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Günter Bischof (ed.)

**Regional Economic Development Compared:
EU-Europe and the American South**

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Preface

A recent jeremiad by Wolfgang Eder, the CEO of Austria's largest company, Voestalpine, neatly addresses the problems inherent in regional economic development strategies and the attractiveness of the U.S. South for production facilities of European (and Asian) companies. Austria as a place to locate or expand business – “*Der Standort Österreich* – has become unattractive for new business investments. Taxes are too high, environmental standards are too strict, energy is too expensive, and the government is disinterested in negotiating with businesses about the competitive environment of investing in Austria. Voestalpine is opening up a car parts production facility in Georgia to supply European car manufacturers. The steel giant is also making its biggest foreign investment ever by building a production facility for pure iron production – with which to produce high grade steel in Linz, Austria – in Corpus Christi, Texas. Eder notes that Texas offers cheap shale gas, great port facilities and infrastructure, and a welcoming business climate. He concludes: “At the moment we only consider North America as a location for long-term prospects” (“*Im Moment sehen wir nur Nordamerika als langfristig kalkulierbaren Standort*”). Other Austrian CEOs join this lament over counterproductive environmental standards, high energy prices, and high labor costs in Austria.¹

Similar complaints about high energy costs can be heard in Germany and all over Europe. The cost of electricity in North America is half the price of Europe's and gas a quarter to a third of the price of the Russian gas used in Europe – producing that “sucking sound of European business going to the US,” notes a recent story in *Forbes*. Business giants Airbus, Siemens, BASF, and Michelin built new production facilities in Alabama, North and South Carolina. Particularly in Germany renewable wind and solar energy have driven energy costs sky high and made electricity grids unreliable. These sharply increased electricity costs “could accelerate the de-industrialization of Germany,” argues the *Forbes* article, “knocking Europe's strongest economy into depression.” The long consequence might be felt in the next debt crisis that hits EU-Europe Germany could no

1 “Voestalpine stellt Standort Österreich in Frage,” *Frankfurter Allgemeine Zeitung*, April 18, 2014 <http://www.faz.net/aktuell/wirtschaft/unternehmen/voestalpine-chef-wolfgang-eder-stellt-standort-oesterreich-in-frage-12901399.html> (accessed April 21, 2014); “Die Industrie probt den Aufstand,” *Die Presse*, April 19, 2014 http://diepresse.com/home/wirtschaft/economist/1596273/Die-Industrie-probt-den-Aufstand?_vl_backlink=/home/index.do (last accessed April 20, 2014).

longer “provide financial assistance to spendthrift European governments.” The author concludes by pronouncing the wind turbine farms springing up in Europe as eyesores “disfiguring the landscape” and producing “carnage” in the bird population. The article concludes by questioning the science of global warming and with the neoliberal clarion call to “unshackle economies and let them grow.”² Such is the business perspective on investing and planning new production facilities.

While European CEOs bemoan the lousy business climate in Europe, and American business cheerleaders make fun of European environmental standards, American politicians in the South celebrate the business and investment climate they are creating. Bobby Jindal, the governor of Louisiana, brags about the many investments his administration attracted to the state and cheers New Orleans’ comeback after hurricane Katrina. Governor Jindal credits New Orleans as “one of America’s top centers of entrepreneurship”; *Forbes* magazine named New Orleans as “the No. 1 brain magnet” in the U.S., and *Inc. magazine* called New Orleans “America’s coolest city.” He boasts “We are going to continue fostering an environment in New Orleans and across our entire state where businesses want to invest and create opportunities for our people.”³ Unlike Austria, Louisiana provides a welcoming business climate is the message. The political argument is usually “new jobs” – not what quality of new jobs. Southern governors usually do not talk about high poverty and low education rates in their states, workers slipping out of middle class status, failing to save, complaining about subpar retirement packages.⁴ Foreign companies locating in the South like Austrian functional hardware producer Blum in North Carolina is training its own workforce in an apprenticeship programs for local students finishing high school. Education levels for technically demanding jobs tend to be low in the South.⁵

Comparing economic development in a regional context both in the South of the United States and in the European Union today raises many fascinating questions. How

2 Jim Powell, “How Europe’s Economy Is Being Devastated by Global Warming Orthodoxy,” *Forbes*, September 19, 2013 <http://www.forbes.com/sites/jimpowell/2013/09/19/how-europes-economy-is-being-devastated-by-global-warming-orthodoxy/> (accessed April 20, 2014).

3 Bobby Jindal, “New Orleans is America’s comeback city,” *New Orleans Times-Picayune*, August 11, 2013, E-1, E-4.

4 “USA: Jeder dritte Arbeiter lebt von der Hand in den Mund,” *Die Presse*, March 31, 2014 http://diepresse.com/home/wirtschaft/international/1584416/USA_Jeder-dritte-Arbeiter-lebt-von-der-Hand-in-den-Mund (last accessed April 24, 2014).

5 Caroline Adenberger, “Dual Training Made in Austria – the Blum Apprenticeship 2000 Program,” *bridges* vol. 38 (August 2013) <http://www.ostina.org/en/volume-38-august-14-2013/features/dual-training-made-in-austria-the-blum-apprenticeship-2000-program-in-north-carolina> (last accessed April 24, 2014).

much money in the form of tax credits and subsidies should communities and states invest to attract foreign investors in the U.S.? Should individual states and communities in the U.S. commit public funds in the form of tax money and tax credits etc. to bring foreign businesses to their shores? Is the argument of bringing “jobs” and more employment home the only argument that should count politically? Or might these generous subsidies doled out to foreign businesses from public funds deprive local populations from improving their infrastructure and public education? What if these foreign investors then locate to other shores if their investments are not profitable enough in the short run? Might foreign investors come to the American South because it has never been unionized like the rest of the country? Is the attraction of the non-union South then only a means to get away from the burdens of stricter worker protection and social programs at home in Germany or Austria or elsewhere? Is the attraction of building plants in Texas and elsewhere in the South accounted for by the cheap price of fossil fuels (including gas from environmentally dangerous “fracking” projects) to run plants, or by less strict environmental protection laws? In other words, is there a “quasi colonial” relationship at work here? James Cobb suggests in his essay that the South has acted for a long time as a place of abundant natural resources and cheap labor, attracting industrial development from the North in the 19th century and increasingly foreign investors after World War II. But the “giant sucking sound” of European businesses going to the American South for cheap labor and energy, might draw them further South to Mexico today.

While in the U.S. individual communities and states compete for foreign direct investment dollars, in the European Union such competition is carefully controlled within a set of state aid rules which set strict limits on public support for enterprises. In more prosperous regions of the EU, state aid to business investment is simply not permitted at all where it concerns large enterprises typical of FDI (see also Rogers et al.). Instead the EU has developed programs to foster and finance regional development and the reduction of regional socio-economic disparities, or “convergence”, using funds from the EU budget to promote investment in SMEs, infrastructure and human capital. The overall goal is to heave the less prosperous regions in the European Union – especially in the newer member states of central and eastern Europe and in the Mediterranean south -- out of their relative backwardness. In the process the EU seeks to produce a more balanced pattern of territorial development and in the long-run to reduce the income gaps. Ronald Hall, who works for the Directorate General for Regional Policy of the European Commission in Brussels, analyses the development of this policy from both an historical and an

informed insider's perspective. In the American South the competition is between the individual states to bid for outside foreign investments. In the process states outbid each other in the offering of outsized subsidies to some of the most profitable companies in the world only interested in their own bottom line and without long-time commitments to the entire region's economic betterment. In the EU, regional economic development is practiced as a strategy of convergence, which seeks to reduce regional disparities through a concentration of resources for investment on the poorest regions and a delivery system based on integrated development strategies that are about much more than direct aid to the business sector.

Cynthia Rogers, Stephen Ellis and Grant Hayden question the efficacy of offering economic incentives (usually "a combination of direct spending and tax diversions") to corporations locating in Southern states of the U.S. The "fairylane of subsidies" (Franz Roessler) European companies encounter in the U.S. results from the intense competition among states and local governments for Foreign Direct Investment which drives up the value of subsidies. The generous subsidies offered often do not make sense as public investment, however. If Texas and Oklahoma offer generous incentives to attract foreign investment, such incentives offer little promise of influencing foreign firms and they make even less sense in terms of fiscal impact on these states. Empirically, Rogers and her coauthors suggest, "development incentives, in general, *do not work*" (emphasis theirs). One wonders whether the likes of Louisiana Governor Jindal, who hands out generous amounts of tax payers money to foreign firms, appreciates the evidence questioning the efficacy of economic development subsidies.

These papers are based on presentations delivered in a workshop at the University of New Orleans (UNO) on October 20 and 21, 2013. The workshop was jointly organized by the Austrian Marshall Plan Foundation of Vienna and UNO's CenterAustria. The Austrian Marshall Plan Foundation initiated a chair program at UNO in 2000 with a sizable donation to the university. Since then Marshall Plan Chairs have been appointed annually to teach and research at UNO. After hurricane Katrina struck New Orleans on August 28, 2005, three MP chair holders were selected to study the city's rebuilding after a major natural catastrophe. Elisabeth Springler and Martin Heintel presented findings from their year-long research stays in New Orleans (Heintel in 2006/7 and Springler in 2008/9). The idea was to contextualize their research on New Orleans both in a historical context and the larger regional context of economic development strategies. We invited

James Cobb to present the historical perspective of economic development in the South and Cynthia L. Rogers, Steve Ellis, and Grant Hayden to provide the economists' perspective on incentives for regional development in the South and the legal framework in which it unfolds. Ronald Hall from the Directorate General for Regional Policy of the European Commission in Brussels provided an introduction to the European Union's policies of regional economic development. One goal was also to discuss what and whether the two sides could learn from each other in their widely differing approaches to regional economic development. Another goal was to provide frameworks for strategies for recovery from natural disasters. The fact that we cannot provide complete answers to these complex issues should not distract from the fact that some modest suggestions came out of our meeting.

The workshop in New Orleans concluded with a panel discussion on "lessons of regional economic development" with local experts on and practitioners of regional economic development. Aimee Quirk and Dominik Knoll, the director of the City of New Orleans' Office of Economic Development and the World Trade Center respectively, presented the success story of New Orleans attracting new businesses to the city after Katrina to the point where it is now one of the most desirable U.S. cities in which to live. Franz Roessler, the Austrian trade commissioner in Chicago, and Jodok Schaeffler, the manager of the very successful Austrian producer of plastic packaging products (like Coke bottles) Alpla, gave presentations on factors that led Austrian businesses to locate production facilities in the U.S. (the Alpla North American Headquarters is located in the Atlanta area).

We are grateful to a number of colleagues at the University of New Orleans for chairing sessions, namely James Payne (Provost's office), Walter L. Lane (Department of Economics-Finance), and Robert L. Dupont (History and CenterAustria senior fellow). Their participation added depth and richness to our discussions.

We are grateful to the Austrian Marshall Plan Foundation for financing the workshop. Eugen Stark, the then executive secretary, was deeply involved in organizing the New Orleans meeting. Ambassador Wolfgang Petritsch, the chairman of the board of the Austrian Marshall Plan Foundation, graced the workshop with his presence and his active participation in the debates. We also would like to thank all board members of the Austrian Marshall Plan Foundation for their support in the University of New Orleans program activities under the auspices of the Marshall Plan Chair program at UNO. We would like to thank all of them for their support in making the UNO programs of the

Austrian Marshall Plan Foundation a resounding success. Markus Schweiger, the new executive director at the Foundation, helped with final arrangements in getting the papers published. Claudia Kraif in the Foundation office facilitated the translation of the Heintel paper from German into English.

The CenterAustria team at UNO as always has been superb in the organization of the workshop. Gertraud Griessner booked hotels and flights and contributed much to make the stay of all participants a pleasant one. Kathrin Lisa Voggenberger, our student fellow from the University of Innsbruck, was highly professional in the design of brochures and posters and advertising the workshop and in helping to format the papers for final publication. Markus Habermann and Martina Prugger, graduate student junior fellows at CenterAustria, also helped with organizational chores such as meeting the AV demands from presenters. Mike Adler from UNO's Media Office arranged the taping of the final round panel discussion on "Lessons". Birgit Holzner and her team at Innsbruck University Press were most helpful as always in spiriting the papers through to final publication. We are most grateful to all of them for their eagerness to making the workshop a success and this publication possible.

Günter Bischof, New Orleans

April 2014

Ronald Hall¹

The Development of Regional Policy in the Process of European Integration: An Overview

I. Introduction

The political priority attached to the reduction of geographical disparities was present right from the foundation of what is today known as the European Union (initially the European Economic Community). Thus, the original Treaty of Rome of 1957, signed by six founding countries in order to establish the European Economic Community (EEC), stated in the preamble that the member states were “anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less-favoured regions”.

As explained in this paper, while this political statement of intent existed for a considerable time, transposing it into an operational regional policy at the European level took some three decades and was intimately bound up with the broader process of European integration, especially with regard to the creation of an economic and monetary union.

The early history of the EEC, ‘the Community’, was one of emphasis on building the free-trade zone, although the need for intervention to address the geographical dimension was raised in different reports produced in the 1960s and 1970s by the EEC executive, the European Commission, and the Assembly (now the European Parliament). In 1968, a new administrative department within the Commission, the Directorate-General for Regional Policy was created. In 1972, the Heads of State and Government of the Community meeting in Paris adopted conclusions which described regional policy as “an essential factor in strengthening the Community”. The “Thompson Report”, published by the European Commission in 1973 and just after the enlargement from six to nine member states (adding Denmark, Ireland and UK), concluded that “although the

¹ The views expressed in this paper are those of the author and not necessarily those of the European Commission. Copyrights to this article remain with the author.

objective of continuous expansion set in the Treaty has been achieved, its balanced and harmonious nature has not been achieved". Thompson, who was the first UK European Commissioner, also said that 'Regional Policy is in the general European interest...it is as much in the interests of the richer regions of Europe as it is in the interests of the poorer regions of Europe'².

II. The European Regional Development Fund of 1975: Supporting National Regional Policy

Following this early political debate, the European Regional Development Fund (ERDF) was set up in 1975, initially for a three-year period with a budget of €1,300 million, with the objectives of correcting regional imbalances which had arisen in regions dependent on agriculture or affected by industrial change and structural unemployment. The new fund could finance three types of action:

- investments in small enterprises creating at least 10 new jobs;
- related investments in infrastructure, and
- infrastructure investment in mountainous areas, which also had to be eligible for support under the agriculture investment (or 'guidance') fund.

Over the period from its creation until the end of the 1980s, the ERDF was used essentially to defray, through a relatively limited European budget, some of the costs of national investment in the regions in the member states. According to Drevet (2008)³, the ERDF operated in a manner which lacked, firstly, a European vision of regional development issues – the resources were allocated according to fixed national quotas – and, secondly, a genuine regional dimension – the regional and local authorities were absent from the conception and implementation of the policy. Resources arrived under the auspices of the national authorities to support projects in the regions in a manner that was almost entirely invisible from a European policy point of view. In its Second Periodic Report on the Social and Economic Situation of the Regions, the Commission admitted that

2 http://ec.europa.eu/regional_policy/archive/policy/history/index_en.htm 15 (last accessed February 15, 2014)

3 Jean-Francois Drevet, *Histoire de la politique régionale de l'Union européenne* (Paris: Belin 2008).

“Trying to assess the effect of Community regional policy is to a large extent equivalent to answering the question of the efficacy of national regional policies and the degree to which they are strengthened by Community regional policy”.⁴ European resources were submerged in the much greater national expenditures, and in the mid-1980s, the contribution of the European budget to gross fixed investment in the Community was equivalent to just 0.25% of the total, rising to 3% in the newest member state, Greece, and 2% in Ireland and Italy.

The relatively hesitant steps in developing a European regional policy reflected the work-in-progress nature of the broader process of European integration itself. With the notable exception of agricultural policy, there had been relatively little progress in developing policies at the European level, as distinct from the national level, especially in budgetary terms. Even the creation of a genuine free-trade zone remained unfinished work through to the 1980s, and for many lacked an essential additional element: a monetary union based on a single currency, in order to avoid problems such as those arising from competitive devaluation. Indeed, in the period leading up to the decision taken to create a European single market in the mid-1980s, it was common practice in the media to refer to (the slow pace of) European integration in terms of “eurosclerosis”.

III. Economic and Monetary Union and the Development of a Genuine, European-level Regional Policy

The steps needed to achieve both economic and monetary union were extensively investigated and debated in the course of the 1970s and 1980s, and the decisions which followed these reflections had an important spin-off in addressing the weaknesses of the nascent European regional policy created after 1975, as discussed below.

Monetary union, and specifically the idea of a common currency, proved to be, perhaps unsurprisingly, the more complicated issue, politically-speaking, involving as it does a loss of national sovereignty over the national currency (even though the existence of the capacity of individual countries to exercise that sovereignty genuinely independently in a global economic and monetary context is doubtful). In 1970, the Werner group

⁴ European Commission, „The Regions of Europe: Second periodic Report on the social and economic situation of the regions of the Community“. Office of Publications of the European Communities (Brussels 1984).

submitted a report setting out a three-stage process to achieve EMU within a ten-year period⁵. The final objective would include the permanent locking of exchange rates – or possibly a single currency. The floating exchange rates of most currencies of the Community were held to have had a negative impact on internal cohesion and investment as well as on trade among the member states and between them and their major trading partners. The Werner report called for closer economic policy coordination, with interest rates and management of reserves decided at European level, as well as agreed frameworks for national budgetary policies.

The Werner timeframe of ten years proved to be excessively ambitious, and while the common currency remained as a political objective throughout the 1980s most of the policy effort was focused on maintaining a monetary union between the national currencies of Member States. In particular, after 1979, with the establishment of the European Monetary System (EMS), the Community set up a zone of internal monetary stability.

Making progress on economic union proved to be a somewhat smoother process in political terms. In 1985, the Commission produced a White Paper which set out a large and detailed programme for the removal of physical, technical and fiscal barriers preventing the free movement of goods and services, labour and capital throughout the Community. The programme was adopted by the member states in December 1985, setting 1992 as the deadline for the realisation of the legislative programme. The programme was essentially implemented on time, and in this way the Community took a major leap forward, in terms of integration, moving from a free-trade zone to a single market.

As indicated, the political developments with regard to economic and monetary union proved propitious for the taking of a decisive step forward in relation to European regional policy. Initially, with the publication in 1977 of a report under the chairmanship of Sir Donald MacDougall⁶, an important early focus of attention had been on the possibility of a fiscal equalisation system inside the Community, on the model of that of federal entities such as the USA or Australia. A fiscal equalization system is typically a more powerful instrument for reducing geographical disparities than regional policy, because it seeks to achieve equality of access to public services such as health and education throughout the territory through automatic transfers from the centre which compensate

5 http://ec.europa.eu/economy_finance/euro/emu/road/werner_report_en.htm
(last accessed February 18, 2014)

6 European Commission, Report of the Study Group on the Role of Public Finance in European Integration. Volume II (Brussels 1977) Photocopy in possession of author.

for lack of tax capacity in the economically weaker areas.⁷ Such a system pre-supposes a high degree of political integration, which is probably why it was not the option of choice in the case of the Community given the stage of integration at the time.

Thus, by the time of the Delors Report of 1989⁸, the idea of fiscal equalization had all but been abandoned, and it was admitted that the “centrally managed Community budget is likely to remain a very small part of total public-sector spending” and unable to play the role of automatic stabiliser. Rather, the Delors report concluded that on the way to greater economic and monetary union, “*Community policies in the regional and structural field* would be necessary in order to promote an optimum allocation of resources and to spread welfare gains throughout the Community. ...particular attention would have to be paid to an effective Community policy aimed at narrowing regional and structural disparities and promoting balanced development throughout the Community”. In retrospect, this conclusion, coming from the head of the EEC executive, Jaques Delors, over the period 1985-94 marked the beginning of a new era for EU regional policy, with the creation of a policy that was both ‘European’ and ‘regional’ for the first time.

This can be seen in the proposal published in the Commission’s 1987 report, “Making a success of the Single Act: a new frontier for Europe”⁹ where it was proposed to double in real terms the structural investment budget by 1992, the year of the completion of the Single Market Programme, with a major impact for the resources available to the European Regional Development Fund.

The growing confidence surrounding a new European regional policy was reflected in the Third Periodic Report written by the Directorate General for Regional Policy and published by the Commission in 1987. The Report set the scene for a genuinely European vision of regional problems and proposed a typology of regions deserving European aid: regions lagging behind; declining industrial regions; agricultural regions; urban problem regions; peripheral regions and islands; frontier regions.¹⁰

7 Although some of the impact in terms of reducing disparities may be reduced because of disincentives effects towards migratory flows.

8 Committee for the Study of Economic and Monetary Union, Report on economic and monetary union in the European Community (the Delors report). Office of Publications of the European Communities (Brussels 1989).

9 European Commission, “Making a success of the Single Act: a new frontier for Europe“. COM(87)100

10 For a definition of the regions in Europe see, for example, Ronald Hall, “Regional Disparities and Community Policy“ in J Mortensen, ed, Improving economic and social cohesion in the European Community (New York, 1994).

