

When Do States Pursue Targeted Economic Development Policies? The Adoption and Expansion of State Enterprise Zone Programs

Abstract

Although considerable scholarly attention has been devoted to assessing the economic impact of enterprise zones, what has been overlooked is the political question of when do states decide to adopt enterprise zone programs to aid distressed areas and whether those programs can maintain their focus on the distressed areas over time. Enterprise zones are a form of targeted economic development policy that provide special tax incentives to attract and retain companies to a few eligible poor communities, instead of the entire state. This research examines two questions. First, when do states adopt enterprise zones to benefit economically depressed regions? Second, when do states subvert the original targeted intent of the enterprise zone legislation by increasing the number of enterprise zones? Our research also contributes to the literature on state policy innovation by examining how changes in the factors that produce a policy innovation affect the implementation of the innovation, in this case the movement away from a targeted policy.

Can states improve the economic prospects of their most economically distressed communities? This question has taken on a new sense of urgency with the transformation of the American welfare system towards a work-first system wherein the material well being of individuals is dependent on their ability to find gainful employment. For the past twenty-five years, states have experimented using enterprise zones to stimulate private sector investment in economically depressed areas. Enterprise zones provide major tax incentives and other financial assistance to induce firms to expand their operations or relocate to the most economically distressed areas of the state. Enterprise zones are one of the most important economic development policy innovations at the state level. The number of states employing enterprise zones has increased dramatically from 0 in 1981 to 40 in 1996, and state enterprise zone expenditures are the largest component of state economic development budgets (Peters 2002). According to an estimate in 1995, there were approximately 2,840 zones across the United States (Wilder and Rubin 1996).

To date, scholars have extensively studied enterprise zones from a policy evaluation framework: do the zones attract new investment and create jobs (Wilder and Rubin 1996; Peters and Fisher 2002; Greenbaum and Engberg 2003)? However, what has been overlooked are the political questions of when do states decide to adopt enterprise zone programs to aid distressed areas and whether those programs can maintain their focus on the distressed areas over time.

Most state economic development policies are designed to increase the overall level of economic activity in the state. Enterprise zones are different. Enterprise zones are a form of targeted economic development policy that provide special tax incentives to attract and retain companies in a few eligible poor communities, instead of the entire state (Tao and Feiock 1999). In this paper, we examine two questions. First, when do states adopt enterprise zones to benefit economically depressed regions? Second, when do states expand the number of enterprise

zones? Scholars have noted programs that target assistance often lose their original focus and spread the benefits geographically over time to increase political support (Copeland and Meier 1984; Dewar 1998).

By examining these questions, we also seek to contribute to the literature on the state policy innovation. Our results show how a policy innovation, in our case, the adoption of a targeted economic development policy, is affected by subsequent changes in state government ideology, economic conditions, maturation, and external pressures. We use the following outline for the remainder of the article. Section I provides background on enterprise zones programs. Section II discusses the data, methodology and our hypotheses. Section III presents our findings. And finally, Section IV offers some concluding remarks about the implications from the study.

I. THE EVOLUTION OF STATE ENTERPRISE ZONES PROGRAMS

The case of enterprise zones is an interesting example of cross-national policy learning and policy reinvention over time. The idea for enterprise zones came from a British scholar enamored with the economic dynamism of Hong Kong and Singapore under laissez fair economic policies (Hall 1982). They were subsequently championed by Stuart Butler (1980; 1981) of the Heritage Foundation and became the cornerstone of the Reagan administration's urban policy. The initial policy idea called for removing the heavy hand of government regulation and taxation from economically depressed urban areas and letting market forces generate economic growth. However, partisan conflict at the national level prevented any significant policy action until 1993, when the federal Empowerment Zone and Enterprise Community Act was passed under the Clinton Administration and a Democratic Congress. Notwithstanding partisan gridlock at the national level, the number of states employing enterprise zones increased dramatically, leading one Reagan official to call it the "federal government's most successful nonprogram" (Cited in Mossberger, 2000: 54).

