

Effect of interjurisdictional competition essay sample



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Statement of Hypotheses

This paper examines the extent of impact of local government structure in the form of interjurisdictional competition on the economic growth. The issue for discussion is “should the metropolitan areas have one large monolithic local government or should there be many small competitive departments?” There have been empirical studies that looked into the effects of tax differentials on the location of economic activity. And the public choice theory that emerges from these studies does sustain the pleas that competition is good for growth. The market failure theory, however, opposes it. According to this theory, the study of the data does reveal that the small local governments are more likely to produce superior economic performance.

Definition of Interjurisdictional Competition

Interjurisdictional competition can be defined as the competition within the government to procure some scarce beneficial resources or avoid a particular cost. The state used its authority to provide tax incentives as well as economic development incentives to entice and retain economic development in their jurisdictions. The competition may be conscious or unconscious, but it does exist.

Therefore, it can also mean the manner in which the free movement of goods, services, people, and capital constraints the action of government in a federal system. This part of interjurisdictional competition can be termed implicit competition. For example, the local government in metropolitan

areas like Chicago has more than a hundred independent general-purpose local governments.

Albert Hirschman refers to implicit competition and calls it exit mechanism by which he means that the individuals and businesses influence the governments competing for economic development. These governments use taxes, services, and regulations as competitive tools. These tools are the means to entice and, thereafter, retain new businesses.

Interjurisdictional competition includes competition between the governments having similar power as well as interstate and interlocal competition.

Interjurisdictional competition

Interjurisdictional competition can be seen as a benevolent one that can be the source of efficiency gains. It is essential to facilitate open markets and prevent competition -driven, market economy. On the one hand, it is argued that this competition between jurisdictions may encourage innovation and the identification of solutions best suited to the local conditions.

It is an incentive mechanism of rewarding the jurisdictions adopting the most efficient regulations. On the other hand, others argue, that interjurisdictional competition may be inadequate in the presence of market failures due to the divergence of private and social costs, imperfect information, and an absence of mobility between jurisdictions. It might lead to an unbecoming race and to the sub-optimal provision of public goods within each jurisdiction

Preconditions for Interjurisdictional Competition

Interjurisdictional competition can exist only if certain conditions are fulfilled. The most important conditions are:

1. There should be a large number of authorities providing similar incentives or capable of providing similar incentives and benefits. These organizations are dedicated to their field of operations and sometimes there might be some overlap of jurisdiction with other organizations.
2. There is a high level of local autonomy, which encourages innovation and diversity. It can also lead to creation of sphere of influence and thus encourage promotion of vested interests and personal agenda.
3. Local authorities rely on local sources of revenue to a larger extent. The federal and state revenues are often not sufficient and to promote their own economic growth, the metropolitan area authorities levy taxes within their own parameters. Often there is legal restriction on their ability to impose taxes and they cannot intrude into the sphere of the federal and state governments.

This is precisely the reason that interjurisdictional competition is more visible in the U. S., which has fifty states and approximately 87, 000 local governments, than in Canada, which has ten provinces and only 8, 000 local governments or Germany, which has 16 states and approximately 16, 000 local governments. Moreover the local governments in US have more flexibility to impose taxes. The municipal governments in Canada have limited authority in this regard and are primarily dependent on property taxes.

Similarly, the local autonomy to impose taxes enhances interjurisdictional competition. While in the U. S., the local authorities have much more leeway, there is centralization of tax levying in Australia: this reduces interjurisdictional competition. Having seen that the U. S. has more interjurisdictional competition, it is relevant to see how far does this affect the economic growth, especially in the metros, because it is in the metros that are the economic engines of this country.

Significance of Metros

The focal points of America's current and future economic prosperity are the cities and counties within the metropolitan areas. They are the engines of America's growth and current economic boom. President of the U. S. Conference of Mayors, Wellington Webb, stated while releasing the annual report of the conference, that current level of economic growth in the Denver area grew by 10. 64%, which is twice the national average. This report is extremely relevant and shows that:

1. The U. S. metropolitan areas account for 84% of the nation's gross domestic product. And this brings out the importance of metropolitan areas in the national economy and also of the need to manage them in the most efficient manner
2. Metro areas generate 84% of the nation's employment and 88% of the nation's income. Since metropolitan areas are the centers of employment, they should be made employee friendly.
3. Metro economies are responsible for 89% of the nation's economic growth. The direction of the growth here should be judiciously planned.

4. If City/County economies were to be ranked with the nations of the world, then 47 out of 100 largest economies would be the U. S. metropolitan areas. For example, the New York City metropolitan area economy is bigger than that of Australia and Atlanta Metro economy exceeds that of Finland.

As a focal point of economies, metropolitan areas are crucial for the nation's development. The metropolitan areas are not defined by geographical or political boundaries. They are shaped by economic activity, sometimes transcending state borders. This gives rise to unique economic conditions that create new industries, enhance the speed of knowledge spread, as well as augment technological innovations.