IV. Europe's New Regional Policy: 1989-93

The typology bears a great deal of similarity to that retained in the final legislative package which emerged in 1988, and which was implemented over the period 1989-93 (as part of the so-called Delors-I budgetary package). The policy as finally adopted included four priorities (under 5 'Objectives' in the legislative texts): lagging regions ('Objective 1, the top priority in financial terms), declining industrial regions, rural regions and labour market problems. The urban problem regions had disappeared under the assumption that they were mostly subsumed under other categories, mainly in declining industrial regions. The peripheral and island regions also disappeared, on the basis that they were subsumed under regions lagging behind or in agricultural regions. Curiously, in view of their importance for European integration and the breaking-down of national frontiers in the single market, the border regions were not identified as such in the legislation. They were, however, later included on a long list of specialist sectors and geographical areas where relatively small-scale programmes, known as Community Initiatives, could intervene.¹¹ In fact, it was only 15 years later in 2007 that frontier regions entered the list of mainstream priorities.

In terms of resources, the new regional policy was allocated some 14 EUR billion euros per year, or 20% of EU-Budget (and 0.27% of Community GDP). The effectiveness of these resources depended on the ability to target them, simultaneously, on investment and on the worst-affected areas. In practice, some 80% of the resources were allocated to ("concentrated" on) the regions lagging behind, defined as the regions with a GDP per head less than 75% of the EU average measured using comparable ("harmonized") data for European regions. In terms of the impact on investment, the contribution from the Community to the four largest beneficiaries – Greece, Spain, Ireland and Portugal – was considerable, equivalent to 8% of capital formation on average, varying from 5% in Spain, 13.5% in Portugal, 16% in Greece to 17% in Ireland.

Importantly, the new regional policy developed its own governance system. Firstly, the resources were to be delivered through the drawing up of strategic, medium-term, integrated programmes¹². The programmes integrated investments in three fields: infra-

11 European Commission, „Guide des Initiatives communaitaires“. Office of Publications of the European Communities (Brussels 1984).

12 The strategic programming approach had been introduced in 1985 in the Integrated Mediterranean Programmes for Greece, southern Italy and southern France.

structure, productive investment (both fields relying on the ERDF) and human capital (using mostly the resources of the European Social Fund (ESF)). In addition, the European Guarantee and Guidance Fund-Guidance section was integrated into the programmes for rural areas in pursuit of rural development objectives and the diversification away from agriculture.

Secondly, the first steps were taken towards developing a multi-level governance model through the introduction of the concept of partnership. This required close cooperation in the conception and management of programmes between the European level, represented by the Commission, and all the relevant authorities at national, regional and local level in the member states in the conception and implementation of the programmes (selection of priorities, selection of individual projects, monitoring). Partnership effectively translated as decentralization, so that all but the larger projects were selected by the programme management authorities in the member states without the interference, *ex-ante*, of the Commission. For the majority of projects, therefore, the Commission's intervention occurred *ex-post*, as part of financial control procedures.

Finally, addressing the problem of the relative lack of impact, even invisibility, of EU actions the member States were required to demonstrate through their public accounts the 'additionality' of European resources, in order to show that the investment the latter supported came on top of the existing national effort rather than replacing it.

In retrospect, the principles inherent in the delivery system of the first generation of programmes (concentration; strategic, integrated programming; partnership and decentralization; additionality) had a major influence on subsequent generations. While it has been customary to label each successive generation as a 'reform', in reality the four initial principles have been maintained in substance even if the emphasis may have changed and even if there have been, generally successful, attempts at improvements.

V. Consolidating the Regional Policy Model, 1994-1999

The inter-linkages between progress on economic and monetary union, on the one hand, and regional policy, on the other hand, perhaps emerged most clearly in the Treaty on European Union of 1992 – the “Maastricht Treaty” – with the creation of a new European-level source of finance for investment known as the Cohesion Fund. The Cohesion Fund had as its main objective that of helping the four poorer countries of the EU

(Greece, Spain, Ireland and Portugal) to overcome the difficulties they faced in moving to monetary union, in particular, in helping to maintain their investment budgets in order to promote economic catching-up with the rest of the EU while simultaneously keeping their public deficits in check in accordance with the so-called Maastricht criteria.¹³ The Fund was therefore targeted nationally rather than regionally, although it was later to be incorporated as one of the sources of finance in regional programmes in countries where it intervened (see below).

The first allocations to the new Fund were made by the member states in Edinburgh in December 1992 when the EU budget for the six-year period up to 1999, inclusive, was agreed: the so-called Delors II package. In effect, the combination of the Maastricht Treaty and the Edinburgh decisions meant that economic and monetary union was back on track, and on the terms set out in the Delors report of 1989 in the sense that there was a strong reinforcement of finance for the reduction of geographical disparities. The overall budget for “cohesion” (a term which was used in the Maastricht Treaty and which captures both the national and regional targeting of Community resources¹⁴) increased to 32 billion euro per year, or 30% of the total budget and 0.45% of Community GDP. For the poorer countries the contribution to capital formation amounted to 14% of the total, compared to 8% for 1989-93.

With resources on this scale, the European Union was effectively financing the major share of national budgets in key areas such as transport infrastructure. Not surprisingly, then, this was also the period when the governance system was modified in order to introduce a reinforced emphasis on the concept of “value-for-money”, with new provisions in the legislation requiring the measurement of results against pre-determined objectives.

13 The criteria related to the good macro-economic management required to enter full economic and monetary union including the adoption of a single currency, including the limiting of government deficits to the equivalent of 3% of GDP.

14 Finding a suitable name for the policy for academic purposes is not without its challenges. Some prefer ‘cohesion policy’ because not all the European resources available target regions, supporting national programmes (including ‘national’ programmes in member states that are the size of a typical ‘region’). Others prefer ‘regional policy’ which is more readily understood in most languages. The compromise chosen here is ‘cohesion and regional policy’ which is not without its problems in the legal sense since ‘cohesion’ is the umbrella term derived from the Maastricht Treaty of which regional policy is part. The fact that ‘cohesion’ and ‘region’ represent a unity is reflected in the use of the term ‘policy’ and not ‘policies’ in this article. Moreover, the implementation methodology of European ‘cohesion policy’ is largely inspired by the political and academic traditions of regional policy.

The legislative package was also notable for the reinforcement of other aspects of the governance system, insisting on the need for the programmes to be managed in accordance with EU policy and legislation in the following fields:

- competition policy and public procurement policy (to ensure that public intervention under the programmes was consistent with the idea of a "level playing field" for business throughout the EU)
- equality of opportunity
- the environment (to avoid that competition between regions became a 'race to the bottom').

In the course of the period, the EU enlarged to include, from 1995, three new member states: Austria, Finland and Sweden. In the accession negotiations, Finland and Sweden successfully elicited an adaptation to the priorities of regional policy to address the needs of regions with very low population density, characteristic of the northern territories in both countries.

The period was also characterised by the continuation of multiple, sectoral Community Initiatives, reaching a total of 14 in 1995 when a new, and in many ways groundbreaking, programme was adopted to support peace and reconciliation in Northern Ireland and the border counties of Ireland. However, in accordance with the Edinburgh summit of 1992, priority was given to promoting the development of frontier areas under the heading of the so-called INTEREG Community Initiative.

VI. Regional Policy for an Enlarged Union, 2000-2006

By the time of the design of the next generation of cohesion programmes for 2000-2006, the process of introducing the single currency in 11 of the then 15 Member States was coming to a successful conclusion (in 1999, with euro notes and coins following in 2002) and attention had shifted to preparing for enlargement, with the intention of bringing in several countries from Central and Eastern Europe.

The Commission made early preparations for this period, publishing policy and financing proposals in 1997 under the heading of “Agenda 2000”.¹⁵ It recommended a comparatively modest approach to enlargement, proposing that negotiations should begin with 5 countries: Hungary, Poland, Estonia, Czech Republic and Slovenia. The consequences would be potentially far-reaching for the financing of cohesion and regional policy (and for agriculture) since levels of GDP per capita in all 5 would qualify them for the highest levels of European aid, and, since the group included Poland, by far largest of the candidate countries with 40 million of population only marginally behind Spain, the Union’s fifth largest member state. In the event, in agreeing the budget for 2000-2007 in March 1999, the member states decided to add a sixth candidate for the next enlargement, Cyprus, which in turn was quickly enlarged to ten with the addition of Slovakia, Lithuania, Latvia and Malta. The final budgetary deal provided 34 EUR billion for cohesion policy equivalent to 0.46% of GDP (including the resources for post-enlargement).

The budgetary settlement reached in Berlin in 1999, based on the Commission’s Agenda 2000 proposals, was centrally concerned with the financing of enlargement.¹⁶ Preoccupations that new member states would not be able to use – ‘absorb’ – the relatively high level of resources on offer for cohesion and regional policy in the poorest of the EU-15, led to the decision to cap transfers at a maximum of 4% of national GDP, a figure which approximated to the highest figure granted historically to any member state. For some, this was seen as a realistic move to take account of the lack of institutional and administrative capacities in countries that had not fully completed regime change from centrally-planned to market-orientated economies, for others it was seen as a way of reducing the immediate budgetary implications of enlargement, while for others still, it was seen as a way of ensuring that resources could still be provided in the relatively more prosperous EU-15 member states and their regions.

The 4% cap was also accompanied by measures to smooth adjustment to the changing geography of eligibility for support. Thus for regions no longer eligible for EU support, EU aid was gradual phased-out over time while for regions becoming eligible, mostly in the new member states, the aid was phased-in over time.

15 European Commission, *Agenda 2000 for a stronger and wider Union* (Brussels 1997). *Bulletin of the European Union Supplement* 5/97. See also the analysis in Ronald Hall, „Agenda 2000 and European Cohesion Policies,“ in: *European Urban and Regional Studies*, Vol 5, No 2 (1998): 175-183.

16 https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/ACFB2.html (last accessed February 12, 2014).

Among the other notable features of the Berlin agreement, based on the Commission's original Agenda 2000 proposals, were the decisions:

- to narrow the focus to just three priorities: regions lagging behind (the top priority with 70% of the resources not including resources the same areas received under the Cohesion Fund); areas undergoing economic and social change in the industrial and service sectors, declining rural areas, urban areas in difficulty and depressed areas dependent on fisheries; adaptation and modernisation of policies and systems of education, training and employment. The decision was taken to reduce the 14 Community Initiatives to just three with an emphasis on cooperation, mostly cross-border cooperation.
- to move to a seven-year financial planning period. This reinforced the role of the programmes as medium to long-term interventions, a degree of stability and predictability rare in public expenditure, but highly useful in the context of investment planning.
- to place greater emphasis on performance, financial management and control. In particular, it was agreed that not all of the resources should be allocated up-front, and that a proportion should be retained to be allocated at the mid-point according to performance criteria.

VII. Attempts at Change, Not Continuity: The 2007-2013 Programmes

As a result of the budgetary decisions taken historically, cohesion and regional policy had grown from a marginal position in the EU budget to a position equivalent to the Common Agricultural Policy, the two policies together accounting for four-fifths of all EU-level expenditure, with the R&D “framework” programmes a distant third with less than 5% of the budget.

However, when the EU turned to reflecting on its competitive position in the world, which can be summed up as a failure to compete with ‘the best’ (USA, Japan) in terms of adding value through innovation, while losing out to emerging economies (China, South-East Asia) in traditional (lower added-value) industries, EU regional policy was not immediately seen as one of the solutions. On the contrary, this reflection, which took

concrete form in the conclusions to a summit of EU leaders in Portugal in the year 2000, was later to give rise to a certain degree of frustration with the perceived unresponsiveness of regional policy to addressing the Union's competitiveness problems. The latter's partnership arrangements, with the heavy decentralization of project selection arrangements combined with the pre-allocation of resources by member state for seven years, were seen by some as too inflexible to meet new needs.

This emerged most clearly with the work inside the European Commission on proposals for EU policies and finance for the period 2007-2013 (the 'financial perspective'). Experience under Agenda 2000 had shown that the negotiations on financial perspectives involving the member states (25 after 1 May 2004) and the European Parliament, who together made up the Budgetary Authority of the EU, tended to be protracted, with the risk that the legislation to be adopted on the basis of the final financial package would not be ready on time for implementation on 1 January 2007. The Commission therefore made an early start, working up its proposals throughout 2003. It was the discussions on these proposals that most clearly showed the divide emerging between, on the one hand, those who saw the continuing virtue of geographically-based policies, with pre-allocated resources, and those, on the other hand, who were arguing for radical change in favour of more sectorally-based policies in fields such as R&D, transport networks, etc. where decisions would be taken centrally on a project-by-project basis and without geographical or regional criteria entering the decision-making process in any major way.¹⁷

In a parallel track of work, the Commission was working on what emerged as the European Initiative for Growth (EIG)¹⁸ a plan which included a set of projects that were held to be ready for implementation and which were labelled "Quick-start" projects, requiring 60 EUR billion up until 2010. The funds for cohesion and regional policy were called upon to help, albeit in a non-directive way, given the fact that the resources were essentially outside the European Union's control, and this undoubtedly added to the conviction of those who saw these funds as too inflexible.

17 Independent High-Level Study Group appointed by the President of the European Commission (July 2003): „An Agenda for a Growing Europe: Making the EU Economic System Deliver“ (July 2003) Photo-copy of the original in the possession of the author.

18 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52003DC0690:EN:HTML> (last accessed February 15, 2014).

Much has been written on this particular point in the history of EU cohesion and regional policies.¹⁹ The discussion which took place could be condensed as one between those who placed the emphasis on delivering competitiveness through policies that were implemented geographically (through coordinated actions following a strategic plan) and those who placed the emphasis on sectoral delivery. In the end, in early 2004, the Commission adopted a proposal which represented a compromise between, respectively, the geographically-targeted and sectorally-targeted policies. Resources for cohesion and regional policies would be maintained at 0.46% of GDP, while those of the sectoral policies would be significantly increased.²⁰ The proposals therefore meant a rebalancing, but not a major rebalancing, of the total EU budget in favour of sectoral policies for delivering competitiveness, where they would have seen annual expenditure under this heading rise from 8.8 to 25.8 EUR billion between 2006 and 2013, with 60% allocated to R&D.

The Commission's proposals then entered the political decision-making process, at the level of the member states meeting in the Council and the European Parliament, in the usual way. At this level, the relative merits of the geographically-based and sectorally-based approaches becomes only one, perhaps minor, consideration among others. As Mayhew points out: "...the overall size of the budget is the most important element for Ministers of Finance, who will have to transfer their national contributions to the EU budget from the national budget. The larger the EU budget, the larger the gross transfers for everybody, irrespective of the net position of the country".²¹ The restrictive view of the budget tends, however, to be most in evidence among member states who are 'net contributors', while those who are 'net recipients' tend to take a somewhat more relaxed view. Between the 2000-2006 and 2007-2013, the geography of the latter had changed considerably as a result of enlargement which had seen the addition of 10 new member states with a strong interest in cohesion and regional policy, and with a major voice as a bloc around the table of 25 member states.

19 Ronald Hall (2005): *The Future of European Regional Policy: Issues Surrounding An Agenda for a Growing Europe* in: *Journal of the Regional Studies Association*, Vol 39, No 7 (2005), 966-971; Drevet, *Histoire de la politique régionale de l'Union européenne*; J Bachtler et al., *EU Cohesion Policy and European Integration* (London: Ashgate, 2014).

20 Mayhew (2004): <https://www.sussex.ac.uk/webteam/gateway/file.php?name=sci-working-paper-no-78.pdf&site=266> (last accessed February 18, 2014).

21 *Ibid.*, 10-11

The outcome of the negotiations in December 2005²², reflecting the balance of the different forces, led to a shaving of 9% from the Commission's proposals for geographically-targeted policies and a major slashing of the sectorally-targeted ones (for example, the finally-agreed figure for the latter for the year 2013 was 12.6 EUR billion compared to the 25.8 EUR billion in the Commission's original proposal, albeit with priority being given to R&D within the total). Mayhew had predicted this reduction, writing in October 2004, over a year before the final settlement: "The very large [proposed] increase in R & D spending is perhaps the weakest part of the whole proposal" and accusing it of not having a 'business plan'²³. Moreover, the avoidance of a significant reduction in cohesion and regional policy meant that the policy was able to continue to operate outside the poorest regions (formerly known as Objective 1 and renamed as Convergence regions).

In terms of delivery, the member states (or at least the net-contributors) were pre-occupied that the geographically-targeted cohesion and regional policies should genuinely focus on "competitiveness and creating jobs", taking up the Commission's suggestion that minimum levels of resources should be earmarked for a limited number of priority fields mostly to do with investment in RTD and innovation, productive investment, information and communications technologies and human capital.²⁴ Thus, 60% of the resources in the poorest regions and 75% in the other aided regions were intended for this short-list. To improve delivery the member states also insisted on enhanced management and control (auditing) systems. The objective of promoting cooperation between regions in different member states, notably cross-border cooperation, became a headline objective for EU cohesion and regional policy, and was no longer a 'Community Initiative'. Finally, this was also the period when the Cohesion Fund was brought into the programme planning process to help to ensure greater coherence with the ERDF. However, the 2007-2013 period can only with difficulty be remembered for the integration of different European funding streams for investment, with the rural development and fishing area investment funds peeling off to pursue the priorities of the Common Agricultural Policy and the Common Fisheries Policy respectively.

22 http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/87677.pdf (10.2.2014)

23 Mayhew (note 20), 16

24 In 2005, in time for the preparation of the national and regional programmes for 2007-2013, the Lisbon Strategy of the year 2000 was updated to a Growth and Jobs Strategy. See European Commission, „Working together for growth and jobs. A new start for the Lisbon strategy”, COM(2005) 24 final

VIII. Re-consolidating EU Regional Policy: The Current 2014-2020 Period

As the EU enters its latest financial planning period, superficially at least there is a high degree of continuity, at least as far as cohesion and regional policy is concerned, and at least in general terms. This applies in terms of the finance available and in the preservation of the essentials of the four principles of the delivery system that have guided the policy from the beginning, although important modifications were introduced as discussed below. For the Union's regions, this outcome was perhaps unexpected, and many had been anticipating a further, major reinforcement of the sectoral policies following the challenge that had been mounted, eventually without real success, in the preparations for 2007-2013.

Finance

First, in overall budgetary terms, the package for 2014-2020 bears the imprint of the global financial and economic crisis after 2008. The cuts in public expenditure at national level provoked by the crisis were translated directly, and explicitly, into austerity budgeting at the EU level up to the point of leading to a reduction of the Commission's initial proposal, which the latter had earlier described as "an ambitious but realistic proposal" taking account of the impact of economic austerity. The Commission's proposals, published in 2011 (and updated in 2012 for the accession of Croatia) called for a total budget equivalent to 1.09% of EU Gross National Income (GNI), a reduction on the outturn of 1.12% for 2007-2013.²⁵

Second, with regard to cohesion and regional policy, the proposals in this area represented 32.4% of the overall budget compared to 35.7% in 2007-2013 (which also meant an absolute reduction in real terms of 4.5%). However, the proposed cut in the cohesion and regional policy budget could be described as relatively modest.

Third, with regard to the debate that had raged during the preparation of the previous 2000-2007 budget intending to (partly) undermine the geographical approach in favour of the sectoral targeting of EU funds, this preservation of the geographical approach suggested that an important part of the political consensus remained with the

²⁵ The budget for 2014-2020 is set out in the annex in a comparative framework.

former. In other words, the delivery of the competitiveness agenda would rely heavily on the geographically targeted, highly decentralized approach with pre-allocated resources.

While this is largely true, it is not entirely true, and there were significant steps in the direction of sectoralisation. First, the Commission proposed the creation of a new sectoral fund known as the Connecting Europe Facility (CEF), to fund investment projects mostly in the transport sector (and, in effect, occupying a funding gap that was identified back in 2003 in the search for resources for the Quick-start projects, as discussed above). The transfer from geographical to sectoral was particularly clear in the case of the CEF because the Commission proposed that it would include 10 EUR billion that would be ring-fenced inside the Cohesion Fund for CEF priority projects (and thus unavailable for other projects). Second, the sectoral policies for competitiveness, including the CEF, were set to receive an 80% increase in real terms, with their share of the overall budget increasing from 9.2% to 15.7%.

When the Commission's proposals went for decision to the member states and the European Parliament, important changes were introduced. At this level, the view that held sway was that there was insufficient account taken of economic and financial austerity in the proposals and a new total for the overall budget equivalent to 1% of EU GNI was set. This was imposed in a way that affected the composition of the budget, and in the final agreement it was the sectoral policies that absorbed most of the reduction. Cohesion and regional policy remained largely unscathed with a reduction of 4% in the final agreement, compared to a reduction of 23.6% for the sectoral competitiveness policies. The CEF was cut by slightly more than half. Thus the political negotiations pushed the pendulum back towards the geographically-targeted delivery of competitiveness. Undoubtedly, the maintenance of the 2007-2013 consensus in this regard can be partly attributed to the accession to the EU of Bulgaria and Romania in 2007 and Croatia in 2013, all of whom, as relatively poor member states, feature among the major beneficiaries of cohesion and regional policy. It was also influenced by the impact of the crisis especially in some of the poorer parts of the Union where public resources for economic recovery had become scarce. In this sense, in a Union that had taken the decision historically to reject the path of fiscal equalization typical of Federal entities, relatively strong cohesion and regional policy was needed as the only other available mechanism for redistribution.

