

# **Partnerships in Economic Development: What Influences the Formation of Interlocal Development Agreements?**

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## **Abstract**

*The “rules of the game” embodied in municipal documents constrain as well as provide opportunities for local government officials to capture individual benefits related to policy action. We test the mediating effect form of government has on the probability of joint venture formation for economic development purposes. Data is generated from a survey of local officials in 2004 and 2007. We find that prior agreements influence future cooperative actions and that institutional arrangements mediate horizontal agreements depending on whether development objectives are local or regional in nature.*

## **Introduction**

The fragmentation of government authority in metropolitan areas has produced calls to reduce service duplication and constrain the competition among local governments to attract economic development. Structural reforms like governmental consolidation or the establishment of an overarching metropolitan governing system have been proposed as solutions to these problems, but these reforms have been met with strong opposition from citizens and local governments that wish to retain their autonomy (Williams, 1967; Carr and Feiock, 2004).

One alternative to the creation of a single purpose government, or reconfiguring jurisdictional boundaries, is voluntary agreements among local governments to cooperate with one another on a more limited basis through bilateral and multilateral joint ventures (Feiock, 2005; Hawkins, forthcoming-a). Bilateral cooperation between local governments has emerged as a popular mechanism for service delivery (Andrew, 2009; Carr, Gerber and Luper, forthcoming), as well an approach to economic development in the form of joint ventures (Johnson and Neiman, 2004; Feiock, Steinacker and Park, 2009; Hawkins, forthcoming-b).

The “rules of the game” embodied in municipal charters constrain local public officials’ policy choices and provide opportunities to capture individual benefits related to establishing intergovernmental agreements (Bickers, Stein and Post 2009). This institutional context is often presented as a difference between reformed and unreformed governments. In unreformed cities, incentives associated with an elected mayor encourage narrow constituencies and the targeting of specific geographic areas. Technical expertise may be downplayed in favor of popular responsiveness. In the reformed government contexts, with an appointed manager, there are

stronger incentives to promote city-wide interests rather than target policy benefits to narrow partisan constituencies or geographic areas (Sharp, 1997, Clingermayer and Feiock, 2001: 122).

In this study we employ cross sectional analysis to explain the formation of joint ventures for economic development. We incorporate the literature on local institutions which provides strong evidence of the mediating effects political arrangements have on policy adoption and choice of governance mechanism. We specifically focus on the incentives associated with form of government and link these with the objectives for potentially establishing a joint venture for economic development purposes. Our study departs from existing research in that we control for previous cooperative efforts by using survey data collected from two time periods. Extant research suggests that a history of cooperative relations positively effects future agreements (Gulati and Gargiulo, 1999). Including a prior agreement as an explanatory variable enables us to more accurately estimate the factors that influence the choice to form a joint venture.

This paper proceeds as follows. First, we review the literature on interjurisdictional cooperation and governance mechanisms. We then discuss theoretical arguments that suggest how the local institutional context influences decision making and policy choice. We then outline our data collection and identify the variables used to test our hypotheses. In the results section we discuss our findings from a binary regression model. The concluding section identifies key results and opportunities for future research.

## **Interjurisdictional Cooperation: The ICA Perspective**

Institutional collective action (ICA) problems arise from the fragmented nature of metropolitan areas. The externalities of development in one jurisdiction often time spillover administrative boundaries into neighboring communities. Furthermore, fragmentation creates diseconomies of scale in the provision of infrastructure that is needed to support economic development and growth (Steinaker, 2009). Addressing these issues requires government units to work together. Competition for development, however, makes cooperation difficult (Peterson, 1981). Moreover, when cooperation does occur among government units, some benefits may not be excluded from others in the region. A government may hold and “free ride” on regional development efforts without incurring the costs of forming an agreement.

Institutional collective action considers the variety of alternative mechanisms that resolve problems of cooperating across communities (Scholz and Fieock, 2009). The ICA framework applies theories of contracting and collective action among individuals to cities, counties and government organizations (Feiock, 2004). Although government units comprise metropolitan areas, individuals act on behalf of organizations. By focusing on the position, authority, and aggregation of rules that guide individual behavior (Ostrom, 2005), we can analyze the relevant actors and incentive structures that influence the choice for development policy and regional governance mechanism. In the following section we first review the governance mechanisms for collective action with a focus on interjurisdictional agreements and joint venture formation.

## **Dimensions of Local Cooperation**

There are a range of institutional mechanisms that have emerged as possible solutions ICA problems. On one side, city-county consolidation is expected to increase regional coordination in economic development and provide clearer lines of government authority. This governing mechanism, however, has largely faced opposition from voters. For example, only 23 of 134 city-county consolidation proposals have been approved by voters between 1921 and 1996 (Blodgett 1996). Empirical evidence suggests that city-county consolidation in fact has little effect on economic development (Carr and Feiock, 1999).

While city-county consolidation is limited in its political appeal and economic benefits, regional partnerships have emerged as a popular mechanism to discuss metropolitan wide development issues (Olberding, 2002; Feiock, Tao and Johnson, 2004). Although important for resolving collective action problems, these efforts are often limited to policy domains such as air and water quality, waste management, and transport (Bollens 1997; Lewis 1998; Lindstrom 1998). Regional partnerships allow communities to come together and develop regional development plans, but autonomy for implementation remains in the hands of local governments.

