about half were considered successful if judged on their ability to create jobs that otherwise would not have existed.

Fitzgerald and Green Leigh (2002) studied various economic development strategies across the country. While their work focuses on "best practices" rather than formal program evaluation, they offer several key lessons for economic developers dealing with different aspects of real estate development.

Many central cities and older suburbs are plagued by an abundance of underutilized, aging office and industrial buildings, dying commercial corridors, and brownfield sites. Fitzgerald and Green Leigh suggest that economic developers take advantage of the growing interest in downtown living and adapt former office or industrial sites into residential units. They also advise upgrading the information technology infrastructure of older buildings as a means for attracting new businesses.

They cite the importance of addressing contamination issues associated with industrial sites and note that older, centralized warehouse space may be attractive to firms relying on rail or small transport vehicles.

With respect to revitalizing commercial corridors, Fitzgerald and Green Leigh recommend that any effort should begin with a market analysis that assesses what retail goods and services the community needs and can support. They believe that grassroots endorsement and community building are essential and that efforts must involve the area's existing merchants. They point out that older commercial districts may not attract traditional anchors, but economic developers can seek out alternative anchors to bring people back to the area, such as government service offices, cultural or recreational centers or churches.

Having said this, they acknowledge that traditional big box retailers may recognize untapped retail potential and be willing to consider design alternatives that will accommodate the older commercial space. Finally, Fitzgerald and Green Leigh offer important advice to economic developers involved in brownfield recovery. They stress the importance of understanding the pattern and extent of a community's brownfield problem, which requires inventorying and mapping all sites. They caution against cleaning up only those sites that are in the most marketable sections of the community, as this may help to widen inequalities.

They also underscore the importance of evaluating where the private sector will take the initiative and how public programs and incentives will encourage that initiative. They suggest that communities offer incentives for non-brownfield related development costs, since many brownfield sites suffer from other problems, such as lack of infrastructure and community services.

Fitzgerald and Green Leigh believe there are five primary barriers to brownfield redevelopment (liability, information gaps, costs, time and uncertainty) and that a successful program will minimize these barriers. One-stop business centers that package efforts to reduce these barriers can be a useful tool.

PHYSICAL AMENITIES

Convention centers, sports stadiums, museums and similar attractions intended to attract tourists and capture disposable income have gained increasing popularity as economic development strategies. Fenich (1994) conducted an analysis to determine the effectiveness of New York City's Jacob Javits Convention Center as an economic development tool.

When the Javits Center was proposed, proponents argued that a new facility was needed to maintain or improve the city's comparative advantage in attracting conventioneers; they said the center would serve as a tool for economic revitalization. The Javits Center replaced the Coliseum, which provided convention space until the new facility was built.

Fenich's analysis determined that the Javits Center has attracted more than 1.5 million out-of-town convention attendees each year and has hosted local events that have served about an equal number of people. The Center stimulates over $1 billion in direct spending by attendees, with a total economic impact of over $2 billion annually. The state and local taxes generated more than offset the operating costs and debt service, yielding net fiscal benefits, but only if the Coliseum is not considered in the equation.

If the revenue generated by the previous facility were factored into the equation (revenue that was generated without the additional expense of building a new facility), the Javits Center's revenues did not cover its expenses. Furthermore, the Javits Center did not lead to physical revitalization in the immediate area. Fenich found no evidence of spin-off development.

American cities have gone on a building boom of sports stadiums in recent years. This trend has swept cities large and small, as they have sought to attract or retain both major and minor league teams and other sporting events.

Rosentraub, Swindell, Przybylski, and Mullins (1994) studied the impact of Indianapolis' sports and downtown development strategy. The city adopted an economic development strategy that relied heavily on sports and invested very large sums of money to build new facilities. The research team found Indianapolis' focus on its downtown and sports as a development strategy was associated with a general trend of increased employment and economic growth.

However, the strategy did not bring more growth than was experienced by other Midwestern communities and did not lead to a concentration of higher paying jobs in the region. Downtown employment stabilized, but this could be partially attributed to expansion of the university and public sector. Furthermore, the trend toward job development in areas outside the downtown center continued. Despite the large investment, there was an inconsequential effect on economic growth.

Keys to successful land development strategies

Real estate development projects are primary components of many broader economic development strategies. Central cities and older suburbs, in particular, struggle with ways to redevelop or revitalize their residential, commercial and industrial landscape. A few common themes can be drawn from the evaluation literature. Whether dealing with commercial district revitalization, brownfield redevelopment or residential construction, it is important to have a thorough understanding of the opportunities and constraints relevant to the entire community as well as specific sites.

Economic developers should not limit their ideas to traditional land uses, but look to alternative solutions. It is important to create a clean environment where people feel safe and a variety of amenities are available. When considering large-scale projects such as sports or recreation facilities or cultural attractions, planners must recognize the possibility of substitution effects. If one activity simply draws resources from another activity in the region, no wealth has been generated.

Attractions must be able to draw visitors from outside the region to truly result in economic development. Finally, in assessing the effectiveness of land development strategies, many benefits may not be quantifiable. Intangible benefits such as improvements in the general appearance of a neighborhood and increased community pride may not be measurable impacts, at least in the short-term.

CHAPTER TWO: LABOR

Despite the considerable resources directed toward work force development, evaluation of work force development programs has been limited in scope. Program assessment most often has focused on lessons that can be learned from the experiences of those administering work force programs, rather than employment and earnings outcomes for program participants or regions. This section highlights the findings of those studies that have sought to measure outcomes, followed by a discussion of the more general "lessons learned" in implementing work force development strategies.

OCCUPATION OR INDUSTRY SPECIFIC TRAINING

The effectiveness of school-to-work programs and similar intervention strategies has been studied to a greater extent than many others, perhaps due to the influx of federal funds that followed the passage of the School-to-Work Opportunities Act in 1994. Findings indicate that these programs have had many positive results, although there are areas in which outcomes could be improved.

The degree of success has varied, but the impact on the employment and earnings of participants has been positive in most cases. There is also evidence to suggest that participation in school-to-work programs leads to improvements in academic achievement. It should be noted that federal funds are no longer used to support school-to-work initiatives. It was intended only as seed money to help establish programs.

An evaluation of The National Job Corps program (Burghardt, et al., 2001) made a "meaningful difference" in the educational attainment and earnings of participants, according to an evaluation (Burghardt, et al., 2001). Employment and earnings gains were found across most groups of students and types of settings. Furthermore, it was shown that participants in the program were less likely to commit crimes or be the victim of crimes and were less likely to receive public assistance.

A cost-benefit analysis determined that the program was cost effective, despite high initial costs. It was acknowledged that the cost benefits were modest, but it was believed that benefits would continue into the future and that the limited time frame of the study could not reveal this trend.

Another study based on focus groups with school-to-work program participants echoed these positive findings (Hollenbeck, 1996a). The study found that school-to-work programs stimulated student interest in occupations and that students made useful employer contacts.

Participants also learned skills useful for future education and career plans, even though they might not enter the specific occupations of the programs in which they were enrolled. Finally, programs encouraged planning for postsecondary training by some students not originally headed in that direction. Despite the success, some barriers that obstructed school-to-work programs were identified. Operating as a worksite for students involved costs and getting postsecondary institutions involved in the programs had difficulties.

A review of high school career academies in one large, urban school district also found positive outcomes in academic achievement; however, outcomes on employment and earnings were less identifiable (Maxwell & Rubin 2001). The career academy is a "school-within-a-school" that coordinates curriculum and activities around a single occupation or industry. Based on a study of 10,000 students, researchers found that, relative to a comparison group, program participants showed an increase in grade point average, lower dropout rates and a greater likelihood to attend postsecondary education.

Findings indicated that a network of social support leads to better educational outcomes. However, with respect to employment or wages, participants fared no better in the period immediately following high school. Academic achievement was credited to several factors, including a relatively complete curriculum offered to students; an environment that sheltered students from hostile or indifferent school environments and a social support system of teachers and peers; program leaders with commitment and energy that inspired teachers and students, and support from the school and community.

An evaluation of the Manufacturing Technology Partnership (MTP) program in Flint, Mich., found improvements in both academic and employment outcomes (Hollenbeck 1996b). MTP originated as a pre-apprenticeship program but evolved into a more general school-to-work program that prepares young people for careers in manufacturing.

Students who participated in the program had higher grade point averages and higher-class ranks than students in a comparison group; absences were reduced among participants. Students also had advantages in employment rates, wage rates and average hours worked. Additionally, it appeared that the program's impacts might be greater after several years. Program success was attributed to the effective implementation of a dynamic curriculum that integrated vocational and academic skills.

In addition to the more formal evaluations of school-to-work programs, anecdotal evidence contributes to the knowledge of what makes a program successful. Based on an analysis of school-to-work programs in Boston, Tulsa and Pennsylvania, researchers offered several guidelines for securing the employer participation that has been recognized as a difficult component of these programs (Flynn 1994).