The original theory behind enterprise zones stressed the importance of lowering taxes, limiting regulation, and abandoning minimum wage laws to stimulate indigenous entrepreneurial growth. In 1979, the Illinois legislature passed the first enterprise zone bill in the United States. The bill would have eliminated minimum wage laws, created right to work provisions, reduced zoning restrictions, and curbed health and safety codes in the zones (Mier and Gelzer 1982). The bill was strongly opposed by labor, environmental, and civil rights organizations and was vetoed by governor. Subsequently, enterprise zone policy entrepreneurs shifted the programmatic content of enterprise zone proposals towards a more politically acceptable set of economic development policies. The only common element between the old and new version of enterprise zones was the policy goal, reducing poverty in economically distressed areas (Mossberger 2000).

Despite the plethora of economic evaluations of enterprise zones (Wilder and Rubin 1996), no research has been conducted on why states' use of enterprise zones differs. Enterprise zones are part of a larger policy debate over how states should distribute their scarce economic development funds within the state. The central policy question is whether they should adopt a balanced growth or targeted approach to economic development (Eisinger 1988). Under a balanced growth strategy, state development assistance is "made available to every community in the state, rather than limited to the neediest jurisdictions (ACIR 1979)." Proponents of a balanced growth approach argue it makes sense economically and politically. Economic development efforts should attempt to maximize economic growth in the state, and economically distressed areas are a poor investment for the state (ACIR 1981). Similarly, a balanced approach premised on inclusiveness helps avoid political charges of favoring upstate versus downstate, or urban versus rural interests (Eisinger 1988).

The decision to use enterprise zones to geographically target assistance to economically distressed areas represents a major shift in the political and policy debate over how states should

allocate their economic development resources within the state. Historically, state economic development programs have followed the balanced growth approach of providing assistance to all areas of the state. While a few states experimented with geographically targeted programs such as industrial revenue bonds, industrial parks, and tax increment financing in the 1970s and early 1980s, these programs were not explicitly targeted at helping economically depressed places, and by extension poor people (Eisinger 1988).

The adoption of enterprise zones represented a significant change in a state's practice and philosophy of economic development. With enterprise zones, states adopted rigorous processes to target their economic development efforts at the most needy areas. Unlike earlier geographically targeted programs, state enterprise zones used explicit need-based criteria such as poverty rates, unemployment, median income, population decline, welfare caseloads, or low tax capacity for determining whether an area was eligible for enterprise zone designation (HUD 1992). Most states established a competitive rather than an automatic designation process for conferring enterprise zone status. While states did not abandon their statewide incentives and balanced growth strategy, the adoption of enterprise zones signified that states were "making careful targeting an important complementary strategy (Eisinger, 1988:189)".

The question remains whether the implementation of the program will remain true to original political and economic rationale of targeting the program at economically distressed area. Spatially targeted programs, such as the Model Cities Program, tend to spread the benefits geographically as they age to build political support (Copeland and Meier 1984; Rhoads 1985). Virtually every state has weakened their enterprise zone eligibility requirements to permit their use in non-blighted or affluent areas (Talanker 2003). Studies of local enterprise zone programs in Louisville (Lambert and Coomes 2001) and Philadelphia (Wallace 1999) found local governments have expanded their enterprise zones to promote development primarily in business

and industrial districts rather than help blighted urban neighborhoods and employ the disadvantaged. While states and localities adopt enterprise zones to help economically distressed areas, the programs gradually abandon the original targeted approach in favor of a statewide, balanced growth approach aimed at maximizing economic growth.

II. DATA AND RESEARCH HYPOTHESES

The evolution of state enterprise zone programs raises two interesting questions. When do states create enterprise zone programs targeted to help poor places? And, when do they change these policies to a balanced growth program benefiting more affluent areas? What is of interest to us is not whether enterprise zones improve economic conditions in economically distressed places, but under what circumstances do states make the political decision to provide public resources to generate economic growth in poor places that they do not provide to the rest of the state. Because we are interested in the timing of adoption and expansion of enterprise zones we pool cross-sectional data from the fifty states from 1980 to 1996, creating a 17 year time series.

We utilize event history or duration analysis to model the adoption of state enterprise zone legislation. Duration analysis operates under the assumption that all of the cases, here the 50 states, are “at risk” for adopting enterprise zones and “fail” when the state government adopts an enterprise zone program. The unit of analysis is a year-state, and the dependent variable is whether a state adopts an enterprise zone program in that year, in which cases it “fails” and drops out of the data set. We use a Cox Proportional Hazard model to estimate the coefficients.¹ The Cox model has the advantage over other event history methods of not requiring a pre-specified distribution (Box-Steffensmeier and Jones 2004).