At the other end of the spectrum, Feiock (2009) identifies managed network, contract network and policy network as three types of bilateral regional governance tools that mitigate ICA problems. In managed networks, third parties such as the state or federal government provide funding to facilitate the formation of collaborative relations among local government actors. This mechanism is likely to form when services have lower transaction risk, such as refuse collection. The second form, contract networks, link government units in a legally binding agreement and

require voluntary consent of those involved. At the regional level, bilateral ventures, agreements and contracts emerge to form a general pattern of regional intergovernmental relationships that produce joint gains for those involved (Andrew, 2009). Under this mechanism, local actors can negotiate agreements to address the effects of regional fragmentation, such as spillovers from local growth (Lubell et al., 2002). The third type, policy networks, offers the most freedom to local governments to choose partners. This mechanism results from interaction among local officials and the endogenous resources such as trust and norms of reciprocity that are critical to resolving collective action problems (Ostrom 1990).

Much of the research on interjurisdictional cooperation incorporates traditional public administration and policy concerns (Post 2004). The literature on bilateral agreements suggests the relative importance of cooperation to manage externalities, improve efficiency and reduce costs associated with service delivery (Steinacker, 2009). For example, the Advisory Commission on Intergovernmental Relations (1983) classifies intergovernmental cooperative efforts as contracts for services or joint provision of services. Contracts for services are often the domain of two local government entities and are typically formed when the costs of purchasing a service is lower than if the government produced the services itself. Research suggests that cost savings is a motivating factor in the decision to contract for services (Morgan and Hirlinger 1991; Stein 1990). On the other hand, joint provision of services is an agreement between two entities where *both* are involved in the production and the provision of the service. The types of services, the reasons for the provision of the service, and the frequency by which they are used are very similar to contracts for services (ACIR 1983). Joint service agreements include mutual aid agreements and joint programs and ventures. Local governments are less likely to relinquish local police power or

autonomy in joint service agreements than in service contracts. Nevertheless, Reynolds (2003) notes that joint services agreements are rarely used as a regional approach. Compared to regional partnerships, they tend to be narrowly defined and limited in scope of cooperation, but they also offer a mechanism that can compliment, rather than displace, pre-existing local government service arrangements.

Although bilateral agreements are more limited in scale than region wide development efforts supported through regional organizations, and do not require reconfiguration of jurisdictional boundaries, local governments can effectively maintain autonomy and address local and regional issues through bargaining and flexible agreements that can be formal or informal in nature. Furthermore, they may focus on a single project, such as shared utilities or infrastructure to support growth, or a more comprehensive range of development issues with more than one community (Hawkins, 2007; Feiock 2008). Using intergovernmental expenditures as an indicator of cooperation, Post (2002) for instance, identifies capital intensive projects (sewage, water, parking, highways, etc.) and labor intensive efforts (corrections, education, fire, health, etc.) as the focus of horizontal agreements. Interjurisdictional cooperation from this perspective is often more politically feasible (Parks and Oakerson 1989; Oakerson and Parks 1988).

### **Economic Development Agreements**

The study of economic development plays a central role in the urban politics and administration literatures. Development policy adoption is often a response to changing socio-economic conditions in a community (Rubin and Rubin, 1987) as well as a response to demands placed on elected officials by various stakeholder groups (Stone, 1989). Historically, tax policies

have been used to enhance the competitiveness of a community, lure capital and support economic growth. Studies of economic development have also tended to focus on different “bundles” of physical endowments or assets. It is argued that by altering community assets such as infrastructure and land, a community will be better positioned to capture potential development (Steinacker, 2002).

It is also argued that how a community organizes itself for development, (i.e. the organizational and institutional forms that a community relies on to structure economic development functions) affects its competitiveness. The extent to which a city looks beyond its jurisdictional borders to forming partnerships and other institutional mechanisms that transcend boundaries has important implications for national and international competitiveness and future growth (Feiock, Moon and Park 2008). The organization of local economic development has generally evolved over time to include more cooperative policies among local governments (Reese & Rosenfield, 2001).

Compared to rigid and bureaucratic governance, flexible and responsible public organizations may be better situated to support development (Rondinelli, Johnson & Kasarda, 1998). The “strategic” determinants that include cooperation among regional decision makers are as important as the classical “economic” determinants (labor, capital, location and infrastructure) that are often the focus on local development studies (Kresl, 1995). In general, intergovernmental cooperation is reflective of the shift to multisector governance among agencies to manage local affairs. For example, Thurmaier and Wood’s (2002) analysis of interlocal agreements in the Kansas City region suggests that city and county managers establish a regional network of



exchange relationships among government units. Linkages among a variety of organizations involved in local economic development are often established for a host of development objectives (Agranoff and McGuire, 2003), suggesting that as local and regional economic environment becomes more complex, multijurisdictional networks where communities share resources through interjurisdictional agreements are increasingly important in developing local economies.

Joint ventures represent one type of interjurisdictional agreement established among local governments for economic development purposes. Although generally understudied, previous research does suggest that they are relatively common feature of the local policy landscape and an important feature of metropolitan governance (Feiock and Scholz, 2009). Joint initiatives for development have been established for federally funded economic development programs in some cities for example (Clarke and Rich 1985; Rich 1993; Clarke 1998). Goetz and Keynes (1993) found that many cities have not only considered but carried out a cooperative development project with another municipality, even when economic development competition remains the norm. More recently, Neiman and Fernandez (2004) note in their study of policies adopted by California communities that joint ventures are commonly used to encourage development.