They suggest targeting employers who are predisposed to participate in school-to-work programs; identifying a private sector "champion" to recruit other employers; emphasizing that school-to-work programs serve corporate and community goals; and concentrating on industries experiencing or anticipating skill shortages; that are operating in international markets or in markets with fast changing customer demands; that value and have a history of community involvement, and industries with a culture of education and training.

A study conducted by a researcher at the Urban Institute (Lerman 2000) also conveys valuable lessons about school-to-work programs based on the experiences of the Organization for Economic Cooperation and Development (OECD). The OECD, an international organization, helps prepare youth for careers by emphasizing academic standards and efforts to strengthen the schooling-career connection.

Findings suggested that close institutional links between industries and schools are critical to align incentives for employers and youth. Employers are encouraged to hire and train students in career-oriented positions while students are encouraged to do well in school. The local labor market must be understood so as to target the jobs and careers with the most potential for growth and advancement.

Developing an appropriate mix of academic education with occupational skills and work-based learning is equally important to ensure that the intensity of the academic and vocational education is appropriate to the jobs targeted. Other important elements identified were the provision of supportive services (such as child care, counseling and placement services) and soft skills training.

While school-to-work programs have taken a prominent position in the work force evaluation literature, other assessments have been conducted. The Ohio Department of Education commissioned a study to assess the impact of the various work force development programs administered by the agency (Hollenbeck & Anderson 1993). Most programs are targeted toward adults and lead to a vocational certificate or occupational license.

Surveys determined that most participants complete their program in less than a year and most find jobs. Over 80 percent of the participants were in the labor force at the time of the survey and about 75 percent were employed. Training programs resulted in higher labor force participation for men and higher wages for women. An area of concern was that only 60 percent of the employed participants were in jobs related to their training.

Community colleges play an important role in providing education and training. A study of the impact of community college schooling on displaced workers in Pennsylvania and Washington analyzed data from unemployment insurance earnings records and college transcripts (Jacobson, LaLonde & Sullivan 2001). Data indicated that a year of schooling raised long-term earnings of displaced workers by 5 percent.

While this was a significant difference, it was not as much as had been predicted. More than half of the gain resulted from the impact of schooling on hours worked. There also was considerable variation in the returns (in terms of wage increases) associated with different types of courses. Skills acquired from more technically oriented vocational and academic math and science courses have very large returns, whereas most other types of courses are associated with zero or sometimes negative returns.

The National Governor's Association Center for Best Practices (2001) assessed the effectiveness of Regional Skill Partnerships in addressing skill shortages and promoting job retention and career advancement for low-income workers. Regional Skill Partnerships are consortia of firms, educational institutions and other community partners that tackle common problems facing a targeted industry in a region.

The study did not measure outcomes for program participants, but did offer lessons for program implementation. The lessons included: using sound labor market and economic analysis as the basis for identifying target industries and employers; avoiding duplication of the functions of existing community institutions; supporting industry partnership with strong staff capacity, and building partnerships where there has been prior collaboration among firms within an industry.

Grubb (1995) reviewed evaluations of several job-training programs initiated by the federal government over time. Based on this review, he determined that "A large number of job-training programs lead to increased earnings, and the benefits generally outweigh the costs – though the increases in earnings are moderate by almost any standards, insufficient to lift those enrolled in such programs out of poverty."

He also noted that the benefits of these job-training programs fade out after four to five years because they rarely put individuals in career paths that lead to continued earnings increases (as formal schooling does). Programs have tended to provide greater benefits for women than men, and programs for youths have been largely ineffective (with the exception of very intensive programs like Job Corps).

Grubb found the results from nearly 30 years of evaluation to be surprisingly similar, particularly given the variation in the kinds of programs that had been studied and the methods used. His broad conclusion was discouraging: "…thirty years of experimentation with job-training programs have created a substantial number of programs whose benefits – for individuals in dire need of employment and economic independence – are quite trivial, and are completely inadequate to the task of moving them out of poverty, off of welfare, or into stable employment over the long run."

In an effort to provide guidance in program improvement, Grubb offered several possible explanations for the meager impact of job-training programs:

1) Most job-training programs are small – they last a very short time and often deliver a single kind of service rather than a variety of complementary services. 2) Basic strategy has stressed moving individuals into employment quickly. The underlying assumption is that an unemployed person's basic problem is to find a job and then will remain employed. 3) There is little or no explicit training going on in many on-the-job training programs – employers view programs as a source of subsidized labor and use individuals in routine, unskilled work. 4) Programs often suffer from bad instruction – job-training programs often use techniques based on "skills and drills." Instructors break reading, writing and mathematical skills into tiny sub-skills and then endlessly drill a series of inherently meaningless sub-skills. 5) Training programs are vulnerable to political interference. This usually operates to direct funds to particular service providers, regardless of whether they are effective or not. As a result, local programs have difficulty shifting resources from ineffective to more effective providers. 6) Job-training programs have not done a good job of placement – they either have low placement rates or do not place individuals in appropriate jobs. 7) Job-training programs enroll individuals with substantial barriers to employment and deliver relatively limited training; therefore they aim to place individuals in jobs with relatively low levels of skill and pay. This may reflect realistic expectations, but does little to help move people out of poverty or off welfare. 8) There are not

enough jobs for unskilled or semi-skilled workers and the labor market is unable to absorb all those who complete training programs. 9) Many employers will not hire young people. 10) Those who fail to use the educational system to increase their skills and gain access to employment are, by definition, those with such serious intellectual, personal and motivational barriers to employment that no “second chance” system of reasonable cost could possibly help them attain stable employment.

Grubb stressed the importance of connecting job-training programs to other training and education opportunities; he advocates combining demand-side policy with supply-side policy to help reduce barriers that originate from the market.

Conclusions reached by Friedlander, Greenberg, and Robins (1997) echo those presented by Grubb. Like Grubb, they reviewed previous studies of government training programs and concluded, “The broadest generalization about the current knowledge of government training programs for the disadvantaged is that they have produced modest positive effects on employment and earnings for adult men and women that are roughly commensurate with the modest amount of resources expended on them. The positive effects for adults are not large enough to produce major aggregate effects on employment and earnings among low-income target groups, and the programs have not made substantial inroads in reducing poverty, income inequality, or welfare use. Moreover, they have failed to produce positive effects for youth.”

The researchers submitted that most of the information about the effectiveness of government training programs concerns their costs and short-term financial effects on participants. However, there is considerable uncertainty about the kinds of training that works best, the effectiveness of training for certain demographic groups and the appropriate policies to improve outcomes.

Leahy (2001) investigated whether certain components of job-training programs positively affect the employment outcomes of women who had experience with Aid to Families with Dependent Children (AFDC). Her study included a treatment group comprised of women who had received welfare-sponsored, government-funded job training, and a control group comprised of women who were comparable to those in the treatment group, but did not receive job training.

Leahy found that, overall, job training had little or no significant effect on a disadvantaged woman’s probability of working; however, specific characteristics of job training did have some effect. Women who had received more than one type of training were better prepared for full-time work, while women who received only one component of training (such as basic education) were less prepared.

Structural and contextual factors had important effects, particularly for part-time workers. Community-level variables such as unemployment rate and region and metropolitan residence had a greater effect on transitions to part-time work than full-time work. Positive outcomes of job-training programs included higher wages for both full-time and part-time workers. Leahy stresses that helping disadvantaged women requires micro-level as well as macro-level intervention. Macro-level interventions include policies that encourage employers, communities and local governments to increase occupational and educational opportunities and effective welfare systems.

Chapple (forthcoming) relied on in-depth interviews to examine why job histories varied among women welfare recipients. She focused on how the use of social contacts reinforces and reproduces inequality for low-income women. Chapple found that supply-side factors, particularly educational attainment, work experience and the age at which a woman had her first child, shape the type of job pursued, the search method selected and the extent of career orientation.

She determined that the most useful type of resource networks are wide acquaintanceship networks from work and school that tend to emerge from, rather than precede, human capital development. Women who were chronically unemployed or changed jobs and occupations frequently were connected to the labor market through social contacts, but often failed to obtain education or develop a career.

Chapple concluded that their social contacts failed to lead to consistent or promising jobs, and the very existence of these contacts kept them in the secondary labor market and often left them unemployed. The most effective contact networks were those that resulted from developing human capital through education and work experience. Career-oriented women tended to engage in a process of working, network building and learning. Chapple believes that demand-side policies (such as subsidies to increase wages) may be more effective for job-mobile women than training.

Keys to successful labor force development strategies

If the goal of work force training programs is to improve the quality and skill sets of individuals, to place them in jobs and to help businesses find an employee base in line with their needs, then a good work force program must balance the needs of individuals and businesses (International Economic Development Council).

In trying to determine the effectiveness of labor force development programs that seek to improve the supply of workers, it is important to note that success varies with different population groups. Some programs have been effective in improving opportunities for women who are re-entering the work force, but have negligible effects for men. Similarly, some programs have shown positive results for incumbent workers but not new entrants.

Target groups must be carefully considered when implementing a labor force development strategy. Labor force development programs that focus on the demand side of the equation must recognize that the demand for labor is directly tied to the demand for products. Just as supply-side programs must consider the needs of the local work force, demand-side programs must understand the needs of local industry. Effective labor force development programs will illustrate an understanding of both supply and demand.