Recent Performance of Metropolitan Economies

The recent performance of metropolitan economies is quite relevant. The U. S. experienced a mild economic recession in 2001. However, there was a mild recovery in 2002 and 2003. The period from late 2003 until now has shown a consistent pace of recovery and this economic progress is visible in the growth of the metropolitan areas. Metros are among the highest in terms of new ideas and creativity because of significantly positive attitude. The economic activity in this area can be seen from the following table.

Table 1

Economic Activity in Metro Areas

(2002)

		Metro Areas	Rest of United States	United States
Size	Population (Millions)	233	56	289
	Share of US	81%	19%	
	Land Area (Square Miles, ‘ 000)	716	2, 780	3, 496
	Share of US	21%	79%	
	Employment (Millions)	109	21	130
Jobs & Output	Share of US	84%	16%	
	Gross Domestic Product (Billions)	\$9, 085	\$1, 533	\$10, 618
	Share of US	86%	14%	
High Value- Added	Financial Services (Thousands)	6, 995	715	7, 710
Employment	Share of US	91%	9%	
Sectors	Transportation & Utilities (Thousands)	5, 890	902	6, 792

Share of US	87%	13%
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Source: The proceedings of the U. S. Conference of Mayors 2003

The metropolitan areas are also equally important because they generate new industries: they are capable of providing crucial amenities, diverse and capable human resources, appropriate infrastructure, finances, and a base of knowledge for the development of new knowledge-based industries. Two of the fastest growing segments of US economies are high technology and business services, and they are both almost entirely concentrated within the metropolitan areas.

To sustain this development, it is necessary to ensure that there is a provision of appropriate resources. Whether this can be done by interjurisdictional competition or by a centralized direction is beside the point. However, since it is imperative to ensure this growth, it is worthwhile examining the interjurisdictional competition. For this purpose, it is relevant to have a look at the literature.

Role of the U. S. Metropolitan Areas in Global Economy

The U. S. metropolitan areas are instrumental in providing impetus to the economic growth not only of the U. S. but sometimes also overstep the national economy, as their economic activity is not constrained by geographical boundaries. The concept of global village has been practically shaped by the U. S. metropolitan areas development. They have an absolute edge, and that enables them to become major players in the global economy: their major advantage is their being transportation hubs. In this capacity, they can assume the role of acting as entry points for the global

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market. Their infrastructure also enables them to assist the national non-metropolitan areas make headway in the global economy. This concentration of transportation and infrastructure results in decreasing the logistic expenses, which results in lower production costs, thus making the goods more competitive and acceptable in the global market.

Along with having excellent transportation facilities, these metropolitan areas also have well-developed communication capabilities, and the availability of this infrastructure provides the same benefits as the well-developed transportation system does. Added to this is the availability of highly appropriate human capital. These advantages enable metropolitan areas to provide leadership in innovation, technological innovation and adaptation, which further leads to reduced production costs.

Methodology

To have a bird's eye view as well as retain objectivity and to arrive at reliable conclusion, I adopted consistently a methodology of testing, examining, and critically analyzing the information and data. The first task of defining was of course the concept of interjurisdictional competition. I studied the various aspects of interjurisdictional competition from diverse angles, federal, state, and ultimately local ones. The jurisdictional aspects of state and local governmental structure were also taken into consideration.

Thereafter, I went into the need and relevance of metropolitan areas in the context of the growth of economy. The importance of major metropolitan areas as the economic engines of the national economy was studied and brought into relief. This aspect was quite important because the

metropolitan areas constitute a major and overwhelming part of the national economy.

They are the major centers of employment and on them depends the economy of the country. As already stated, 84% of national employment, 88% of national income, and 89% of national growth depends on the metropolitan areas. Once the basic attribute of interjurisdictional competition and the relevance of metropolitan areas for attracting and retaining entrepreneurs were established, my next task was to identify the relevant literature and study the same to arrive at a well-calculated decision as to the significance of interjurisdictional competition.

The available literature was studied in an absolutely objective but critical manner, and the major points were elicited from the vast available literature. While the papers and books were studied to understand the analysis done by various economists and researchers, the views of the governments – both local and federal – were also taken into consideration.

I studied the proceedings of the proceedings of the U. S. Conference of Mayors (2003), since they were quite pertinent to the study of interjurisdictional competition of metropolitan areas, and once again, these were found to be quite revealing. The reports of these conferences constitute an important and integral part of the literature studied.

All this available literature having been studied, the next step was to analyze the findings, and to correlate the diverse views and opinions. This analysis was the most important aspect and it was done systematically. The analysis brought forth the salient features of the interjurisdictional competition for <https://assignbuster.com/effect-of-interjurisdictional-competition-essay-sample/>

attracting and retaining the investment from entrepreneurs for economic development of the metropolitan areas.