Among the motivations for intergovernmental cooperation is an expected improvement in business climate, the ability to “capture” wandering businesses, more entrepreneurial activity and improved competitiveness (Nunn and Rosentraub, 1998; Hawkins, forthcoming-b). Although there are joint gains for communities and improvements to the regional economy that can be derived from cooperating, selective benefits can be generated from forming a joint venture as well. In the next section we discuss the incentive structure associated with local governing arrangements and relate this to motivations for interjurisdictional cooperation and regional governance.

## **Institutional Incentives**

The theoretical literature on urban policy and development identify the effects institutional structures have on policy decisions. Institutions, as defined by Douglas North (1990), are “the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction (p. ).” Rules can be both formal and informal and generally structure political action by shaping incentives of local actors and thus decision making processes and policy choices. Local institutions influence the relationship between those in governing positions and the aggregate constituency (the median voter) of the community that the official represents. Thus institutions are not a negligible feature in analysis of policy choice explanations but are central to indentifying the constraints and opportunities for policy action under different governing arrangements.

Political incentives are commonly tied to form of government and often included as a variable in explanatory models of policy adoption. For example, variation in policy adoption is attributable to the difference in political incentives of local elected and appointed government officials that is shaped by the local context (Clingermyer and Feiock, 1990; Feiock and Kim, 2000). Recent studies that extend this literature indicate the importance of institutional factors in interjurisdictional cooperation as an approach to the governance of local economic development. Cross sectional analysis by Hawkins (2009) and Feiock, Steinacker and Park (2008), for instance, suggest that form of government is an important factor in the decision of a local government to form joint venture agreements.

Constitutional level rules form the basis of local governance by controlling how policy choices can be made (Ostrom 1990). Form of government is an example of a city constitutional-level rule. A city’s charter is the legal document that typically identifies if a city is governed

through elected mayor or appointed professional manager. The charter creates a framework for formulating specific substantive rules, such how a local government will pursue economic development and manage growth through interlocal agreements.

Depending on constitutional level rules, different incentives are created for local political actors. Under mayor-council systems typical of unreformed governing arrangements, constitutional level rules provide incentives that focus on narrow interests where policy action tends to reflect the elected official's pursuit of individual benefits. Under reformed government, incentives emphasize city-wide issues and minimize political beneficiaries of policy choice. There are fewer incentives to influence policy decisions that are at the public expense (McCabe and Feiock, 2005). Constitutional level rules thus establish the characteristics of the local governing institution which influences the development policy preferences of government officials (Clingermayer and Feiock, 2001).

### ***Mayor Form of Government***

Based on transaction cost theory, Frant (1996) relates the difficulties in setting policy in cities managed by elected officials to the high powered incentives that unreformed political institutions create. Generally, high-powered incentives are the desire of politicians to get reelected. This may lead office holders to behave opportunistically and deliver targeted benefits as a response to constituent demands. Under these circumstances community needs may be sacrificed for more visible forms of public spending.

Differences between governing institutions are particularly salient in economic development. Policies that are oriented toward economic growth may be adopted in unreformed cities because of political attractiveness (Feiock and Clingermayer, 2001). A strong mayor and

partisan elections in unreformed political institutions allow officials to speak for the city in economic development deal making. This provides an opportunity to generate selective benefits, such as providing efficiency enhancing improvements for the city. In unreformed cities, elected officials have more incentive to be involved in negotiating development projects, particularly if the project results in benefits that can be distributed to specific constituent groups.

Development efforts on the part of elected officials also provide opportunities to engage in “symbolic” policy making. For example, short term efforts such as a fiscal incentives, may be used to lure a firm to region where there is a pressure to act. Industrial attraction efforts and policies that are visible may have perceived benefits and result in political momentum (Eisinger 1995). Such policies are adopted by cities because they offer elected officials to take credit for doing something – even if the incentive does not work (Feiock, 1986; Feiock and Clingermayer 1986). Some joint venture activities may also enable officials in unreformed cities to tout policy initiatives aimed at addressing economic issues. Similarly, cooperation may provide an opportunity for elected executives to improve the visibility of their efforts, particularly when cities are undergoing fiscal stress (Sharp 1991).

Although many policy decisions are a response to public pressure to act and resolve economic growth issues, the local governing arrangement reflects the individual’s strategic political position (Heckathorn and Maser 1987). In an unreformed political context, policy choices are made with an eye towards the relationship of policy outcomes to constituent interests (Sharp 1997). This may facilitate or undermine development opportunities. For example, preferences for policy are tied to the time it may take to deliver action in relation to election cycles (Steinacker,

2004). Furthermore, Sharp (1991) argues that policy adoption varies depending on the extent to which elected officials are insulated from residents. She finds that in unreformed government structures, there is a strong link between fiscal stress and the number of financial incentives offered by the city.

The uncertainty over the outcomes of joint venture efforts, however, makes cooperative efforts risky. On the one hand, some cooperative activities may require significant capital investments but are completed in relatively short time. On the other hand, rather than a quick and visible result that can be used for generating political support, some cooperative efforts take time to develop (Dewar, 1998) and thus benefits of a project may take a long time to accrue. Cooperative projects may also be a long term commitment and may not represent a project with a high profile. Under this circumstance, it is more difficult for elected officials in the short term to claim credit for policy decisions. Political actors generally seek to reduce uncertainty with a focus on more immediate results that replace long term goals of economic development.