The Delivery System

As indicated above, the new delivery system for 2014-2020 is based on the traditional principles: *concentration* of resources; medium-term strategic *programming*; *partnership* and decentralization; *additionality*. However, there were important modifications as discussed below.

The regions where most of the aid is targeted underwent a third name-change to become ‘less-developed’ regions (curiously borrowing a category from the development literature), having been known as ‘Convergence’ regions between 2007-2013 and ‘Objective 1’ regions throughout the period 1989-2006. The eligibility criteria based on levels of GDP per capita remain the same, and have been strictly applied.

Important changes concern, firstly, the strategic programming of investment where an attempt has been made to ensure improved coordination on the ground in the member states between the five different European funding streams (ERDF, Cohesion Fund, ESF as well as the funds for rural development (the European Agricultural Fund for Rural Development) and the fisheries area funds (European Maritime and Fisheries Fund)). The move towards coordination (a “*Common Strategic Framework*”) in many ways represents a return to the original principle of 1989-1993 of integrating the funding streams and is intended to promote more ‘joined-up thinking’ in the implementation.

Secondly, the delivery system will include a strong emphasis on achieving results. The traditional problem in this regard has been to find a system for the achievement of objectives set at European level by the institutions led by the Council (and today set out in the latest version of the EU’s competitiveness strategy known as “Europe 2020”) in a context of the decentralized decision-making on investment that characterizes the implementation of European cohesion and regional policy. Under this system, the main European-level opportunity to exert influence on the actual content of the investment lies in the preparation of the programmes which have to be approved by the Union (by the Commission). Thereafter, as described above, it is largely a matter of evaluating and auditing actions *ex-post* and already implemented by the member states and regions. In order to increase the connection between the initial strategic programme and the actual results achieved later, the new delivery system imposes more requirements – conditions – on the member states to demonstrate that they have put in place the capacities for effective and efficient implementation (the so-called *ex-ante conditionalities*).

In this framework, the new delivery system will also link implementation more than ever to ‘sound economic governance’. By establishing a tighter link between regional and cohe-

sion policy and the so-called European semester²⁶ of economic policy coordination, the intention is to ensure greater consistency between macroeconomic policies at national level and investments through European programmes. Thus, when a country faces economic difficulties, the Commission will work with the member state to revise its strategy and programmes. If the economic situation becomes as serious as to undermine the effectiveness of EU investment (for example, because it is a cause of macro-economic instability), certain fiscal or economic conditions can be imposed as a condition for continued transfers under regional and cohesion policy. Historically, this conditionality existed only for the Cohesion Fund, but implementation will be tightened up so that the process of suspending transfers, so difficult to impose in the past, will become more automatic (and apply to all five funds).

This new macroeconomic conditionality is therefore double in nature providing, firstly, for rapid intervention to adjust programmes with aim of supporting sound macro-economic policy, or to address an excessive public deficit, macroeconomic imbalances or other economic or social difficulties, or, simply to seek to maximise the growth and competitiveness impact of EU funds. Secondly, it provides for the possible suspension of transfers where a member state fails to take corrective action in the context of the EU's economic governance procedures.

IX. Concluding Remarks

The history of EU cohesion and regional policy has been shown to be closely bound up with the general process of European integration, especially with regard to the development of economic and monetary union which eventually led to the creation of a single currency, the euro. In the integration process the idea of fiscal federalism, and the creation of a fiscal equalization system, was declined opting instead for a system based on supporting the economic growth and development of the weaker member states and regions through the channelling to them of investment funds from the central EU budget, so that they could share in the results of (or at the very least not unduly suffer from) economic and monetary union.

26 The „European Semester“ is the term used to describe the annual cycle of economic and fiscal policy coordination between the member states of the EU. Its focus is on the six-month period from the beginning of each year, hence its name – the „semester“. During the European Semester the member states align their budgetary and economic policies with the objectives and rules agreed at the EU level.

In some senses, the development of the policy over time reflects repeated attempts to address the double nature of the role that was established, at least implicitly, for cohesion and regional policy. On the one hand, the policy represented a *redistribution mechanism* in the absence of any other in support of the poorer areas of the EU. On the other hand, it also represented an *economic growth and development mechanism* targeting resources on a limited number of investment fields. In the early phases, it could be said that rather too much emphasis was placed on the redistributive dimension at the level of Europe's political leadership, so that there was perhaps too much effort devoted to securing resources under cohesion and regional policy, and perhaps insufficient attention paid to making the most successful use of those resources at a later stage.

One of the major challenges for the policy was thrown down in the early part of this century in the lead-up to the preparations for the 2007-2013 budget. This was a period when the Union, after the agreement in Lisbon in 2000 on a plan of action aimed at obtaining more resolute joint action to address the issue of (relatively declining) international European competitiveness, was looking to mobilise all the available sources of finance for new investment. With the decisions of the 1990s, cohesion and regional policy had become by far the largest potential source of such investment at the European level.

In this context a shift began in the conceptual framework of the policy, away from an emphasis on the redistributive aspect towards the economic growth and development aspects. Thus, the rationale of the policy became one of a source of investment to help in the realisation of the succession of (related) competitiveness strategies guiding the Union after 2000 (the Lisbon Strategy (2000), the Growth and Jobs Strategy (2005), and the Europe 2020 strategy (2010)).

In order to deliver the European investment to contribute to the realisation of these strategies, changes to the delivery system were essential so as to translate European priorities into the real investment decisions taken at the regional and local level. This has led to a strengthening of the conditions accompanying cohesion and regional policy programmes beginning with the preferential earmarking of key investment fields in the requirements for the drawing up the strategic programmes for 2007-2013. These conditions have been reinforced, at least in legislative terms (actual implementation has yet to take place), for the period just beginning, 2014-2020.

Moreover, not only is the policy now guided (conditioned) by the need to contribute to achieving the objectives of the current version of the EU's competitiveness strategy – Europe 2020 – it has also become, in post-crisis Europe, an instrument to help to

ensure the stability of the economic and monetary union as a whole with sanctions possible (transfers suspended) for the non-respect of the Union's limits for national macro-economic magnitudes. In a sense, this has closed a circle. The progress that was made on reinforcing EU cohesion and regional policy needed the introduction of economic and monetary union. Now, economic and monetary union needs cohesion and regional policy as an instrument to underpin its success. It can be predicted that much attention will be devoted over the coming years to seeing how this latter relationship plays out in practice.

Of course, notwithstanding the paradigm shift in EU cohesion and regional policy, it retains a strong redistributive dimension and most of the resources are concentrated on the poorest regions in terms of income (GDP) per head, a significant political achievement in itself. However, the policy discourse has changed to focus on the policy's allocative role in targeting investment projects essential to Europe's economic success. There is therefore an emphasis on the future, seeking to mobilise underexploited resources in pursuit of new opportunities rather than seeking to compensate for the problems of the past. Finally, to be able to play its role in realizing the Union's global economic objectives, it has been accepted that the policy needs to intervene in both the poorer and the more prosperous regions of the Union even if the resources are inevitably, and justly, concentrated on the poorest.

Annex:
The Multi-Annual Financial Framework of the European Union, 2014-2020, in a comparative framework

COMMITMENT APPROPRIATIONS	2007-2013		COM proposal (update July 2012)		EC conclusions 8/2/2013		Difference: EC conclusions vs COM proposal		Difference: EC conclusions vs 2007-2013	
	mil EUR	% of total CA	mil EUR	% of total CA	mil EUR	% of total CA	mil EUR	%	mil EUR	%
1. Smart and Inclusive Growth	446.310	44,9%	503.310	48,2%	450.763	47,0%	-52.547	-10,4%	4.453	1,0%
1a Competitiveness for Growth and Jobs*	91.495	9,2%	164.316	15,7%	125.614	13,1%	-38.702	-23,6%	34.119	37,3%
1b Economic, social and territorial cohesion	354.815	35,7%	338.994	32,4%	325.149	33,9%	-13.845	-4,1%	-29.666	-8,4%
2. Sustainable Growth: Natural Resources	420.682	42,3%	389.972	37,3%	373.179	38,9%	-16.793	-4,3%	-47.503	-11,3%
of which: Market related expenditure and direct payments**	318.820	32,1%	286.551	27,4%	277.851	28,9%	-8.700	-3,0%	-40.969	-12,9%
3. Security and citizenship	12.366	1,2%	18.809	1,8%	15.686	1,6%	-3.123	-16,6%	3.320	26,8%
4. Global Europe	56.815	5,7%	70.000	6,7%	58.704	6,1%	-11.296	-16,1%	1.889	3,3%
5. Administration***	57.082	5,7%	63.165	6,0%	61.629	6,4%	-1.536	-2,4%	4.547	8,0%
6. Compensations****	920	0,1%	27	0,0%	27	0,0%	0		-893	
TOTAL COMMITMENT APPROPRIATIONS	994.176	1,12%	1.045.282	1,09%	959.988	1,00%	-85.294	-8,2%	-34.188	-3,4%
as a percentage of GNI							-0,09%		-0,12%	
TOTAL PAYMENT APPROPRIATIONS	942.778	1,06%	998.784	1,04%	908.400	0,95%	-90.384	-9,0%	-34.378	-3,6%
as a percentage of GNI							-0,09%		-0,12%	

(2011 prices)

James C. Cobb

The American South: Regional Development Strategies in Global Context

Much like their more recent counterparts in nations pursuing greater integration into the global economy, those charged with bringing the southern states into the American economic mainstream in the wake of the devastation of the Civil War saw few options other than an innately self-limiting – though purportedly only temporary – development strategy of exploiting their region’s relative underdevelopment. With its enormous pool of surplus or superfluous labor, abundant raw materials and natural resources, and an unyielding commitment to minimal taxation and government involvement, the postbellum “New South” offered profound savings in industrial operating costs compared to the more developed states of the Northeast and emergent Industrial Midwest. In reality, however, for most large-scale investors, the higher operating costs associated with these areas could easily be discounted against the very real prospect of speedy and handsome returns from the rapidly expanding and highly profitable enterprises on the frontlines of America’s industrial revolution. Thus, as historian David Carlton noted, the struggling southern economy “had to coexist, within national boundaries, with a well-developed industrial region which could provide strong competition [for capital] for any southern ‘infant industry’ requiring a skilled labor force and experienced entrepreneurs.” Substantial investments in these more dynamic enterprises might have dramatically accelerated the South’s move toward economic integration with the rest of the nation. Unable to secure these funds externally, however, development leaders had to rely heavily on risk-averse local investors whose exceedingly meager resources largely limited industrial expansion to small-scale rudimentary, low-value-added manufacturing operations offering returns that were reasonably secure but much too low to generate additional economic expansion and momentum.¹

1 David L. Carlton, *Mill and Town in South Carolina, 1880-1920* (Baton Rouge: Louisiana State University Press, 1982), 63; see also, James C. Cobb, “Beyond Planters and Industrialists: A New Perspective on the New South,” *Journal of Southern History* 54 (February, 1988): 45-68.

As I have noted elsewhere, viewed in a global context over time, societies with an appetite for economic modernization seem to confront not a fixed menu but a cafeteria line. Although not all the offerings are adaptable to the tastes or budgets of all would-be diners, ironically enough, the later one arrives at the serving line, the more development options that are available. Arriving at the modernization buffet near the end of the nineteenth century, the South encountered a variety of possibilities, but its severely limited capital resources at this point ultimately dictated a fairly mundane set of selections that had actually been on the table for quite a while. Prominent among these entrees was the textile industry, which was available at bargain prices and well suited for a region where cheap, eager labor was in such abundance. On the other hand, however, situated near the trailing edge of the American manufacturing economy, the textile industry's major technological and production advances were largely behind it by the turn of the twentieth century, and hence, it was unlikely to generate the pressures for investments in education or inventive or experimental activities that might have paid off in terms of pulling more high-energy industrial capital into the region.²

Thus, the South was left to shuffle along behind, gradually picking up the wage-sensitive firms priced out of the labor market in the North and effectively blown out the tailpipe of the still-accelerating northern industrial economy. After the economic collapse of the 1930s threatened not only to halt, but to roll back their plodding industrial advance, southern states and communities moved to sweeten their low-wage appeals with promises of tax exemptions and/or free or extremely cheap buildings financed by low-interest municipal bonds. Although designed to make southern communities more financially attractive to industrialists, subsidy programs largely confirmed the prevailing pattern of development based on competitive, labor-intensive industries because such operations, attracted to the South initially by their need to save on labor costs, were also the ones most likely to be swayed by an opportunity to save on construction and tax costs as well.³

At some point, any strategy for interregional economic convergence that is predicated on maintaining comparatively low wages becomes comparable to trying to jump from point A to point B by covering no more than half the remaining distance with each

2 James C. Cobb, *Redefining Southern Culture: Mind and Identity in the Modern South* (Athens, Ga.: University of Georgia Press, 1999), 189.

3 This strategy is discussed more thoroughly in James C. Cobb, *The Selling of the South: The Southern Crusade for Industrial Development, 1936-1990*, 2nd ed. (Urbana: Illinois University Press, 1993), 1-63.

leap. Hence, proponents of this strategy felt compelled to offer periodic assurances that the South would soon achieve the self-sustaining economic momentum and mass that would allow it to abandon its self-limiting efforts to keep wages, taxes, and other corporate expenditures artificially low.

Surely, if the southern states were ever going to be able to curtail their giveaways to hosiery and underwear plants fleeing New Jersey and call off the local law enforcement personnel charged with cracking the skulls of union organizers, this oft-promised tomorrow seemed very much at hand at the end of World War II, which did more to alter the course and pace of southern economic development than any event since the Civil War. The war's greatest contribution was funneling a huge helping of federal money into a region long starved for capital. More than \$4 billion went into military facilities and perhaps as much as \$5 billion more into defense plants during the war. The result was a whopping 40 percent expansion of the South's industrial capacity and a 20 percent increase in manufacturing employment between 1940 and 1945 alone. Per capita income tripled during the 1940s, leaving southerners, at long last, with enough disposable income to make them attractive to market-oriented industries that had previously found the South's consuming capacity too puny to justify locating more than a smattering of production or distribution facilities in the region. Automobile assembly and parts plants, for example, began to spring up in and around Atlanta as executives recognized the growing potential of the southeastern market for cars.⁴

By 1960 the trends set in motion by World War II had left their imprint. Mechanization and consolidation of cotton production had actually begun in earnest in the 1930s with the New Deal's acreage-reduction programs, and the civilian and military manpower demands of the war effort greatly accelerated this process. Between 1940 and 1960 the South's population had shifted from 65 percent rural to 58 percent urban or metropolitan. In the latter year only 10 percent of the population still earned their living in agriculture, while 21 percent worked in manufacturing.⁵

With the South's rapidly mechanizing agricultural sector disgorging thousands of farm laborers and its consumer markets enhanced dramatically by World War II, the southern states effectively doubled down on their commitment to industrial expansion.

4 James C. Cobb, *The South and America Since World War II* (New York: Oxford University Press, 2010), 52-55.

5 James C. Cobb, "Industry and Commerce," in Melissa Walker and James C. Cobb, eds., *The New Encyclopedia of Southern Culture, Vol. 11: "Agriculture and Industry"* (Chapel Hill: University of North Carolina Press, 2008), 218.

Determined not to surrender their substantial wartime economic gains, public officials strengthened and extended their development programs, and more state and local leaders became involved. The governor became the state's super-salesman, and no gubernatorial aspirant dared to neglect economic development as a campaign pledge, especially as these efforts appeared to give increasing evidence of paying off handsomely. Although the relatively more rapid expansion of the post-World War II era was primarily the result of basic economic considerations related to changes in market and income concentration, it was not hampered in the least by continuing advantages in labor, tax, and other operating costs and the determined efforts of development leaders to emphasize and maintain them.

Even as the war-born boom stimulated consumer buying power and fueled the South's gains in manufacturing employment, the wage gap between southern and northern workers actually narrowed only slightly over the 1940s and 1950s. In 1959 average hourly wages for production workers in North Carolina and Mississippi were but 65 percent of those earned by their counterparts in Pennsylvania and New Jersey, and in some areas of the South with especially heavy concentrations of labor-intensive industries, workers actually lost ground relative to the national norm.⁶

As we know, of course, regional economic convergence may be a matter not simply of the laggard region quickening its pace but of the more advanced region slowing down. In this case, as the South was experiencing what seemed to be its long-awaited economic boom, the industrial North was beginning to show definite signs of decay. Mounting labor costs and continuing union pressure, technological obsolescence, and rising levels of international competition were among the considerations that led increasing numbers of industrialists to forego expansion or new investments in northern locations in favor of opening new plants in the South. As investment capital moved out, so did a number of residents, many of whom found new homes and jobs below the Mason-Dixon line.

Between 1970 and 1976 the South enjoyed a net population gain of nearly 3 million people. In contrast to the past, by the mid-1970s those moving into the region were by and large significantly younger and better educated than the national average. The warmer climate and relatively uncomplicated lifestyle were also pulling in retirees whose fixed incomes made lower living costs important. Overall, by the mid-1970s, the southern economy had grown about 30 percent faster than the national average over the last quar-

⁶ Cobb, *Selling of the South*, 114.

ter century, and dramatic increases in white collar jobs suggested that regional income differentials might soon be a thing of the past in much of the metropolitan South.⁷

In the wake of World War II, however, many incoming employers had deliberately spread their new plants across the rural countryside, looking to capitalize on cheap and eager labor displaced by the mechanization of southern agriculture. Accordingly, blue-collar wage differentials remained the key selling point for those charged with attracting new industrial payrolls to the region. The South Carolina Department of Commerce bragged consistently that the state's manufacturing wages were among the nation's lowest, one of the reasons being a union membership rate of 3.3 percent. North Carolina's union numbers were equally anemic, and Georgia's and Virginia's were not much higher. In the Carolinas, workers who "talked union" were sometimes given a warning before they were fired, sometimes not. On occasion, local developers actually spurned prospective employers who promised to hire large numbers of workers at generous salaries simply because their plants were likely to be unionized. When it was rumored in 1977 that Phillip Morris Tobacco was eager to build a plant near Greenville, S.C., that would employ a well-paid but possibly unionized workforce of 2,500, the state's governor and other political leaders had little difficulty containing their enthusiasm. Meanwhile, local leaders formed a group openly opposing the move because, as one explained, "the industrial climate of South Carolina is based on non-unionization." Opponents of the Philip Morris move also included representatives of the French tire maker Michelin, which had been drawn to the Greenville area in 1974 by a combination of tax concessions and the prospect of a union-free operating environment.⁸

Prior to the 1960s, like most industrial investments in the South, European capital was concentrated in the extraction and processing of raw materials or other low-value-added, labor-intensive industries. With the rise of a more globally competitive manufacturing economy, however, more front-rank European firms began to express an interest in feasting on the South's cheaper, non-union labor, while taking advantage of its easy access to dynamic American consumer markets. Sensing an opportunity, by the end of the decade, southern development leaders quickly established dozens of industrial recruitment offices throughout Europe.⁹

7 Cobb, "Industry and Commerce," 218.

8 *Ibid.*, 219; William W. Falk and Thomas A. Falk, *High Tech, Low Tech, No Tech: Recent Industrial and Occupational Change in the South* (Albany, N.Y., 1988), 84.