Some labor economists have shown concern that the emphasis on labor-supply programs (those centered on improving the skills of workers) can come at the expense of efforts to increase labor demand. Bartik has demonstrated that focusing on the supply-side is a limiting approach, particularly if the goal is to increase the employment opportunities of the poor. It is difficult or expensive to create large enough increases in the employment of poor persons to make a real impact on poverty; such programs can create displacement effects if demand does not rise with supply (Bartik 2001).

The importance of establishing a balance between labor-supply and labor-demand programs underscores the significance of local context in developing and implementing an effective intervention strategy.

CHAPTER THREE: CAPITAL

Numerous finance programs have been created to help businesses obtain the capital needed for start-up or expansion. These programs seek to provide financing when conventional lending markets fail to meet the needs of firms. This often occurs because the terms are unmanageable for the firms or the risk is too high for the lending institutions. The ultimate goal of capital finance programs is to increase business activity, thereby providing jobs and additional tax revenue. Evaluation studies of several types of capital finance programs are reviewed in the follow section.

FINANCE

Wiewel (1991) conducted a study commissioned by The Illinois Development Finance Authority (IDFA) to provide information on its role and impact on economic development in the state through the issuance of Industrial Revenue Bonds (IRBs). IRBs offer low-cost financing to businesses that want to establish themselves or to expand. The University of Illinois at Chicago Center for Urban Economic Development completed the study in 1991 after conducting interviews with a sample of IRB recipients.

Several key findings were highlighted: 1) job growth occurred at a respectable pace, with an average employment expansion of 48 percent since receiving the IRB; 2) IRB recipient firms reported increasing profitability – 54 percent said they were more profitable after receiving the IRB and 68 percent reported profit rates at or above industry norms; 3) 45 percent of the employment growth experienced by IRB companies included high wage, professional and skilled occupations; 4) minorities and women constituted a large proportion of the work force of IRB recipients; 5) IRB companies were large purchasers of goods and services supplied in the state; 6) industrial lease space had the greatest concentrated development impact, and 7) qualitative responses indicated a general satisfaction with the IRB program.

Florida and Smith (1990) conducted a two-year study to explore the role of venture capital in technological innovation and economic development. They compiled a database on the venture capital industry based on information reported in the Venture Capital Journal over a four-year period. This data was used to conduct analyses of investment flows and co-investment patterns at the local, regional and national levels and to develop statistical measures of the relationship between venture capital and high technology development.

Researchers also did extensive fieldwork to talk with people involved in the venture capital industry and to study the history of the industry. They summarized the major findings of their research in five key points about venture capital: 1) it is extremely concentrated; 2) it is bicoastal in the Northeast and Pacific regions; 3) its investments flow mainly to established high-technology centers; 4) its impact is context sensitive: In areas with an established high-technology base, venture capital fuels the growth of that sector; in areas without such a base, venture capital alone is not likely to stimulate innovation and high-technology development; 5) public policies must recognize that venture capital is only one element of an area's technology base or social structure of innovation.

Based on their findings, Florida and Smith question the role of government involvement in venture capital funds. There is a high failure rate associated with venture investing and the risk may prove too great for public agencies. More importantly, they believe their findings contradict the assumption that underlies public involvement in venture capital funds. They did not find gaps in the supply of venture capital due to imperfect markets and determined that venture capitalists were very adept at finding investment opportunities.

Finally, they state that venture capital is just one of many necessary inputs to technology-intensive economic development. They point to literature that supports the contention that only a limited number of regions have the attributes needed to generate and sustain a high level of high-technology-based economic growth. Florida and Smith assert that increasing the volume of venture capital in areas that lack other necessary inputs is unlikely to have any significant effect on their technological capabilities.

The St. Louis Regional Commerce and Growth Association commissioned a study to explore the importance of locally managed venture capital funds in boosting the number of new business ventures in the area. Consultants reviewed the performance of three locally-managed funds and found strong evidence that they played an important role in financing new business formations and expansions in the region. Moreover, the funds were willing to provide financing when funds managed elsewhere were not (Susman 1986).

They found that in St. Louis and other regions, venture capital funds tend to emphasize the major strengths and predominant objectives of companies and institutions located in specific areas. They assert that the importance of locally managed venture capital funds to new business formations and expansions cannot be overstated.

The Capital Access Program (CAP) was designed and adopted by Michigan in 1986. CAP provides banks with a partial loan loss reserve to absorb higher risks associated with many business loans while staying in compliance with bank regulation. Because of the loss protection, banks can absorb up to nine times the default risk of conventional loans and still be covered against the loss. This has allowed banks significantly to expand their commercial lending activities.

Researchers identified several common characteristics of firms that received CAP loans: most were less than five years old (about 20 percent were start-ups); most had already incurred substantial debt; most were small firms that required less than $100,000 in financing and had demonstrated managerial competence in overcoming challenges, and most provided collateral that was less than required for a conventional loan. The CAP program was shown to be particularly effective in helping new, small firms obtain financing (Laughlin & Digirolamo 1994).

Dunlap, Burkhalter, Watson, and Fitzpatrick (1995) conducted a case study of Auburn, Alabama's Revolving Loan Fund (RLF) to determine what is involved in operating a successful RLF program. At the time of the study, there were six components to Auburn's program: 1) loan guarantee, designed primarily for small businesses; 2) fixed asset direct loan, designed for larger commercial and industrial projects; 3) infrastructure development program guarantee, to enable developers to receive assistance in attaining utility services; 4) working capital loan, also for small businesses; 5) interim loan, to support economic development projects during start-up, and 6) housing development, for affordable housing in targeted neighborhoods.

The RLF programs were evaluated on jobs created and retained, economic viability, tax benefits, leverage ratio and availability of funds. The research team determined that the programs had successfully promoted job development and that a significant number had gone to individuals from low- to moderate-income households.

Assessments of economic viability proved sound – there were no defaults on loans from RLFs. They estimated a tax impact of nearly $150,000 annually and found that the leverage ratio (public dollars invested to private dollars invested) ranged from 1:3.18 to 1:5.36. Finally it appeared that the city's professional staff made sound investment decisions that ensured fund availability.

The research team identified five basic guidelines for local governments to follow to reduce financial risk in RLF programs: 1) avoid being the sole investor; 2) ensure that the private sector's investment exceeds its own; 3) secure as much collateral as possible; 4) use sound business principles, and 5) isolate the decision-making process for assessing the value of a deal from political interests.

Bradshaw (forthcoming) studied the California State Loan Guarantee Program (SLGP), a program designed to help businesses that nearly qualify for bank loans (but do not) obtain credit and expand employment and economic activity in the state, particularly in disadvantaged areas. The SLGP guarantees up to 90 percent of the loan, but the guarantee may not exceed $350,000. Because the loan is not fully guaranteed, banks assume some risk and therefore will not loan to businesses at high risk of default. Bradshaw evaluated changes in employment and economic activity by examining firms before and after they received the loans.

In an attempt to be conservative and not overestimate the effects of the program, the analysis was limited to employment change reported while the firm had an active loan. Changes after the loan was repaid were not considered. Findings indicated that firms with loan guarantees expanded employment and paid taxes while experiencing a default rate of less than 2 percent. This occurred during a period of economic recession for the state.

Firms also retained employees who might have been laid off if not for the loan. The program cost the state approximately $3,000 per job; tax revenues generated by firms exceeded program costs. Firms with loan guarantees generated more than double the number of jobs than comparable firms in the state. Bradshaw concluded that loan guarantees are a cost-effective tool to support small business expansion and retention.

Servon (1997) conducted a case study of microenterprise programs operating in three inner city areas. The Women's Initiative for Self Employment (WISE) serves low- and moderate-income women in the San Francisco/Oakland area; Working Capital in Boston targets specific communities, but not specific populations; and Accion New York is based in Brooklyn and targets the Latino population.

Servon writes that microenterprise programs have developed based on the recognition that self-employment is an increasingly important segment of the economy, particularly for groups with restricted ability to participate in the mainstream economy. She notes that microenterprise entrepreneurs face a range of market barriers that constrain the successful operation of their businesses.

In studying the three microenterprise programs, Servon found that access to credit was not the biggest barrier for people trying to start their own business. As a result, all programs offered a wide range of services that are important to their success. She determined that the programs fulfilled their intention of helping poor people. , Yet most participants did not fit the underclass stereotype that attracts much of the media and federal attention – they were individuals who had the means to pursue their goal of self-employment.

The microenterprise programs significantly helped participants establish valuable relationships within the business community and with the public and nonprofit sectors. Servon concluded that microenterprise programs help change the mindset of people by creating a forward motion, giving them the hope they need to take charge of their own lives. While microenterprise programs will not solve urban poverty, they provide a motivated population with services it does not receive elsewhere.

Grueling (1987) provides an early assessment of Tax Increment Financing (TIF). His work was based on interviews with many individuals with direct experience in the use of tax increment financing as well as a review of a wide range of secondary materials. He found several important advantages and disadvantages of TIF.