The problems of departmental rivalries, as also the possibility of overlapping of the jurisdiction, were also taken into consideration. The possibility of unfair competition and unprofessional conduct were also visualized. The possibility of a local authority adopting a measure that might promote and encourage a monopolistic venture could not be discounted;

but it was decided that the basic assumption to be accepted was that interjurisdictional competition would not encompass or encourage such a deviation. It is especially so since the interests of the individual are not involved and the interests of the city do not visualize an individual adopting means that are unsavory and unprincipled. Moreover in this era of knowledge explosion and transparency such actions would easily come to light.

Once the complete analysis of available information was done, I proceeded to formulate my conclusions and make necessary and relevant recommendations. The research was primarily a desk research. All the journal and books were studied, and for getting data, I depended on the Internet. Because of the constraints of time and finance, I did not use personal interviews and discussions, though that would have been ideal. However, all efforts were made to maintain the objectivity and authenticity of the research.

Review of Literature

As the economic growth of a community expands, it is important to examine the impact of different variables – political, social, or technological – as well as conventional economic determinants. Normally, the attention is focused on the nations/countries as the unit of observation. The boundaries of nations and states lead to arbitrary divisions of growth, and there are substantial variations within those geographical and political boundaries. As seen above, sometimes the local economies can be more relevant than the national ones.

So, there is one way to get around this problem, and that is to examine the economic development in a relatively smaller political unit within a nation. In a large country like the U. S. that has 50 states, the local economies definitely provide an appropriate unit for analysis. The metropolitan area is roughly the local labor market, and the study of such areas is important from the national point of view.

Crihfield and Panggabean (1995) examined the intimate relationship between available government finances and economic growth in the metropolitan areas. They found that a significant relationship exists between the taxes and subsequent population growth in the area. And they found it to be a negative growth. As opposed to this negative growth, local taxes had little adverse effect on the local economic growth.

They did not find any evidence that the investment by the state or local governments in any way contributed to the growth of per capita income. This is because the investment by the public sector is often made not for the

purpose of the profit alone, but to discharge societal obligations. It is usually made in sectors that are of national importance, but may not necessarily be economically viable.

Glaeser (1995) examined the local economies and their growth as impacted by social and political variables. The focus of Glaeser was not the entire metro area; it was primarily different cities. His research also revealed that metro areas did not gain much from the government finances variable.

Zhang and Zhou (1998) provided a sub-national level testing mechanism to judge the relationship between decentralization and economic growth. They utilized data from the Chinese provinces. Their study reveals that statistically there is a significantly negative relationship between the ratio of provincial government expenditure and the provincial economic growth. It is worth noting that the Chinese provinces are much larger than the US states, and this paper does not go to the metropolitan level. Moreover, decentralization refers to distribution of power within the national system and at the lowest level.

The study of Bradbury, though dated 1982, is yet quite relevant. It examines the growth of major cities in the metros and they found a negative but statistically significant relationship in the growth of population and economic growth. Their study also reveals that the fragmented local government is definitely conducive to the economic performance of the major cities.

Kim (1985) and Huther and Shah (1986) had identical research that showed a positive relationship between fiscal decentralization and economic growth.

These researches were counterbalanced by the study conducted by Davoodi <https://assignbuster.com/effect-of-interjurisdictional-competition-essay-sample/>

and Zhou (1998), which found a negative relationship between fiscal decentralization and economic growth in the developing nations. It is quite interesting to observe that they did not find any such relationship in the developed countries.

The study of Xie (1999) again buttressed the study of Bradbury when he showed a negative relationship between the local share of the U. S. government spending and the economic growth. However, this study did not comment on the relationship between the number of municipalities and the population growth in the metropolitan areas. Because the attention was confined to central cities and not to the metropolitan areas, the results do not reveal any corroborating or contradicting evidence for our hypothesis regarding the relationship between local government fragmentation arising from interjurisdictional competition and metro area economic growth.

There is no denying the fact that the empirical work on the economic growth has been expanding to cover the structural variables of the government as also to examine the metropolitan areas as a unit of analysis. But there has been no systematic attempt by the economists to coalesce and combine the two together by scrutinizing the impact of local government structure on the metropolitan area growth. Interestingly, there are two papers relating urban planning that are more relevant and pertinent to our hypothesis.

Foster (1993) and Nelson and Foster (1999) examined the relationship between the fragmentation of local governmental structure and metro area economic growth. Foster examined the intimate connection between the metro area population growth and presented different aspects of

fragmentation of local government in 129 primary metropolitan statistical areas. Out of these five variables, three were found to be of statistical significance. The most important result was the finding of a negative coefficient for the percentage of suburban population residing in an unincorporated territory. Foster puts a higher value on this variable. This variable to him indicates a higher level of political consolidation. He regards that a single general-purpose government serves a greater proportion of population in any metropolitan area.

The county government represents this general-purpose government. This negative coefficient provides a base for supporting the hypothesis that the greater the fragmentation, the greater is the increase in the economic growth. Nelson in 1990 tested the determinants of variation in the local government structure. His study revealed once again a negative but significant relationship between the general-purpose governments in the metropolitan area and the population growth. However, in this study, the level of fragmentation was not an independent variable; it was a dependent variable while the population growth was the independent variable.