9 Cobb, *Selling of the South*, 188-93.

Many observers seemed to assume that European manufacturers opening plants in the South would simply bring along the labor practices they had maintained back home. Yet although they consistently offered wages noticeably higher than the local average, none of the South's new foreign employers showed much inclination to lug along the extensive benefits and worker perks that constituted what one German executive called "the social baggage we have back home." In reality, it was concerns about inflation, tighter labor markets, worker activism, and the recent resurgence of leftist politics in their own back yards that had helped to push them into the beseeching arms of southern development officials in the first place. It certainly did not hurt, of course, that these ultra-accommodating southerners who promised an escape from such headaches also showed up with huge goody bags bulging with financial and other enticements. Another incentive for European industrial investment in the South came in 1971 when the Nixon administration took steps to reverse a massive U.S. trade deficit by devaluing the dollar and simultaneously imposing a 10 percent surcharge on imported manufactures. At that point, industrial investments in the United States became all but irresistible. It was, exulted a jubilant British banker, "like getting Harrod's at half price."¹⁰

The most aggressive and effective early pursuit of European manufacturers came from South Carolina, whose promoters could boast by the end of the 1970s that, in addition to plant investments from England, Italy, the Netherlands, Austria, Belgium, and France, there was more West German industrial capital in their state than anywhere in the world except West Germany itself. Elsewhere, Nissan chose Smyrna, Tennessee, for a new truck-assembly plant in 1980, and the facility soon attracted considerable attention as a prime example of the way in which Japanese management styles could supposedly be transferred to a plant in the American South, where the "one-big-happy-family" approach favored by the Japanese bore a striking resemblance to the paternalism practiced in southern cotton mills of the late nineteenth and early twentieth centuries. South Carolina developers cultivated this sense of kinship by promising Japanese industrialists "a cost-effective workforce" not simply because the state's manufacturing wage was "among

10 James C. Cobb, "Beyond the 'Y'all Wall: The American South Goes Global," Marko Manula, "Another Southern Paradox: The Arrival of Foreign Corporations, Change and Continuity in Spartanburg, South Carolina," both in James C. Cobb and William W. Stueck, eds., *Globalization and the American South* (Athens, Ga.: University of Georgia Press, 2005), 2 (Cobb), 173-74 (Manula).

the lowest in the country” but because “like Japan, South Carolina emphasizes a strong work ethic and pride in workmanship.”¹¹

More than half of the foreign businesses drawn to the United States in the 1990s settled in the South. By 2002, one of eight manufacturing workers in the region was employed by a company headquartered in another country, and in 2010, six of the ten states registering the largest increases in FDI-related jobs were in the South. Recruiting foreign industry clearly did little to diminish the traditional emphasis on cheap labor, especially since the escalated “bidding war” for new payrolls now involved states both northern and southern. Not surprisingly, the southern states consistently raised the enticements bar by offering massive public subsidies to prospective employers. Amid mounting pressure throughout the United States to create new jobs to replace those lost to industrial outmigration, Smyrna, Tennessee, officials had offered Nissan a \$33-million package to migrate their way in 1980, and the size of the signing bonus had effectively quintupled by 1992 when BMW agreed to locate an assembly plant near Spartanburg. This bounty included generous exemptions that have to this date reportedly spared this immensely profitable company the inconvenience of paying state corporate income taxes on a facility that is the nation’s largest vehicle exporter. Just in case BMW officials failed to find the pot sweet enough already, South Carolina threw in a \$1-per-year lease on a \$36-million parcel of land, as well as highway and airport improvements, extensive worker training at state expense, and fifty-five free apartments for BMW executives. In 1993 when Alabama offered what was at least a \$325-million initial subsidy package to Mercedes, the cost of each of the 1,500 jobs originally available was \$167,000. Some 63,000 applicants sought those positions, which paid well above the state average for manufacturing but represented an estimated 30 percent savings over the going rate in Germany.¹²

Alabama also showed considerable generosity to Honda and Hyundai, and by 2011 its total estimated subsidy contributions to foreign automakers alone stood at roughly \$930 million, a figure all but eclipsed at a single pop by the megabucks deal that lured German

11 Cobb, *Selling of the South*, 189; Cobb, “Industry and Commerce,” 219.

12 Cobb, *South and America*, 206-207; IBM Institute for Business Value, “Global Locations Trend 2012 Annual Report,” p.14, http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GBSE_GB_TI_USEN&htmlfid=GBE03537USEN&attachment=GBE03537USEN.PDF (last accessed February 5, 2014); “BMW South Carolina Plant is Largest U.S. Exporter,” *Industry Week*, September 24, 2012, <http://www.industryweek.com/expansion-management/bmw-south-carolina-plant-largest-us-exporter> (last accessed January 12, 2014).

steelmaker ThyssenKrupp to Mobile in 2007. Running a distant second to Alabama, but apparently determined to catch up, Mississippi dumped a combined \$660 million on Nissan and Toyota between 2000 and 2007 alone, and by 2013 its cumulative payoffs to Nissan were estimated at close to \$1.3 billion.¹³

The prevailing wisdom held that the upper hand in the new, ultra-competitive technologically streamlined global economy would belong to states that had invested heavily in research and development activities, not to mention public education at all levels. From such a perspective, it would seem counterintuitive that the southern states, which were hardly known for their generous contributions to the pursuit of knowledge at any level, would fare so well in the pursuit of global industrial capital. Yet ample testimony to the ability of a number of southern states to outstrip many of their more educationally advanced northern neighbors in attracting international industrial investment came in 2010, when a ranking of states' perceived capacities to participate in the new, supposedly "Knowledge-Based" global economy showed that (in terms of percentage employment by foreign firms and production for export) the South accounted for six of the nation's twelve most economically globalized states. South Carolina boasted the second highest percentage of workers employed by foreign companies, and North Carolina, Kentucky, and Tennessee also placed in the top twelve in this category. At the same time, in outright defiance of the fundamental assumptions behind the rankings themselves, for all their success in attracting foreign direct investment, these four were also among the ten southern states clustered in the bottom fourteen in rankings of the educational levels of their work forces.¹⁴

The success of these educationally laggard states in competing for foreign industrial investments seemed so surprising because, at least as far back as Karl Marx, observers have envisioned every modernizing society proceeding through precisely the same stages of development as its predecessors. In reality, the progression is anything but fixed because each participant leaves information and technological breakthroughs that may hasten the advance of those following it. Needless to say, globalization has greatly facilitated this process, for as we have seen time and time again, innovations in technology, technique, and organization registered in more economically advanced "leader

13 Cobb, *South and America*, 206-207.

14 *Ibid.*, 208-209; Robert Atkinson and Scott Andes, *The 2010 State New Economy Index*, <http://files.eric.ed.gov/fulltext/ED515552.pdf> (last accessed January 5, 2014).

societies” have actually become developmental shortcuts for other “follower societies” that have traditionally lagged behind. This is simply to say that the follower society need not complete every stage of institutional advance registered by its predecessors or invest resources in developing products and processes that have already been introduced elsewhere. Nowhere has this been more obvious than in China, not to mention the Soviet Union, which managed to send a man to the moon but never quite got the hang of toilet paper.

In this light, the success of South Carolina and other southern states in advancing their economies without committing to the expensive and protracted process of developing a better-educated population is less improbable than it might seem. Taking advantage of the highly specialized nature of modern factory work and major gains in instructional technology and techniques, these states were able to offer specifically customized “start-up” training programs designed to allow incoming employers to take advantage of an up-to-speed work force from Day One.¹⁵

The promise of such a program doubtless helped to allay BMW’s concerns about the educational deficiencies of South Carolina workers, and despite Alabama’s consistent last or near-last standing in national educational rankings, only a threatened lawsuit by a teachers group prevented Governor Fob James from raiding the state’s school fund in 1995 to pay off the remainder of its subsidy pledge to Mercedes, whose entire workforce had also been custom-trained at state expense. A few years later, Alabama cut \$266 million from its education budget shortly before serving up \$318 million in incentives to Hyundai and Honda, much of it devoted to worker training. Meanwhile, over in that neighboring citadel of educational excellence, otherwise known as Mississippi, in 2000 when the state promised \$80 million just to train 4,000 workers for a new Nissan production facility, the cost per worker was more than four times its annual per-pupil expenditures in grades K-12. Never mind that Mississippi languished in forty-eighth place in a respected national ranking of state school systems at that point. Delighted at the dramatic savings in their start-up costs, many of the South’s international employers seemed no more concerned than their domestic counterparts about whether their workers had ever taken calculus, written an essay, or read a sonnet. Meanwhile, unlike participants in Austria’s highly regarded vocational training system, southern workers who underwent

15 Cobb, *Selling of the South*, 167-69. My broader analysis here is indebted to Reinhard Bendix, “Tradition and Modernity Reconsidered,” *Comparative Studies in Society and History* 9 (1967): 292-346.

start-up training tailored to the specific needs of a single employer were being trained for a job, rather than a career.¹⁶

If the increasingly global mobility of industrial capital appeared to be a godsend to certain areas of the South, it seemed to be a curse for others. The \$80 per day earned by a sewing machine operator in North Carolina hardly seemed extravagant – except to apparel industry executives who knew that workers doing the same thing in Bangladesh were paid less than half that amount every month. Throw in the 1994 North American Free Trade Agreement, which opened up Mexico’s enormous pool of cheap labor to foreign garment and textile operations, and it was easy enough to understand why North Carolina lost 35 percent of its manufacturing jobs between 1996 and 2006 and 10 other southern states suffered losses of 20 percent or more. Because of their heavy concentrations of textile and apparel employment, southern rural areas have been hit especially hard both by so-called Third World competition and the backwash from NAFTA, accounting for roughly half of the region’s job losses since 1979. In this sense, economic globalization seems to have exacerbated the South’s economic unevenness, because it tended to benefit metropolitan or metropolitan-fringe areas while sometimes decimating rural ones. East Alabama glitters with shiny new auto facilities as West Alabama hemorrhages apparel plants, and in the Carolinas, a strikingly internationalized I-85 corridor booms between Greenville and Charlotte, while a few miles away, Union and Chester and other single-formula-industry, textile towns are now effectively no-industry ghost towns.¹⁷

Needless to say, the rural locational pattern of so much of the South’s labor-intensive manufacturing activity meant that the brunt of the manufacturing exodus fell on communities with the least economic resiliency. A few areas hammered by plant closings managed to attract new employers, but rarely were they even as generous as their tight-fisted predecessors. In all too many cases though, having kept taxes low in order to appease their now-departed industrial guests, southern communities lacked the educated work force or physical infrastructure to compete for more dynamic, better-paying industries. No state better illustrated the economic trauma and wage disparity inflicted by industrial outmigration than North Carolina, which bade farewell to 434,000 manufacturing jobs between 1989 and 2011, 41,000 more than also hard-hit South Carolina and

¹⁶ Cobb, *South and America*, 208.

¹⁷ *Ibid.*, 209-10.

Georgia combined. Regardless of their actual physical proximity, the state's oft-touted, cutting-edge Research Triangle Park may as well have been on the moon so far as many rural North Carolinians were concerned. Rural North Carolina counties traditionally registered the state's highest rates of dependence on manufacturing, which still accounted for an average of more than 14 percent of their total employment in 2012, compared to 9 percent in urban counties. Rural counties also showed the state's lowest levels of educational attainment, with 28 percent of their adult population lacking high school diplomas in 2000 compared to 17 percent in metropolitan counties.¹⁸

However they may have stacked up wage-wise nationally, North Carolina's vanished manufacturing jobs were sorely missed. The average rural manufacturing worker in North Carolina earned a little over \$42,000 in 2012, which was about 35 percent less than his or her urban counterpart, but still 30 percent more than the average for rural jobs outside the manufacturing sector. To make matters worse, when the state scrambled to prepare laid-off manufacturing workers to compete for new and better jobs, the results were generally unimpressive. North Carolina's biotechnology retraining program had benefited unemployed textile workers hardly at all, according to one self-described "displaced worker in his mid-forties" who had managed "after much effort" to land only "two temp jobs" before he finally "gave up looking in biotech." Aggregate statistics showed that scarcely half of such workers who did find new jobs were earning as much as 80 percent of their former wages. Commenting on the plight of unemployed North Carolina furniture workers whose jobs had been carted off to China, practically en masse, a state employment official noted that although "the people in the think tanks say we are going to become – what's the term? – an 'information and services' economy. . . . that doesn't seem to be working out too good."¹⁹

North Carolina's state and local officials had done admirably well in holding the line against offering subsidies to incoming employers likely to pay less than the local average, but by 2010 soaring unemployment rates had taken a heavy toll in some areas, and a number of firms offering decidedly subpar wages were granted state assistance. Decimated by unrelenting losses in the furniture industry over a number of years, Caldwell County had seen its jobless rate creep above 16 percent before state and local officials granted a

¹⁸ *Ibid.*

¹⁹ *Ibid.*, 210; North Carolina Rural Economic Development Center, "Our Manufacturing Future, Part 1: Findings" (2013), 5, <http://www.ncindian.com/docs/NC%20Manufacturing%20Future%202013.pdf> (last accessed January 15, 2014).

\$147,000 subsidy to a company slated to pay employees less than \$20,000 a year, which fell nearly \$10,000 short of the local average. Similar economic distress led to two companies receiving incentives to locate in Rockingham County, where their pay scales were expected to fall some \$8,000 shy of the prevailing wage. While it might be argued that desperate times call for desperate measures, given the well documented “drag effect” on pay scales that results from adding a significant number of lower-than-average-wage positions to the local employment mix, such measures amount to rekindling job growth at the expense of hard-won gains in job quality, not to mention contributing to long-term unevenness in the state’s economy.²⁰

Despite notable achievements in particular locales and circumstances, the oft-hurrahed day when representatives of an economically vibrant South would no longer find it necessary to woo prospective employers with promises of cheap labor, low taxes, and over-the-top subsidies has yet to arrive. Instead, it has remained difficult for the southern states to abandon the promises of tax exemptions, cheap labor, and other savings on operating costs that gave the region the nation’s balmiest business climate while depriving many of its communities of the educational and other institutional resources needed to make them attractive to better-paying, more socially conscious employers. The South’s overall difficulties in making its post-World War II industrial expansion a more effective springboard to human and societal progress was not simply the burdensome legacy of deep-seated regional poverty. Broadly speaking, not only the region’s economy but its social and institutional sectors as well have remained chronically underdeveloped relative to the rest of the nation in no small measure because of the rapid rise and expansion of an intensely competitive global manufacturing economy. Dramatic and still accelerating increases in industrial mobility and equally rapid and remarkable improvements in communications and production technology have not only eliminated many of the low-skill jobs that were once a regional mainstay, but they have also facilitated the transfer of thousands of others to distant concentrations of labor far cheaper and more docile than anything even the greediest of the old southern textile barons could ever have imagined.

Despite its still generally well-below-the-U.S.-average wage for production workers, as the example of the aforementioned North Carolina garment worker illustrates, in the broader global context, the South has become a relatively high-wage zone where, in all

20 David Bracken, “State Settles for Low Wage Jobs,” *Raleigh News and Observer*, September 19, 2010, <http://www.newsobserver.com/2010/09/19/690381/incentive-deals-settle-for-low.html> (last accessed January 29, 2014).

too many cases, communities that once mortgaged their futures to employers who have now skipped town now lack both the labor force and the infrastructure to support industries that are truly high-wage by American standards. The fate of southern communities trapped in this ironic predicament surely suggests what may lie ahead for other far-flung areas whose integration into the global economy is now proceeding so rapidly that they may have considerably less time than did the South to achieve a semblance of economic or institutional stability before their heavily subsidized industrial employers are eyeing the proverbial greener pastures that await them just a few thousand miles farther on. If the South's experience shows that "have-not" regions may actually enjoy some initial benefit from subverting their own exploitation, it surely also warns those who see this development strategy as merely a disposable means to an end of the difficulty they may face in preventing it from becoming an end in itself, and a dead one at that.

Lest this scenario be dismissed as highly unlikely, let us partake of a little historical perspective, spiked with a dash of irony. Asked in 1995 to comment on BMW's plans to locate a plant in South Carolina and Mercedes's announcement that it was Alabama-bound, a German worker appeared to be alluding to the exodus of southern apparel and textile jobs to locations south of the border when he observed glumly that, with so many European industrialists succumbing to the allure of its cheap labor and notorious disregard for corporate responsibility, the American South had become "our Mexico." Fast-forward twenty years to March 2013, and you have Markus Schaefer, CEO of Mercedes-Benz U.S. International, crowing to an audience at the Alabama Automotive Manufacturers Association about his organization's \$8-billion sales figures that made 2012 its "best year ever." In practically the next breath, however, Schaefer proceeded to demonstrate his company's appreciation for two decades' worth of Alabama's warmest hospitality with a frosty warning that "our business is not guaranteed forever here." Lest he be misunderstood, Schaefer suggested that state officials should hear "a wake-up call" in Volkswagen's recent decision to open an engine plant in Mexico, which, by the way, with its current manufacturing wage of \$2.50 an hour, is now being called the "China of the West." It is not simply wage rates that are actually 20 percent lower than China's that explain why, at \$3.7 billion, Mexico matched its neighbor to the north in announced automotive investment in 2012. Its massive free-trade network, encompassing forty-four countries as opposed to the U.S.'s twenty, also promises substantial savings to companies producing for export. This was doubtless a consideration when Audi spurned the advances of several southern states and chose Mexico for a new \$1.3-billion assembly plant for its

Q5 sport utility vehicles. While cars constructed in Mexico may be imported into the EU duty-free, had the plant been situated north of the border, a 10 percent tariff on vehicles built in the United States would have forced Audi to shell out more than \$3,000 in duties per unit to make them available to European buyers. In addition to the NAFTA-induced influx of textile and apparel jobs from the southeastern states, Mexico's recent success in persuading so many foreign car makers to forego new plant construction in the South (or elsewhere in the U.S.) suggests that, in addition to effectively becoming "China's China," in a classic case of reality mimicking metaphor, for European as well as American workers, "our Mexico" has become, for now at least, a literal as well as figurative reference.²¹

The European Union's ongoing difficulties in promoting a general wage convergence while working to achieve greater linearity between productivity and labor costs in particularly problematic economic zones suggest that variations in compensation across national boundaries still pose certain obstacles to worker solidarity within the EU. Yet, conversant with Shakespeare or not, the French autoworkers and German steelworkers who recently rallied behind the UAW's campaign to organize Nissan's Canton, Mississippi, plant seem at least to understand that "all the world" really is the stage on which their individual and collective dramas will play out. It remains to be seen whether this insight will prove much of an advantage in what is clearly no mere morality play, but a real-life, high-stakes struggle with a thoroughly globalized economy, where national and corporate identities have long since parted ways and the search for "Mexico's Mexico" is doubtless already underway.²²

21 Cobb, "Beyond the Y'all Wall," 3-4, 2; Nedra Bloom, "Record Sales, Great Workers – But Maybe Not Forever," *Business Alabama* / March 2013, <http://www.businessalabama.com/Business-Alabama/March-2013/Record-Sales-Great-Workers-But-Maybe-Not-Forever/> (last accessed February 2, 2014); Dean Barber, "The China of the West: Why Mexico is in the Driver's Seat," *BarberBiz*, October 27, 2013, <http://deanbarber.wordpress.com/2013/10/27/the-china-of-the-west-why-mexico-is-in-the-drivers-seat/>; "INSIGHT-RPT-Mexico drives North American auto investment, challenges China," *Reuters*, October 21, 2013, <http://www.reuters.com/article/2013/10/21/autos-mexico-investment-idUSL1N0I81ZM20131021> (last accessed January 28, 2014).

22 Steven Greenhouse, "At a Nissan Plant in Mississippi, a Battle to Shape the U.A.W.'s Future," *New York Times*, October 7, 2013, B1.

Cynthia L. Rogers, Stephen Ellis, Grant Hayden

Economic Development Incentives: Traps and Accountability

I. A Business-Like Approach to Economic Development Incentives

When it comes to economic development decisions, state and local governments are more like *businesses* than *charities*: they ‘sell’ things like infrastructure, amenities, and access to markets, to private firms in return for things like job creation, tax revenues, and access to goods and services. The citizens of a locality are its ‘shareholders’ – they provide the basic ‘capital’, elect the local ‘managers’, and have to live with the economic decisions that local governments make. Elected officials are usually understood to manage their jurisdictions in the interests of their citizens (within constraints) in much the way corporate executives are understood to manage their firms in the interests of their shareholders (within constraints). State and local governments have roles that go beyond this business analogy, of course. Law enforcement, criminal courts, and social welfare programs do not have any exact private-firm analogues. Still, when it comes to economic development policy decisions, the business metaphor for local decision making is both apt and instructive. In offering economic development incentives, local governments seek returns on their investments. Just as business decision making is usually concerned with profits, the normal yardstick for measuring success in local economic development policy is the fiscal impact on a governing body.

It is helpful to view economic development incentives packages as *special price offers* (e.g., *sales, rebates, upgrades*) on the ‘products’ that states and localities provide to firms. The discount is intended to induce business behavior that generates net positive returns to the community. The economics of price discounting offers two crucial insights. First, it is important not to confuse ‘sales volume’ – the number of firms a locality can attract – with ‘profit’ – positive fiscal impact. Any business could increase its customer base by selling enough below its costs; no business could make a profit doing so. Local governments aren’t just trying to attract firms or create more economic activity; they are

trying to create a positive return on investment for their citizens. A second insight is that special price offers only make sense in cases where a locality can reliably determine that a relatively small amount of money would have a large impact on a firm's behavior. Leverage is the name of the game in local economic development policy. This is why localities usually try to target incentives toward firms that are expanding, potentially relocating, or diversifying. In such cases, a small incentive might plausibly have a large effect on a firm's decision.

As business-like practice, however, there are reasons to be concerned with the business of offering economic development incentives. As we discuss in the next section, economic development incentives are extensively used in the US. This runs contrary to the empirical evidence, which fails to substantiate their effectiveness in achieving economic development goals. We discuss the sources of the failure of incentives in Section III. Section IV presents a framework for improving accountability via information solutions. Our solution is based on procedural duty of care requirements in corporate governance literature.

II. Economic Development Incentives Are a Big Business in the US

A. Overall use of economic development incentives

Economic development incentives are widely used by all levels of government in the US. Every state has some sort of program that directs public funds toward private firms with the goal of stimulating economic development. According to the International City/County Management Association, the most common incentives offered in the US involve some combination of direct spending and tax diversions. Direct spending involves investment in infrastructure associated with a business activity, including expanding roads, constructing buildings, and adding traffic signals among other things. Tax diversions involve tax abatements and tax increment finance districts.¹

1 Tax increment finance (TIF) districts provide a funding mechanism by which revenues generated by new development in an area are spent on basic infrastructure improvements in the designated area. The idea is that the investment will improve business activity over time. The *canonical* use of TIF funding involves blighted inner city neighborhoods, although it isn't clear that such uses are *typical*.