While the exact programmatic mix of each state’s enterprise zone program varied in the extent to which assistance consisted of tax incentives to firms or public investment for improved

infrastructure social services (Erickson and Friedman 1991), Mossberger's interviews with political and policy practitioners found all viewed enterprise zones as a targeted approach designed to help economically distressed areas (2000, 190). Her elite interviews suggest the intent of enterprise zones policies are similar enough to be modeled as the same policy innovation. Moreover, since the goal of our research is explain why states choose to focus on economically distressed areas through enterprise zones rather than how, it is acceptable to collapse the real variance in enterprise zone proposals and policies (Mintrom 1997).

To assess the second question, whether the state enterprise zone programs have remained targeted at economically distressed areas, we considered three potential outcome variables: eligibility requirements, expansion of existing zones, and an increase in the number of zones. Each of these are ways programs have been transformed from a program targeted at economically depressed areas to a universal program aimed at attracting businesses throughout the entire state. While almost all states have eased the eligibility requirements for their enterprise zone program (Talanker 2003), these changes varied in their visibility and scope that make collecting data and developing a reliable coding scheme to facilitate cross-state comparisons problematic. Similarly, while many states have expanded the size of their original zones to permit firms in non-distressed areas to receive incentives (Wallace 1999; Lambert and Coomes 2001), there is no available data on the total acreage designated as an enterprise zone by state.

Instead, we use the annual increase in the number of enterprise zones in the state as our dependent variable to assess whether a program remained targeted at poor communities. The longitudinal data on the number of enterprise zones were taken from a dataset collected by John Engberg and Fisher and Peters (Engberg and Greenbaum 1999; Peters and Fisher 2002) and

supplemented with our analysis of the missing states. It includes data on the number of new zones for every state that has adopted an enterprise zone program between 1980 and 1996.

While a state enterprise zone program could theoretically remain targeted if the newly created zones were as poor as the original ones, research suggests otherwise. As the number of enterprise zones in Ohio increased, the program became less targeted at economically distressed areas and more of a statewide incentive program (Cassell 2003). A study of spatially targeted economic revitalization programs in the United States and European Union found that the programs became less targeted at economically distressed areas as the number of areas increased (Greenbaum and Bondonio 2003). If every state increased the number of enterprise zones, it would make for a very uninteresting model. However, as we can see in Figure 1, there is significant variation in the expansion of state enterprise zone programs. While most states have increased their total number of zones, many have not. This variation raises the question of why some states maintain their targeted program at economically distressed area, and others do not.

Figure 1 Here

Independent Variables

State policy innovation and change is theorized to be the product of internal and external pressures (Berry and Berry 1998). Internal pressures include the views of political elites, changes in public opinion, the strength of the advocacy coalition, and socio-economic conditions. External influences are hypothesized to include policy learning or economic competition from neighboring states. Drawing upon this body of research, we develop four sets of hypotheses to explain the creation and subsequent proliferation of enterprise zones.

Partisanship/Ideology Hypothesis. Partisan or ideological models would suggest that changes in the composition of a state's political elite should lead to a change in economic development policy. To assess whether enterprise zone policy was affected by partisan or

ideological factors, we include three different measures of state partisan control and ideology. First, we include the standard measure of state government ideology (liberalism), ranging from 1= most liberal and 0 = most conservative (Berry, Ringquist et al. 1998). Enterprise zones are a redistributive economic development policy that provide public resources from the haves to the have-nots (Tao and Feiock 1999). Just as political elites have differing views on redistributive social programs, we predict political elites are likely to have differing views on enterprise zones based on their partisan and ideological orientations. Second, we use the percentage of the three lawmaking institutions, governor, senate, and assembly, that are controlled by Democrats (Democratic control). A "1" indicates unified Democratic control of state government, while a "0" indicates unified Republican control of state government. Although the original supporters of enterprise zones were Republicans, we predict states controlled by Democrats are more likely to adopt enterprise zone program because the programs target assistance to traditionally democratic constituencies in urban areas.

Many journalistic accounts suggest enterprise zones were a programmatic compromise of using free market solutions to address the liberal agenda of helping distressed urban communities (Guskind 1989; Wolf 1990; Gunn 1993). Thus, the adoption of enterprise zones may be the product of a centrist rather than liberal state government ideology. Enterprise zones were controversial among liberal Democrats in New York, but not among moderate Democrats in Virginia (Mossberger 2000). To measure state ideological centrism, we calculated a folded measure of state government ideology based on the folded Ranney measure of state party competitiveness. A measure closer to 1 indicates the state is more centrist while a measure closer to .5 indicates the state is more conservative or liberal.² In alternative models, we included a measure of divided government, but it was not statistically significant in either the adoption or expansion of the program and was thus excluded from our results section.