Furthermore, joint venture formation can be risky for policy makers because it requires that cities confront suspicions about collaboration. This uncertainty and risk are enhanced when they are new and there is a lack of credible commitment. Prior agreements and the presence of strong exchange relations that reduce the transaction costs of forming an agreement facilitate cooperative action. The trust that is generated and the information that is shared among the participants facilitate cooperative actions in the future (Thurmeier and Wood, 2002; Gulati and Singh 1998). Nevertheless, it is often difficult to measure the effectiveness of development programs and it is uncertain that the joint venture will be successful and provide the intended benefits. This uncertainty over the results of policy intervention to spur growth may undermine the adoption of

some development policy (Feiock 2002; Reese and Rosenfest, 1996). Furthermore, the benefits of cooperation may be widely distributed, thus reducing the ability of elected officials to direct benefits to particular constituent group.

### ***Manager Form of Government***

As part of the municipal reform movement, professional administrators were hired by elected councils to oversee the daily operation of the municipality. This was intended to replace high powered incentives with low powered incentives (Frant, 1996; 1993). Under this governing arrangement, the city manager carries out policy set by the elected city council. By insulating local officials from political demands, the manager form of government in part addresses a defection problem by lowering the incentives for opportunistic decisions (Feiock and Clingermayer, 2001). Thus rather than simply responding to political pressures, the focus of development policies under a council-manager government are towards community wide interests and policies that more closely match development need.

The manger is widely considered a “modernizer” to increase efficiency (Ruhil et. al., 1999) and is characterized as being more progressive in providing services through contracting (Andrew, 2009). The formation of joint ventures under a reformed governing arrangement may be linked to the strong professional norms associated with appointed administrators. Public managers may have a disposition towards best practices in planning and development because of their technical training and association with professional organizations (Lubell et al. 2005). Membership in professional organizations may help to advance innovative mechanisms for managing local affairs, such as joint ventures with communities for economic development. Although a manager may be

more attentive to supporting best practices because of these affiliations, depending on the situation, economic development or a more managed approach to growth may be promoted (Feiock, 1994). In either case, institutional rules of the game in reformed governments provide incentives for an emphasis on citywide issues (Feiock and Kim, 2001).

However, even though it argued that under a reformed government structure efficiency is an important goal, a manager may want to demonstrate their ability to improve government operations in order to obtain positions in other communities (Stein, 1990; Bickers and Stein, forthcoming). Other cities or higher levels of government that are interested in financial management and efficient city administration can be a motivating factor for policy decisions and support for governing mechanisms under this institutional arrangement (Clingermayer and Feiock, 2001).

### **Mediating Effects of Local Political Institutions on the Objective of Interlocal Agreement**

We focus on the role government structure variables have as a mediating effect on the decision to form a joint venture. In crafting an empirical model we argue that the relationship between the independent and dependent variables depends on the institutional context of local governments. In the policy area of economic development, previous research finds support for this relationship. For example, Feiock and Cable (1992) find that the effect of unemployment on

financial incentives is nearly twice as large in cities with unreformed structures as those with reformed structures (p. 393-394). Feiock and Kim (2001) model the interactive relationship between institutional arrangements and development policy choices and find evidence that form of government mediates the effect local conditions and institutions on development policy. Their results indicate that strategic plans influenced policy adoption in council-manager cities but not in mayor-council cities, suggesting that planning commitments for community wide development may be less credible in the context of high powered incentives.

Although the literature generally indicates the role institutional arrangements play in shaping policy choice, its effect on development policy as it relates to interjurisdictional cooperation for economic development and metropolitan governance arrangements has not been the subject of an empirical test. Some studies do indicate that incentives associated with reformed and unreformed cities have an effect on the decision to cooperate (Hawkins, forthcoming-a). However, absent from this evidence is an identification of the underlying development problem. We argue that institutions will respond differently depending on the whether the nature of the economic development problem a joint venture is intended to address is localized in nature or more community-wide and regional in scope.

The ICA framework generally assumes that the capacity of an actor to negotiate agreements is tied to their short term interests. Thus principle agent problems arise from the difficulties in aggregating preferences of the government unit and the divergence between the representative and resident needs of a community (Feiock, 2007). We expect that the tendency for policy action to diverge from constituent need is less in unreformed context. This should be



reflected in the decision to cooperate provided the nature of the economic development problem. We provide two hypotheses related to the local institutional arrangement and the focus of a joint venture.

First, since an elected mayor has a disposition towards economic development that rewards geographically based constituents, the probability of forming an agreement for local projects is expected to be higher in the unreformed city context. Alternately, when the objective of the agreement is for community-wide and more regional economic development, we hypothesize that the probability of forming a joint venture will be greater for cities with a manager form of government.

*H<sub>1</sub>: The probability of joint venture formation will increase for cities where support for intergovernmental cooperation is for solving localized issues and where there is a mayor form of government.*

*H<sub>2</sub>: The probability of joint venture formation will increase for cities where support for interjurisdictional cooperation is for solving community-wide issues and where there is a manager form of government.*

## **Research Design**

We utilize data collected in two surveys of local government economic development and planning officials. A national survey was mailed in 2004 to 522 cities in 1990. Responses were received from 252 local governments representing a 48.4% response rate. This survey collected information on a variety of local economic development practices. In particular, the questionnaire identified communities that have established a joint venture. Seventy-two of the 252 respondent cities (28.3%) engaged in one or more joint ventures.