The situation in the US is very different from that in European Union (EU). Countries in the EU are constrained by rules that legally curb incentives competition among member states. Specifically, the EU State Aid rules prohibit a member state from providing aid or subsidizing private parties in such a way that would limit free competition among firms. It explicitly forbids using subsidies to poach firms from other member countries. Exceptions can be made in the case of natural disasters or regional development.² In contrast, fiscal federalism in the US fuels economic development incentives competition among state and local governments. It is no wonder that Franz Rössler of Austrian Trade Commission, Chicago characterized the US as a “fairlyland for subsidies.”³

A growing body of evidence supports this “fairlyland” perception. Collectively, the value of incentives supporting private firms in the US is substantial. A recent *New York Times* analysis identifies 1,874 state and local government incentive programs that provide a combined total of \$80 million (\$US) per year in subsidies to the private sector in the US.⁴ Good Jobs First (GJF), a non-profit policy center, has compiled a subsidy tracker database which includes over 249,000 subsidy awards in all 50 US states and the District of Columbia.⁵

Payoffs to individual companies can be substantial. GJF reports 240 mega deals valued at \$75 million or more over the past 30 years.⁶ According to the *New York Times*’ analysis, more than 5,000 companies received incentives worth \$1 million or more. The size of offers continues to grow as well: 48 companies received more than \$100 million worth of incentives since 2007. According to GJF, the highest valued deal to date is the \$8.7 billion (\$US) package offered by the Washington State legislature to Boeing in November of 2013.

2 See Article 107 of the Treaty on the Functioning of the European Union.

3 Rössler participated in the “Panel Discussion: Lessons of Regional Economic Development” at the New Orleans Workshop on “Regional Economic Development”.

4 See Louise Story et al., “United States of Subsidies: As Companies Seek Tax Deals, Governments Pay High Price,” *New York Times* Dec. 1, 2012, at A1. The *New York Times* created a large, searchable database of state and local government subsidies. See Louise Story et al., *Explore Government Subsidies*, N.Y. Times, <http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html> (last visited December 18, 2013).

5 <http://www.goodjobsfirst.org/subsidy-tracker>

6 Phillip Mattera and Kasia Tarcynska with Greg Leroy, *Megadeals: The Largest Economic Development Subsidy Packages Ever Awarded by State and Local Governments in the United States*, June 2013. Available at <http://www.goodjobsfirst.org/megadeals> (last visited December 18, 2013).

B. Economic Development Incentives in the US South vs. the Rest of the US

The use of economic development incentives in the South Region of the US is not atypical. To facilitate comparison across jurisdictions, incentives are commonly measured as value per capita or relative to the size of the state budget. Table 1 shows that high, medium and low value incentives per capita categories are represented in all four major US Census regions. The average state subsidy values are \$277 per capita in the South region which is less than in New England (\$295) but more than in the Midwest (\$234) and the West (\$232). West Virginia (\$859), Texas (\$759) and Oklahoma (\$584) are the top incentive dealers in the South and are ranked 2nd, 4th, and 7th in the nation as a whole.

When we consider subsidy values per dollar of state budget, a similar pattern emerges. There are southern states in all ranges of the distribution. Notably, the average state subsidy per dollar of state budget in the South is higher than in other US regions. Again, Texas, West Virginia and Oklahoma stand out as leaders in terms of the value of deals offered compared with the rest of the South region as well as the rest of the nation.

The evidence suggests that offering economic development incentives is a common practice for US state and local governments that involves huge transfers of public funds to private firms. It is worth noting that the estimated cumulative value of economic development incentives considered here is conservative. Surprisingly, not all programs are reported, few are monitored in a systematic way, and many localities do not know the value of the incentives they provide.

III. Economic Development Incentives Fail

A. Evidence

The literature evaluating the efficacy of economic development incentives in the US is extensive and growing. Taken as a whole, the literature fails to substantiate the causal relationship between economic development incentives and economic development goals. Several recent notable reviews of the literature are available. Based on these, we will briefly summarize the conclusions of the literature.

Although economic development incentives are intended to influence firm behavior, this impact remains unsubstantiated even as incentive use intensifies. Reviewing research

from the early 1960s through 2002, Alan Peters and Peter Fisher conclude that theoretical, empirical, and practical perspectives suggest that “economic development incentives have little or no impact on firm location and investment decisions.”⁷ Dan Gorin’s review of more recent studies highlights reasons to doubt the value of incentives in inducing new investment.⁸ Carlianne Patrick provides one of the most up to date and comprehensive literature reviews. Based on the conflicting evidence – small, insignificant, and negative effects have been documented – she concludes that economic development incentives offer little promise of influencing firm decisions as intended.⁹

Given that economic incentives have not been linked to noticeable changes in firm behavior, it is not surprising that impacts on economic outcomes such as net jobs, investment, and income growth are also unsubstantiated. Patrick concludes that the literature provides no support for a positive impact on such outcomes.¹⁰ Regarding fiscal impacts, there is a similar lack of evidence substantiating a positive effect: offering incentives is associated with either no fiscal impact or fiscal deterioration.¹¹

Empirical investigation of incentives programs is problematic on many levels. None of the problems, however, would suggest that positive impacts are *underestimated*. One obvious problem is the lack of reliable data about costs, especially where projects involve public spending on infrastructure, tax expenditures, or property tax abatements. Costs which are not reported on a balance sheet are difficult to estimate. Only to the extent that unobserved costs are *overestimated* would the impact of incentives be *underestimated*. There is no *a priori* reason to believe that public investment costs are overestimated, given that such costs are often omitted from the analysis completely. The opposite is rather more likely. Thus, net benefits are not likely to be underestimated due to upwardly biased cost estimates.

A second concern with empirical analysis is the difficulty in isolating the effects of policy variables from other factors. Outcome variables may be driven by non-incentive policies or events which occur at the same time as incentives programs. This makes it dif-

7 See Alan Peters and Peter Fisher, “The Failures of Economic Development Incentives,” *Journal of American Planning Association* 27, 32 (2004): 70.

8 See Dan Gorin, “Economic Development Incentives: Research Approaches and Current Views,” *Federal Reserve Bulletin* 69 (2009): 93.

9 Carlianne Patrick, *Essays in Growth and Development Policy*, PhD Dissertation, The Ohio State University, 2012, 4.

10 See *ibid.* at 34.

11 See Gorin, *supra* note 8.

difficult to determine which factors drive observed outcomes. Even the most sophisticated statistical methods can suffer from this sort of omitted variable problem. Again, however, failing to consider the effects of other factors on local economic development is more likely to overestimate the impact of incentives programs than underestimate them.

To summarize, the empirical research does not provide evidence that development incentives induce economic growth. This doesn't mean that every possible incentives deal is doomed to fail, or that each incentives program has actually failed. There are, however, compelling reasons to think that development incentives, in general, *do not work*. Again, this is not to say that current incentives programs benefit no one: obviously, incentive recipients can do well; certain other groups might also come out ahead. This raises serious distributional questions. To the extent that incentives fail to produce net economic gains in a community, existing residents wind up paying for benefits that accrue to firm investors and other favored groups. In the final analysis, incentives look like they are often wasteful spending that either increases the tax burden or crowds out expenditures available for other public goods such as infrastructure and education.

B. *Mechanisms*

Given the foregoing, a locality that adopts typical incentive policies will probably fail to achieve intended economic development goals. We concede that this is not obvious: incentives make a certain amount of intuitive sense. Unfortunately, however, this is one of those cases where intuitions can be misleading. Like the cinnamon challenge, creating successful incentives deals seems like a simple task.¹² However, it *can* hurt those who try it; in the case of incentives the harm may be less immediate and more subtle.¹³ The attraction of economic incentives policy also resembles the Müller-Lyer illusion – an illusion that is particularly difficult to escape.¹⁴ The plus side of attracting a business is evident but the minus side is harder to grasp because the negative effects are out of sight and more diffuse. To avoid the usual disappointing outcomes, a community must understand

12 Anahad O'Connor, "Consequences of the 'Cinnamon Challenge,'" *New York Times*, Apr. 22, 2013 <http://well.blogs.nytimes.com/2013/04/22/consequences-of-the-cinnamon-challenge/?_php=true&_type=blogs&_r=0>

13 There could be a 'slow bleed' effect. Localities are often like fad dieters – they are acting against their own interests but they don't see it.

14 Catherine Q. Howe and Dale Purves, "The Müller-Lyer illusion explained by the statistics of image–source relationships," *Proceedings of the National Academy of Sciences* vol. 102, no. 4 (January 25, 2005): 1234-1239.

the human and economic mechanisms that undermine standard incentives policies and avoid likely problems. Decision makers must be willing to not only confront their own instincts about the attractiveness of proposals but also be prepared to go against those instincts when the economic analysis says *'don't do it'*.

Unfortunately, it is all too easy for a state or local government to subsidize the wrong firms. To assess the fiscal impact of an incentive, a locality must compare what would happen if the offer is made with the outcome if no offer is made. Obviously, a government should not offer a subsidy to induce a firm to do x if the firm was going to do x anyway. To come out ahead, a locality must provide incentives at a critical juncture where a small nudge can tip a major decision by a firm. Such crucial junctures are rare, of course. Business decisions are usually driven by economic fundamentals, not special deals. Furthermore, firms have strategic reasons not to be clear about whether they are at a critical decision point: a firm that is in such a position has reason to advertise its situation in order to induce competition among localities; for the same reason, however, even firms that aren't on the cusp of critical decisions, and so, shouldn't be subsidized will want to mimic firms that are. A mimic firm might, after all, be able to get a subsidy for what it would have done anyway. This sort of competition among localities leads to a 'bidding war' such that incentives escalate until they equal the whole advantage of attracting a firm in the first place.¹⁵ Together, these two problems form a dilemma: some firms aren't worth subsidizing, so it is a mistake to offer incentives to them; firms that would be worth attracting are likely to draw competition, which ultimately will bleed away the advantage of offering incentives. On top of everything, it is difficult to tell the two sorts of firms apart. Although not inevitable, this dilemma characterizes a very general pattern that often undermines the case for offering incentives.

Human psychology exacerbates the foregoing risks to localities. Because local policy makers often run businesses themselves, they often empathize with business representatives, making it hard to perceive adversarial interests on the part of targeted firms. Further, when people compete for anything they want to win. The worry is that local decision makers will emphasize winning the competition and neglect the quality of the deal itself.¹⁶ This latter concern involves what is often known as the 'winner's curse': voluntary

15 Stephen E. Ellis and Cynthia L. Rogers, "Local Economic Development as a Prisoner's Dilemma: The Role of Business Climate," *Review of Regional Studies* vol. 30, no. 3 (2000): 315-330.

16 This happens in eBay auctions where winners pay more than the retail value for items.

deals that are on-balance harmful due to neglect of the costs of incentives (and development more generally). Even if a locality influences a firm to change its behavior without sparking a bidding war, it doesn't follow that a good deal has been made. Unfortunately, human psychology includes a tendency to lose track of relevant considerations, including the costs. In the abstract it is easy to see that revenue and profit are distinct; in practice, however, the distinction can get elided. Economic impact analyses of the usual sort are concerned with how much growth will be created. What localities need, however, is fiscal impact analysis which looks at development from the perspective of the locality *and* includes the costs of providing services. Even then, fiscal impact models often assume that costs are linear with scale for the sake of simplicity, and this assumption is often dubious. Startup costs, for example may be fixed; likewise, as deals get larger cost thresholds may be reached (e.g., a new school or fire station might be needed).

IV. Stopping the Madness

A. The role of ignorance

Economic development incentives often cause fiscal harm to states and localities. What, then, is the best way to stop this self-destructive practice? Governments are accountable primarily through the election process: if officials do something untoward, the obvious solution is to “throw the bums out.” For this strategy to work, of course, there must be adequate public access to information about government decision making. Citizens can't vote responsibly unless they have a good grasp of the relevant issues. Most state and local governments in the US are subject to both freedom of information laws which provide public access to government information and open meetings laws which require government decision making to occur at open meetings.¹⁷ In practice, however, government

¹⁷ See RonNell Andersen, “Jones, Litigation, Legislation, and Democracy in a Post-Newspaper America,” *Washington & Lee Law Review* 68 (2011): 580 n.114 (listing state statutes); see also Ann Taylor Schwing, *Open Meeting Laws* § 1.1 (3d ed. 2011), which provides a comprehensive survey and classification of the open meetings laws in all fifty states. Negotiations over economic development incentives, however, are often exempted from state sunshine laws. See Aimee Edmondson and Charles N. Davis, “Prisoners’ of Private Industry: Economic Development and State Sunshine Laws,” *Communication Law & Policy* (2011): 317, 323-27. Similar regulations apply in the EU (http://www.europarl.europa.eu/RegData/PDF/r1049_en.pdf).

officials are not always held accountable: elections are periodic and voters can have short memories. More importantly, even awful decisions can be so poorly understood that they fail to create electoral difficulties for an incumbent.

Ignorance looms large in the context of economic development incentives. Elected officials often make incentives decisions on the basis of very little evidence. Given the importance of firm-specific factors, each incentive offer calls for special, context-specific analysis; this information is seldom available, even to diligent governments. There is rarely any follow-up to determine the ultimate effects of particular incentive offers. Advocates of economic incentives don't even have good case studies to point toward. Against this backdrop, it is crucial to recall that freedom of information laws require only that governments disclose what they know; they do not force officials to seek any new information. The result, as Harold Wolman and David Spitzley point out, is that "the costs of many of the standard local economic development strategies are relatively invisible."¹⁸

There is reason to think that elected officials are satisfied with this situation. In general, they don't have much motivation to encourage the generation of information about incentive programs. We do not impute to local officials wholly pernicious motives. Incentives do, after all, have *some* appeal. Given this, there is no structural reason why officials should look any further. When sympathetic community members propose an incentive package, policy makers quite naturally go along.¹⁹ The purported benefits of the plan will be emphasized,²⁰ leading to overconfidence in a rosy scenario.²¹ This, in turn, tempts decision makers to commit the *planning fallacy* – a tendency to overestimate the benefits of a course of action while underestimating the costs in terms of time, resources, and effort. The evidence suggests that local officials try to diminish public participation in local economic policy decisions.²² Instead, they tell a "public story" that tries to preserve electoral support.²³ Given the current information structure of local economic development policy making, it is not only unlikely that local officials will make

18 Harold Wolman and David Spitzley, "The Politics of Local Economic Development," *Economic Development Quarterly* 131 (1996): 10.

19 Richard H. Thaler and Cass R. Sunstein, *Nudge* (2008): 53-71.

20 Lyle A. Brenner, Derek J. Koehler, and Amos Tversky, "One the Evaluation of One-Sided Evidence," *Journal of Behavioral Decision Making* (1996): 9.

21 Daniel Kahneman, *Thinking, Fast and Slow* (2011): 87.

22 Wolman and Spitzley, *supra* note 15, at 143-45.

23 Margaret E. Dewar, "Why State and Local Economic Development Programs Cause So Little Economic Development," *Economic Development Quarterly* 68 (1998): 12.

good incentives decisions, but it is also virtually impossible for citizens to hold them accountable for their choices.

The general lack of understanding about the real value of economic development incentives is a real barrier to preventing mistaken incentive offers, at least in the US. Local officials will keep offering incentives as long as they think incentives work and there is no public outcry. Even where officials are dubious, political accountability mechanisms will support incentives just so long as citizens like them. Absent more public information, then, no voluntary moratorium on incentives – unilateral or multilateral – is likely to succeed. Local decision makers who think there is something to gain from offering incentives will either refuse to stop or cheat on any voluntary multilateral deal.²⁴

B. Information solutions

Given its important role, the question is how to get the relevant information into the public sphere. There is an emerging trend among states in the US to require evaluations of incentive offers, at least at the state level. According to a 2012 Pew Foundation Report, thirteen states are ‘leaders’ in evaluating their own incentive offers, while twenty five states (and the District of Columbia) do a poor job, and twelve states have “mixed results.”²⁵ Unfortunately, even the Pew ‘leaders’ don’t necessarily do an adequate job in assessing state incentive offers. Only four of the ‘leader’ states examine all new incentive packages²⁶; only ten of the thirteen ‘leaders’ had (as of 2012) actually performed at least one high quality evaluation of a single incentive offer.²⁷ It is, no doubt, a good idea to require that governments provide assessments of the incentive packages they offer. Unfortunately, it looks as though full information is unlikely to be forthcoming without more public pressure.

The key to providing counter-pressure against the practice of offering economic development incentives is to start where we began: when they consider economic devel-

²⁴ Ellis and Rogers, *supra* note 15.

²⁵ Pew Center on the States, *Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth*, Pew Charitable Foundation, New Foundation (Washington, DC and Philadelphia, PA 2012).

²⁶ *Viz.* Arizona, Iowa, Oregon, and Washington. None are in the South Region.

²⁷ *Viz.* Arkansas, Connecticut, Kansas, Louisiana, Minnesota, Missouri, North Carolina, New Jersey, and Oregon. Arkansas, Louisiana, and North Carolina are in the South Region. Note that only Oregon both examines all state-level incentives offers and has ever done a quality evaluation.

opment, state and local governments are at least trying to make business-like decisions. No firm would survive such poor choices, of course, so perhaps the solution is to hold governments to business standards. Corporate boards of directors are not unconstrained actors. Investors can always sell their shares so they are subject to a sort of market discipline.²⁸ Further, corporate boards of directors have fiduciary duties to the corporation, including a *duty of loyalty* and a *duty of care*. The duty of loyalty is a conflict of interest rule; it requires that directors put corporate interests above their personal interests.²⁹ The duty of care requires that directors exercise good business judgment and use ordinary care and prudence in the operation of the business.³⁰ The duty of care is limited by the business judgment rule, however. This rule shields a board's substantive decisions from second guessing by courts.³¹

For many years, the duty of care was thought to provide no real constraint on corporate decision making because courts had construed the business judgment rule so broadly. The Delaware Supreme Court opinion in *Smith v. Van Gorkom* changed things, however.³² In that case, the court found that Trans Union had breached its duty of care in approving a merger, even though the shareholders would have received a premium price for their shares.³³ The court did not question the substance of the board's decision, but found that it had made the decision too quickly, without the right information, and without asking the right questions.³⁴ In light of this precedent, courts will not consider actual decisions themselves but will consider the quality of the board's decision making procedures.³⁵ Ultimately, the duty of care amounts to a *procedural* requirement:

28 In addition to the capital markets, corporate behavior may be restrained by product markets, the market for managerial services, and the market for corporate control. See Charles M. Elson and Robert B. Thompson, "Van Gorkom's Legacy: The Limits of Judicially Enforced Constraints and the Promise of Proprietary Incentives," *Northwestern University Law Review* 96 (2002): 579, 581. The behavior of board members may also be constrained by contract (by giving them an equity stake in the corporation, for example) and by law (mandatory disclosure requirements, for example). See *ibid.*

29 See, e.g., *In re Walt Disney Co. Derivative Litig. (Disney IV)*, 907 A.2d 693, 751 (Del. Ch. 2005) ("The classic example that implicates the duty of loyalty is when a fiduciary either appears on both sides of a transaction or receives a personal benefit not shared by all the shareholders.").

30 See, e.g., *Smith v. Van Gorkom*, 488 A.2d 858, 872-73 (Delaware 1985) (describing it as "a director's duty to exercise an informed business judgment . . .").

31 See *ibid.* at 872.

32 *Ibid.*

33 See *ibid.*

34 See *ibid.*

35 See *ibid.*

corporate boards must look at the right sorts of information and ask the right sorts of questions.

The *Van Gorkom* version of the business judgment rule has been condemned by many corporate law scholars.³⁶ Some claim, for example, that longer formal meetings, better recordkeeping, and a greater use of consultants has increased the cost of board decision making.³⁷ The *Van Gorkom* decision is a problem only if the changes it demands lead to more costs than benefits. As Lynn Stout points out, however, this will be true only if better procedures have negligible effect on the quality of decisions. This is a dubious position: other things being equal, “we usually believe that more carefully considered, well-informed decisions are likely to be better decisions.”³⁸

Directors were always free to ask for more information before making decisions, of course. They could, to use Stout’s terminology, act more *altruistically* by looking out for the good of the firm.³⁹ Whether people act altruistically in this sense depends upon the decision context.⁴⁰ Behavioral evidence suggests that people are more likely to act on behalf of others when the sacrifice involved is not great.⁴¹ The *Van Gorkom* rule reduces the personal cost of asking for more time and information by making it a matter of course.⁴² This also reduces the cost of confronting firm managers regarding their recommended courses of action: it’s nothing personal if it is part of the routine.⁴³ Stout concludes that the duty of care “may play an important role in promoting director diligence by helping to create a social framework that supports altruistic behavior.”⁴⁴

Corporate and governmental decisions aren’t exactly the same, of course. The shareholders’ ability to effectively move their money elsewhere is the primary deterrent against poor corporate choices. In contrast, citizens face large transaction costs in moving their assets, at least in the short run.⁴⁵ Again, the ballot box is the primary tool for disciplining

36 Lynn A. Stout, “In Praise of Procedure: An Economic and Behavioral Defense of *Smith v. Van Gorkam* and the Business Judgment Rule,” *Northwestern University Law Review* 96 (2002): 676, 690-91 (detailing the critiques).