Socio-economic Hypothesis. State policy choices are the product of societal actors' response to changing economic and social conditions. We include a measure for urbanization. In more urban states, we assume that there will be more political pressure to design economic development programs to address their needs. The larger the urban population, the more likely it is a state will adopt an enterprise zone program and increase the number of enterprise zones.

Scholars have also noted that state decision-makers are more likely to adopt new economic development programs under conditions of economic duress, although these previous studies did not explicitly distinguish between geographically targeted versus balanced growth policies (Rubin and Rubin 1987; Brace 1994). We hypothesize that as economic conditions in the state worsen, officials are more likely to respond by enacting enterprise zone programs. We operationalize economic distress by using the state unemployment rate (Bureau of Labor Statistics 2002). We also include a measure of state per capita income to assess whether there any policy differences between more and less wealthy states towards targeted economic development policies. Finally, we included a dummy variable for the 11 southern states to control for historical patterns in policy outcomes (Key 1949).

Institutional Hypothesis The decision to target a state's economic development resources on the most needy areas of the state, at the expense of the majority is likely to promote institutional conflict between the governor and the legislature. Governors, since they are held accountable by voters for a host of policy outcomes, are likely to prefer a more efficient use of the states enterprise zone resources by targeting only the most needy areas. We assume that greater executive centralization is associated with greater capacity to target economic development resources (Johnson 1982; Zysman 1983). However, governors vary in their institutional capacity to meet their policy goals. We use Bowman and Kearney's (1988) measure of executive centralization.

We predict that the adoption and expansion of state enterprise zone programs is affected by the degree of legislative professionalization. Walker (1969) argues the professional legislatures are more likely to be policy innovators. We thus hypothesize that states with more professional legislatures are more likely to adopt an enterprise zone program. While legislatures would prefer to increase the number of zones to make benefits available in every district (Mossberger 2000), research suggests that more professional legislatures are more responsive to aggregate constituency concerns and more likely to respond to the interests of broad-based constituencies than less professional legislatures (Maestas 2000). Thus, we predict professional legislatures are more likely to expand the number of enterprise zones in the state. We use Squires' measure of legislative professionalization (1992).

Competition Hypothesis. Finally, a state's enterprise zone policy could be influenced by the policies of their neighbors through competition for jobs and investment. While much of the innovation research has emphasized the importance of policy learning from neighboring states, we hypothesize that with economic development policies, the nature of the relationship is based on a competition dynamic rather than policy learning. The research on economic development policy emphasizes the competition between the states for jobs and investment (Burstein and Rolnick 1995; Donahue 1999). Moreover, Mossberger's qualitative analysis of the diffusion of enterprise zones emphasized that the federal government and national state associations were the primary sources for policy information, but that "competition for investment apparently did lead some states to pay more attention to what neighboring states did on the issue (2000, 109)." We, thus, hypothesize that as the number of a state's bordering neighbors adopt an enterprise zone program, the state will be more likely to adopt an enterprise zone program and later expand the number of zones to attract the investment. Competition is measured as the percentage of contiguous states with an enterprise zone program.

III. RESULTS

Enterprise Zone Program Adoption

Although the federal government and national state associations were actively extolling the virtues of enterprise zone programs as part of the Reagan Administration's urban agenda, the adoption of the program required a distinctive combination of internal and external pressures. Table 1 reports the findings from the survival analysis using a Cox Proportional Hazard model. Positive coefficients correspond with increased probability of a state adopting an enterprise zone program. In all three models, the adoption decision is driven by a combination of competition, urbanization, and executive centralization. Increased competition from neighbors significantly increases the likelihood of a state adopting an enterprise zone program. Similarly, states with larger urban populations were more likely to adopt an enterprise zone program.