A follow up survey was mailed in 2007 to all 409 local governments with a population greater than 10,000 located in eleven metropolitan statistical areas. The 11 MSAs chosen for this study were selected from the 56 MSAs with a 2000 population of at least 1 million and less than approximately 5 million. This makes them large enough to be nationally competitive business sites, but not subject to unusual growth forces of very large metropolitan areas such as Los Angeles or New York City. At least two MSAs were selected in each of the four census regions. This is to account for regional population changes and economic transition that has affected local policy choices (Clark and Gaile, 1998). Additionally, in each of the four census regions, at least one MSA was selected that had an unemployment rate below the census region average in both 1995 and 1999 (a “growing” MSA) and at least one MSA was selected with an unemployment rate higher than the census region average in both years (a “declining” MSA). Responses were received from 196 local governments, representing a response rate of 47.9%. Cities that completed both surveys were then matched, resulting in data for 75 cities. The metropolitan areas and survey response rates is located in the Appendix. Table 1 reports the descriptive statistics for the variables in the final sample.

Table 1

We employ a logistic regression model to estimate the parameters. This analytic method is most appropriate when the dependent variable is measured dichotomously. In this study, “1” is used to indicate if a city formed a joint venture in 2007 and “0” as otherwise. The dependent

variable is measured by a survey question asking whether the respondent's local government "has engaged in a joint venture with another local government for economic development purposes."<sup>1</sup>

### ***Substantive Variables***

We argue that voluntary joint venture agreements represent one institutional mechanism to overcome ICA problems. Potential interjurisdictional cooperation is contingent on the nature of the problem and contextual factors that are tied to the local governing institution. We approach the nature of the development problems as being one of localized, geographically and constituent based or community wide and more regionally based. Our main hypothesis is that the probability of forming a joint venture to solve local versus regional development problems is mediated by the institutional arrangement. The idea of constitutional level rules creating different incentives to solve economic development problems suggests a non-additive relationship.

To test this hypothesis, survey respondents were asked if a joint venture is to be formed whether the objective would be for addressing a localized development problem (local), or manage a community development problem (regional). The response category was yes and no for each question. We operationalize the local political institution as a binary variable where "1" indicates a mayor-council form of government and "0" as a council-manager form of government. To capture our expected relationships, we generated two interaction terms that are the product of form of government and joint venture objective (e.g., FOG X Localized Development Issue and FOG X Community Development Issue). The hypothesized relationships are presented in Table 2. A test for an interaction effect is estimated with an equation where the slopes of the independent variables

are allowed to vary depending on the institutional context. The difference in slopes between a mayor and manager form of government can then be compared.

Table 2

### ***Control Variables***

Although we include prior joint venture as a control variable, there are strong theoretical reasons for its inclusion as an explanatory factor. Uncertainty makes agreements difficult to establish. Finding partners through trial and error is costly, and information asymmetries create transaction risk without a strong credible commitment. Organizations may act as a third party to build consensus on issues such as economic development (Feiock, Steinacker and Park, 2008) and public entrepreneurs can reduce the costs of collective action by coordinating policy tools (Schneider and Teske 1995). However, endogenous resources can support voluntary mechanisms to address collective action problems beyond the involvement of external organizations.

The literature on social capital suggests that trust and norms of reciprocity are critical components of cooperation (Coleman 1990; Putnam 1993). These endogenous resources can be generated through repeated interactions. For example, in the context of water resource management Berardo (2009) finds that frequency of interaction increases the likelihood of collaborating with a partner. Overtime bilateral agreements can form a network of contractual relations within the metropolitan area (Andrew 2009). We use the results of the 2004 survey to indicate whether a city has used a joint venture prior to 2007 for economic development purposes. Cities indicating yes are coded “1” and all others “0”.<sup>2</sup>

Cities are geographically fixed and thus are constrained by their socio-economic conditions and trajectories. These constraints often time facilitate policy innovation (Clark, 1992). However, demographics and differences in wealth create challenges for cooperation across communities (Foster, 1998; Visser 2002; Gerber and Gibson 2005). Population change, for instance, generally influences policy positions and economic development activity (Green and Flieshman, 1999). For cities that are in decline, there is pressure to resolve economic problems and officials may be more inclined to find local government in the region as development partners. We control for pressure to resolve development problems with percent change in population between 2004 and 2007.

Studies on interjurisdictional cooperation indicate that the size of a community is a factor that influences joint venture agreements (Hawkins, 1999). We control for this factor with a variable measured as population in 2007. Percent of the population that is black and per-capita income indicate socio-economic characteristics. A binary variable coded “1” for northeast/midwest and “0” for south/west is used to indicate the census region in which the local government is located.

In addition to form of government, the extent to which the city council is elected by district or at large is a defining characteristic of the local governing institution. A large body of literature suggests the differences between at-large representation and district based elections of council members in the adoption of economic development policy. The response of elected officials is mainly to district driven interests (Lowi 1979; Shepsle and Weingast 1984). Ward representation may encourage the adoption of certain development policies because they provide opportunities to reward geographic based constituents (Clingermayer, 1985; Clingermayer and Feiock, 2001). On

the other hand, council members elected at-large tend to represent citywide interests and constituents. We control for this governing characteristic with a count of the number of council members elected at large in each community.

## **Findings and Discussion**

We modeled the interactions between form of government and the independent variables by first estimating a reduced model that tests for the effect the local institutional variable (form of government) and the nature of the development problem (localized and community-wide) have on the probability of forming an agreement. We then estimated an unrestricted model that includes two interaction terms that represent the product of form of government and the nature of the development problem. The change in log-likelihood, which indicates an improvement in overall model fit, is statistically significant (LR=6.12,  $p < .05$ ). The overall model has a pseudo R-square of .24 and the log likelihood is statistically significant ( $p=.013$ ).