Foster, in his research work (1993), also found that there was some negative coefficient for the ratio of school districts to the municipal governments. However, this was not of a very high significance. Higher values of this variable are indicative that the school districts are quite fragmented when taken into consideration with that area's underlying municipal structure. The same concept can be extended to attracting and retaining investment for economic development. It is clear that the negative coefficient provides

some support for the hypothesis that the higher growth level can have and does have some association with less fragmentation.

The finding of a significant, albeit of a smaller level, positive coefficient for the average size of urban municipality does provide support for the value of consolidation. However, this appears to be merely a theoretical justification because Foster has not been able to establish other variables of the government structure. He depended only on the variables of population density, metropolitan area, and four other variables. He ignored the major variables required for economic determinants like income, education, unemployment rate, and manufacturing sector's share of employment. Thus his thesis cannot be held as absolutely sustainable.

Nelson and Foster (1991) examined the relationship between the dollar value change in per capita personal income and different government structure variables in 287 large metropolitan areas. They ignored the percentage change, but used four of Foster's (1993) five local governmental structure variables. They also added four new variables. The strongest result of their study was the identification of a negative coefficient for the central city share of metropolitan area population.

One percent increase in central city dominance showed correspondingly a 24-dollar decline per capita income. This showed an absolute support for the hypothesis that associates higher growth with greater fragmentation. The authors found a significant positive coefficient for the average size of suburban municipalities. An increase of 1000 residents in average suburban population correspondingly increased per capita income by 32 dollars. This

corroborates the fact that with increase in population there is increase in the market size and consequently an increase in business and per capita income.

In contrast to Foster (1993), the analysis of Nelson and Foster (1999) seems to have erred in the opposite direction. Nelson and Foster had included 28 controlled variables that led to a large number of insignificant coefficients. Their weakness also stems from their use of dollar value change in per capita income in place of percentage change.

None of the studies comes to a conclusive finding. As opposed to this, the U. S. Conference of Mayors produced a report in July 2003 relating to the role of metro areas in the U. S. economy. This report is quite exhaustive and deals with practically all aspects of the economic development of the metros. It also shows that contribution of the metro areas to the national economy would keep on increasing. This increase in the gross output is consistent and steady.

Source: The proceedings of the U. S. Conference
of Mayors 2003

It can be observed that while the employment figures also slide down until 1995, they show a sharp trend thereafter. The increase and gross output and employment opportunities are clearly interdependent and increased economic activity is indicated by the rise in both. It is expected that by the year 2020, the gross output shall be touching 87% of the national economy as shown in Figure 1 above.

Problems

The review of literature shows that the local government structure has a definitive impact on the economic growth. The local economy growth has different features and these diverse aspects of one area might also differ from that of the other area. In order to ensure continued economic growth, we have to study how far the local structure is able to attract and retain economic investment. Local policies are instrumental, to a great extent, in attracting investment but the interplay between the different departments is extremely important both to attract and to retain the industries. So the major issue that needs to be resolved is centered on the basic issue of taking a decision on the selecting one of the two options:

1. Should there be large a monolithic government?
2. Should there be small competitive governments?

The development of metropolitans shows that the problem can be analyzed by having a look at the major metropolitan economies. The top 20 major metropolitan areas generated \$3. 8 trillion in gross output in 2002. The study of the growth of gross metro product (GMP) of these 20 top metropolitan areas reveals that all of them do not have similar growth. There are variations in their growth. Table 2 given below shows the growth pattern of the 20 top-ranking metros.

Table 2: Ranking of Top 20 Metros 2002 GMP

Gross Metropolitan Product (US \$, Billion)

	2001	2002	% Change
San Diego, CA	118. 5	125. 0	5. 5
Phoenix-Mesa, AZ	119. 0	124. 9	4. 9
Orange County, CA	143. 7	150. 7	4. 8
Nassau-Suffolk, NY	108. 9	113. 7	4. 5
Los Angeles-Long Beach, CA	395. 0	411. 0	4. 1
Washington, DC-MD-VA-WV	227. 8	236. 5	3. 8
Oakland, CA	101. 8	105. 5	3. 7
Houston, TX	179. 4	185. 4	3. 3
Boston, MD	258. 9	266. 9	3. 2
Baltimore, MD	99. 8	102. 6	2. 8
Philadelphia, PA-NJ	187. 5	192. 3	2. 5
Atlanta, GA	174. 0	177. 9	2. 3
Chicago, IL	342. 1	349. 5	2. 2
Minneapolis-St. Paul, MN-WI	126. 3	128. 9	2. 1
Newark, NJ	101. 1	103. 0	1. 8

Detroit, MI	159. 6	161. 7	1. 3
Dallas, TX	164. 7	166. 9	1. 3
Seattle-Bellevue-Everett, WA	119. 9	120. 9	0. 9
New York, NY	445. 5	448. 9	0. 8
San Francisco, CA	113. 1	110. 6	-2. 3
Top 20 Metros	3, 686	3, 783	2. 6

Source: The proceedings of the U. S. Conference of Mayors 2003

GMP is the sum total of growth, and it encompasses all factors that contribute to it. The differences in GMP are indicative that although there is common pattern of economic activity in such regions, it might have no resemblance with the economic activity in the other region. These activities are quite capable of being dissimilar. The recession that hit the economy was quite broad based and hit all regions. It is observed that the decline in heavy manufacturing and information technology spending in the very beginning of 2000 was followed by financial market distress and the events of 9/11.