Table 1 and Figure 2 Here

In Figure 2, we calculate the predicted probabilities of a state adopting an enterprise zone program in subsequent years for states with different levels of competition and percent urban using the coefficient estimates from Model 1 in Table 1. The competition and urban variables are varied to equal one standard deviation above and below the mean for each variable. High competition and high urbanization equal one standard deviation above the mean for each variable. Low competition and low urbanization equal one standard deviation below the mean for each variable. The comparison shows that for 1988, the midpoint of our analysis, a state with a measure of urbanization one standard deviation below the mean had a 59 percent probability of adopting an enterprise zone program whereas a state with a measure of urbanization one standard deviation above the mean had a 86 percent probability. As the political clout of urban interests

increases, so does the probability that governing elites will adopt economic development programs to support their needs and interests.

Interestingly, inter-state competition has a slightly greater impact on states' adoption decisions than the size of its urban population. A state experiencing high competition had a 94 percent probability of adopting the program while a state with low competition only had a 46 percent probability. The significant impact of competition highlights the dramatic effect of external pressure on state economic development policy-making strategies. While the federal government and national state associations certainly provided important information to shape the specifics of the state programs, it was clearly competition from neighboring states that induced governing elites to emulate the economic development efforts of their neighbors by adopting enterprise zones.

The combination of the political clout of urban interests and competitive pressure was more important than the other two sets of potential factors, aggregate economic conditions or partisanship and ideology. While economic decline is often associated with economic development policy innovation, neither measure of aggregate state economic conditions had a statistically significant impact on the adoption of targeted economic development policies. Similarly, while there are sound reasons to suspect that political support for enterprise zones might have a partisan or ideological component, none of the three measures of partisanship or ideology, although positive, were statistically significant. Finally, executive centralization was positively associated with adoption of the program. The positive coefficient on executive centralization reflects the preference of the executive branch to maximize the impact of state economic development policies by concentrating them on the most distressed areas.

When do states pursue spatially targeted economic development policies? Our results suggest that the decision to adopt an enterprise zone program is the product of competing

economic development rationales—to ameliorate urban decline and to compete for investment and jobs with neighboring states. These competing rationales, while not mutually exclusive, reflect both the balanced growth and targeted tradition.

Enterprise Zone Program Expansion

The state policy diffusion literature has focused almost exclusively on the decision to adopt the innovation (Mooney 2001), rather than the implementation of the decision (though see Glick and Hays 1991). This approach is problematic because most policy change happens through the modification of existing laws (Jones 1994) or changes in the administration of the existing laws (Hogwood and Peters 1983). The resulting methodological bias “may distort our understanding of the policy process by under-representing cases of policy change via modification or abandonment” (Blomquist 1998). This is particularly problematic for spatially targeted programs, where scholars have noted their tendency to devolve into broad projects with dispersed allocations (Copeland and Meier 1984). Focusing exclusively on the adoption of enterprise zone legislation would produce a misleading understanding of states’ ability to pursue targeted economic development policies.

To assess whether a state enterprise zone program remained targeted at poor communities, we use the annual increase in the number of enterprise zones in the state as our dependent variable for every state that has adopted an enterprise zone program between 1980 and 1996. We explore the relationship between the expansion of state enterprise zone programs and relevant predictors using population-average panel data models appropriate for short time series.¹ The dependent variable is a count of the number of new enterprise zones created in a state each year following the adoption of the program. Therefore, an event count model is used for

¹ These models were estimated using Stata 9.0, using the `xtnbreg` command. We further specified the robust option in order to produce valid standard errors even if the correlation within group are not as hypothesized by the specific correlation structure.

estimation. The significance of the goodness of fit parameters in the models indicated that a negative binomial regression model is most appropriate.

While urbanization and competition continue to exert a powerful effect, the expansion of state is also driven by socioeconomic conditions, universalism, and partisanship. As with the adoption decision, the urban and competition variables are positive and statistically significant. The positive coefficient on the urban variable suggests that states with larger urban populations face more political pressure to increase the number of zones. Similarly, states' implementation of their enterprise zone programs are influenced by neighboring states' policy choices. The positive parameter estimate for competition suggests that states that border other states with an enterprise zone program are more likely to increase the number of zones in the state to compete with neighboring states to attract investment and jobs. The finding highlights the existence of a race-to-the-bottom competition among states that may negatively impact their ability to target their economic development policies to help poor areas.