The coefficient and associated standard errors of the regression analysis are presented in Table 3. The results provide strong support for the mediating effects institutional factors have on the probability of forming a joint venture. Our main variables of interest are both significant and in the predicted direction. FOG X localized development problems is negative and significant ( $p < .05$ ) and FOG X community wide development problems is positive and significant ( $p < .10$ ).

Table 3

As indicated by the positive coefficient for the FOG X localized problem interaction, compared to a city with a manager form of government cities with unreformed institutions respond to localized issues by forming a joint venture. These findings suggest that interjurisdictional agreements established to solve a localized or community wide problem is conditional on the form of government. Theoretically, the incentives associated with each of these governing institutions influence the policy decision under different circumstances to adopt an interjurisdictional governance mechanism.

Figure 1 and Figure 2 illustrate our findings. The graphs suggest that when cooperation does not involve managing a local problem (i.e. community wide or more regional in scope) form of government does not matter much. The likelihood of forming a joint venture only increases slightly with a mayor-council government. For issues that do involve managing a local problem (i.e. localism) the likelihood of forming a joint venture is low for council-manager cities but increases tremendously for mayor-council cities. We conclude from this finding that generally mayor-council governments are more likely to establish a joint venture but it depends on the nature of the problem. Joint ventures are more likely to be established when an interjurisdictional agreement involves managing local problems and there is mayor-council form of government.

Figure 1

Figure 2

Among the control variables, communities that have established a joint venture in 2004 are more likely to establish a joint venture in 2007 ( $p < 01$ ). This result provides strong evidence of the

role prior relations play in facilitating cooperative action. Based on the reported coefficient, the odds of forming a joint venture are 17.6 times greater than the odds for a city without a prior joint venture.

Population size is also significant and positive. Although we cannot indicate the direction of the relationship (which local government initiative the joint venture) based on the literature we assume that larger communities have resources that may be sought after by smaller communities. Likewise, percent black is positive and significant ( $p < .05$ ). The location of the city based on census region, however, has no effect on joint venture formation.

We also expected that the character of governing institutions related to how council members are elected will influence choice of development policy and governance mechanism. The results suggest that cities with more at large council members have a negative effect on the probability of forming a joint venture ( $p < .10$ ).

## **Conclusion**

Of particular importance to the study of governance in the policy area of economic development is whether local governments will proceed with cooperation in highly fragmented areas where communities compete for development. This line of research is particularly important as interjurisdictional agreements represent a mechanism to resolve collective action problems and the challenges municipalities face in addressing cross border issues of growth and development.



We argue that constitutional level rules create incentives that provide opportunities and constraints for collective action and policy changes.

Although the nature of diverse metropolitan areas often undermines regional development efforts, we find supporting evidence that institutions shape the decision to cooperate. By focusing on the mediating effect form of government has on cooperative actions, we explain the conditions under which joint ventures are likely to be formed. However, rather than treat all interjurisdictional cooperation equally, we asked local government officials to identify whether the consideration in the formation of a joint venture was focused on addressing localized or community and regional development issues. We hypothesized that the probability of cooperating under these different development problems is tied to the incentive structure of public officials. To account for this non-additive relationship, we include multiplicative terms to capture the interaction between form of government and joint venture objectives. The results of the logistic regression provide evidence to suggest that depending on the nature of the economic development problem, the character of governing institutions influences the motivations for entering into a joint venture with another government unit.

Future research should explore in depth the process of cooperation, which needs to be carefully managed if the potential joint benefits are to be realized. Furthermore, studies on the variation of economic development policy and governance mechanisms should consider the visibility of development objectives. Highly visible joint ventures projects may provide selective benefits where public officials can claim credit, or more easily concentrate development efforts to a particular geographic area or constituent group. Targeted efforts that reward electoral

constituents with a good or service, theoretically, may also influence the choice of governance mechanism under different institutional characteristics.

## **Table and Figures**

**Table 1: Descriptive Statistics of Sample Cities**

<b>Variables</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Joint Venture (Dependent Variable)				
<b>Community Characteristics</b>				
POPULATION CHANGE	2.33	6.88	-10.13	33.73
POPULATION	56,594	51,402	10,454	286,407
PERCENTBLACK	7.17	10.2	0.25	67.42
PERCAPITALINCOME	\$26,233	\$13,437	\$9,538	\$98,643
CENSUS REGION	0.28	0.45	0	1
<b>Intergovernmental Relations</b>				
PRORAGREEMENT	0.1	0.31	0	1
<b>Political/Governing Institutions</b>				
COUNCILMEMBERS ATLARGE	3.22	2.46	0	7
FORM OF GOVERNMENT	0.33	0.47	0	1
<b>Nature of Development Problem</b>				
SOLVE LOCALPROBLEM	0.44	0.49	0	1
MANAGE REGIONALPROBLEM	0.28	0.45	0	1
<b>Interaction Terms</b>				
FOG X SOLVE PROBLEM	0.16	0.39	0	1
FOG X MANAGE PROBLEM	0.14	0.35	0	1

**Table 2: Interaction Terms and Hypothesized Relationships**

<b>Interaction Terms</b>		<b>Hypothesized Relationship</b>
<i>Objective for Forming a Joint Venture</i>	<i>Local Governing Institution</i>	
Address Local Development Problems	X Mayor FOG	+
Manage Community-Wide Development Problems	X Mayor FOG	-

