

OUTLINE OF TRED BOOK
Working title: "Targeting Regional Economic Development"
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****Steve: Please note that I did not delete anything; just moved some text around**

II. 2. A Brief History? of Economic Development Policy and Thought (Deller)

Introduction

This chapter provides a broad historical overview of economic development policy ranging from tax incentive programs starting with the Mississippi Balance Agriculture with Industry (BAWI) policies from the Great Depression era and the current competition between the states for new firms to the focus on entrepreneurship and business retention and expansion to the current philosophies of collaboration and partnership-building within and across communities and regions. The chapter outlines in detail the "waves" of economic development policies at the state and local level, leading up to the current state-of-the-art of economic development thinking. The primary focus is on the history of development ideas is reflected in modern day targeted economic development strategies.

Economic development as a field of study has existed only since WWII. With many of the former colonies becoming independent countries coupled with the desires to rebuild after the wide-spread destruction of the war significant attention was focused economic growth and development. Much of this early work, although not all, focused on agricultural economic development, because the agricultural sector dominated the economies of the former colonies.

For the first time focused questions on what can be done to promote targeted economic growth were being raised by academics interested in policy analysis. Prior to WWII the governments of most countries did not really have a major role in economic development. Most discussions focused on short-term macro policies to minimize the negative impacts of swings in the business cycle. Indeed, much of the Keynesian Revolution and the New Deal were aimed at policy options to address short-term economic fluctuations. A few key examples explain this growing interest in state intervention in economic development:

- ❖ The Great Depression raised questions about the robustness, resilience and stability of private markets.
- ❖ The apparent success of Soviet Planning (Leontief's Input-Output table of the soviet economy) as well as the success of the US Marshall Plan in Germany
- ❖ The example of India developing a plan for economic growth and development immediately after independence...Gandhi latter opposed modernization of the Indian economy on traditional religious grounds: "A man is not necessarily happy because he is rich, or unhappy because he is poor..."
- ❖ The apparent economic success of Japan?? MITI
- ❖ Within the US the apparent success of the Mississippi Balance Agriculture with Industry (BAWI).
- ❖ With the new found freedoms many former colonies embraced nationalism and the desire to be proactive.

Even so, there are numerous historical examples of targeted economic growth policies even prior to WWII.

The English Corn Laws of the 19th century (1815) restricted trade in grain and were designed to keep the country's agriculture out of an economic depression.

Tax incentives were offered by New Jersey in 1791 to industrialist Alexander Hamilton to influence the location of a manufacturing plant.

The famed Erie Canal, completed in 1825, is one of the first public investments in infrastructure and was justified in terms of offering a cheap and safe way to transport agricultural products to markets.

In the name of economic development, the State of Pennsylvania by 1844 had invested over \$100 million and placed promoters of the state on the board of directors of more than 150 corporations.

During the rapid expansion of the railroads throughout the Great Plains communities aggressively competed with each other for railroad access. There are numerous examples of rail lines zigzagging between small communities that were subsequently abandoned due to the lack of freight. The railroads likewise opened up the American frontier to extraction of natural resources.

The intent of this chapter is to provide a broad overview of economic growth and development thinking with a primary focus on the period since the Great Depression and WWII. There are two main sections, with one focusing on international developments and the other on domestic thought. Woven into this chapter is an emphasis on how changing theoretical understanding has impacted practical policy implementation.

International Development

Although international economic development patterns are discussed in other texts, we provide a cursory overview here to show how this field also has informed domestic development thinking and many of the TRED tools that are discussed in this book. There are three basic stages or eras of thought, including primarily an internal focus, an external orientation, and the so-called Washington Consensus on free trade.

1. Internally focused substitution strategies. Central and South America

One of the early tenets of economic development was the idea that nations could “catch-up” with more advanced countries if they protected, nurtured and promoted so-called infant industries. The government basically selected industries to protect, usually by imposing tariffs or quotas on imported goods in that industry. This afforded the chosen industries *temporary* protection, which allowed them to develop workers’ skills and experience, and increase productivity by achieving economies of scale so to be able to compete with imports. Although this argument is most commonly associated with developing countries, the underlying idea was first proclaimed by Alexander Hamilton in 1791, and later formulated succinctly by John Stuart Mill (1904).