Table 2 Here

Second, the results reveal an interesting relationship between socio-economic conditions and the expansion of their enterprise zone programs. The unemployment variable is negative and statistically significant, which suggests that states are less likely to increase the number of enterprise zones as unemployment increases. Given the high costs of enterprise zones (Peters and Fisher 2002), states that are suffering from rising unemployment may not be able to afford the increase in tax incentives associated with increasing the number of zones. Conversely, as state unemployment decreases, states are more likely to increase the number of zones. What was once a geographically targeted program becomes more of a statewide incentive program. Poorer states, as measured by per capita income, are more likely to increase the number of enterprise

zones to presumably include less economically distressed areas. It is more difficult politically to justify targeting enterprise zones on economically distressed areas in poorer states.

Our results also provide significant evidence to support the theory of universalism, or that targeted programs gradually expand over time to maintain political support for the program. The age variable, which measures how many years the program has been in existence, is positive and statistically significant in all three models. As the program ages, states are more likely to create new enterprise zones. Our results also suggest that the structure of state legislatures also has important implications for the operation of targeted programs. Our conversations with state enterprise zone coordinators revealed that they are “always having to fight the legislature” to keep the programs targeted on distressed areas. The positive parameter estimate for legislative professionalization in Models 2 and 3 suggests that it is the legislatures with more institutional capacity and resources that are more likely to prevail in their fight to expand the program. Interestingly, executive centralization, which was positively associated with the adoption of enterprise zones, has no statistically discernible effect on the expansion of the program.

While the adoption of enterprise zone programs was not affected by partisanship or ideology, their expansion is driven by a distinctive set of partisan and ideological conditions. The coefficient for Democratic control of state institutions (model 1) is positive and statistically significant, which suggests once enterprise zone policies are created, expansion of the program is more likely to occur under Democratic not Republican control of state government. However, only the coefficient for state centrism (model 2), is positive and near statistical significance, even when controlling for the South. In other words, state governments controlled by ideologically moderate Democrats were more likely to expand enterprise zones than state governments dominated by liberal democrats or republicans.

In sum, many of the same factors that lead states to adopt an enterprise zone program impel them to expand the program by adding additional zones. Inter-state competition and urbanization both increase the probability that the state will expand the program in a given year. Our findings also suggest that spatially targeted programs expand as they mature or age, especially in states with more professional legislatures. Finally, we found that greater control of state governments by Democrats or centrists was associated with the adoption of new zones in the state.

IV. CONCLUSION

One of the central questions facing scholars of state and local economic development policies is how much discretion or autonomy elected officials have to fashion public policies in a capitalist system. To date, most assessments of state economic development policies have found no partisan or ideological differences in those policies (Eisinger 1988; Cable and Feiock 1998). Explanations for the lack of partisan differences point to one of two sets of explanations. Structuralist arguments suggest the fierce competition among states for investment, jobs, and workers in an era of highly mobile capital, diminished federal funding, and increase international competition (Peterson 1981; Peterson 1995) reduces partisan effects. Political explanations suggest elected officials pursue policies designed to provide immediate economic and electoral gratification through credit-claiming (Feiock and Clingermayer 1986; Wolman 1988).

In the case of enterprise zones, inter-state competition and urbanization have the most significant impact on state policy choices. States facing significant competition from neighboring states with enterprise zones were more likely to adopt and subsequently expand their enterprise zone programs. Similarly, the underlying political demand or clout of urban voters was strongly associated with the adoption and expansion of the program. In contrast, partisanship and ideology had far more modest effects. Once enterprise zone programs were

adopted, states with more democratic control or centrist ideology were more likely to embrace the philosophy of using tax breaks for businesses to reduce urban poverty and expand the enterprise zone program. This finding suggests that state economic development efforts may not reflect a liberal conservative ideological continuum, but rather the political influence of centrists.

Finally, our findings also have implications for the state policy innovation and diffusion literature. Most studies of state policy innovation end with adoption of the policy, although we know that significant policy change occurs through the modification of existing laws. Had we stopped our analysis with the adoption of enterprise zone programs, we would have a misleading portrait of states' capacity to pursue targeted economic development policies. By extending our analysis to examine the expansion of the enterprise zone program, we discovered the dynamic nature of the policy process and developed a more pessimistic account of states' capacity to pursue spatially targeted economic development policies that target economically distressed areas. While the adoption of enterprise zone signaled a political commitment to target the state's economic development efforts at helping the most distressed areas of the state, that commitment gradually wanes in the face of internal political demands and external competition pressure.