In 2002, the state of business investment was still feeble and weak, and the bear market in the technology sector was spreading to the general stock market. The metro areas faced this challenge in different ways. They

examined different alternatives and strategies to overcome the trend and selected appropriate measures depending on their relative concentration in these key industries.

There was outstanding evidence of clear acute weaknesses in manufacturing-dependent metros such as Detroit and Cleveland, in high tech industry centers like San Jose and Austin, in telecommunications industry in Atlanta and Dallas, in financial sector in New York and Charlotte, and in tourism and hospitality industry in Las Vegas and Miami. While the top 20 metro areas accounted for nearly one-third of the nation's job gains in the late 1990s, they suffered more than half of the job losses in 2002.

The top 20 metropolitan economies were expected to generate \$4 trillion in gross output in 2003, accounting for nearly 36% of national output. These metro areas are geographically diverse and their economic structures mostly have nothing in common.

It is this compositional variety that illustrates the manner in which the structure of the economy determined to a great extent how each metro area faced the recession, and also how they were able to have faster or slower recovery, vis-à-vis other metropolitan areas. This corroborates the fact that it is the structure of the economy that determines how a particular area would react when faced with unforeseen emergencies / economic stresses like recession. Both the speed of recovery and the extent of economic damage are dependent on it.

The 2001 recession was initially concentrated in the manufacturing and high tech industries, and these sectors would normally be the last ones to

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recover. It is because there was a massive over-capacity already existing as a result of the unprecedented high technology of the late 1990's. Global Insight's forecast for the top 20 metros was that there would probably be job losses in manufacturing sector in 2003. Seattle was likely to lose over 5% of its manufacturing sector employment in the year under reference. This was possibly the result of probable further contraction of the transportation equipment sector.

Metros such as San Francisco, Detroit, New York, and Boston were also likely to witness continued job erosion, primarily because of expected manufacturing losses. There were concerns about the ongoing war and continued warlike activity in Iraq. This combined with other related factors like terrorism, and SARS were also likely to lower transportation employment by about 1.4%. Eighteen of the top 20 metros as a result lost jobs in this sector. The nation's 20 largest metro areas are by definition transportation hubs, and many of these cities are also major hubs for the largest of the airline fleets.

There is a huge dependence on this sector. And loss in this primary sector can have spin off effects. The tourism industry is also likely to suffer in all these metros. All these factors, when combined with Asian difficulties and SARS, made the situation look grim. Global Insight forecasts San Francisco's TCPU (transportation, communications, and public utilities) sector to shrink by 3.6%. It would by have an adverse effect on the total growth, necessitating the urgent need to entice new investment and retain the existing enterprises.

The construction industry presents a mixed picture. In aggregate, the sector was likely to shrink by 0. 6%, but only 13 metros were likely to be impacted by this contraction. The remaining seven metropolitan areas were expected to witness a further growth and expand. This appears to be somewhat anomalous situation. Minneapolis, Detroit, San Francisco, and Philadelphia might be the likely sufferers and their share might shrink by more than 2%, while paradoxically Phoenix might grow by more than 2%.

Total government employment scene in 2003 was positive as the federal employment opportunities were increasing and jobs were being added faster than the rate at which state and local jobs could be cut. In 2003, Global Insight predicted 0. 9% job growth in that sector.

Several metro areas were hoping to be the beneficiaries and to garner advantages from increased spending by the government and private organizations on security in the aftermath of 9/11. These included Dallas and Atlanta: those places could return to positive, but comparatively lower job growth rates. Four metros (New York, San Francisco, Los Angeles, and Boston) faced extreme budgetary challenges. In these metros, the combination of state and local layoffs was likely to more than offset the additional jobs being added on the federal level.

Financial service is another growth sector, as the housing sector remains buoyant and the interest rates remain low; even the stock market showed improvement. In 2003, 18 of the top 20 metros experienced employment gains, as predicted and visualized. The gains were, no doubt modest, as the total sector expansion was only 0. 5%.

The US national economy is becoming increasingly dominated by the service sector. This trend is not a temporary phase: it is expected to continue in the 2003, as the recovery of the service sector sped more rapidly than any other industry category. In 2003, 17 metros were able to add service jobs and expand by 1. 0% across the board. In San Diego and Phoenix, there was a sharp rebound in the growth of tourism and other service sector jobs.