This is a clear example of a government picking a winner, generally using non-economic criteria to select the industry. Politically influential and well-connected industries that tell the best stories are likely to be chosen. While this strategy can be effective in moving ahead countries or regions, the danger exists that the protective barriers will remain in place indefinitely. More specifically, once incentives or flows of economic rents have been created in an economy, it is difficult to remove them. A key test is to assess whether or not the industry in question has a good chance of ever overcoming whatever disadvantage it currently has in competing with world prices.

Chapter 10 describes how this import substitution approach can be used in modern TRED by analyzing gaps and disconnects in the local economy. The context here is a bit different because individual regions within the United States are unable to impede free trade in goods and services.

. 2. Export focused with incentives to certain industries...Asia...the Asian Miracle...
The economic success that was driven largely by exports from Latin American nations such as Chile, but especially the four Asian Tigers of Singapore, S. Korea, Hong Kong and Taiwan in the 1960s through the 1990s, broadened observers' perspectives also to include an outward-orientation. This has become known as an export-driven model of development, which is based on the idea of export base theory. Here exports bring foreign currency (new money) into the economy, which can be reinvested. In addition, however, knowledge spillovers also can occur as exporters travel to foreign destinations and pick up new ideas.

At one point there was considerable concern about secularly deteriorating terms-of-trade for primary (raw, unprocessed) commodities, which would hurt developing countries. This pushed them to invest more in domestic value-added and manufacturing activities. Again, this theme is repeated in TRED today with certain regions and sectors of the US economy seeking to capture a larger share of the consumer's dollar locally (e.g., in agriculture).

3. Washington Consensus...free trade....

The current thinking in international development is widely referred to as the "Washington Consensus" (The concept and name of the Washington Consensus were first presented in 1989-90 by John Williamson, an economist from the Institute for International Economics, an international economic think tank based in Washington, D.C.. Williamson used the term to summarize the commonly shared themes among policy advice by Washington-based institutions at the time, such as the International Monetary Fund, World Bank, and U.S. Treasury Department, which were believed to be necessary for the recovery of Latin America from the financial crises of the 1980s.....NAFTA and DR-CAFTA Dominican Republic-Central America Free Trade Agreement ...WTO, World Trade Organization)

China is now on course to become the world's leading exporter, and that nation has experienced tremendous economic growth as a result of free trade, especially in the manufacturing sector.

Other thoughts, potential:

see also John Mellor's book on *Agriculture on the Road to Industrialization*

- ❖ Also Hayami and Ruttan's induced institutional innovation idea as a motivation??

Could discuss Liebenstein's X-efficiency here?

Domestic Development

****Andy Isserman has a neat and very comprehensive review article on the three waves applied to State Economic Development policy in *IRSR* ca. 1992 or 1994. I will try to track down unless either of you have it.**

Three stages or waves of economic development have been identified in the literature, as outlined in Shaffer, et al. (2006): Wave 1 associated with industry attraction (outward-looking or – oriented); wave 2 dealing with enhancing the competitiveness of existing and new local businesses (inward-looking); and wave 3, which focuses on public-private partnerships where, philosophically, the market is allowed to send signals which are then nurtured and upon which the private sector acts. This chapter further develop these lines of thinking with particular focus on Porter's notion of cluster development. The focus will be on the evolution of policy with the common theme of targeted regional economic development (TRED).

The notion of targeting economic development has a rich and well developed tradition within the academic literature and has been a major emphasis of regional economic development policies. Within the academic literature the foundation for targeting policies can be found in the introduction of space within microeconomics, the location of the firm and the concepts of spatial markets. Given that manufacturing was the driving force behind the economy during this time,

much of the work focused on the location decisions of manufacturing. The economic concept that firms pick a location to minimize the costs of production had a direct and important implication on economic development policies.

Wave 1

The strategy of industry recruitment, or “smoke-stack chasing”, embodied in the Mississippi BAWI approach, is often referred to as the “first wave”. Today three waves of strategy development have been acknowledged and the search for the next or “fourth wave” has become akin to the search for the golden grail in economic development. Beyond tax abatements other first wave strategies include offering low cost sites, low interest loans and training funds to name a few.

During the Great Depression of the 1930s many state governments became frustrated with the lack of response to the economic crisis and felt the need to respond to local economic stress. The first state level program was the Mississippi Balance Agriculture with Industry (BAWI) which built aggressively on the idea of export base theory (as it was known at the time) and the cost of production. Mississippi promoted itself as a low cost alternative location to manufacturing firms located in the northern states. Advancing the idea of cheap labor, land and tax costs Mississippi was successful in recruiting many northern firms. Somewhat ironically, the invention of air conditioning by Carrier in Syracuse, New York is often credited with stimulating the development of the South, in part by luring plants from the North, including New York.