Table 1. The Determinants of State Adoption of an Enterprise Zone Program

	<i>Model 1</i>		<i>Model 2</i>		<i>Model 3</i>	
	β (se)	$p> z $	β (se)	$p> z $	β (se)	$p> z $
Partisanship/Ideology						
Liberalism	1.003 (.007)	0.628				
Centrist			1.0156 (0.012)	0.19		
Democratic control					1.719174 (.88)	.291
Socioeconomic						
Urban	1.029** (0.014)	.035	1.030** (0.015)	0.04	1.029** (0.014)	0.03
Per capita income	1.000 (0.00)	0.589	1.000 (0.00)	0.715	1.000 (0.00)	.53
Unemployment	1.017 (0.075)	0.783	1.006 (0.072)	.94	1.020 (0.075)	.79
South	1.99** (.70)	.05	1.79 (.64)	0.105	1.74 (.62)	.12
Institutional						
Legislative Professionalization	2.862 (2.99)	.325	1.736 (1.73)	.38	2.88 (2.97)	.30
Executive centralization	1.366** (0.21)	.042	1.253* (0.22)	.06	1.39** (0.21)	0.026
Competition						
Competition	1.02*** (0.01)	0.00	1.02*** (0.01)	0.00	1.016*** (0.01)	0.01
Number of subjects	50		50		50	
Number of failures	40		40		40	
Number of observations	407		407		403	
Prob>chi2	.001***		0.0001***		0.0007***	

Dependent variable: the number of years until the state adopted an enterprise zone program.
 Method: Unstandardized Cox Proportional Hazard regression with robust standard errors. The Breslow method for ties was used. All coefficient significance tests are one-tailed.
 *** Significant at .01 level; ** Significant at .05 level; * Significant at .10 level

Table 2. The Determinants of State Expansion of Enterprise Zones

	<i>Model 1</i>		<i>Model 2</i>		<i>Model 3</i>	
	β (<i>se</i>)	$p> z $	β (<i>se</i>)	$p> z $	B (<i>se</i>)	$p> z $
Partisanship/Ideology						
Democratic Control	.869*	0.08				
	(.504)					
Centrist			.02	0.15		
			(0.01)			
Liberalism					.003	.614
					(0.006)	
Socioeconomic						
Urban	0.054**	0.004	.05***	0.007	.052***	0.006
	(0.018)		(0.02)		(0.02)	
Per capita income	-.0002*	0.07	-.0002*	0.08	-.0002*	0.072
	(0.0001)		(0.0001)		(0.0001)	
Unemployment	-.118*	0.06	-0.133**	0.05	-.112*	0.09
	(0.069)		(0.067)		(0.067)	
Institutional						
Legislative Professionalization	2.26	0.115	2.44*	0.09	2.41*	0.09
	(1.43)		(1.44)		(1.42)	
Executive centralization	-.145	.570	-0.128	0.64	-.17	0.52
	(0.266)		(0.27)		(0.26)	
Competition						
Competition	.030***	0.000	.030***	0.00	0.03***	0.00
	(0.02)		(0.01)		(0.01)	
Age	.199	.015	.197	0.024	.208	0.02
	(.08)		(.087)		(.08)	
South	-.095	.903	.07	.93	.107	.885
	(.787)		(.07)		(.743)	
Louisiana	.252	.964	-.061	.918	.072	.90
	(.565)		(.588)		(.578)	
Constant	-4.01**	.027	-4.72**	.038	-3.27*	.09
	(1.82)		(2.28)		(1.96)	
Number of states	40		40		40	
Number of observations	680		680		680	
Wald chi2	159.36		144.11		165.43	
Prob>chi2	0.00***		0.00***		0.00***	

Dependent variable: Annual increase in the number of enterprise zones in the state
 Method: Time series cross-sectional regression, population average model,
 Robust Standard Errors

Note: All models included state-clustered standard errors. All coefficient significance tests are one-tailed. *** Significant at .01 level; ** Significant at .05 level; * Significant at .10 level