Among the advantages: 1) TIF can provide significant capital to some types of development projects that are economically feasible; 2) the community (and taxing bodies) do not lose tax revenues that were being collected prior to the development program; 3) property owners do not pay more than the normal tax burden; 4) tax increment bonds, when used, are not counted against the city's bonded indebtedness; 5) development is financed from increased tax revenues the project generates rather than tax subsidies from other areas; 6) once the project is complete and bonds are retired, the full tax base and revenues become available to all taxing bodies; 7) because bonds are required for most TIF projects, economic feasibility is closely scrutinized by the bond market, and 8) in most cases, no public referendum is required of bonds issued for a TIF project.

Disadvantages include: 1) no increase in tax base until the bonds have been retired; 2) when used, TIF or revenue bonds will be more expensive than general obligation bonds because of the higher risk; 3) TIF has been abused – cities have created large districts in order to capture increments not directly related to the public improvements financed; 4) without some limits (by area or length of time to capture the increment), TIF can extend indefinitely and never return benefits to the community; 5) when increments do not materialize other sources of revenue are required to retire the bonds; 6) citizens have little say on the use of TIF; 7) TIFs are difficult to use with certain development incentives a community might offer, such as tax freezes or tax abatements; and 8) once TIF bonds have been issued, it is hard to change development plans because of obligations to the bond holders.

Man (2001) provides a recent literature review of TIF effects on economic development. A survey of randomly selected municipalities found that the 78 percent of cities that reported the use of TIF experienced increases in property values, while only 2 percent experienced a decline (Forgery 1993). Case studies in Illinois (Davis 1989; Ritter and Oldfield 1990) and Wisconsin (Huddleston 1984) also found that TIF projects stimulate economic development.

Using an econometric model, Anderson (1990) found that cities that had adopted TIF experienced greater property value increases than those that did not. However, he did not address the issue of growth induced or caused by the creation of a TIF program. Man argues that TIF's effectiveness, as an economic development tool, is a necessary but insufficient condition for the policy adoption because the effectiveness criterion does not address whether the benefits outweigh the costs to taxpayers.

Huddleston (1982) found that TIF projects in Wisconsin have a positive fiscal impact on both sponsor and contributor governments, but the expected financial gains to the contributor governments must be considered in the very long term. Lawrence and Stephenson (1995) found that taxpayers in the entire metropolitan Des Moines, Iowa, subsidized downtown activities in the early years of the TIF program. Later they experienced lower property tax rates due to the urban economic revitalization program funded by the TIF mechanism. Man attributes the conflicting findings about the effectiveness of TIF to the differences in uses and structures of TIF programs among jurisdictions and the types of projects funded through TIF.

Chicago's experience with TIF supports this argument. In 1998, city officials announced that more than 4,400 acres (nearly 3 percent of the city's total land area) would be designated as TIF districts. Success in the districts has been mixed. The three districts closest to the central business district are on track to meet their financial goals; those closer to the periphery of the city are lagging.

Within a few years, property values and increment in an industrial TIF district near downtown reached levels that were not expected for about 10 years. Another district, in proximity to downtown and an expressway, has successfully attracted development and several more projects are in the planning phase. In another part of the city, a district that once served the steel industry, property values have continued to decline despite the TIF designation, although projects are pending. In another district, retail activity has increased, but industrial development has been slow to occur (Hinz 2002).

Weber (forthcoming) provides further evidence of the contradictory findings TIF success. Man and Rosentraub (1998) found TIF had a positive effect on median housing values in Indiana; Dardia (1998) determined that TIF had a substantial and positive impact on development in California.

However, Dye and Merriman (2000) found a negative impact of TIF adoption on growth in municipal-wide property values in metropolitan Chicago. They determined that TIF trades off higher growth in the TIF district with lower growth elsewhere. Therefore, municipalities that adopt TIF stimulate growth of blighted areas at the expense of the larger town.

Weber reports that other evidence has shown that TIF is frequently used to move existing retail to different parts of the same region (Redfield 1995). Evaluating the success of TIF is difficult because, like most economic development strategies, it requires an assessment of what would (or would not) have happened if the TIF district had not been created. Further complications arise because each state places different restrictions on the use of TIF, which makes it hard to generalize about the success of TIF as an economic development tool.

What can be established, according to Weber, is that TIF operates well in areas where property values are initially low relative to other parts of the municipality or are growing at a slower pace. In these cases, the value of the property prior to development is low enough to create a substantial increment when property values start to grow.

Weber also points out that TIF is a speculative business. It requires that municipalities finance development based on the belief that costs can be recovered once property values increase. If property values fail to grow at the anticipated levels, municipalities can lose.

Weber cites a case in Battle Creek, Mich., where the Downtown Development Authority struggled to repay the debt assumed to finance development in a TIF district. She also notes that several TIF bonds have defaulted in California and Colorado.

To prevent failure or abuse of TIF, Weber offers suggestions for reform, including more thorough review of TIF proposals by overlapping taxing jurisdictions (taxing bodies who do not receive the additional revenue); legislation that allows overlapping jurisdictions to recapture some of the increased revenue that is not attributable to the new development; and a shift of more risk to private developers.

Houstoun (1996) studied the use of business improvement districts (BIDs) as economic development tools in several U.S. cities. He contends that BIDs have been very successful at most of their assumedtasks and they are remarkably free of controversy.

He identified five primary reasons for the general success of BIDs: 1) there is no substitute for the collective self-interest of business and property owners to guide economic development; 2) for the first time, these areas have one or more professionals in charge of watching the details of the commercial environment; 3) they offer a predictable income stream, making it possible to plan multi-year services or infrastructure improvements; 4) because all who benefit pay, the assessment represents a minor share of the occupancy costs; 5) BIDs operate in most cases as nonprofit corporations, free from government rules and politics yet accountable to those they serve.

Despite the many successes, Houstoun offers two important cautions: the public and private partnership inherent in BIDs can sometimes lead to conflict; and BIDs face inherent conflict because of their dual roles as marketers and measurers of economic and social conditions.

The Center for Urban Policy Research at Rutgers University (1997) led an effort to evaluate the Economic Development Administration (EDA) Public Works Program, which provides grants for infrastructure improvements. The study included 205 projects that received their last payment in fiscal year 1990. According to the researchers, the projects were completed and structures associated with them were either occupied or soon to be occupied; therefore, at the time of the study – six years later – they had been sufficiently established to make their evaluation possible.

Public works projects included buildings, industrial parks, roads, water/sewer and marine/tourism projects. They were assessed based on the number of jobs created or retained and the amount of private and public sector funds that were leveraged. The research team found the following direct impacts: 96 percent of the projects produced permanent jobs six years after completion; 84 percent leveraged private sector investment; on average, each project produced 327 direct permanent jobs for every $1 million of EDA funding; $3,058 in EDA funds was spent per job created or retained; not including public projects, for every $1 million in EDA funding, $10.1 million was leveraged in private sector investment; for every $1 million in EDA funding, another $1 million was leveraged in federal, state or local investment; 15 full-time construction jobs were created per $1 million in EDA funding.

The study also identified several favorable indirect impacts related to job creation and tax revenue. On average, there were twice as many jobs six years later then at the project's completion. Researchers also found that EDA public-sector economic stimuli successfully create private-sector jobs and low levels of cost.

The study concluded that most of the public works projects achieved EDA's objective of giving communities the necessary framework to expand their economic base and generate jobs and private investment in many areas that would not have experienced these benefits without EDA assistance.

An evaluation of the Appalachian Regional Commission's (ARC) Infrastructure and Public Works Program (Brandow 2000) also produced positive findings. The evaluation included a representative sample of public works projects, interviews with project managers and local stakeholders, analysis of project outcomes and economic impacts and a baseline economic analysis of the impact areas to assess the relative contribution of each project.

The study examined 99 projects, initiated and completed between 1990 and 1997, with $32.4 million in ARC funding. Among the projects were industrial parks and sites, water and sewer systems, access roads and business incubators.

Researchers found that 82 percent of the projects met or exceeded expectations regarding the number of new businesses served; 78 percent met or exceeded expectations regarding the number of businesses retained; 72 percent met or exceeded expectations for jobs created; 82 percent met or exceeded expectations for jobs retained, and all projects met or exceeded expectations regarding the number of new and existing households served.

Each dollar of ARC funding helped leverage $2.62 in other public funding and each dollar of total public funding leveraged $16.65 in private investment. Researchers estimated an increase in state income tax revenue of $14.3 million; an increase in state/local sales tax revenue of $13.9 million; and an increase in local property tax revenue of $29.2 million. They also found that the new jobs led to increased personal income for residents of the affected counties. All types of projects performed well and there was some indication that the projects contributed to overall economic improvement in the affected counties.

In general, projects put back into use sites that had been symbols of community blight. A large number of projects were aligned with regional strategies or developed industry clusters, and many were used to support traditional industries. Some projects addressed long-standing infrastructure issues that met basic necessities and solved environmental problems. Local representatives also believed many projects had indirectly improved the quality of life in the area. ARC investments demonstrated very significant impacts on local project areas relative to overall growth patterns-- 42 of the 76 project areas had job growth rates above the U.S. average for that time period.