37 See *ibid.*

38 See *ibid.* at 676-77.

39 See *ibid.* at 677-78, 683-92.

40 See *ibid.* at 683-87.

41 See *ibid.* at 687.

42 See *ibid.* at 688.

43 See *ibid.* at 688-89.

44 *Ibid.* at 687.

45 The well-known Tiebout hypothesis suggests that people vote with their feet: people will move to a different community if they are not satisfied with the local public services.

government officials. The difference between firms and governments actually highlights the need for a non-divestment tool for reining in incentives. Government attempts to promote prosperity by negotiating arrangements with private firms should be subject to a duty of care that would require officials to exercise good business judgment and use ordinary care and prudence in the pursuit of economic development. Citizens should be able to file suit to enforce that duty. A procedural requirement that government officials look at the right sort of information and ask the right sorts of questions would complement and strengthen political constraints on policy makers. Citizens who hear about the pitfalls of offering incentives could learn about the issue and hold government officials responsible at the polls. Even just calling policy makers to their responsibility to be good community stewards should have a salutary effect.

It is clearly a dangerous thing to make governmental officials liable to citizen lawsuits. It would disastrous to have courts second guess every decision for which some citizen doesn't agree. That, however, is neither the point nor the result of this proposal. Non-business-like decisions should be excluded from the duty of care; likewise it is crucial to have a local-government version of the business judgment rule that shields the substantive decisions of local governing bodies from review. Courts should not determine economic development policy but merely ensure that policy makers collect information relevant to the possible pitfalls of offering incentives and to reserve time to attend to it.

There are two ways in which recognizing a procedural duty of care for local governments might avoid the problems associated with offering local economic development incentives. The first is by strengthening political accountability. A procedural requirement to confront the potential pitfalls of incentive offers would leave officials free to proceed whatever the result of their investigations, but citizens would at least be in a position to judge whether the particular incentive policy is really what they want. There is evidence that even under existing conditions of inadequate information, greater public participation tends to decrease the use of incentive policies that are recognized as costly.⁴⁶ The second mechanism by which a duty of care might help is psychological. Policy makers are tempted to resist those urging caution for understandable, if insufficient, reasons. As we saw before, decision makers are likely to commit the planning fallacy. A procedural duty of care should help short circuit the psychological barriers to good decision making. Requiring choice procedures that confront opposing viewpoints early on can temper over-confidence. Data-

⁴⁶ See Wolman and Spitzley, *supra* note 18.

oriented ‘push-back’ from citizens could function as a *premortem*, i.e. a decision strategy whereby a group assumes that a proposal has failed and tries to figure out what ‘happened’. The idea here is to determine pitfalls that might impede a program in order to avoid them. Conducting a premortem seems to mitigate (although not eliminate) over-confidence.⁴⁷ A procedural requirement that expands the range of considerations a decision maker takes into account can ‘nudge’ her toward actually thinking about those things.⁴⁸

V. Conclusion

The practice of offering economic development incentives in the US is receiving increasing attention from national policy organizations as well as the popular press. The attention is due to the intense competition between state and local governments, which is driving up the number and value of economic development incentive packages offered. At the same time, the conclusions from the extensive and expanding empirical literature fail to substantiate the efficacy of such programs. Indeed, the call for increased accountability and better cost-benefit analysis of deals is critical.

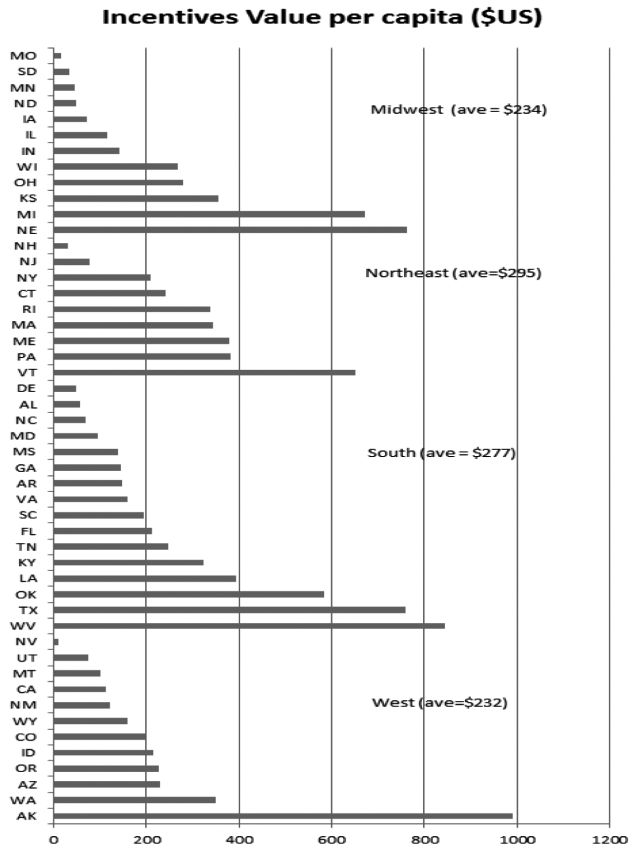
In this paper we discuss information solutions for increasing accountability in the business of offering economic development incentives. Specifically, we appeal to the procedural duty of care in the corporate environment where boards of directors (and so ultimately management) make decisions on behalf of shareholders. We argue that government decision makers should be held accountable to citizen stakeholders in a similar fashion. To satisfy a procedural duty of care, government decision makers would ask the right questions, perform comprehensive cost-benefit analysis, and provide public access to relevant information related to incentive packages.

From a global perspective, concern about offering incentives under the guise of economic development is also a persistent concern. Policy coordination across sovereign countries is difficult to establish and to effectively enforce. Even in the EU, which has strict rules about incentives competition, there are concerns about illegal subsidies. Following a process which facilitates the dissemination of information, such as suggested in our discussion, would enhance the decision making process at all levels of government worldwide.

⁴⁷ See Kahneman, *supra* note 21, at 264-5.

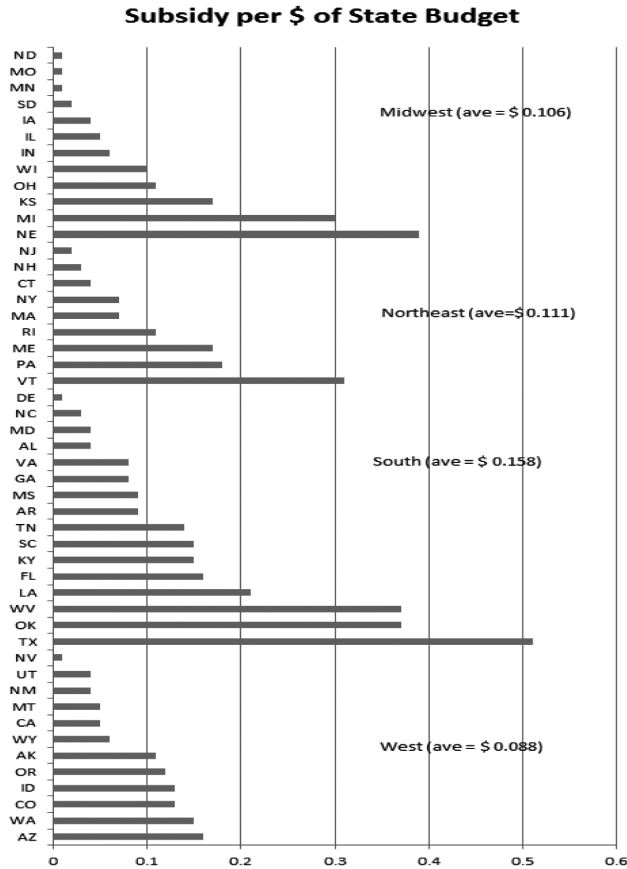
⁴⁸ See Thaler and Sunstein, *supra* note 19, at 69-70.

Table 1



Source: Data for table is from Louise Story et al., Explore Government Subsidies, N.Y. Times, <http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html> (last visited December 18, 2013).

Table 2



Source: Data for table is from Louise Story et al., Explore Government Subsidies, N.Y. Times, <http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html> (last visited December 18, 2013).

Elisabeth Springler

Theories of Regional Development and Implications for the Housing Market

Economists widely agree that the housing sector is a special market concerning the maturity of the financial investment, the durability of housing and especially the necessity of the good. Furthermore the construction sector is said to have positive impacts for the business cycle. Apart from this consistent understanding of the basic economic structure of the housing market, further applications and policy advice could not diverge more between economic policy makers and cover proposals from a completely free and privately determined housing sector to stronger intervention of national or regional authorities to ensure not only privately determined house prices and affordable housing to some extent.

Despite of all these factors, which might classify the housing sector as a very fragmented market, the question that arises is: How can this market, which is supposed to have positive effects for the business cycle, promote economic development in the long run at least on a regional level?

This brings me to search for adequate case studies to compare housing market developments and perspectives. A region that was lagging behind in the past has to be compared with a region, which is regarded as best practice example as it regards the housing market. A region that suffered in the past years (always having a pre-2007 crisis scenario in mind) economically is New Orleans, which had to overcome an enormous housing stock loss after Katrina and needed a boost in regional development. On the other end of the scale is Austria a good reference point as housing policy is seen as best practice example, especially in the light of many New Member States of the European Union. Therefore this paper will focus on the potentials of the housing market to promote regional development and compares these two case studies on housing market policies.

1. Theories of Regional Development

As the housing market is a crucial factor for economic development and has the impact to boost GDP in times of economic distress, the question arises of how national and international measures to support the housing sector might also have an indirect impact on regional economic development. From an economic point of view the story behind is easily told, when standard economic modelling is consulted. It becomes more differentiated when alternative views are considered.

Unfortunately neither a regional perspective, nor the implementation of time or space is relevant in modern standard economic approaches. Therefore it is important to discuss issues in a wider theoretical economic perspective. Whenever focusing on traditional economic views, a regional or even national catching up process is determined by so called steady state growth rates, which means that all input factors are fully employed and lead to a convergence process. The process is promoted by a strong neoliberal economic paradigm.¹ Weaknesses of this traditional theoretical approach are especially visible when applying to emerging markets², or questions of convergence within the European Union. More likely are convergence clubs, depending on the specific historic backgrounds and regional development phases, e.g. Europe in the post-WWII period.³

All together two main areas of weaknesses can be detected: the lack of historical evolutionary settings and the neglect of a space in economic modelling.

Therefore alternative views try to overcome these weaknesses. When it comes to the inclusion of evolutionary and institutional settings the post-Keynesian approach, following the Keynesian tradition, gives an alternative: historical time in combination with an inclusion of institutional settings into economic modelling is central for this approach. The growth model that is applied follows Harrod / Domar and allows for non-balanced growth rates between the input factors capital and labor and shows the possibility for economic instability.⁴ Despite of these advantages, the post-Keynesian alternative suf-

1 Johannes Jäger/Elisabeth Springler, *Ökonomie der internationalen Entwicklung. Eine Kritische Einführung in die Volkswirtschaftslehre* (Vienna: Mandelbaum, 2012), Ch. 7.

2 Thomas Oatley, *International Political Economy* (4th ed London: Pearson, 2010), Ch. 7.

3 Grahame Thompson, "Global inequality, the 'The Great Divergence' and Supranational Regionalization," in: Hel/Kaya, eds., *Global Inequality: Patterns and Explanations* (New York: Wiley, 2006), 184.

4 For an overview among others, see A.P. Thirlwall, A.P., *Economics of Development* (9th ed. Houndmills: Palgrave Macmillan, 2011), Ch. 5.

fers from the fact that no coherent theory in development economics is given⁵ and that no concrete policy recommendations are given to improve the situation, but it remains purely theoretical. The second alternative that especially in regional economic analysis try to overcome the weaknesses of mainstream economics presented above are approaches of critical economic geography⁶ based on the analysis of Gunnar Myrdal, who promoted a differentiated view towards the impact of single regional development for the economic development of a wider space (larger regional focus or national focus). He shows that the development of one region might have positive or so called *spread effects* for other neighboring regions or negative, so called *backwash effects* for other regions and the economy as a whole.⁷ Based on this approach also SWOT (strengths, weaknesses, opportunities, threats) analyses for regions can be deducted, when applying an interdisciplinary approach and integrating entrepreneurial views, which lead to concrete policy advice. In contrast to the post-Keynesian view, the focus is laid upon concrete variables and not the structural setting of the market responsible for regional economic development.

Basing an analysis of regional development on this interdisciplinary approach has to follow these three steps:

1. Analysis of the impact of the implemented measures on the specific institutional and structural settings of the sector;
2. Search for the specific needs (derived from SWOT analysis) of the region;
3. Discussion of testable economic variables to overcome detected weaknesses.

In the case of the housing sector, institutional and structural settings can be distinguished according to the *structure of housing allowances*. The needs of a region with respect to the housing sector can be classified according the following variables: *housing supply, affordability and the development of house prices*.

These variables cover the households' needs for housing supply in general and affordable housing to fulfill social aims. Whenever national or international funds tackle

5 See Peter Sunley, "An uncertain future: a critique of post-Keynesian economic geographies," in: *Progress in Human Geography* vol. 16, no. 1 (1992): 58-70.

6 For an overview among others, see Rudy Weissenbacher Rudy, "Keeping up appearances: Uneven global development in a system of structural imbalances", in: *Journal für Entwicklungspolitik* vol. 24, no. 4 (2008): 78-121.

7 For more detail, see, *ibid.*

these variables and diminish existing weaknesses, regional development will be positively affected and multiplier effects can be generated to promote a spread effect.

2. New Orleans: A housing Market under Pressure

The August/September 2005 hurricanes Katrina and Rita had disastrous effects for the economy of the New Orleans metropolitan area and its civil society. Population decreased tremendously and led to a decrease in the number of households of around 64%. Simultaneously employment shrank by 30% and unemployment peaked up to 18% in the months after the hurricanes had made landfall in 2005.⁸ August 2005 compared to August 2006 employment in the non-farm sector shrank by more than 31% and in the sub-sector of goods production by around 27%. The construction decreased with around 27% less than all other sub-sectors, with the exemption of transportation, information and the government sector.⁹ In the following years, especially the construction sector could stabilize its employment ratio and faced even a surplus when compared data of 2008 with the year 2005 of 9%.¹⁰ Apart from the subsector natural resources and mining, which showed an increase of 1.2% in the same period, construction was the only sector with a positive performance. In the last years the housing sector was affected by cyclical changes, was visible by a decrease of 3.6% in employment from 2000 to 2011.¹¹ The share of employment in construction compared to overall employment was stable with around 7% in the last years.¹²

This shows that the construction sector was an important driver for economic development and reconstruction in the region after Katrina and Rita. Nevertheless the institutional and structural setting of the housing market is important to account for positive contagious socio-economic effects in the region.

8 HUD, New Orleans-Metairie-Kenner, Louisiana, Comprehensive Housing Market Analysis, HUD: Office of Policy Development and Research, September 2006, 2; 5, http://www.huduser.org/portal/ushmc/chma_archive.html (last accessed March 15, 2014).

9 Ibid., 3.

10 HUD, New Orleans-Metairie-Kenner, Louisiana, Comprehensive Housing Market Analysis, HUD: Office of Policy Development and Research, March 2008, 3, http://www.huduser.org/portal/ushmc/chma_archive.html (last accessed March 12, 2014).

11 HUD, New Orleans-Metairie-Kenner, Louisiana, Comprehensive Housing Market Analysis, HUD: Office of Policy Development and Research, April 2011,3, http://www.huduser.org/portal/ushmc/chma_archive.html (last accessed April 2, 2014).

12 Ibid.; see also HUD, 2008.

2.1. Housing Structure and Development

After Katrina and Rita, housing tenure structure shifted throughout the metropolitan area. “In the first year after the hurricane occurred, most of the people returning were homeowners, resulting in a significant increase in owner tenure”, the HUD report states.¹³ As Table 1 shows renter households decreased sharply from 2000 to 2006. This trend continued also till the global economic and financial crises in 2007. In 2008 the metropolitan area of New Orleans reached with 67% homeowners.¹⁴ Simultaneously also the share of homeowners without a mortgage increased from 33% to 38%.¹⁵ Only recently the rental market increased again and led to structural re-shift to 35.5% renters (table 1).

Table 1: shifts in housing structure

	1990	2000	2006	2008	2010
Renter Households	41.7	38.5	35.8	29.2	35.5
Owner Vacancy Rate	3	1.6	0.6	1.5	3.2
Rental Vacancy Rate	13.4	7.9	4.7	3.3	12.8

Source: HUD, various issues.

Housing stock was disrupted severely and housing vacancy rates decreased after Katrina. This counts for owner and rental vacancy rates. From 2000 to 2006 owner vacancy rate decreased by 1 percentage point. The increase was even stronger on the renters market and led to a decrease in the rental vacancy rate by more than 3 percentage points from 2000 to 2006 (see table 1). Besides of an increase in the number of vacant houses also the number of blighted addresses increased after Katrina.¹⁶ Besides of shifts in tenure structures and an increase in housing supply after the hurricanes Katrina and Rita, the

¹³ HUD 2008, 5.

¹⁴ Alison Plyer et al., Housing Production Needs, Three Scenarios for New Orleans, Housing in the New Orleans Metro Series, Annual Report November 2009, 6, www.gnodc.org (last accessed March 5, 2014).

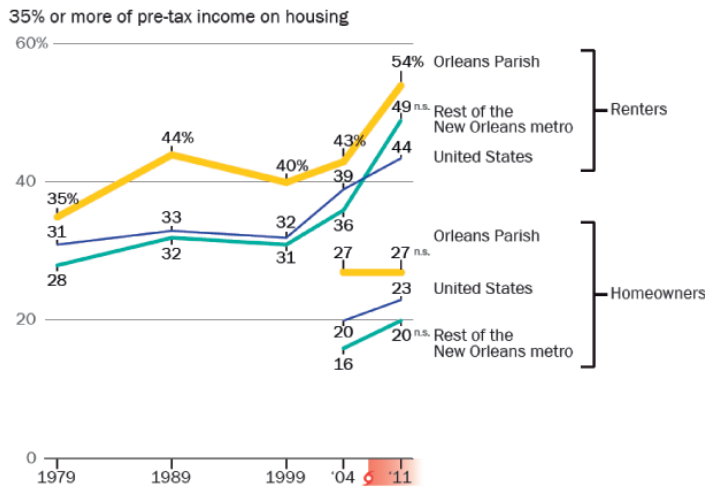
¹⁵ Ibid., 6.

¹⁶ Allison Plyer et al., Optimizing blight strategies, Deploying limited resources in different neighborhood housing markets, Housing in the New Orleans Metro Series, Annual Report November 2010, 6, www.gnodc.org (accessed March 31, 2014).

New Orleans Metropolitan areas has been suffering from housing affordability problems after 2005.

As graph 1 shows, especially Orleans Parish is faced with high affordability problems. The ratio of households spending 35% or more of pre-tax income on housing increased from 35% in 1979 up to 54% in 2011 for renters in Orleans Parish. Also the rest of the New Orleans metropolitan area shows with 49% in 2011 a higher ratio of households suffering from a housing cost burden compared to the average of the US with 44%. Although homeowners spend a lower fraction of their income for housing, also their cost burden is well above the US average in Orleans Parish (27% in 2011) compared to the US average (23% in 2011). Especially after 2004 rents as well as housing costs for homeowners increased sharply. All in all renters are more heavily cost burdened in New Orleans than for example in New York. Approximately 38% of renters in New Orleans qualify as severely cost burdened – which means that they spend more than 50% of their income for housing – compared to 29% in New York.¹⁷

Graph 1: Housing affordability problems



Source: Greater New Orleans Community Data Center 2013: 38

¹⁷ Allison Plyer et al., Drivers of Housing Demand, preparing for the Impending elder Boom, Housing in the New Orleans Metro Series, Annual Report November 2011, 7, www.gnodc.org (accessed March 15, 2014).

All in all this shows that the housing market in New Orleans is in search of affordable housing stock and has to employ housing policies to fulfill the needs for an increase in housing stock, decrease in vacancy rates and combat strong house price increases.

2.2. *Housing Market Policies to Fulfill Households' Needs*

Housing policy measures in the US focus on the support and increase of homeownership. Whenever the rental sector becomes the target of housing policies, the focus is demand driven programs, like the Voucher program, which entitles lower income classes to receive support on market rents.¹⁸ In the past decades supply-side housing programs, which aimed to increase the stock of public housing and the rental sector, which should aim to provide affordable housing for lower income classes decreased further. In the late 1930s programs were started in support of *Keynesian politics* to increase affordable housing stock. When neoliberal politics increased in importance, these programs – contested all the time – were finally abolished in the late 1970s. At the same time demand side voucher programs as well as tax deduction programs gained further importance.¹⁹

The situation in New Orleans is different compared to the general aims of housing policies in the US, due to the enormous decrease in housing stock after Katrina and Rita. As a result of the 2005 hurricanes around 5,000 public housing units were lost²⁰, so programs had to be revised. Table 2 shows the specific policies to offset the damages of Katrina and Rita in the housing sector. The aims of these programs were two folded. On the one hand population should return to the area, therefore programs, like “Implement Permanent Housing Development Strategy for All Displaced Residents” were set up. Within this program the higher demand of affordable housing should be met and the expected outcome would reach up to 134,000 housing units, of which 60% should be built within 3-5 years after enforcing the program (plan set up in 2007). This program addressed home-owner units as well as affordable housing. On the other hand home-

18 For an overview, see Elisabeth Springler, *Developments in Financial Systems and Challenges for Housing Sector: A Comparison between trends in the European Union and the USA*, final report, 2006, 24ff, Marshallplan program, http://www.marshallplan.at/images/papers_berkeley/SPRINGER.pdf (last accessed April 3, 2014).