Perhaps more important to a pure marketing effort, the BAWI introduced the notion of tax incentives aimed at firms that would relocate into Mississippi. The dire economic conditions at the time, coupled with the early success of the BAWI program along with the relatively new theoretical advances in economics, resulted in numerous states adopting similar types of policies. In essence, the foundation for a new “war between the states” was effectively laid.

It is quite fashionable among academics and others to dismiss industrial recruitment as a wasteful strategy at best, and an economically harmful strategy at worst. For example, then-Governor of Kentucky Martha Lane Collins was widely criticized for “giving away the store” (this is actually the title of a publication) when she traveled to Japan in the 1980s to recruit a Toyota Motor Manufacturing (TMM) plant. Part of the concern was and is the escalation of the number of dollars in subsidy needed for each job created, although this measure has numerous weaknesses.

In retrospect, that initial investment by the state, in the form of subsidized worker training and land, as well as tax abatements, was an outstanding investment. Today Georgetown, KY, where the TMM plant is located, is the heart of a vibrant automobile cluster. What very few anticipated at the time was the co-location of numerous satellite plants that provided inputs to TMM. Because of just-in-time inventory procedures, these suppliers had to locate near (co-locate with TMM) Georgetown and, in the process, the state enjoyed the creation of many more jobs than first expected.

Another example of unexpected benefits from industrial recruitment is that of UPS, also located in the Bluegrass State, in Louisville. The freight company was provided with numerous subsidies. Once the airport was expanded to accommodate UPS jets, the local economy expanded rapidly. However, the jobs created were not just at the hub where workers sorted packages for destinations around the nation and the world. Instead, many new high-tech jobs came into existence, seemingly unrelated to the hub. However, it turns out that electronics manufacturers were starting to locate repair stores at the UPS hub in order to minimize shipping costs. These are examples of government picking winners and, in the process gaining even more than they bargained for.

One important reason why economists *do* like industrial recruitment strategies that are based on tax forgiveness is quite simple and obvious. To the extent that any tax is harmful to the economy,

any policy that reduces or removes taxes is welcome. This kind of recruitment that is based on subsidies obviously has distributional consequences (for example, the existing firms do not benefit from the same abatements as the newly located firms) but most economists preoccupy themselves only about efficiency and not distribution.

Finally, an important recent paper by Greenstone and Moretti (2003) is causing many economists to rethink their position on industrial recruitment, or Wave 1 policies and that rethinking has little to do with taxes. In a very carefully conducted study, that involves the winners and the runner-ups as counterfactual controls in high-profile recent industrial recruitment events, they found that industrial recruitment does tend to pay off for the winning community, as measured by growth in employment, payroll, government spending and local property values. Importantly, this suggests that the taxes forgiven by the state or county to attract the firm do not translate one-to-one into lower spending in areas such as education.

This discussion shows not only that economic development thinking is faddish, and that ideas come and go only to be reborn again later, but also that conventional wisdom is rarely universally correct. Instead, the reader is cautioned to judge different policies in different communities on their own location-specific merits.

Wave 2

The second wave of economic development strategies emphasized homegrown economic activity (entrepreneurship, expansion and retention). Activities associated with these types of strategies are increasing investment capital for local firms, development of incubators, technical assistance for local firms, revolving loan funds, and tax increment financing. Today there is a professional association for BRE as well as numerous very successful private consulting firms that provide advice on such strategies around the world. ???

On the entrepreneurship front... Book by Acs and Armington...???

What is the point here... that governments do not target specific firms for retention and expansion or for entrepreneurial training? Key is that individuals come up with ideas, public sector helps to implement those ideas with subsidies? Could talk about SBIR activities – peer-reviewed for science and for business potential by practitioners.

Wave 3

Third wave economic development strategies emphasize public-private partnerships. Here the emphasis is on increasing competitiveness. In third wave strategies, government agencies and economic development organizations worry about creating networks to leverage capital, investing in human resources, and high skill and good paying jobs. Reasons for emphasizing third wave development strategies are that service was fragmented and the customers were expected to integrate. Third wave strategies attempt to integrate different programs for the customer. Other reasons for third wave strategies focus on differentiation instead of an approach whereby *one size fits all* (endemic to first and second wave strategies).

Yet other reasons for third wave strategies include issues of scale, in particular the concept of agglomeration economies. The notion of agglomeration economies within a spatial world is at the core of the Porter approach to economic cluster development as described in CHAPTER xx of this volume. Some have suggested that Porter's cluster development is the fourth wave of development, yet others maintain that it is but one dimension of the third wave.