The depreciation of the mighty dollar also helped increase the trade sector and this increase had an effect on the suppliers. It resulted in making the manufacturing sector more profitable. This economic trend not only helped improve prospects for these metros, but also catapulted San Diego and Phoenix as the fastest growing large metros in the country.

This analysis shows the relevance of the metropolitan economy to the national economy. It also emphasizes the need to rationalize the local government structures to assist them attract and retain new and increased investments

Studying simultaneously their management system reveals the effect of interjurisdictional competition for attracting and retaining investments. San Diego metropolitan area has the highest growth of 5. 5% while San Francisco has a negative growth of -2. 3%. Metropolitan areas like Washington DC, Oakland, Houston, and Boston have an average growth ranging from 3. 3% to 3. 8%. Thus they fall between the highest and the lowest economic growth rates. If we study these three models, it will present a clear picture of the impact of interjurisdictional competition. The study of the growth pattern of these three metropolitan areas case studies is quite revealing.

San Diego, CA

San Diego is the third largest retail market in the U. S., and it has shown a consistent increase in gross metro product reaching nearly \$158 billion in 2005. Looking at its economic structure, we find that San Diego metropolitan area stretches 70 miles along the Pacific Ocean. It is 120 miles south of Los Angeles, and it borders Mexico in the south, Orange and Riverside Counties in the north, and Imperial County in the east.

It is a culturally diverse metropolitan with a population of over three million; it is the 14th largest most populous city of The U. S. During the late 80's it had a very narrow base of economic development: the major manufacturing activity being the defense industry. As the federal government was streamlining and downsizing defense procurement, San Diego faced economic problems.

Figure 2

Source: The proceedings of the U. S. Conference
of Mayors 2003

The figure given above shows that there was a steep increase in the GMP of this metropolitan area during 1993–1999. However, it experienced a sharp decline from 1999–2001, followed by a further decrease at a less alarming rate during the next two years. Thereafter, it shows a trend of gradual recovery, which is expected to continue. However, metropolitan economic development office swung into action and the economic reconfiguration of San Diego resulted in its coming at the top of southern California. The result

is that out of 160 billion dollars, merely 10 million dollars is the GMP from defense revenue. San Diego became leader in telecommunication, electronics, computers, software, and biotechnology by coordinating the efforts of the department of human resources and the department of labor; the metropolitan area utilized effectively the existence of educated, high technology ready labor force that existed because of the defense industry.

This redeployment of the huge human capital resulted in San Diego becoming the leader in the knowledge industry. Today, San Diego's bioscience cluster boasts of world-renowned research facilities including Scripps's Research Institution, the Salk Institute, the University of California at San Diego and the La Jolla Cancer Research Center.

These institutions were instrumental in providing not only skilled labor but also technological innovation. They promoted the growth of biotech sector, and as a result approximately 240 organizations are concentrated in the city. The interdepartmental cooperation further extended to the sectors of agriculture, healthcare, and tourism that contribute significantly to the San Diego economy. The tourism department created innovative strategies and, now, more than 14 million tourists visit San Diego every year.

The performance parameters of San Diego metropolitan area show the results of cooperative action despite interjurisdictional competition. And these parameters are indicated graphically in the figure below.

Figure 3

Source: The proceedings of the U. S. Conference

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of Mayors 2003

The interdepartmental competition enthused each department to outbid the other with the result that San Diego's economy remains better than any other metropolitan economy. There was a job gain of 0.8% in 2002. It is significant since in most other metros it had fallen down. The outlook for San Diego is still quite positive and San Diego is likely to benefit since it is specializing in industry clusters that have a strong growth potential. These sectors are biotechnology and wireless communication. The traditional manufacturing base of this metropolitan is slowly being phased out as a result of well-thought, well-formulated, and well-executed strategy.

San Francisco

San Francisco has its share of being regarded as a living, and an expensive city. It is the second largest city in the whole nation, considering the cost of homes. Seven percent of homes in this metropolitan city are priced over one million dollars. And yet its economy leaves much to be desired. The job growth in this metropolitan area has remained negative, despite the fact that the manufacturing sector is well entrenched. Its manufacturing facilities include both the traditional products and the high technology units.

The San Francisco metropolitan area can be considered a veritable centerpiece of the Greater Bay Area. Having a population of approximately 1.7 million people, the metropolitan area covers the counties of Marin, San Francisco, and San Mateo. Because of its strategic locational advantage, it has donned the mantle of being the undisputed financial capital of the west coast. It is also the business services hub for this geographical sector. It has

slowly emerged as the place where the largest cluster of venture capital companies can be found. The metropolitan area can, and does, boast of a flood of tourists.

While San Diego had to create special strategies, and develop places like the Sea World, the Wild Animal Park, the San Diego Zoo, Mission Bay, and Cabrillo National Monument to attract tourists, San Francisco did not have to move its little finger. There already was a deluge of tourists. The Bay Area's primary airport San Francisco International Airport is in San Mateo County. An extremely large portion of its work force comes from the bedroom communities of San Mateo and Marin, along with the Oakland metro area. San Mateo and San Francisco have an added advantage of belonging to the goldmine of the present times – the Silicon Valley.