19 Hackworth, Jason, “Destroyed by Hope. Public Housing, Neoliberalism and progressive Housing Activism in the US,” in: Sarah Glynn, ed., *Where the other half lives, Lower Income housing in a neoliberal World* (New York: Pluto Press, 2006), 232-256 (here 234f).

20 UNOP, *The Unified New Orleans plan, Citywide strategic recovery and rebuilding plan* (2007), 86.

ownership was especially promoted, for example with programs such as “*Home Buyer Assistance for Low and Moderate Income Residents*” and “*Home Rehab Program for Low and Moderate Income Homeowners*”. In both programs home-ownership was promoted additionally. The goal was for home homers to return and renovate their abandoned houses in case they were non-eligible for the post-Katrina “Road Home” relief program, or via new financial instruments from the federal finance programs Fannie Mae and Freddie Mac. It has to be noted here that the New Orleans recovery plan was set up before the financial crisis. It implemented housing finance instruments, which are not necessarily in place anymore after the financial crisis of 2007. Therefore it is even more important to note that the rebuilding program incorporated a significant amount of funds for the reconstruction of low income housing in the area – 650 Million US-Dollar.

Table 2: Housing strategy for recovery after Katrina and Rita

	1-2 Years in %	3-5 Years in %	housing units	homeowner units	Costs Mio.
Implement Permanent Housing Development Strategy for All Displaced Residents	40	60	134,000	67,000	10
Establish «Singles and Doubles» Loan Program	50	50			50
Home Buyer Assistance for Low and Moderate Income Residents	50	50			50
Rehabilitate and Rebuild Low Income Housing	40	60	5,000		650
Home Rehab Program for Low and Moderate Income Homeowners	40	60			50
Transient Worker Housing Program	60	40	10,000-20,000		10
Neighborhood Recovery Resource Center	80	20			

Source: UNOP, Chapter 4.4.; Appendix 2: 237-244, own presentation

After the financial crisis hit the US economy, the need for federally subsidized housing units increased again. The LIHTC (Low income housing tax credits) program is clus-

tered in 1,218 subsidized and 985 deeply subsidized housing units, which means that in many of the projects, systems of mixed income housing are applied.²¹ Also the Housing Authority New Orleans (HANO) was supposed to have more than 1,200 housing units planned, which are partly in mixed income housing complexes. (Table 3) These developments show that a shift from a purely demand side housing policy towards stronger housing supply and especially towards forms of mixed income housing was observable after Katrina and the financial crisis in the new Orleans metropolitan area.

Despite of these developments, housing affordability is still an important issue in the region and housing demand cannot be met, following proposed scenarios in housing supply and demand of the New Orleans region.²²

Table 3: federally subsidized rental housing units

Policy	Housing units in pipeline	planned housing units
LIHTC tax credits	2,178	1,337
LRA Small rental Properties program	5,543	
Project based Section 8	35	98
HANO		1,231
Total	7,754	2,666

Source: Plyer et al. 2009:Table 5; own presentation

3. Austria: The Housing Market as Best Practice Example?

The Austrian housing market is often seen as a best practice example for affordable housing supply.²³ Contrary to many other European economies, no national house price bubble affected the Austrian economy. In Austria financing housing is mostly driven by

21 Allison Plyer et al., Housing Production Needs, Three Scenarios for New Orleans, Housing in the New Orleans Metro Series, Supplemental 2_pipeline Data, 2009, www.gnodc.org (last accessed March 15, 2014).

22 Ibid.; see also Plyer et al., 2011.

23 Wolfgang Amann, „Die österreichische Wohnungsgemeinnützigkeit als Europäisches Best Practice-Modell,“ in: Lugger/Holoubek, eds., Die österreichische Wohnungsgemeinnützigkeit – ein europäisches Erfolgsmodell. Festschrift für KR Helmut Puchebner zum 65. Geburtstag (Vienna: Manz, 2008).

private mortgages; securitization products are not used for housing finance. Similar to the situation of New Orleans the Austrian model of housing supply also emerged out of the situation of high affordable housing demand and a strong decrease in existing housing stock after WWII. A strong renters market (more than 40% in Austria and more than 75% in Vienna²⁴) was created to boost the economy and structured with a strong affordable sector (see 3.1).

Despite of this strong emphasis on the renters markets and aims to promote the supply of affordable housing Austria also faces strong institutional and structural changes in this field.

Table 4: Coverage of the Austrian Federation of limited-profit housing

	Co-operatives	Companies	Total
Organizations	99	94	193
Co-operative members in 1.000	461	--	461
Rental Housing Units in 1.000	255	293	549
= share of total rental housing stock	15 %	16 %	31 %
Owner Occupation Units in 1.000	113	133	246
= share of total owner occupation housing stock	21 %	25 %	46 %
Housing units total in 1.000	368	427	795
= share of total housing stock	8 %	10 %	18 %
= share of total housing stock, multi-family-housing	15 %	18 %	33 %
New construction 2006 – 2010 average housing units per year	6.530	8.570	15.100
Investments into repairs and improvement 2010, Mio Euro	270	320	590
Balance total 2010, Mio Euro	17.717	21.470	39.187
Employees	4.300	4.460	8.760

Source: Austrian Federation of limited-profit housing (n.y)

24 COCONDHAS, Housing Europe Review 2012, The nuts and bolts of European social housing systems, CE-CODHAS: Belgium, 2011.

3.1. *Housing structure and development*

As table 4 shows, limited profit housing accounts of a high share of total housing stock and of total housing stock in multi-family housing. When focusing on the rental sector, this amounts to 549,000 units or a share of 31% of total rental housing stock. From 2006-2010 annually around 15,000 new housing units were built. Comparing this to the increase in population, also in the case of Austria further new housing projects are needed. From the year 2001 to 2011 an increase of 303,000 households was observable. A further increase of around 220,000 households is estimated till 2021.²⁵

3.2. *Housing Policies Promoting Affordability*

Despite of the good performance of the past numerous institutional and structural developments changed the system of housing policies in Austria in the last decades. After WWII the aim of housing policy was mainly to increase housing stock via supply side driven housing allowances. Nevertheless structural changes occurred almost immediately – in the 1950s. Till the 1980s step by step the provinces received more *autonomy* and *financial power* in the area of housing policy.

The rise in functional autonomy resulted in the so called “*Veränderung*” of housing policy measures, which meant that province could independently select the measures of housing policies.²⁶ As a result of this housing policy measures vary today substantially between the 9 Austrian provinces (see graph 2). Some support demand side policies, like lost annuities, more strongly than other provinces, which are also today focused on supply side policies and aim to support the production of cheaper housing units rather than the monetary support of lower income families.

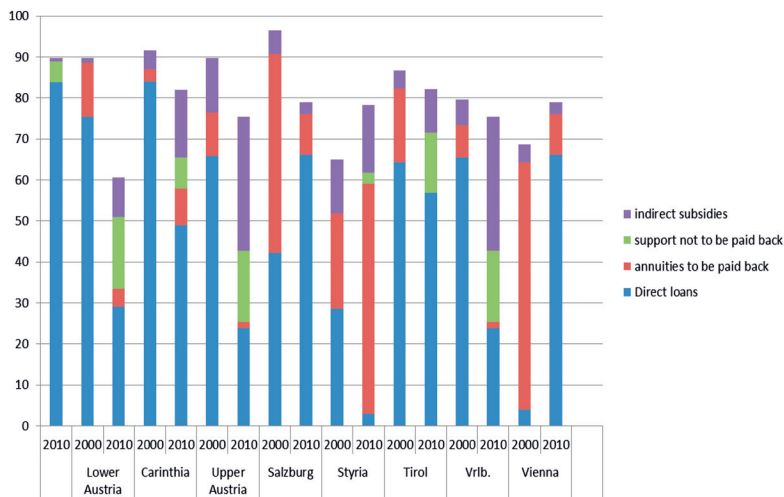
As graph 2 shows, Vienna (year 2010) is focused on direct loans and promoted highly the approach of supply side housing policies, whereas provinces like Upper Austria (year 2010) have a much stronger focus on indirect subsidies and lost annuities. Over time regional housing policies might also shift substantially, as for example the provinces Salzburg and Styria show. In Vienna also a shift from annuities, which are to be paid back towards

25 IIBW, Wohnbauförderung in Österreich 2011 (Vienna: IIBW, 2011), 7.

26 Margarete Czerny, „Stand der neuen Förderbestimmungen,“ in: Margarete Czerny, ed, Zur Neugestaltung der Wohnungspolitik in Österreich (Vienna: WIFO, 1990), 9-15.

direct loans, could be detected in the period 2000-2010. In this case, no substantial change in the underlying concept occurred as both measure were structured as supply side housing policies. The main aim in Vienna also was to promote housing units at an affordable rent. As the city state is not directly involved in construction anymore, as it was in the past (numerous so called “Gemeindebauten” are example of a state owned rental sector), mainly limited profit housing companies produces today for the segment of affordable housing.

Graph 2: housing policies in Austria



Source: Kunnert/Baumgartner 2012; own calculations

As mentioned above, apart from the rise of autonomy for the provinces, also the power of the central state to finance housing policies diminished. In the 1980s the central state contributed 1.78 bn Euro annually in terms of earmarked grants. These grants together with money from provincial grants formed the total funds available for housing market policies. By 2001 refluxes of loans into provincial budget were not earmarked for housing policies anymore, but could be spent e.g. also for infrastructural measure. Further liberalization of funds took place in the end of the 2000s, when also the earmarking of funds from the central state was lifted.²⁷

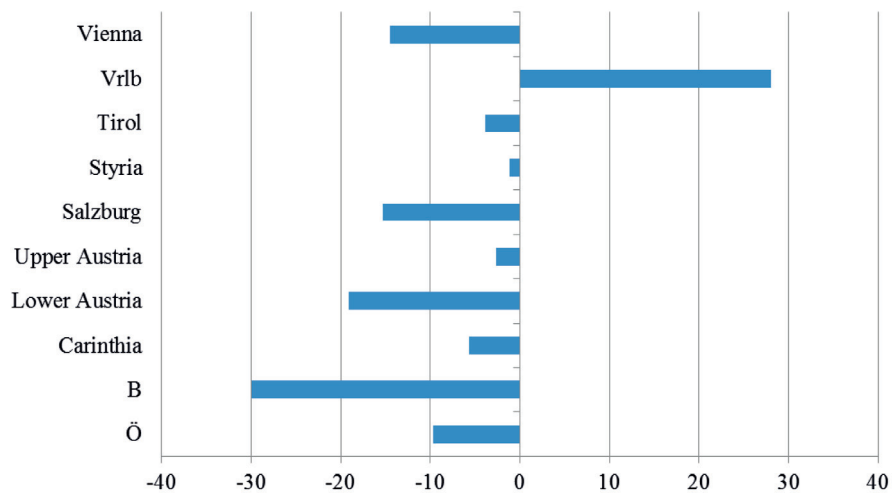
²⁷ For a detailed overview, see Artur Streimelweger, „Wohnbauförderung – eine Bestandsaufnahme,“ in: *Wirtschaft und Gesellschaft*, vol. 36 no. 4 (2010): 543-561.

3.3. Challenges and Obstacles for Future Development

The combination of increases in the demand of affordable housing due to a stable increase of housing units till 2020 and the liberalization and lifting of earmarking of state funds leads to challenges for the future development of affordable housing in Austria. As state housing funds dry out and demand increases the fewer affordable housing units will be produced in the future.

In the past, especially after the year 2000 many provinces sold their receivables of housing loans due to general budget constraints of Austrian provinces. Refluxes into provincial budgets for housing measures are decreasing, while demand for affordable housing is increasing. When the ratio of income and spending in the Austrian housing subsidy scheme is observed over time a massive decrease in the ratio is visible. As graph 3 shows, most provinces show a negative change in granting of housing subsidies for housing supply between 2010 and 2011. The average for Austria shows a decrease of almost 10%. The strongest decrease in granting subsidies is visible in Burgenland, followed by Lower Austria and Vienna. In Vienna the decrease amount up to around 15%. Only the province of Vorarlberg shows an increase in granting of subsidies of around 28%.

Graph 3: percentage change in granting of subsidies 2010-2011



Source: Amann 2012, own presentation

Conclusion

A well-defined housing market which offers sufficient amount of affordable housing is indispensable for regional development. Clearly structured needs can be clustered and housing policies derived.

New Orleans showed strong regional development in the last years and managed to set up clear strategies to combat the still visible deficits in affordable housing. New Orleans managed set up a different housing policy compared what was the usual case in the US in the past decades: while strong demand side policies were proposed in the past, New Orleans steps towards a more mixed income approach of demand and supply side housing policies, with the aim to increase mixed income housing in the metropolitan area. By doing so, New Orleans seems to follow an approach closer to the Austrian structure of housing policies.

In the contrast to the US, Austria focused in the past, ever since the 1950s on supply side housing policies to improve the amount of affordable housing. Despite of the good results of the system in place in terms of house prices and supply in the past, the Austrian system suffers from an increase in financial fragility. Structural and institutional changes in the past lead to a step by step erosion of the existing system so that the future of granting subsidies in sufficient amount to housing developers and limited profit housing companies is in question. When taking Austria as best practice example for sustainable affordable housing policies, the liberalization of state funds and the lifting of earmarking reflexes of housing loans to provincial budget has to be discussed carefully.

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Martin Heintel

Urban and Regional Development in the Case of New Orleans ... And a Tentative Public Policy Comparison between the USA and the EU

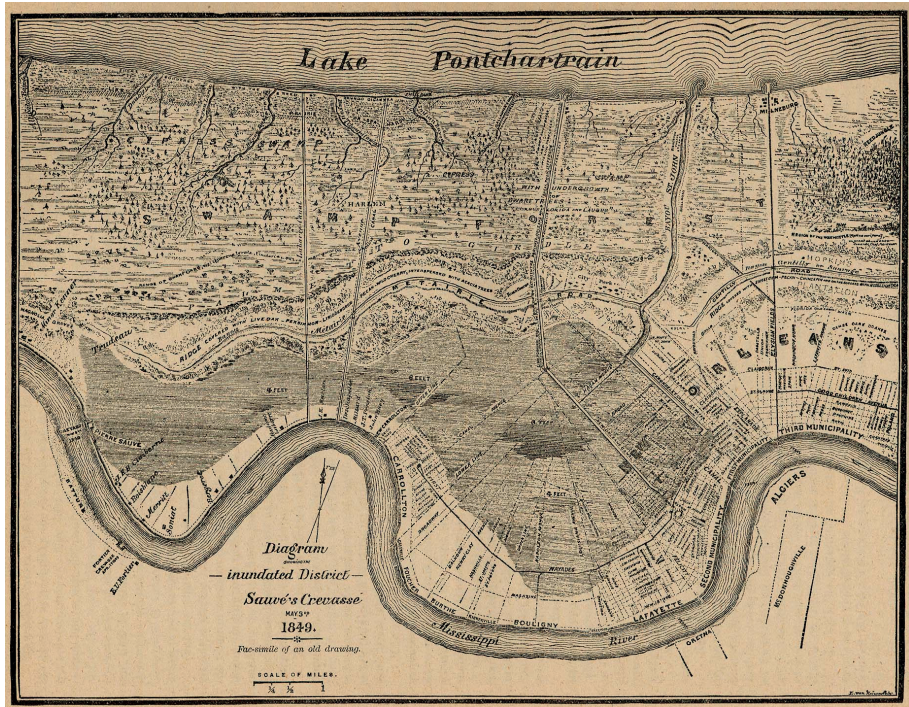
How much government is needed to provide for public goods, infrastructure and daily needs? This is an issue that is not only a concern for European nations and municipalities, but a battleground of partisan and state interests particularly in the U.S. or, as the example of New Orleans shows, a matter of controversy even within a city.

Is urban planning an issue of responsible public policy – national and regional – or simply a matter of temporary public interest due to the post-Katrina crisis situation? What is the significance of “precautionary policies” for New Orleans? What role did urban planning have until 2005, prior to Hurricane Katrina, how does the situation present itself today and how will it in the future? Where are the parallels and differences between U.S.-American and EU-European developments in respect to urban and regional development, to reconstruction and civic and social responsibility?

Planning Once ...

Looking back at the time before Katrina, one can, without much analysis, speak of a planning failure in the case of New Orleans; also, many problems were homemade. It was not always that way, as the original settlement history of New Orleans shows. New Orleans was founded on the Mississippi river banks (see ill. 1). The French Quarter and the Garden District were not affected by the flood, as they are situated above sea level.

Illustration 1: New Orleans settlement area in 1849



Source: <http://www.lib.utexas.edu> (08.12.2007)

Due to the massive expansion of the city area and as a result of wetland drainage becoming technically feasible, New Orleans today is situated, for the most part, below sea level; also, the city is still sinking. New Orleans has to permanently rely on technological know-how, maintenance of levee and pump systems, and hence is highly resource-dependent.

Anthropogenic influences such as the dredging of rivers for the largest U.S. port, the building of canals for the oil industry in the coastal marches, dams in the upper reaches of the Mississippi, and additional drainage canals have to be factored in here; at the same time, they also contributed to the erosion of natural protection systems such as marshlands or barrier islands. Environmental phenomena such as sea-level rise due to global warming and a higher probability of hurricanes forming in the gulf have been causes of continuing uncertainty until today. All of this is sufficiently known; simulations and

warnings to this effect had been published for years by Louisiana State University (LSU) and the University of New Orleans (UNO). Independent of these large-area human-made changes in the Mississippi delta, it was clear that the city's levee system was utterly inadequate for a category 5 hurricane. Nevertheless, not much happened in terms of precautionary measures before 2005.

Back then already, simulations showed that, if no preservation measures were taken for the coastal wetlands in the future, the Mississippi delta would have disappeared by 2009 and New Orleans would become a city by the seaside. Given the massive urban sprawl the city had seen, an effective flood protection system was nothing short of a necessity of survival; an insight that, in retrospect, was imposed, more than by anything else, by hurricane Katrina.

On a global scale, New Orleans is certainly not the only city in danger of submersion; however, it should be possible here to put the necessary measures in place – maybe setting an example for other coastal wetland areas and seaside cities. What is needed here is public planning and implementation of long worked-out bundles of measures; also conceivable would be public-private partnerships, e.g. in cooperation with the oil industry. In this respect, quite a few things have in fact happened in the past nine years.

Already in the 1980s, there had been different plans to save New Orleans from going under. Reaching an agreement on the matter was difficult; and eventually it was Katrina which gave cause for massive investment programs. Numerous federal and state agencies were responsible and had authority with regard to planning and taking specific actions in wetland areas. In late 1998, a plan for the restoration of the Louisiana coastal area (“Coast 2050”) had already been presented, based on a cooperative participatory process which involved the Governor's Office, the Louisiana Department of Natural Resources, the U.S. Army Corps of Engineers, the federal Environmental Protection Agency, the U.S. Fish and Wildlife Service as well as all 20 coastal parish governments. However, the plan was not binding on any of the parties involved. It was considered as too expensive and a mere vision of the participant scientists.¹

What is more interesting about this example is the question of the competence, responsibility, and priorities of national, regional and local policies – not least in comparison with European countries. For nobody, not even in the USA, would seriously believe

1 Mark Fischetti, “Wenn New Orleans versinkt,” in *Spektrum der Wissenschaft*, Dossier 2: *Die Erde im Treibhaus* (2005): 75–82.

that the population should be responsible on their own for a system of levees with a total length of more than 500 kilometers as well as for its improvement and maintenance. The fundamental question of the fundability of a sound levee system that would withstand category 5 storms did not really pose itself for the world's only remaining "superpower" engaged in waging and financing several wars at one. In fact, "Make levees not war" had become a resounding slogan of the post-Katrina time.