**Table 3: Logistic Regression Results for Joint Venture Formation**

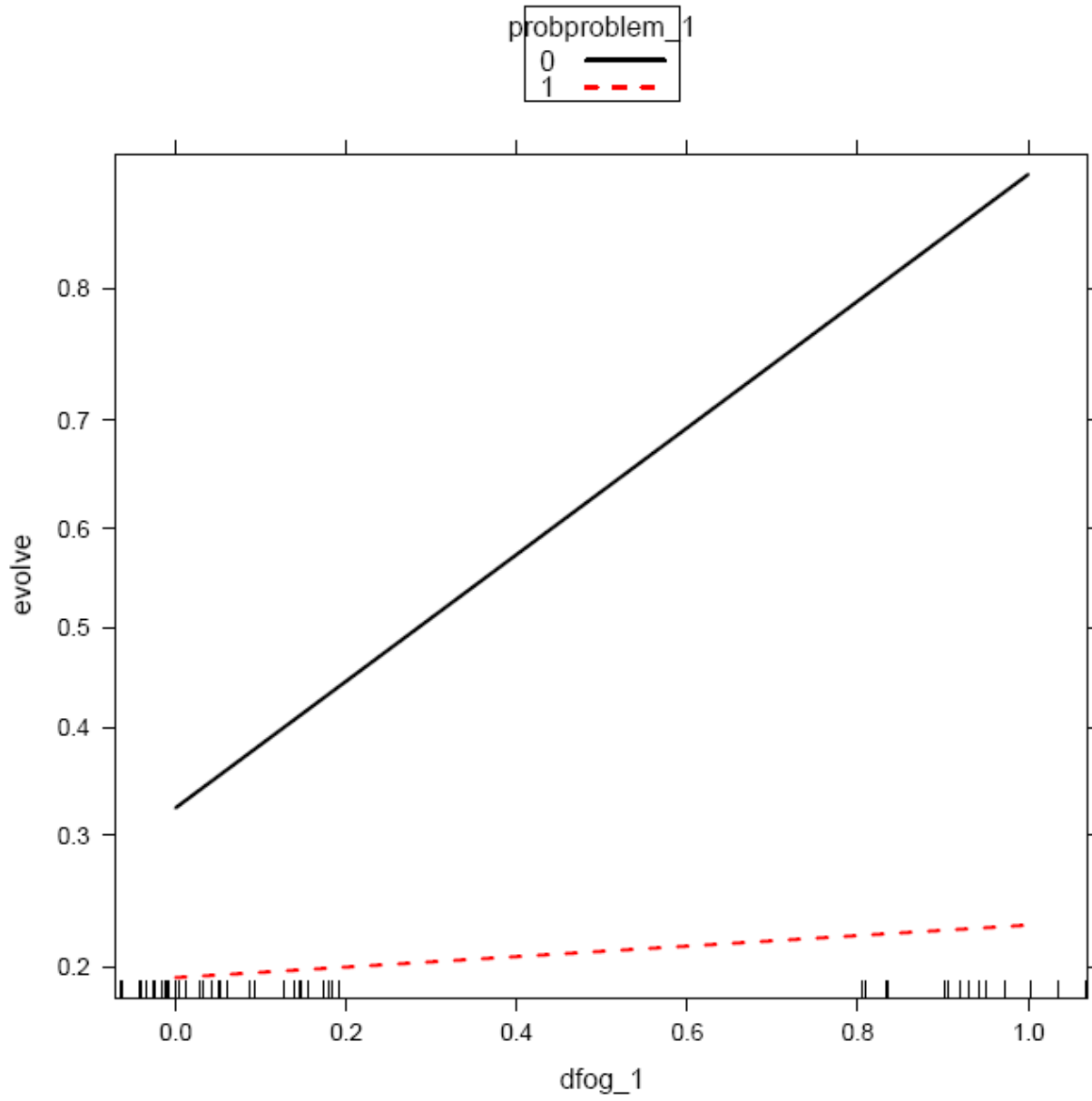
<b>Independent Variables</b>	<b>Coefficient</b>	<b>Std. Err.</b>	<b>Coefficient</b>	<b>Std. Err.</b>
<b>Community Characteristics</b>				
Population change	0.028	0.039	0.033	0.042
Population	0.00001	0.000006 *	0.000014	0.0000066 **
Percent black	0.053	0.028	0.069	0.032 **
Per-capital income	0.000012	0.00002	0.000019	0.000021
Census region	-0.63	0.836	-1.16	0.923
<b>Intergovernmental Relations</b>				
Prior agreement	2.455	1.071 **	2.869	1.104 ***
<b>Political/Governing Institutions</b>				
District	-0.226	0.123 *	-0.238	0.136 *
Form of Government	1.208	0.795	1.654	1.046
<b>Nature of Development Problem</b>				
Solve local problem	-1.236	0.639 *	-0.693	0.782
Manage regional problem	-0.278	0.681 *	-1.56	1.079
<b>Interaction Terms</b>				
FOG X Local	-	-	3.333	1.682 *
FOG X Region	-	-	-2.372	1.399 **
Constant	-0.884	1.015	-1.415	1.136
<i>LR</i>	<i>19.297</i>		<i>25.421</i>	
<i>Prob&gt;chi2</i>	<i>0.036</i>		<i>0.013</i>	
<i>Pseudo R2</i>	<i>0.18</i>		<i>0.24</i>	
<i>N</i>	<i>75</i>		<i>75</i>	
<i>Significance Levels: * &lt; .10, ** &lt; .05, *** &lt; .01</i>				