While the idea of clusters is perhaps associated more closely with Michael Porter than any one other individual, the concept of a cluster was not invented by Porter. He merely presented it in an

elegant fashion and applied a label that stuck. Decades before clusters became part of the economic development vernacular, regional project NC-117 supported by the North Central Agricultural Experiment Stations was carrying out a series of subsector-studies within agriculture. This project resulted in the 1986 book "The Organization and Performance of the U.S. Food System," edited by Bruce W. Marion of the University of Wisconsin.

Subsector studies examine the vertical and horizontal integration and relationships among firms in a particular industry, building on the theory of transactions costs (Herbert Simon, Ronald Coase). Much like cluster studies, they examine the interrelationships among all of the buyers and sellers in an industry, including non-competitive behavior (bounded rationality, opportunistic behavior, collusion, etc.). Subsector studies also explicitly analyzed how the institutional or legal environment supported or hindered the development of the industry, using the so-called structure-conduct-performance paradigm. Briefly, the institutional structure dictates how individuals can conduct themselves in an otherwise free market economy and that leads to a particular type of performance. If conduct is allowed to be predatory, then firms may be driven out over time, leaving only a monopoly behind, which in turn has implications for subsequent performance and welfare.

A key difference between these earlier subsector studies and the work of Porter is that the former did not make explicit the spatial aspects of cluster functioning and, for that matter, the critical importance of agglomeration and local spillover effects. To a large extent the spatial focus was obviated by the fact that specific agricultural subsectors, much like clusters, are already spatially bound, such as dairy in Wisconsin, corn in the Midwest and tart cherries in northern Michigan. Even so, the parallels between these early subsector studies and the clusters of today are quite remarkable.

It is interesting and important to note that manufacturing activity in China also is clustered in key industrial cities along the coast (Province of ...).

Focus on Business Climate

Draw on Shaffer, Deller and Marcouiller (2004) (see below)

Can also include Goetz and Freshwater on Entrepreneurial climate (EDQ 2001)

Not sure how much of this we want to include here, since the business climate tends to affect all firms more or less equally? and does not usually target particular industries.

Discuss the Irish miracle here ... investment in education and lowering of taxes? Targeting of the high-tech sector???

Political Economy of Regional Economic Development

Draws on the Dewar (EDQ 1998). Argues that RED (regional economic development) or CED (community economic development) has as much of a political element as an economic element...short-term political motivations, Niskanen-type view of state/local government

Concluding Thoughts

We conclude this chapter with the general question, What is the proper role of government? (Krueger 1995). It is clear that government sets the "rules of the game" surrounding economic activity and it provides public goods. There is little disagreement here, although one can disagree on the level of public goods provided. Much more controversial is the question of whether government should or even can pick so-called winners, as we discuss next.

1. Setting the rules

It is clear that government must do what the private sector can not do, that is to define and enforce rules such as contract law, private property rights, patent laws and intellectual property rights. In addition, it must define and regulate institutions such as the courts. In countries where this process breaks down, economic chaos usually results. For example, it was widely believed in the early years after the decline of the Soviet Union that the lack of enforcement of rules, and generally ambiguous interpretation of property rights at least hindered economic progress for a few years. In the African context, some observers have argued that the poorly defined laws surrounding land and its ownership (e.g., usufruct) have hindered investments in agriculture on that continent, in turn delaying economic growth.

While the US economy is perhaps the most free economy in the world, it is hardly untouched by government intervention. Few people realize how important domestic content legislation has been, for example, in bringing foreign manufacturers to US shores. This is a clear example of how government targeted a particular industry for legislative support. Another example, also from the automobile sector, is the fact that manufacturers are not allowed to sell cars directly to consumers in any of the US states. In this day and age, it would be much more efficient for consumers to buy their cars directly via the Internet, perhaps saving thousands of dollars on a purchase. Yet the rules of the game make this impossible

2. Providing Public Goods

Government needs to step into the market when private firms will fail or not enter at all. This includes the provision of goods which would be undersupplied if left to the private sector because of free rider problems (inability to exclude nonpayers from consumption). This includes public infrastructure investments, investments in education including K-12, technical schools, universities, and continuing educational opportunities, and promoting basic research where questionable returns on investment may hinder private firms from investing. Interestingly, these relationships are changing in that cash-strapped state governments are selling off major public goods to the private sector. For example, the Pennsylvania Turnpike and the Garden State Freeway are up for sale at this time. The long-term consequences of such divestitures are not net known. Other experiments, such as privatizing public schools in Philadelphia have not yielded the hoped-for results.