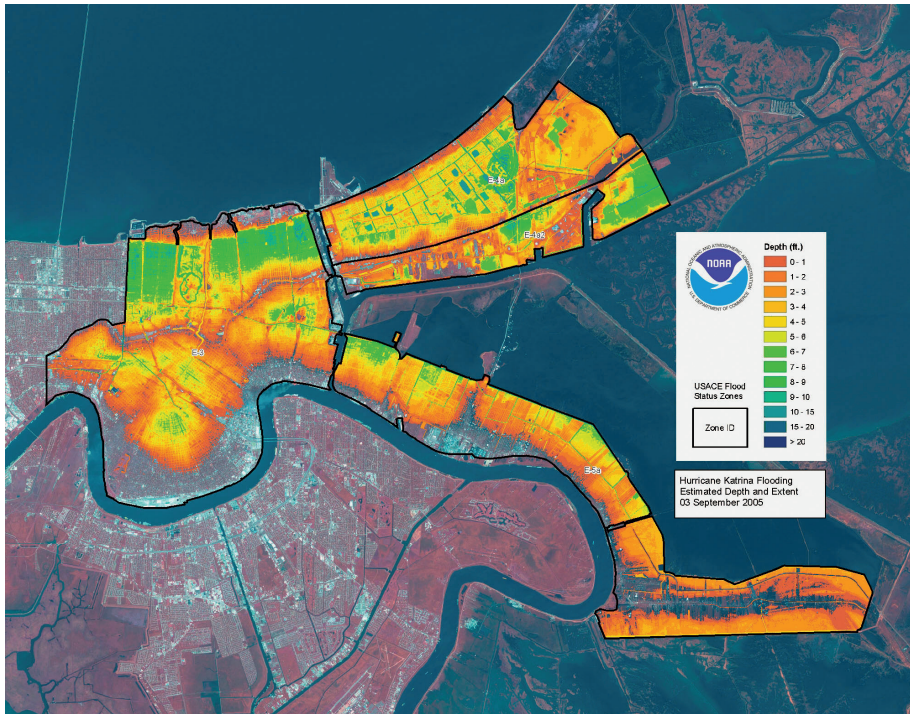
The city's own funds were insufficient for the purpose; regional tax revenues had been too low even prior to Katrina and, after it, only reached a far-below-average 82 percent of the "pre-storm level". Municipal budget shortfalls had affected the streets in the urban area, which had already been in bad repair before Katrina, as well as urban road construction on the whole. Nevertheless, the question of national priorities and political decisions with regard to planning and reconstruction measures has remained crucial until the present day.

A Reminder: Katrina, the Big Storm of 2005

On August 29, 2005, Hurricane Katrina brought on the disaster that marked a historic divide for the city of New Orleans: between the time before and after. At that time, Katrina was the sixth-strongest hurricane ever measured. After failures of several levees and floodwalls, waters from the city's system of outfall canals flooded almost 80 percent of the city area (see ill. 2), which in part was three meters below sea level. According to statistics, this catastrophic natural disaster killed about 1,800 people.² Numerous public facilities such as schools, hospitals, or the Dillard University, remained closed for a long time after the event, in some parts of the city, they still are today. Not only was it the most devastating natural disaster to date, but also the one whose immediate consequences entailed the highest costs. Donations of money and relief goods were coming in from all over the world, from Kuwait to Bangladesh. Tens of thousands left the city in the wake of the disaster, many of them have not yet returned to their neighborhoods.

² See http://de.wikipedia.org/wiki/Hurrikan_Katrina (last accessed January 21, 2014)

Illustration 2: Flood levels in New Orleans on September 3, 2005



Source: <http://www.noaa.gov> (last accessed May 13, 2014)

Urban planning deficits in New Orleans emerged not only in respect to the vital question of wetlands and levee systems; in fact, it was omnipresent over a long period of time. Sometimes it seems like a tug-of-war between different special-interest lobbies or like an endeavor, in which each and every step in planning and implementation took an enormous effort.

A Few Urban-planning Examples in Retrospect

Infrastructure which had long been in disrepair in many areas suffered further damage from Katrina, as far as public transportation, design of public spaces, but also basic needs like electricity supply and medical infrastructure were concerned.

Public transportation still is not an issue to win elections in the USA, unlike gas prices. In many American cities, public bus systems were set up, historically, with the main purpose of connecting black neighborhoods to white residential districts. This is no longer up to today's requirements of economic and social interaction in the urban fabric. However, bus systems, like passengers, have only changed insignificantly. Katrina further crippled an urban public transportation system that had in no way met present-day standards in the first place. Frequency, fixed intervals, schedule punctuality and comfort were somewhat unfamiliar concepts for the Regional Transit Authority. Also, a number of lines – including, for example, the famous “St. Charles Streetcar” – had been closed down after Katrina.

Moreover, different public transportation companies operate in different parishes (counties), so that often two tickets have to be bought even within city limits, and to make things worse, bus schedules are not synchronized, which – with the usual two buses per line per hour per direction – leads to very long traveling times. A ride from downtown New Orleans to the airport takes more than two hours on public transportation, while in easy traffic it is only a 20-minute drive. There is no high-frequency public transportation service between the state capital of Baton Rouge and New Orleans, although after Katrina even more people have to undertake 80-mile commute (one way) on a daily basis and are stuck in traffic every morning and evening.

Electricity supply is, or was, deficient as well in many areas. One would have assumed that in the country with the highest energy consumption per capita electricity supply works fine and without trouble. But here, too, there is a permanent debate about duties and responsibilities going on between public utilities and private customers. Is supply management and planning a public or a private responsibility? The slogan of the generator commercial on regional TV, “Life goes on when power goes out,” therefore seems not too far-fetched. Also, water-pipes bursts all over New Orleans contributed to the precarious supply situation.

One year after the disaster, a large number of window panes was still missing in the Louisiana State Hospital building downtown, halfway between the Superdome and the Hyatt Hotel, numerous hospital units had not been reopened yet, and the programs for medical students were in jeopardy. Some hospitals have remained closed down until today, doctors, nurses, and therapists have, as it were, vanished from the city with the advent of disaster. There has since been an acute shortage of medical care. The New Orleans Charity Hospital, socially the place to turn to for the uninsured, closed its gates after

Katrina. This is a development that clearly illustrates the “care gap.” While there is talk of a “hospital building boom” in suburban areas throughout the United States, nothing like this can be observed in the sometimes poorer inner-city neighborhoods. Infrastructure is quick to follow to those urban outskirts with high recreational value where the more well-off pensioners settle.

Reconstruction

Many of the companies that took part in the rebuilding of the city were rumored to have close affiliations with the President and the Republican Party. What would be considered a flagrant distortion of competition, downright corruption, or at least a veritable public scandal in the European Union (campaign financing rewarded by public commissions) is an integral part of the American business, politics and economic policy. This certainly admits of the conclusion that public contracts are not always awarded “with a plan” and a long-term perspective, all the more so since planning in politics rarely looks beyond the current legislative period. This does not make much of a fundamental difference between the political logics of the European Union and the USA, but becomes a matter of public interest if selective affiliations come into play. After all, planning, infrastructure, and contract awarding largely depend on economic activities. Not without reason, the unemployment rate in Louisiana reached a historic low and at that time was the lowest throughout the USA after Katrina (July 2006: 2.6 %).

The rebuilding of the city was not an immediate national priority although then-president George W. Bush had personally promised that “we will do what it takes, we will stay as long as it takes, to help citizens rebuild their communities and their lives.” But under a Republican presidency Louisiana in general and the democratic bastion of New Orleans in particular were facing tough times. Also, the reconstruction of far-flung areas of New Orleans was a battleground of rivaling factions. Consensus remained out of reach for quite some time. “Black interests”, “white interests”, real-estate speculators, and politicians of every complexion all were involved in the debate. More than 150,000 houses kept rotting away for two years, entire urban districts (“Lower Ninth Ward”) appeared like vast derelict areas, in part without water and electricity, for a long time.

The reconstruction of New Orleans was overshadowed by fierce political turf battles. In early November 2006, the announced presentation of “Neighborhood Recovery

Plans” by Mayor Nagin and City Council president Thomas to the “Louisiana Recovery Authority Board” (LRA) which controlled more than \$10 million of federal relief funds, was cancelled. The background of this was a sharp public controversy about two different urban planning processes, the “New Orleans Neighborhood Rebuilding Plan” (“Lambert Plan”) developed on behalf of the City Council and the “Unified New Orleans Plan” (UNOP) that was administrated by the “Greater New Orleans Foundation”.³

Both planning processes mentioned had been based on a combination of professional planning and citizen participation. However, both were also marred by a “collision of confusion” (ibid. 3). With financial resources being insufficient in the first place, parallel planning activities of such a scale made little sense. On the contrary, important decisions and infrastructure measures were even further delayed.

The main criticism of the “Lambert Plan” was that only the 49 inundated neighborhoods were incorporated in the planning process. The plan was therefore criticized for being a “patchwork,” to which the UNOP was supposed to pose an alternative in that it – a city-wide planning process with participation from numerous planning teams from all over the U.S. – also integrated the 24 non-flooded neighborhoods.

In the background of these rivaling planning activities, however, was a central question raised by neighborhood activists, namely, that of the political responsibility for public planning. Should a non-profit foundation be responsible for the reconstruction of the city, or rather the elected and politically legitimated city government and legislature? In those EU member states that advocate a system of social market economy the answer to this question is simpler. State responsibility and relief is taken for granted here – and readily accepted.

Unlike in Europe, precautionary public policy for the broad masses plays a subordinate role, and often is openly rejected in the USA. Perhaps the best known example of this is the heated and intricate discussion about a public health insurance system. Even national disaster relief is highly controversial throughout the USA – in the European Union, a special emergency budget is held in order to be able to adequately respond to a situation. So how about planning, or the attitude toward planning as a public service or precautionary public policy? Can planning actually work where society as a whole tends to reject, rather than advocate, state or communal responsibility for individuals? Or to

3 S. Lewis/S. Writer, “City Planning: Administration Clashes Lead to Delay,” in: *Driftwood; The Community Newspaper of the University of New Orleans*, vol. 50, issue 10 (2006): 3–12 (here 3).

put it differently, can it be that the case of New Orleans is about the individual fates of a number of people losing their livelihood basis?

The example of New Orleans shows that apparently little public trust is placed in public planning – and such distrust seems substantiable by the case examples mentioned. It is not without reason that planned economy and market economy were antagonistic global socio-economic models for a long time. There was a widespread impression that Katrina only cast light on what had already been dysfunctional before – namely, planning.

“Pre-disaster planning seems to have been as poor in this specific case as post-disaster management,” Manfred Prisching drily states in summary of the situation.⁴ It is little wonder therefore that in the post-Katrina midterm elections there were independent candidates running for Congress on the sole slogan of being in support of the improvement of the levee system and the reconstruction of New Orleans.

The public and private interest in the reconstruction of the city was also informed by other external factors. Would businesses forced out by the flood find their way back into the city, securing future regional tax revenues, and would most of the evacuees return to New Orleans?

The Rebirth of New Orleans

It has been almost a decade now since August 29, 2005, and Hurricane Katrina is history. Traces of its course of devastation are still visible in many places today. But, in 2014, what first hits the eye is not the lingering effects of this natural disaster, but rather the many things that have since happened, been rebuilt, renewed or invested in. This process—obstacle-ridden, painful and with many temporary setbacks as it was – perhaps also is easier to communicate from an “outside” perspective than with an “inside” view of things.

4 Manfred Prisching, *Good Bye New Orleans: Der Hurrikan Katrina und die amerikanische Gesellschaft* (Graz: Leykam, 2006), 41. Manfred Prisching, a sociologist from the University of Graz, had started out on a sabbatical at the University of New Orleans, when Katrina struck. He lived through the storm in the Hyatt Hotel next to the Superdome and was a first hand observer of the chaos in New Orleans after the storm. His book on New Orleans after Katrina was one of the very first books to be published on Katrina; it was part participant observation, part sociological disaster analysis.

Michael Hecht, president of the Greater New Orleans Economic Development Group, brought the matter to the point in October 2013 at a workshop on “Regional Economic Development in Europe and the United States” held at the University of New Orleans, when he said that “it is hard not to benefit from 150 billion in investments over the course of the reconstruction.” It has taken a while, though, for the money to get to where it is now.

Although those parts of the city particularly affected by the flood still have less population than they had in pre-Katrina times and although far from everything has been repaired or restored, the city is growing again, mainly at the periphery but also in some inner city areas. These are new population groups who made a very conscious decision to return, or newly move, here to live and work in New Orleans. They are younger, often with a better education, among them many artists and alternative people who inform part of the city’s atmosphere.

All of a sudden, there is bicycle traffic in town – something rather untypical for a U.S. city – and there are new-built bike paths, the City Park in part is a re-cultivated wilderness, there are kayaks on the city’s canals. The palm trees have been straightened up, the Street Cars are back on track, and the public buses are new and have air-conditioning. The French Market has been re-opened, a hip grocery-shopping arcade offering Cajun food like fresh oysters, crawfish, and alligator sticks. There are queues of people waiting to get into clubs and restaurants, the “French Quarter Voodoo Tours” are well booked. This kind of urban life was missing from the city in the years immediately after Katrina.

Little by little, many foundations, civic organizations and initiatives as well as donation-funded projects are gaining visibility in the cityscape. Even if they frequently appear small in scale and scope, they are symbols of the reconstruction, of public and international interest, and urban development. Numerous examples can be named in this context: established 2007, Brad Pitt’s Make it Right Foundation⁵ or the Musicians’ Village Park⁶ are two typical model projects in neighborhoods particularly impacted by the flood such as the Lower and Upper Ninth Ward, which today attract study visits from all over the world.

After breaches of several floodwalls along the Industrial Canal, the Lower Ninth Ward – one of the poorer New Orleans neighborhoods with a predominantly African

5 See <http://makeitright.org> (last accessed January 23, 2014)

6 See <http://www.nolamusiciansvillage.org> (last accessed January 23, 2014)

American population – was widely laid in ruins (see photo 1). Political circles in the city repeatedly speculated about a complete demolition of the quarter. The reconstruction took time to get under way for several reasons; to date, only about half the razed properties were redeveloped, or destroyed buildings rebuilt or repaired.

Photo 1: One year after Katrina in the Lower Ninth Ward



© Photo Heintel (August 29, 2006)

The Make it Right Foundation alone is currently building 150 houses in the most destroyed area of the Lower Ninth Ward (see photo 2). The architecture and overall design of these houses appear strikingly vernacular and typical of the region, and what is more, they are conceived for ecological sustainability in respect to energy use and climatic adaptation. Pushing solar energy was intended to help build New Orleans into an important solar industry location in the U.S. and secure green jobs in Louisiana.

Photo 2: Houses built by the Make it Right Foundation in the Lower Ninth Ward



© Foto Heintel (October 22, 2013)

The Musicians' Village in the Upper Ninth Ward is a newly built neighborhood that was erected around a music center as a facility for local musicians to teach and perform. With the help of "Habitat for Humanity International," a neighborhood was created to make returning home easier for musicians who had fled the city after Katrina and thus to bring back the music to the city. Today, music is heard again at every corner and in many reopened bars and clubs.

Also, non-profit organizations have established themselves that in most cases directly relate to the affected neighborhoods to support this fresh start. Common Ground Relief⁷ is such an institution that supervises a broad range of urban development projects, including infrastructure measures, the restoration of wetlands, the establishing of com-

7 Vgl.: <http://www.commongroundrelief.org> (last accessed Jan. 23, 2014)

community gardens, educational projects and legal counselling services. The focus here is on community work and the support of volunteer labor under aspects of social, ecological, and economic sustainability, with the target clientele mainly being returnees to New Orleans and the neighboring parishes.

Discontent with public services, common to many Americans, even deepened in view of the disaster relief measures provided by the Federal Emergency Management Agency (FEMA) and in the context of public planning measures after Katrina. Help for self-help therefore was of great significance and also was a reaffirmation of the regional identity of those who had consciously stayed, or of the returnees. In a way, the people of New Orleans were like the famous Baron Munchhausen who pulled himself out of a swamp by his own pigtail.

From an urban planning perspective, this period of upheaval and redevelopment also provided an opportunity for the social intermixing of residential areas. American cities are usually characterized not only by functional specialization, but also by greater social segregation than is customary, for example, in Europe. Incentives to go in a different direction often are regarded with skepticism and classified as socialism in the USA; nevertheless, there is a number of recognized projects, implemented in most cases with the help of charismatic politicians and foundation funds. A ‘window of opportunity’ also opened for an improvement of previously deficient general infrastructure like water and electricity supply systems or public roads.

Gentrification – the upgrading of partly run-down neighborhoods by new higher-income residents moving in – goes hand in hand with this development, as do increasing sales of condominiums or traditional ‘shotgun houses’ for temporary living as in the neighborhoods of Tremé, Bywater, or Faubourg Marigny.

Before and after Katrina, life in New Orleans was like a parade. If there is not one on the march in the streets, another one is being prepared. Aside from numerous festivals, occasions such as Halloween are celebrated for weeks. This positive attitude does not only become apparent when it comes to partying, but also in other fields. Tourism is booming, the conventions the city used to host, often with thousands of participants, are back, and cruise liners leave regularly from the port of New Orleans for the Gulf of Mexico again – it is not seldom that the city is booked out completely, with average hotel room prices often coming up to \$ 300 and above.

In addition, high energy prices and environmental standards in the EU have led to

an investment boom of European companies in the south of the U.S. This has sparked heated debates inside the EU; economically, it was a blessing for the poorer states of the American south. International comparison shows that investments in the New Orleans area are now rather favorable – in this view, New Orleans has actually benefited from the Katrina aftermath.

For example, one current investment is in a major hospital complex, which should more than outweigh the previously rather deplorable infrastructure in the public health sector. New technologies also are in the focus of numerous investors. In collaboration with top universities like Tulane, investment is made in the city as a research location.

Intermittent storm-caused natural disasters and, above all, the oil spill caused by the 2010 explosion of the offshore Deepwater Horizon oil rig slowed down the recovery of the city only temporarily. Nevertheless, New Orleans remains to be a city in danger that depends on the reinforced levee system and its pumps which also have been massively invested in. Equally in jeopardy are the Mississippi Delta marshes. Without them as a natural barrier, there is no protection against open-water inundation. The artificial cut-off canal from the Mississippi River to the Gulf of Mexico – the Mississippi River – Gulf Outlet Canal, MRGO or “Mr. Go” – was closed to maritime shipping for ecological reasons. Preservation and restoration of the coastal region and its ecosystem has increasingly moved to the center of public interest.

While global warming is still being negated in large parts of the U.S., the issue is existential and a matter of sheer survival for New Orleans. Again, making a virtue of necessity appears to be the order of the day here. Still in 2007, the new-built levee systems of New Orleans were secured by the National Guard for fear of terrorist attacks.

Photo: 3: The National Guard patrolling the Industrial Canal 2007



© Photo Heintel (2007)

Irrespective of the many positive developments that are visible in the city there can be no glossing over the fact that there still are great intra-urban disparities, social and other; also, the crime rate is high, and from a European perspective, disconcertingly so. And it is not least for these reasons that a fair and socially balanced approach in the reconstruction and urban development is of special, also integrative, significance.

Summary: The Actors Involved – A Comparison between the U.S. and the EU

Any transcontinental comparison of natural disasters and reconstruction measures is difficult. Social preconditions, involvements, frames of reference, and politically legitimized responsibilities as well political systems as a whole are too diverse, even within the European Union.

From a planning and social science perspective, even a tentative comparison raises a number of questions that would be worth exploring further in an in-depth analysis. The thematic areas and issues summarized here might provide a basis for future comparative studies between the USA and the EU and should be understood as suggestions for an expansion of a discourse that has only started in this field; they do not claim to be complete or systematic and should be taken as an impulse.

Broadly speaking, civil-society action takes different orientations in the new EU Member States, the former EU-15 and the USA. While within the EU – also and particularly in Austria, for example – all relevant politicians get involved early on and are in the front line of public compassion and support, it took president Bush several days to make himself a picture of the situation from a helicopter. At the same time, financed from donations or governmental emergency budgets, public emergency response is prompt in the EU.

On the other hand, civic engagement in New Orleans set an example. Also, individuals were very confident about the chances for recovery. The attitude of “relying on someone else for help” made itself felt far less in the USA than it would have in the EU.

Photo 4: “Please Stop ‘Helping’ Me”



© http://commons.wikimedia.org/wiki/File:Katrina_Go_Away_sign.jpg (last accessed Jan. 23, 2014)

Participatory planning played an important role in the reconstruction of New Orleans. What on the one hand looked like integration, civic involvement and self-empowerment was on the other the result of an utter failure of responsible authorities, administrative bodies, and elected politicians. “If you don’t help yourself no one else will” may sound like a sententious truism but actually puts the situation in the immediate aftermath of Katrina in a nutshell (see ill. 4).

Complex participatory procedures in urban or regional development are rather untypical in the EU. Reconstruction in the wake of natural disasters, however, tends to be treated as a national concern, in which civic participation is appreciated, but participatory procedures usually do not have a decisive say.

Also, the role of foundations or private-public partnerships is given different weight in this context in the USA than in the EU. Donations from NPOs have an important role in Europe as well, but relief and reconstruction measures are mostly seen as a responsibility of the public sector.

The points mentioned here with respect to planning, responsibilities, and issues concerning reconstruction would be well worth exploring in depth in a specialized research project. What would in particular be called for is a detailed comparative study of the influences of politics and society on planning-relevant issues pertaining to the role of public goods, infrastructure, public services and the respective responsibilities and potentials of both public office and civic engagement.

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Comparing economic development in a regional context both in the South of the United States and in the European Union today raises many fascinating questions. How much money in the form of tax credits and subsidies should communities and states invest to attract foreign investors in the U.S.? Should individual states and communities in the U.S. commit public funds in the form of tax money and tax credits etc. to bring foreign businesses to their shores? Is the argument of bringing “jobs” and more employment home the only argument that should count politically? Or might these generous subsidies doled out to foreign businesses from public funds deprive local populations from improving their infrastructure and public education? What if these foreign investors then locate to other shores if their investments are not profitable enough in the short run? Might foreign investors come to the American South because it has never been unionized like the rest of the country? Is the attraction of the non-union South then only a means to get away from the burdens of stricter worker protection and social programs at home in Germany or Austria or elsewhere?