## Appendix

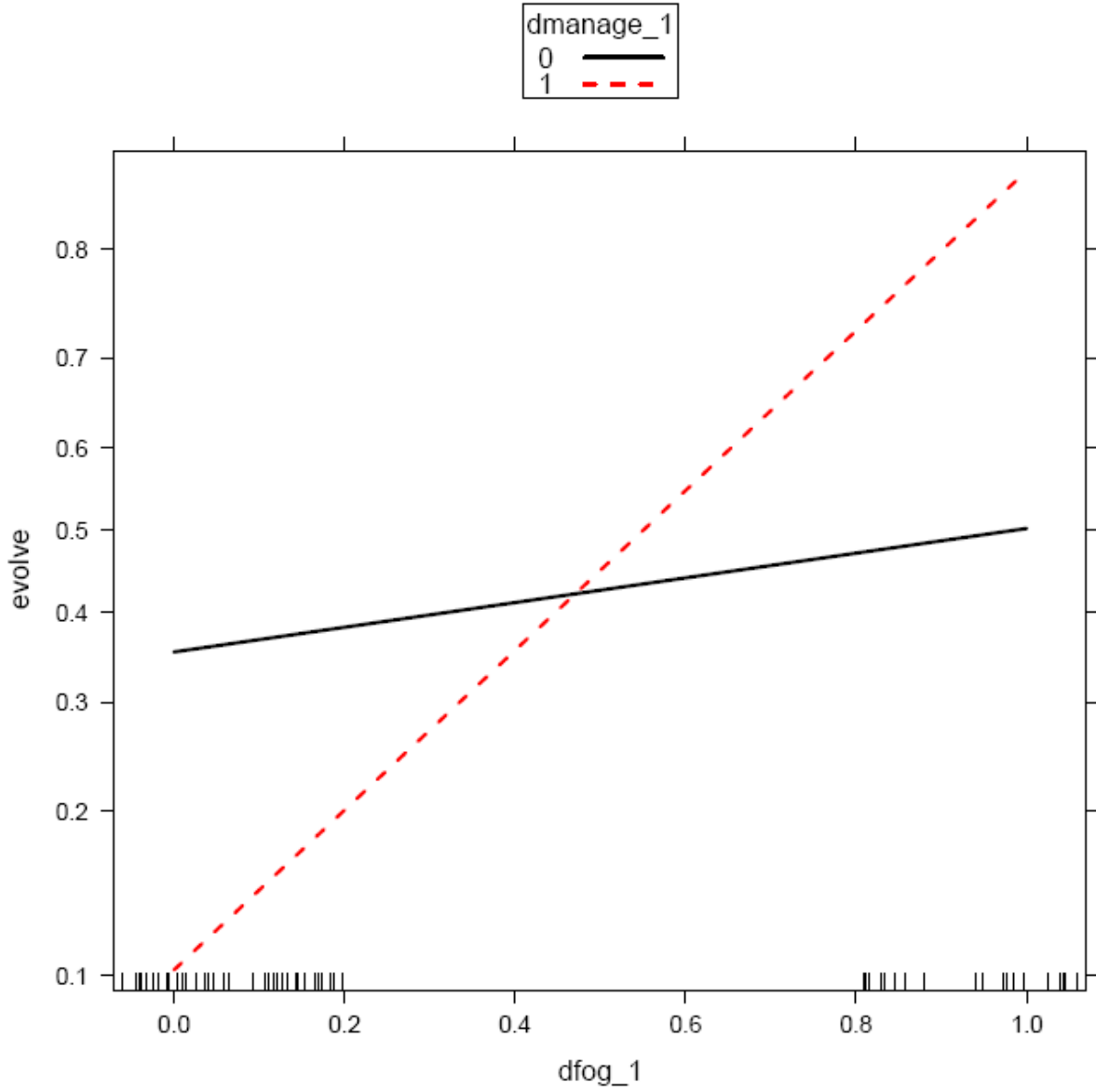
### Metropolitan Areas and Sample Size

MSA	Census Region	MSA Unemployment Trends	Original Sample (409)	Survey Response (196)	Final Sample Size After Matching (75)
Boston-Cambridge-Quincy MA	NE	Growing	97	37	4
Buffalo-Niagra Falls NY MSA	NE	Declining	10	5	2
Cleveland-Elyria-Mentor OH M	MW	Growing	50	22	8
Milwaukee-Waukesha-West Al	MW	Declining	24	15	6
Salt Lake City UT MSA	W	Growing	13	9	3
Riverside-San Bardardino CA 1	W	Declining	43	23	14
Denver-Aurora CO MSA	W	Growing	18	10	7
San Francisco-Oakland-Freemc	W	Growing	53	24	13
Miami-Ft. Lauderdale-Miami E	S	Declining	56	30	9
Houston TX MSA	S	Declining	30	13	6
Tampa-St. Petersburg- Clearwa	S	Growing	15	8	3

### Interaction Plot



Interaction Plot





## **Notes**

1 A definition of a joint venture was provided: “A joint venture for economic development is meant by both formal and informal agreements established between local governments (for example between two cities or comparable government units) that is intended to encourage development and improve economic and fiscal conditions.”

2 Among the cities that were matched, 22 joint ventures were formed between 2004 and 2007.

3. The associated odds ratio is calculated by exponentiating the coefficient.

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