3. Picking Winners (and non-winners)

While there is general agreement on the need for government to set the rules and provide public goods, the role for government in "picking winners" in the name of economic growth and development remains highly controversial. In part the reason is that government cannot know which industries will rise and fall in the future, and these kinds of decisions are thus best left for the private sector to sort out and make.

Even so, there are a few examples of where government has picked or made winners. Perhaps the most prominent one is the space industry, where the race with the then-Soviet Union to the moon led to billions of dollars being pumped into space age technology development. Clearly, these investments have benefited the rest of American society many times over. Another famous example is the Lee Iacocca/Chrysler bail-out of the early 1980s??

Discuss further; government poor at picking future winners; also not so good when deciding which industries to protect or hang onto when they decline.

Business Climate

A phrase that is widely used in community economic development and seldom fully understood is business climate. The phrase, much like culture, has no clear definition although everyone knows what it means. The typical connotation of business climate focuses on taxation levels and the

regulatory climate. Generally, lower taxes and a weaker regulatory climate translate into a better business climate. In other words, the focus of business climate discussions focuses on the public sector's role in economic development and growth.

While taxation levels and the regulatory climate are important, they represent only a small part of the components that help define a community's business climate. In the broadest sense, a community's business climate speaks to the attitudes of the community toward change, experimentation, entrepreneurship, institutional capacity and communication levels. Business climate is a specific way to discuss what the Floras call entrepreneurial social infrastructure or Putnam calls social capital. This specifically relates to the rules that govern how a community functions. These can be formal rules that are established by governments and informal rules that are established by the culture of the community. Formal rules range from land use, signage and environmental regulations to work place safety and child labor laws. Informal rules are dictated by society and culture and speak to what is socially acceptable and not acceptable.

Business climate speaks to both formal and informal rules. Unfortunately, because the formal rules are determined and enforced by government it is easy to focus attention on those rules. In essence formal rules are written down and can be easily pointed to in economic development discussions. Informal rules, or the culture of the community, are more difficult to pin down, debate and alter in the short-term, when business decisions are often made. For example, in some communities, failure is frowned upon and to fail breaks an informal rule. This type of informal rule can place a serious barrier on entrepreneurial activity. The research suggests that most successful entrepreneurs fail three to five times before their businesses are successful. If failure is unacceptable in the community what does this say about the business climate within the community?

Alternatively, for some communities the culture of success is ill defined. To rise above the average of the community is discouraged and success is not rewarded. There is a perverse peer pressure not to succeed. Community's where being average is expected have a poor business climate regardless of what the public sector does in terms of taxation and regulatory policy. These types of expectations within the community are powerful forces and can overpower any public policy.

A narrower way of thinking about the business climate of community hinges on the quality of the relationship between the private and public sector in pursuing community economic development. What is the nature of the partnership? Is it harmonious or turbulent? While there is rarely complete agreement between business and government, high-quality business climates foster the situation where businesses accept their social responsibilities and government supports legitimate business needs. In essence, the business climate is but one small part of the overall culture of the community. Unfortunately, the fullness of this relationship is often collapsed into the simplistic tax burden issue.

Many communities have found that informal business visitation programs where a small team of elected officials visit with local business owners can vastly improve the business climate of the community [ref. Loveridge?]. Here the visitation team simply introduces themselves to the business owners, extends their appreciation for the businesses contribution to the community and asks how the community can help the business. This builds a stronger sense of community, which in itself enhances the business climate. In addition, informal business visitation programs can identify potential problems within the set of formal rules that local public officials may be in a position to address.

In the end, business climate speaks to the social capital of the community, the ability of the public and private sector to work together, and the flexibility of rules, both formal and informal, to be adjusted when economic opportunities present themselves. Is the public sector willing to listen to the concerns of the private sector? Is the private sector willing to compromise on their plans if they impede the well-being of the residents of the community? If there are barriers to change

imposed from outside the community, such as federal regulations, can the public and private sectors form partnerships to address these barriers?

Within the business literature, this type of partnership is parallel to the relationship between workers and management. Do workers and management approach their positions as “us versus them”? There is a wealth of new age business management studies speaking to the importance of team work where workers and managers work in teams to improve the efficiency, productive and profitability of the business. In essence, the business climate of the community is an exact parallel to this notion of teams within business.