Keys to successful capital market strategies

If economic development programs that seek to affect capital markets are to be successful, they must be able to promote or provide financing in situations where conventional lending markets will not. Most finance programs target perceived gaps in capital markets. They should not step into situations where conventional lenders or private investors will meet demand. Policymakers should understand that these types of loans are associated with high levels of risk and failure. They should be prepared to accept losses. Many studies have shown that by providing additional services, failure rates can be reduced. While access to capital can be a problem for many start-up businesses, they also benefit from a wide range of supportive services.

CHAPTER FOUR: OPERATING COSTS

Efforts to reduce operating costs receive more attention than perhaps any other economic development strategy. They are increasingly popular, yet politically controversial. As a result, the effectiveness of incentive programs has captured the interest of many policymakers and researchers. There have been numerous efforts to measure the impact of incentive and business assistance programs on economic growth.

Studies that attempt to determine the efficacy of incentive programs face a difficult challenge in isolating the effect of incentives and developing appropriate methodologies. Evaluation of business assistance programs most often takes the form of individual case studies that assess the effectiveness of specific programs. While this complicates generalizing findings, it assembles valuable information about the experiences of various regions. This section concludes with an overview of important considerations in developing programs that target cost reduction for firms.

SUBSIDIES AND INCENTIVES

Evaluating incentive packages that lure businesses into a region is a particularly difficult task. For starters, the intraregional sample size is much too small to draw statistical inference; there simply are not enough comparable developments in a single region to statistically determine whether an incentive package has been effective. Secondly, it is difficult if not impossible, to determine what might have occurred had policy not been implemented.

While this problem exists when attempting to assess the effectiveness of any economic development strategy, it is particularly evident when considering incentive programs. Notwithstanding the problems associated with evaluating the effectiveness of incentives, researchers have undertaken a number of innovative approaches to measure their impact. Surveys, regression analysis and case study analysis are among methods used to evaluate incentives..

Surveys have been sent out to existing businesses, probing which reasons most influenced site location. For example, Schmitt et al. (1985) surveyed 950 companies that were randomly drawn from the membership of the Michigan Chamber of Commerce. Businesses were given a list of 34 factors that might be expected to influence a business expansion or relocation decision and were asked to rank the importance of each.

Researchers considered only results related to a location choice among communities within a metropolitan area. The survey found that a city's general business climate or attitude toward industry got top consideration. This comprehensive category encompasses the city's fiscal, zoning and regulatory climate, along with its propensity to "cut a break" for business. "Distance to customers" and "cost of property" were ranked as second and third most important factors. Ranked fourth were financial inducements.

Regression analysis offers a more objective and rigorous evaluation of the efficacy of incentives, though it too is imperfect. Bartik (1991) undertook an extensive examination of previous regression studies specifically examining the influence of particular economic development policies. He concluded that "enterprise zones, research parks, location incentives, such as property tax abatements, and export promotion programs make some difference to state and local economic growth."

Referring to economic development policy broadly, he stated that competition among state and local governments probably enhances the efficiency of the U.S. economy since the most depressed areas will adopt more aggressive policies. This should result in a geographic redistribution of economic activity to areas were it is most efficient.

Bartik also suggests that widespread economic development subsidies may encourage an expansion of national employment, leading to a lower average national unemployment rate. McHone (1984), examined 26 metropolitan areas in several states. He found that the presence of an industrial development bond program, property tax exemptions and accelerated depreciation of manufacturing equipment all positively influenced a county's probability of experiencing a competitive growth component greater than the metropolitan area's. He also found that local taxes, as a percentage of income, exert a statistically significant negative influence.

Anderson and Wassmer (2000) conducted a regression study on the influence of local property tax abatements in a metropolitan area. Their findings suggest that manufacturing property tax abatement will help to bring or retain industry, but that continuously increasing the number or magnitude of tax abatements will not continue to help grow the manufacturing base.

However, property tax abatements are not completely beneficial. A rise in local commercial property tax abatements decreases the value of local homes, decreases local expenditure per capita and increases the rate of grants/user charges. Anderson and Wassmer concluded that policymakers must also consider negative secondary effects when assessing the desirability of local property tax abatements.

The case study approach is distinct from regression analysis and survey research, though it may incorporate one, both, or neither into its method. Lynch, Fishgold, and Blackwook (1996) undertook a case study to determine the effectiveness of firm-specific state tax incentives provided by Industrial Development Agencies (IDAs) to promote economic development in New York State. They tracked total tax costs and bonding activity of IDAs between 1987 and 1991, showing that total tax losses exceeded $1.3 billion.

Little evidence exists that IDAs have encouraged firms to relocate to, remain in, or expand within New York state, they concluded. Furthermore, they suggested that other states currently employing or contemplating the use of firm-specific tax incentives to foster economic development should consider alternative methods.

Local economic development is a highly complex matter that lacks a clear conceptual model incorporating all of its potentially important dimensions (Smoke, 1997). The research addressing the broad impact of business incentives on the locational decisions of firms is contradictory on many of the most important issues; however, there has been agreement on some points.

Many argue that public policy is a more effective instrument of economic competition within metropolitan areas than between them, or between states or regions. (Bradbury, Kodrzycki, & Tannenwald 1997). There is also some consensus that a stable tax system is more important to ensure economic vitality than the availability of incentive programs.

Fisher & Peters (1997) found that incentives tend to accentuate basic tax differences, reinforcing the view that business location decisions are motivated largely by factors other than taxation. They suggest that small differences in labor and other costs can outweigh quite large differences in tax costs and incentive awards.

They propose that neither tax incentives nor non-tax incentives offset the effects of the basic state-local tax systems. This belief was echoed by Wylensko, who recommends that policymakers "pay attention to maintaining a stable business tax system with low rates and broad tax bases that can efficiently support the service levels preferred by businesses and residents of the state, rather than to ad hoc 'competitive' tax reductions possibly accompanied by cuts in service levels or rising deficits" (Bradbury, Kodrzycki, &Tannenwald 1997).

Researchers have also cautioned planners about the use of tax incentive programs. First, tax incentives may foster development by reducing business costs, but they can indirectly impede development if they reduce expenditures on public services that businesses value. (Bradbury, Kodrzycki &Tannenwald 1997). Second, it may be unrealistic to expect incentive programs to lead to job creation.

Fisher and Peters refer to the work of Netzer, who pointed out that economic development incentives generally reduce the cost of capital rather than labor, yet believes it is unlikely that the reduction in the cost of capital will lead to employment increases. Instead, Netzer asserted, we should expect some substitution of capital for labor, given that "the new capital induced by cheap credit or state corporate tax credits is likely to be largely exempt from local property taxes, it may be no great success from a local standpoint if the labor intensity of a new plant is quite low (often the case with the more spectacular industrial development bond issues of past decades). So it is important to distinguish between capital and labor subsidies." (Fisher & Peters 1997).

The inconsistent findings regarding the effectiveness of incentives can also be seen in studies of enterprise zones. A majority of states have adopted enterprise zone legislation and several evaluations have been conducted to study the usefulness of this strategy. Because enterprise zones generally employ a number of incentives, they add to the body of literature assessing the value of incentives in promoting economic growth. In most cases, researchers found the benefits to be modest at best.

Dabney (1991) studied enterprise zones in eight states. He determined that tax incentives were often offset by higher economic costs such as insurance, transportation and access to raw materials. The only significant change was for small independent firms and firms in a few specific industries.

However, there was no significant difference in the rate of growth among those or other classifications in the zones when compared to the city as a whole. Furthermore, Dabney reported that the impact of incentives on business locations was marginal except in those cases where the value of the incentive is large relative to the amount of investment. As a result, small businesses were most attracted to enterprise zones.

He suggested that the typical enterprise zone program consisting of limited tax incentives and regulatory relief is unable, by itself, to address adequately the necessary factors found to be important in most business location decisions. Dabney concluded that enterprise zone incentives are unlikely to make up for the significant locational disadvantages presented by inner-city enterprise zones.

Wilder and Rubin (1996) examined 21 studies that covered enterprise zone programs across the country. They found little evidence of program success, but point to scant research on the effect that land use and community planning has on the success of geographically targeted economic development programs. They suggest that the lack of effective planning may be an important missing element in enterprise zone programs.

Boarnet and Bogart (1996) studied New Jersey's enterprise zone program and found no evidence of job growth or increased real estate value attributable to the program. One study, conducted by Sridhar (1996), reported large net benefits for a sample of 68 enterprise zones in Illinois. However, her conclusions were criticized because her research assumed that program incentives were responsible for all employment generated in the zones (McDonald 1997).

Dowall (1996) analyzed 13 zones in California between 1986 and 1990. Using shift-share analysis, he found that virtually all of the actual employment growth over the time period could be explained by countywide growth and industrial mix components. In fact, Dowall concludes, after these two factors are accounted for, the total residual-effect component for the 13 zones was negative.