Figure 1. Expansion of State Enterprise Zone Programs

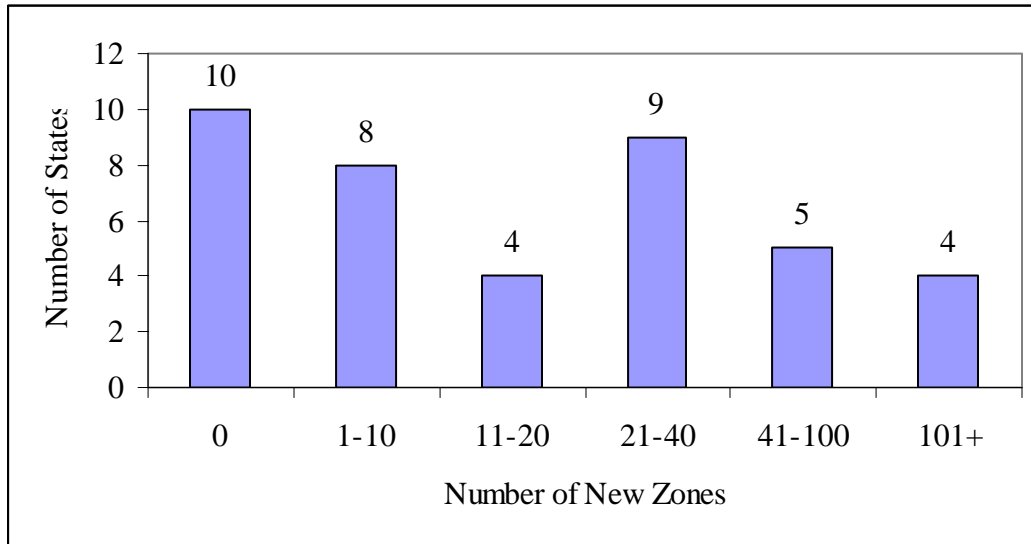
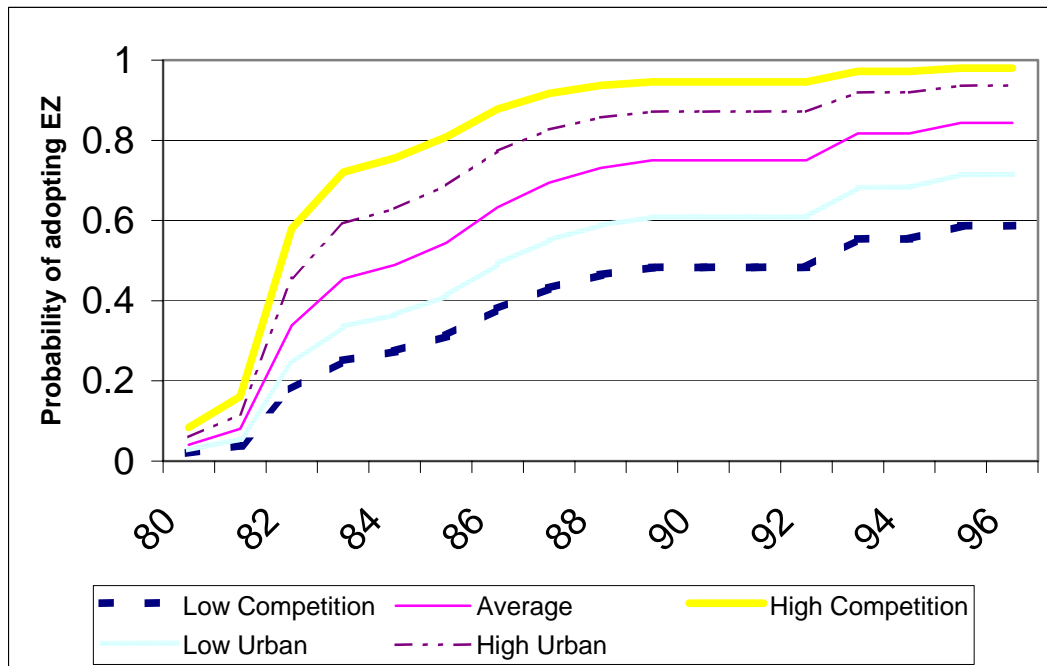


Figure 2 The Impact of Competition and Urbanization on Probability of States' Adoption of Enterprise Zone Programs



The predicted probabilities were made using the coefficient estimates from model 2 in Table 1.

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¹ Before running the Cox Proportional Hazard model, we first checked and tested whether the hazard ratio is proportional over time. We used the test developed by Grambusch and Therneau (1994) Grambusch, P. M. and T. M. Therneau (1994). "Proportional hazards tests and diagnostics based on weighted residuals." Biometrika **81**: 515-526. and found no evidence that the proportional hazard assumption had been violated.

² State government centrism = 1- absolute value (.5- state government ideology score).