Rules are a key component of community economic development. In the most basic sense, they govern how we bring markets and resources together through decision-making across space. Rules are the social, political, and legal tenets that must be accounted for in the use of resources, in exchange, and in the distribution of rewards. They define what is possible, and what is illegal. Which behaviors are acceptable and which are unacceptable. Which benefits and/or costs are legitimate public issues and which are private. Rules and institutions define who receives the income generated from the use of resources, thus facilitating or hampering economic development. Economic institutions provide decision rules for adjusting and accommodating conflicting demands among different interest groups within society.

Unfortunately, this broad notion of business climate is largely immeasurable. We can tell in an ordinal sense if the business climate is good or weak and needs improvement, but in a cardinal sense, we can not measure it with any degree of accuracy. How does one measure community A's social capital compared to community B's or their respective attitudes on what defines success and failure? On the other hand, it is relatively easy to point to tax burdens and regulatory hurdles. I fear that it is our inability to numerically measure a community's business climate in a broad sense that leads us to mistakenly limit ourselves to discussions of taxes and regulations. This becomes a problem in and of itself in that we end up focusing our energies on the wrong issues.

The business climate of the community is a reflection of these rules, both formal and informal. More importantly, the business climate speaks to the ability of the community, both private and public sectors, to work together to alter rules where needed and identify common ground.

Business Climate Rankings¹

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What's in a business-climate ranking? At best a few teaspoonfuls of facts and a couple cups of opinions mixed well for the desired effect. Still the press makes much ado about various groups' recipes for rating potential locations according to a wide spectrum of business-climate factors. What may be viewed as crystal-ball forecasts or popularity contests by some may be revered as the gospel truth by others, depending on the ranking to which they subscribe and how their community 'performs' in those rankings.

Typically based on secondary published data business-climate rankings are decidedly a subjective blend of factors, such rankings hold little quantitative data. Basically, business-climate rankings promote the perspective of the organization publishing them – where specific interests think the best places for business will be. But those same numbers more often fail to divulge where businesses are actually locating their new facilities or expanding their existing facilities.

¹ This essay draws on the paper entitled “Site Selection Rates the QOL and Business Climate Ratings,” [Site Selection](#) August 1991.

Consider the position of Ray DuPont, vice president of corporate real estate for Ford Motor Land Services. Mr. DuPont says that although he might occasionally consult various rankings when his firm is locating a new facility, such rankings never prompted him to look at or select as a location an area he would not have otherwise visited. "Site selection for manufacturing generally is guided by specific manufacturing requirements such as relationship to particular supplier base, raw materials, marketing areas, parts, etc." he says.

The factors that are introduced into business-climate rankings are in the end the product of subjective opinions and hence lower their value to corporate real estate professionals. These professionals seldom are interested in the opinions of media pundits and are most concerned with hard-costs site-selection factors in locating new facilities. Moreover, many of the factors that enter into modern definitions of business-climate (See the July 2004 issue of *Community Economics*) defy quantification. For example, the informal rules that determine much of a community's business-climate can not be directly measured in any meaningful way that allows for comparisons across communities.

But even those attempts to rely on objective measures are often forced to rely on data that are defined on politically determined policies. For example, how can the Institute for Southern Studies' Green Index objectively measure cities' environmental health when its index is based in part on politics and environmental policies? In addition, while the science has made significant advances, what finite list of measurable factors makes for the healthiest environment?

Perhaps the most confusing element of business-climate rankings are the constantly changing criteria. Granted, while our conceptual thinking of business-climate is continuously evolving many groups that provide popular rankings fail to use the same criteria for every year. This makes it impossible to obtain a long-term picture of the overall business-climate they purport to be measuring. In addition, most 12-month studies are suspect because they do not allow for inconsistencies in reporting and methodology or slight variation in trends.

This inconsistency makes business-climate rankings almost useless to community economic development professionals because they do not provide a means of benchmarking their performance. For example, if a community wants to improve its business-climate based on one or more of these rankings, how can they determine if they have been successful if the indices change from year-to-year? Likewise, some rankings use so many factors it is hard to decipher exactly what the ranking is ranking.

Although business-climate rankings make for interesting and often entertaining reading, they appear to be rarely used as serious site-selection tools by corporate real estate professionals. Nor are they useful for local economic development professionals because they serve little value in their own strategic planning efforts. In the end business-climate rankings make for fun reading, but they serve little other purpose. [also ref. papers presented at SRAS meeting ca. 2005]