Dowall summarizes his assessment of enterprise zone programs as having produced modest economic benefits and concludes that there is little evidence to suggest they have strengthened the economic advantages of economically sluggish neighborhoods.

A recent study of Louisville's enterprise zone (Lambert & Coomes 2001) further supports the argument that zones offer limited benefits. The study found little evidence of either economic or neighborhood revitalization benefits that could be attributed to the enterprise zone program.

Lambert and Coomes estimated that a minimum of $55 million in forgone tax revenue and fees and administrative costs was attributable to the program, but the number of jobs and employed residents within the zone actually fell even as the rest of the county experienced growth in both measures. While they admit being unable to determine precisely the costs and benefits of the enterprise zone program, they believe the benefits have been modest while the costs have been significant.

Tannery (1998) studied the effect of the Targeted Jobs Tax Credit (TJTC) on the earnings and labor force participation of welfare recipients and disadvantaged youths. The TJTC granted the employer of an eligible worker a tax credit equal to 40 percent of the worker's wages in the first year of employment or $2,400 per employee, whichever was less. Workers were eligible if they belonged to one of several groups, such as welfare recipients and youths aged 18 to 22 from economically disadvantaged families.

These two groups account for about 80 percent of the available data and therefore served as the focus of Tannery's study. The analysis was based on 17,000 workers in Pennsylvania. He compared their earnings with individuals who applied for the program and therefore had similar circumstances, but were denied participation because of paperwork or other application problems.

Tannery found that eligible workers--welfare recipients and disadvantaged youths alike--accrued substantial earnings gains. Moreover, the cumulative income gains to program participants exceeded the $2,400 maximum per worker cost of the program. His results also suggested that certified workers were more likely to be employed than those in the uncertified comparison group; the greater on-the-job experience attributable to the subsidized employment explained at least part of the earnings differential.

Tannery determined that the earnings differential remained after the program ended, providing evidence that the program's gains are long-term. Critics allege the TJTC program did little to create jobs because workers were certified after being hired. Tannery responds that the program incites employers to lengthen the tenure of otherwise short-term jobs.

BUSINESS ASSISTANCE

Sherman & Chappell (1998) focused on the effectiveness of business incubators. They convened and surveyed three focus groups of incubator managers, stakeholders and incubator graduate firms, and employed additional methodological techniques. Their results indicated that business incubators can be an effective economic development tool and have the potential for positive impact on the community through job creation and help for new business survival and growth.

Nevertheless, in a response article to the Sherman and Chappell conclusion, Bearse (1998) criticized the methodology employed, stressing that 40 of the 50 incubators analyzed still had not been able to break even. Bearse asserted that the research had failed to deliver, or help others to produce, valid performance evaluations, performance benchmarking results and management information that can help incubators attain financial self-sustainability.

Case studies have also been employed in order to evaluate the economic and fiscal impacts of business incubators. In general, these studies measured impacts by examining such factors as jobs created by incubator tenants and graduates, product innovation, number of new business starts, success rates of incubator firms, and location in the incubator service area after graduation.

Job creation per incubator firm was found to be relatively small—fewer than 10 employees—but tended to increase over time. Some suggest that incubators are best viewed as a long-term economic development strategy, keeping in mind both short- and long-run impacts. (Markley & McNamara, 1995).

Markely & McNamara conducted a case study of the efficacy of a business incubator in the center of a small metropolitan area. They concluded that incubators were effective in generating jobs and income, especially by creating linkages with firms inside and outside the local economy over the long run. Thus, research using both case studies and surveys has produced mixed results regarding the effectiveness of business incubators as economic development tools.

The New York Manufacturing Extension Partnership (MEP) was established to help small and medium-sized manufacturers in the state compete more effectively by providing a range of services to assist in modernization. Evaluators of New York's MEP relied on quasi-experimental design to compare the performance of MEP clients with that of similar, non-participating companies. They found that, on average, participating companies changed important business and manufacturing processes, improved manufacturing performance and increased value added.

They estimate significant public sector benefits including an additional $30 to $110 million of value-added income. This represents a net benefit to the state economy, since all costs incurred in implementing the changes were captured in the calculations. They also estimated that between 510 and 1,920 jobs were created in a two-year period. A cost-benefit analysis was not conducted. (Oldsman & Heye n.d.)

Pennsylvania's Industrial Resource Centers (IRC) program was established to help small- and medium-sized manufactures upgrade business practices and modernize their production capabilities to spur economic growth in the state. IRC staff helps companies assess their overall and specific business operations, identify areas for improvement, define a course of action and marshal resources required to make the needed changes.

Evaluation based on a comparison of participating companies and similar non-participating companies demonstrated that IRC clients increased labor productivity and contributed to an increase in gross state product. Researchers estimated that the program was directly responsible for $120 million in additional state revenue and the return on state investment was 22 to 1 (Nexus Associates 1999).

Jarmin (1999) analyzed data from eight manufacturing extension centers in two states to evaluate the impact of services on productivity. He compared growth in productivity among firms that received services between 1987 and 1992 to that of a control group that did not receive services. He found that clients experienced between 3.4 and 16 percent more growth in labor productivity than non-clients.

Feldman and Kelley (2002) examined the role played by state programs in the development of technology pioneering firms (defined as new companies formed to commercialize new technologies). Their work relied on in-depth case studies of four companies that were award winners in the highly selective competitions of the Advanced Technology Program of the National Institute for Standards and Technology.

Feldman and Kelley identified three types of programs that states use to augment the capabilities of new companies. They include university-based, technology-assistance programs (technology transfer programs, applied research grants and facilities and access to resources); financial assistance programs (public venture capital funds and matching funds for federal research grants); and business assistance programs (incubation facilities and assistance in developing business plans).

The researchers found that the companies studied were successful in obtaining funding from public and private sources and in developing a technology of proven valuable to other organizations. State programs were instrumental to their success. All the companies relied on the resources of universities and received subsidies from the states to help support their research activities. States also made equity investments directly in the firms. Feldman and Kelley contend that the financial return on these investments may provide important benefits to the state. They suggest that focusing on employment gains is a shortsighted method to measure success.

Pennsylvania created the Ben Franklin Partnership (BPF) to promote technological innovation. A program evaluation included in-depth case studies, client-reported impacts and estimates of value added, employment and tax revenues generated by the program.

The case studies indicated that BFP played a critical role in the early stages of company development by supplying financing and technical expertise. The program produced an estimated 21,800 additional jobs in client firms over a seven-year period, jobs that paid an annual salary approximately 45 percent higher than the average salary statewide.

Evaluators also estimated that the program led to the creation of an additional 24,500 jobs with non-client firms due to ripple effects. The boost to the Pennsylvania economy was calculated to be $2.9 billion over seven years. The rate of return was $14 dollars for every $1 of public investment and the state collected an additional $168 million in tax revenues. Overall, evaluators determined that clients developed new products, built management teams, established production capacity, identified new markets and increased their sales and profitability as a result of the program (Nexus Associates n.d.).

Ohio's seven Edison Centers are located throughout the state. Each center offers different services directed at industries of particular strength in their region. Austrian and Wolf (1999) studied 1,527 projects undertaken by the Edison Centers to assess their economic impact. They found that participating firms realized cost savings of $296.9 million and increased sales by $708.8 million during the 1994-1998-study period. They estimated centers created 4,628 jobs per year in Ohio and disposable income increased by $195 million annually. In addition, an average of $262 million in goods and services were produced as a result of the centers' activities.

The Economic Development Administration (U.S. Department of Commerce) administers the Trade Adjustment Assistance (TAA) program, designed to assist manufacturing firms adversely affected by increased international trade. The program pays for technical assistance to firms that have experienced declining sales and employment due to competition from imported goods. Assistance may include plant layout, management information systems, human resources and marketing and promotion.

An evaluation conducted by the Urban Institute (1998) compared changes in employment and sales for companies assisted by TAA Centers to changes for companies that were determined eligible for assistance, but declined to participate in the program. They found that assisted companies had higher survival rates than unassisted companies (83.8 percent versus 70.7 percent); had added employees (4.2 percent, on average) while unassisted companies showed employment losses (5.3 percent); and experienced stronger sales growth (33.9 percent) than unassisted companies (16.2 percent).

Researchers estimated that $87 in sales was generated for each dollar invested through the program. The differences in sales, employment and survival were attributed to six factors: 1) a fairly extensive package of assistance, implemented at low cost to the firm; 2) the willingness of firms to “select-into” the program by investing time and money in their own recovery; the efforts of TAA Center directors to target firms that, although declining, remain strong enough to benefit from aid; 3) emphasis on a complete and unbiased “diagnostic” of firm strengths and weakness; 4) reliance on private consultants selected through a competitive and project-specific approach to ensure a good fit between firm needs and provider response; 5) strong company interest in full cooperation during implementation because it put up cash and was involved in joint selection of the consultants with the TAA Center; and 6) flexibility for companies to sequence implementation tasks consistent with their own needs and ability to use staff rather than the providers’ timetable for training courses or staff availability

Despite the successes, the researchers also noted several areas of concern: 1) few firms eligible for assistance actually receive it; 2) not all trade-impacted firms are eligible for assistance; 3) a substantial backlog in delivering technical assistance; 4) 55 percent of TAA funding covers the cost of technical assistance to firms (while much of the remaining portion covers costs associated with the elaborate process of determining eligibility); 5) a time lag in getting assistance to firms; 6) cost share and fee policies across TAA Centers are inconsistent; and 7) TAA Centers tend not to leverage other business assistance services.