Despite all its advantages, San Francisco's economy leaves much to be desired. Although there was a gain of annual employment – from 4 % in 2000 to 6. 2 % in 2003 – the picture of the economy is not very encouraging. More than 65, 000 local workers lost their jobs last year. It is not only the manufacturing sector that is a cause of concern. Even the service sector is quite weak. The GMP of this famous metropolitan area shows a steep fall, followed by a very hesitant climb. The figure below is indicative of that.

Figure 4

Source: The proceedings of the U. S. Conference
of Mayors 2003

GMP was touching almost 138 billion dollars in the year 2, 000 and then it fell sharply to approximately 40 billion dollars in the year 2002. Such a sharp fall should have sent the shock waves not only to the metropolitan area authorities but the federal and the state governments should also have been deeply concerned at this steep decline. The fall indicated that either it could be a part of national and global activity, which it was not; or it could have been the result of some unforeseen reason. Either the policies of the government, as applicable to this particular metropolitan area were not appropriate, or they were not being applied judiciously.

The third cause could be the internal rivalries. There is no reason to believe that the sharp decline was not noticed. It may not have been forecast, but the fall was spread over two years. The only factor that stands out is that the departmental jealousies were too rampant and too serious to cause such havoc to the economic growth.

The economy is stabilizing, but the speed of shifting back to the healthy growth is too slow. It is estimated that the job growth in San Francisco metropolitan area is still shaky, and it is only by the year 2007 that it shall reach back the 2000-level. And then, it is also expected that the job growth will either maintain itself at zero level throughout the year 2007, or might be slightly below zero. The performance of this metropolitan area can also be seen in the figure below, which shows its relative performance.

Figure 5

Source: The proceedings of the U. S. Conference

of Mayors 2003

Though it cannot be stated categorically that it is the interjurisdictional competition that is the villain of the piece. But the lackadaisical attitudes shown are indicative of the same. Ordinarily if all the centers of authority were working in tandem, each one of them supporting the other to attain the common goal and each reinforcing the other; then this would most likely not have happened.

Washington, D. C.

Washington, D. C., as a metropolitan area has the distinction of being spread in more than one state. This metropolitan area is in the District of Columbia as well as in the states of Virginia and Maryland. It has a unique economic structure insofar as it does not have much of a manufacturing sector. But in the late 90's, there was a lot of semiconductor manufacturing in northern Virginia. Primarily a government-dominated region, most of the job opportunities in this state stem from services that have some relationship, directly or indirectly, with the federal administration.

The service segments, however, are quite impressive and encompass information, finance, hospitality, healthcare, human resources development, education, training, etc. These services constitute more than three quarters of the total employment in this metropolitan area. Since the concentration of job opportunities is in government, high technology, defense, and business services sectors, this metropolitan area has the capability of maintaining a growth rate that would always be about average. And still this

metropolitan area has not excelled. The GMP of Washington, D. C.

metropolitan shows a change that is astounding as seen in figure below:

Figure 6

Source: The proceedings of the U. S. Conference
of Mayors 2003

It can easily be seen that the GMP fell to almost 130 billion dollars in 1995 and then touched the peak in 2000, nearing almost 340 billion dollars. It plummeted down in 2002 by almost 200 billion dollars, reaching back to 1999 level, that is, approximately 140 billion dollars. It rose steadily till 2005 and is expected to remain at that level: the percentage improvement till 2007 is not expected to be very high.

In 2003-4, this metropolitan area did add 27, 000 jobs. This improvement of 1% in employment rate does make this area capable of generating better opportunities. The rapid fall of GMP is attributed to the terrorist attack, but this can be deemed as a double-edged sword because the focus on terrorism also enabled the metropolitan area to revive the economic growth.

The security related contracting, the increased defense procurement, and enhanced consultation services proved to be the lifeline to the gasping businesses of the area. The increased governmental activity is always instrumental in any economic growth. It is especially pertinent in the case of Washington, D. C. metropolitan. The relative performance of this metro is evident from the figure given below, which shows the relative performance of the metropolitan area.

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Figure 7

Source: The proceedings of the U. S. Conference
of Mayors 2003

There is every possibility that this metropolitan should be capable of sustaining itself as one of the steadiest hubs of economic regeneration. It is capable of being a growth driver for both Maryland and Virginia. However, its growth is not as spectacular as that of San Diego, possibly because of the area having multiple authorities, and also because the major generator of jobs would continue to be the government, and the government related businesses.

No major individual sector has an outstanding performance record in this region. The only private sector that is least dependent on the government is transportation, and even this sector is growing steadily but has nothing outstanding to offer. There is another sector, which has a potential to perform better, and this is construction sector. It is expected that this sector would provide additional 25, 000 jobs by the end of year 2009.