The evaluators made six recommendations to address these issues: 1) modify the program to make it more effective, but allow it to remain as a stand-alone (oppose efforts for program consolidation); 2) eliminate or improve the certification process (eligibility determination); 3) improve the diagnostic process; 4) achieve better leverage of technical assistance; 5) improve the quality of program evaluations (of individual TAA centers); and 6) streamline the national program management

Keys to successful incentive and business assistance programs

To help ensure accountability, Ledebur & Woodward (1990) suggest that provisions of incentive packages be tied to financial recourse should a firm fail to meet negotiated performance standards. They cite several examples of firms that received generous incentives and soon thereafter shut down or scaled back operations.

They also offer development officials a list of steps they can take should a firm not comply with an agreement. Among the steps are recalibrating subsidy schedules in light of weak or strong performance, reclaiming all or part of a subsidy and penalizing firms by collecting the original unpaid taxes along with interest charges.

Included in guidelines urged by Waits & Heffernon (1994) are: incentives linked to quality jobs and advancement opportunities; encouraging recipient companies to fill a certain percentage of new jobs with local people; linking incentives to company investments in technology and human resource development; encouraging companies to offer health care insurance for all employees; insisting that strong environmental management and compliance records be kept; targeting companies important to key clusters, and analyzing the costs and benefits of all incentives packages to ensure the best decision possible.

Friedmand (1994) points out that incentives may be structured to further the goals of public policy. For instance, "linked deposit" programs entail depositing funds in banks that commit to lending money at a favorable rate to small businesses, high-tech companies, minority- and woman-owned firms and other targeted companies.

Firms that bring energy-efficient technologies to market, for example, would be given preference for incentives under such a philosophy. These are just a few examples of new ideas that have come from the research. The literature abounds with creative ideas, strategies and principles for making incentives work as economic development tools.

Bartik points to the valuable role public agencies can have in assisting businesses by making information available. He says: "Government information provision programs will be most effective when they complement rather than substitute for privately-produced information. Obviously there is much private production of information to businesses from consultants and other sources. Government information provision should include the basic information that is least likely to be optimally provided by the private sector" (Bartik 1990).

Bartik also recognizes that situations come up when government agencies simply have better access to information, such as tax rates, regulations and public services. In these cases, it is certainly appropriate for the public sector to assist business by supplying needed information.

WHAT WORKS MATRIX

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
LAND				
Market Rate Housing	Subsidizing new inner-city housing in Cleveland, Ohio.	Compared fiscal costs and fiscal benefits to the city.	Cost-benefit ratio of 2:1. New housing starts were generated.	Intangible benefits are excluded.
Business Site Location	Downtown revitalizations efforts (eight projects)	Measured differences in business profile and growth trends between downtown improvement zone, rest of downtown and other retail districts in central city.	Significant variation in impact, from large new entry and growth of existing business to continued exit from the area. Larger impact on entry than expansion.	Variation in retail and service activity reflects health of regional economy and relative importance of downtown as a commercial center. Successful projects required additional improvements, such as transit service, street and sidewalk maintenance and sponsored activities.
	Revitalization of inner-city commercial and industrial district: MidTown Initiative in Cleveland, Ohio.	Measures included changes in property's assessed values; number of new companies; number of expansions; job creation and retention.	Over a 15-year period, assessed values of properties increased (55 percent for commercial and 47 percent for industrial). There were 425 new companies, 400 business expansions, 5,500 new jobs and 6,000 jobs retained.	Private sector can mobilize its economic power to increase inner-city competitive advantage. Public relations and marketing programs are required.
	Research Triangle Park and research parks nationwide	Case study of RTP and analysis of research park success nationally.	While RTP was responsible for a considerable amount of technology-related employment in the region, most businesses were attracted by the proximity of the three research universities. Overall, many research parks fail and many of those that succeed do so only as more general business parks.	
Physical Amenities	Jacob Javits Convention Center in New York City	Visitors, state and local taxes, spin-off development.	Center created an economic impact of $2 billion from 1.5 million annual out-of-town attendees. State and local taxes generated more than operating cost and debt service, when the old center is not taken into account. Javits Center did not lead to physical revitalization in the immediate area.	
	Indianapolis Sports Strategy for downtown development	Employment and payroll trends in Indianapolis compared to other regions.	Employment growth rates in downtown Indianapolis were not higher than in other Midwestern areas. It did not result in higher paying jobs.	Cannot compare to trends in Indianapolis that might have occurred without the sports strategy.

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
LABOR				
Industry/Occupation Specific Training	National Jobs Corps Program	Employment, earnings, crime and cost-benefit analysis.	Employment and earning gains across most students. Reduction in crime. Cost effective despite high initial costs.	
	School-to-work programs		Stimulate student interest. Useful contacts with employers. More students plan for post-secondary training.	Difficult to get postsecondary institutions and employers involved; there are costs in being a worksite for students.
	High School Career Academy (a study of 10,000 students)	Compared program participants to a comparison group.	Positive results: higher GPA, lower dropout rates and higher probability to attend postsecondary education. Negative results: no higher employment rates or wages after high school graduation.	Factors contributing to success: complete curriculum, sheltered environment, social support system of teachers and peers, leadership, and school system and community support.
	School-to-Work by Michigan's Manufacturing Technology Partnership	Compared program participants to a comparison group. Preparation for careers in manufacturing.	Positive results: Higher GPA, higher-class rank, reduction in absence, higher employment rates, higher wage rates, and higher number of hours worked.	Program successfully implemented a dynamic curriculum integrating vocational and academic skills.
	Work force development programs (for adults) administered by the Ohio Department of Education	Used survey to determine employment and wages.	75 percent of participants were employed. However, only 6 0 percent of employed participants were in jobs related to training.	
	Community College impact on displaced workers in Pennsylvania and Washington	Data analysis from unemployment insurance earnings records and college transcripts	A year of schooling raised long-term earnings of displaced workers by 5 percent. Technically oriented courses had large returns while other courses resulted in zero or negative returns.	
	Federal job training programs	Reviewed a large number of evaluation studies conducted previously.	Programs lead to increased earnings and the benefits generally outweigh the costs, though the increases in earnings are moderate and benefits usually fade out after a few years.	
	Government job training programs	Reviewed a large number of evaluation studies conducted previously.	Training programs produce modest positive effects on employment and earnings for adults, but are not large enough reduce poverty, income inequality or welfare use. Programs have not produced positive effects for youth.	

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
	Government job training programs for disadvantaged women	Compared recipients of job training to a comparison group without job training.	Overall, job training had little or no effect on the probability of working. Women who received more than one type of job training were more successful. Training recipients received higher wages. Contextual and structural factors had important impacts.	Helping disadvantaged women requires micro-level as well as macro-level intervention. Macro-level interventions include policies that encourage occupational and educational opportunities and effective welfare systems.
	Resource networks for low-income women	Interviews with adult female welfare recipients.	The most useful type of networks are wide acquaintanceship networks from work and school that emerge from human capital development. Social contacts can prevent women from competing successfully in the primary labor market. Wage subsidies may be the most effective policy for job-mobile women.	

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
CAPITAL				
Finance	Using Industrial Revenue Bonds (IRBs) in Illinois	Based on interviews with a sample of IRB recipients.	For recipients: employment grew by 48 percent; 45 percent of employment growth was in high wage, professional and skilled occupations; profits increased by 54 percent; and minorities and women constituted majority of work force.	
	Venture capital role in technological innovation and economic development	Developed a database on the venture capital industry over four years; tested statistical relationships; interviewed people involved in venture capital industry.	Venture capital (VC) is very concentrated in the Northeast and Pacific regions. VC investments flow mainly to established high-technology centers. VC is only one element of an area's technology base.	Venture capitalists find investment opportunities. Study did not find gaps of venture capital due to imperfect markets. Venture capital is just one of many necessary inputs to technology-intensive economic development.
	Importance of locally managed venture capital funds in St. Louis	Reviewed performance of three locally managed funds.	Local VC funds financed new and expanding local businesses. Local VC funds provided financing when funds managed elsewhere were not willing to fund.	
	Capital Access Program (CAP), Michigan	Analyzed the Michigan CAP Program. CAP provides bank a partial loan loss reserve to absorb higher risk.	CAP was effective in providing loans to new and small firms.	CAP loan recipients' characteristics: Small firms, less than five years old, most incurred substantial debt, needing less than $100,000 in loans, provided collateral smaller than required for a conventional loan.
	Revolving Loan Fund (RLF) in Auburn, Alabama	Case study identified how to operate a successful RLF. Evaluation based on creation and retention of jobs, economic vitality, tax benefits, leverage ratios and availability of funds.	RLF promoted job development; no defaults on RLF loans; tax impact of $150 million annually; leverage ratios of public to private dollars invested ranged from 1:3.18 to 1: 5.36.	Guidelines for local governments: city should not be the sole investor; private sector's investment should exceed that of the local government; have a secure collateral; use sound business principles; and isolate decisions on deal's value from political interest.
	Loan guarantee program	Study of California firms that received loan guarantees from the state.	Firms receiving loan guarantees generated more than double the number of jobs than comparable firms in the state. Tax revenues generated by firms exceeded program costs.	Loan guarantees are a cost-effective tool to support small business expansion and retention.

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
	Microenterprise programs in three inner-city areas	In-depth study of three programs: Women's Initiative for Self-Employment in San Francisco, Working Capital in Boston and Accion New York in Brooklyn.	Access to credit was not the largest barrier. All programs offered other services. Programs helped participants establish relationships with the business, public and nonprofit sectors.	Self-employment is an important segment of the economy. Microenterprise entrepreneurs face market barriers.
	Tax Increment Financing (TIF)	Broad literature review and case analysis.	Mixed results on the success of TIF. Has shown positive impact on property values and development, but can also stimulate growth in blighted areas at the expense of other areas.	There are risks associated with TIF. Works best in heavily blighted areas. Differences in uses and structures of TIF programs among jurisdictions and in the types of projects funded through TIF lead to mixed results.
	Tax Increment Financing in Chicago	Review of several TIF districts in City of Chicago.	Mixed results on the ability of TIF to spur development. More success with districts close to the central business district.	
	Business Improvement Districts (BIDs)	Tool examined in several cities.	BIDs are mostly successful. Interests of local business owners guide economic development; they watch over their commercial environment; a predictable income stream allows for planning of multi-year services; all beneficiaries pay; and assessment accounts for a small share of occupancy costs.	BIDS operate as nonprofits and are accountable to those they serve. Caveats: public and private partnerships inherent in BIDs can lead to conflict; there is a conflict in the role of BIDS as marketers and as measurer of economic and social conditions.
	Public Works Grant Program	Reviewed 205 projects funded by the Economic Development Administration (EDA).	Most projects helped communities expand their economic base, and jobs and attract private investment. For every $1 million in EDA funding, $10.1 million was leveraged in private sector investment, and another $1 million was leveraged in federal, state or local investment.	
	Infrastructure and Public Works Grant Program	Reviewed 99 projects funded by the Appalachian Regional Commission (ARC).	Most projects met or exceeded expectations regarding the number of new businesses served or retained, and jobs created or retained. Each dollar of ARC funding helped leverage $2.62 in other public funding and each dollar of total public funding leveraged $16.65 in private investment.	

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
OPERATING COSTS				
Subsidies and Incentives	Incentives' role in site location	Survey of 950 Michigan companies. Companies chosen randomly from a membership database of the Michigan Chamber of Commerce.	Among 34 factors affecting location decision, the highest ranked was the city's general business climate and attitude towards industry. Financial inducements were ranked fourth.	
	Incentives' role in site location	Reviewed regression studies.	Location incentives, such as property tax abatement, make some difference to state and local economic growth. Also, subsidies may encourage an expansion of national employment.	Competition among state and local governments may enhance the efficiency of the U.S. economy.
	Influence of property tax abatements	Regression study.	Tax abatement on manufacturing property helps recruit or retain business but increasing the number or magnitude of the abatement will not continue to grow the manufacturing base.	Tax abatements have negative secondary effects including decline in value of local homes, declining government expenditures per capita, and increase in rate of user charges.
	Incentives' role in site location	Hypothetical firm model.	Incentives accentuate basic tax differences. Small differences in labor and other costs outweigh large differences in taxes and incentives.	Neither tax incentives nor non-tax incentives offset the effects of the basic state-local tax systems
	Effectiveness of firm-specific incentives provided by Industrial Development Agencies (IDAs) in NY	Case study of IDAs' bonding activities between 1987 and 1991.	Total tax losses exceeded $1.3 billion. Little evidence to suggest IDAs encourage firms to relocate, remain or expand within the state.	States considering the use of firm-specific tax incentives to spur economic growth and create jobs should look for other methods.
	Enterprise zones (in eight states)	Comparison of enterprise zone to the city in which it is located.	Tax incentives were offset by higher costs, including insurance, transportation and access to raw materials. No significant change in growth rates in zones in comparison to the city as a whole.	By itself, a typical enterprise zone is unable to adequately provide the necessary factors for business growth. The impact of zone incentives on location was only significant for small businesses.
	Enterprise zones programs	Review of 21 studies covering enterprise zones programs across the country.	Found little evidence of program success.	Lack of effective planning may be an important missing element in enterprise zone programs.
	Enterprise zone program in New Jersey	Case study examining changes in employment and real estate value.	No evidence of job growth or increased real estate values.	
	Enterprise zones in Illinois	Study of 68 enterprise zones	Large net benefits.	Caveat: study assumed that all employment generated in the zones was attributable to program incentives.

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
	Enterprise zones in California. Performance of 13 zones between 1986 and 1990.	Study used a shift-share analysis of employment changes.	All employment growth is explained by countywide growth and industrial mix. There is little evidence that the enterprise zones strengthened economically sluggish neighborhoods.	
	Enterprise zone in Louisville	Examined forgone tax and employment changes	Significant costs and modest benefits. Number of jobs and number of employed zone residents fell, although the rest of the county experienced growth.	Unable to precisely determine costs and benefits of the program.
	Targeted Jobs Tax Credit	Comparison of earnings and labor force participation of program participants and a comparable group.	Found substantial earnings gains for participants and gains exceeded program costs. Participants more likely to be employed and evidence suggested gains are long-term.	
Business Assistance	Business Incubators; analysis of 50 incubators	Focus groups of incubator managers, stakeholders and graduate firms.	Business incubators are an effective educational tool; they assist new business survival and growth and create jobs.	Criticism: Most incubators are not financially self-sustaining. 40 of the 50 incubators analyzed did not break even.
	Business incubators	Case study measured job creation, product innovation, new business starts and local location after graduation.	Job creation per firm is small (10), but increased over time.	Incubators are long-term economic development strategy. Evaluations should address both short- and long-run impacts.
	Assistance to small and medium- size manufacturers in New York; the New York Manufacturing Extension Partnership (MEP)	Evaluation conducted by a quasi-experimental design comparing performance of MEP clients with similar companies.	Participating companies changed important business and manufacturing processes, improved performance and increased value added. Over a two-year period, 510-1,920 jobs were created and additional $30-110 million of value added was created.	
	Assistance to small and medium-size manufacturers in Pennsylvania; Pennsylvania's Industrial Resource Centers (IRCs)	Evaluation based on comparing participating companies and similar firms.	IRC clients increased labor productivity and contributed to an increase in gross state product. IRC added $120 million to state revenues. IRC return on state investment was 22:1.	
	Assistance to small and medium-size companies; Ohio Edison Technology Centers	Economic impact analysis of over 1,500 projects undertaken by seven centers over the 1994-98 period. Measures include client-company cost savings, employment gains and increased sales.	Participating firms realized $297 million of cost savings and increased sales of $709 million due to improvement associated with the centers. The centers created 4,628 jobs in Ohio and disposable income increased by $195 million annually.	Analysis conducted on all centers combined. Centers are located throughout the state and each assists different industries.

Areas of Intervention	Examples	Type of Evaluation / Measures	Results	Lessons Learned / Caveats
	State support of technology pioneering firms	In-depth case studies of four companies.	The companies were successful and state programs were instrumental to their success by subsidizing their use of university resources and making direct equity investments.	Financial return on equity investments may provide important benefits to the state. Focusing on employment gains is a shortsighted method to measure success.
	Promotion of technological innovation in Pennsylvania; the Ben Franklin Partnership (BPF)	Evaluation based on in-depth case studies; client-reported impact; and estimates of value added, employment and tax revenues generated by the program.	Over a seven-year period, BFP resulted in 21,800 additional jobs in client firms, with jobs paying salaries 45 percent higher than the average state salary. Additional 24,500 jobs were created throughout the economy. The state collected additional $168 million in tax revenues. Rate of return was $14 for every one dollar of public investment.	BFP is critical in the early stages of company development by providing financing and technical expertise. Clients developed new products, built management teams, developed production capacity, identified new markets and increased sales and profitability.
	Trade Adjustment Assistance Program (TAA), administered by The Economic Development Administration of the U.S. Department of Commerce	Evaluation compared changes in employment and sales for companies assisted by TAA centers to changes in eligible companies that declined TAA assistance.	Benefits for assisted companies include: higher survival rates (84 percent versus 71 percent), added employment (4.2 percent versus decline of 5.3 percent), sales growth (34 percent versus 16 percent). For each dollar invested through TAA, $87 in sales was generated.	Program success is due to: extensive assistance at a low cost to firm, participating firms investing their own money and time in their recovery, program provided analysis of firm's strengths and weaknesses. Caveats: Too much of TAA budget is spent on eligibility versus assistance and there is a long backlog in getting assistance.

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