Washington, D. C. metropolitan is capable of being in a preeminent position because of its sectoral and demographic characteristics that add to the economic growth. It has a highly educated, technology oriented human capital. The huge federal government sector provides stability and this sector, along with defense contracting, is not dependent on the vagaries of the manufacturing sector. The negative factors for the growth are high wages, which add to the manufacturing costs, and higher housing costs.

Even the infrastructure leaves much to be desired. The logistics are not in favor of increased economic activity.

Performance of Metropolitan Area Economies

Although the recession of 2001 was mild, it had spin-off effects and the recovery was very slow. Curiously during the recovery period from 2002–2003, although GMP was increasing, the job opportunities did not follow suit. Most of the metros would take almost a year to reach the job generation level of 2000. The national economy is not likely to outstrip the economic recovery of metropolitan areas; it is because the non-metropolitan areas provide only 16% of the total employment. Out of 319 metro areas, only 294 showed some growth in the year 2002. However, with the adjustment of inflation indices, we find that it outstripped the national average.

The metro areas witnessed an economic growth of 1.8% after 2002. It is worth mentioning that, during the same period, the total economy grew by 2.4%. It can be safely deduced that the non-metropolitan area growth was outstripping the growth of metro areas. It is all the more amazing considering the fact that they constitute a small minority of the national economy. This deduction shows that, in times of real emergency situations, it is the decisive leadership that matters. And possibly, single authority is usually more capable of providing direction and leadership leading to jumpstart and acceleration of economic growth.

Analysis

The performance of the metropolitan area economies, and the three case studies of different metropolitan areas taken above, show that given

identical inputs by the private sector, the results are still different.

Moreover, the inputs by the private sector are always dependent on the government policies and governmental structure. It is the government structure that sustains Washington, D. C. metropolitan but the same care is definitely not extended to San Francisco.

Being the national headquarters, Washington, D. C. has a position of preeminence and paramount importance. San Diego development is an outstanding example of right policies implemented in a right manner at the right moment. The interjurisdictional competition envisages the existence of different organizations ostensibly trying to attract the investment. It is the marketing capability of these departments and organizations that entices and retains industrial investment. For the sake of clarity, we can identify these players of interjurisdictional competition as:

1. Labor Department

This department is primarily responsible for formulating labor policies, and these labor policies should be such as are investor friendly that create a congenial, harmonious industrial climate.

2. Housing

This department has the responsibility of identifying the need of dwelling units and ensuring that housing requirements of the industry are met. Insufficient housing, or too extensive housing, can be detrimental to the growth of economy. San Francisco's is an outstanding case in point where 7% of the total available houses cost more than one million dollars. They

might enhance the image of the city but they do not promote the industrial activity.

3. Infrastructure

The department looking after infrastructure can be further subdivided into factors like roads, transportation, power and water supply, and communications. Each of these basic requirements of infrastructure is of prime importance to attract and retain investment. If the roads are not sufficient, the expenses for transportation of goods and people will increase, resulting in higher cost of production and ultimately to lower profits, and poor competing capability in the global market. The traffic gridlocks in Los Angeles are an outstanding example of failure to provide adequate roads. Water and power are such facilities that their importance can never be belittled.

4. Health and Safety

The biggest cause of absenteeism is illness and accidents – industrial or otherwise. The health and safety departments should not only ensure zero injury in the workplace but also endeavor to provide adequate healthcare so that requisite human capital would be attracted. The insanitary conditions or the spread of disease and illness on epidemic scale can cause a slump in the economic activity. The case of Toronto, Canada, comes immediately to mind where the fear of SARS was bringing the city practically to a standstill.

5. Taxation

One of the most powerful tools of enticing and retaining investment is judicious use of taxation system. It is the local taxes that play a major part

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in influencing the investment decisions. The federal taxes are identical for the nation as a whole. It is the variance of the local taxes that attracts or repels the entrepreneur. The situation of such metropolitan areas, as are covered by more than one state, requires particular consideration. The variations in the state levies should be neutralized by the competent metropolitan authority by judicious handling of taxation.

6. Education

The availability and quality of education is important from two aspects. Firstly, it prepares the labor force at different levels and secondly, it looks after the continuous education in the form of up gradation of capability and reeducating as per the needs of the industry. When the defense industry needs were reduced in San Diego, the retrenched labor force of this industry was redeployed after adequate training, leading to the upward movement in the economy. The other organizations, like tourism can play a major role on the periphery.

In case these organizations work in tandem, and not at cross-purposes, there is every possibility that requisite industrial activity shall be generated.

However, in case they do not work in a coordinated manner, then the result may not be very happy one. It is important that they are not only capable of working in a manner that makes their synergies come out alive but, what is more important is, that they are also proactive. A reactive action is never helpful.

Interjurisdictional co-ordination

Interjurisdictional competition envisages inherently interjurisdictional coordination. The objective of all these apparently competing organizations is the same. It is to ensure that the metropolitan area under them becomes a haven for industrial growth; it is to attract the entrepreneur, entice him by all the possible but workable and correct blandishments and, having once made him invest, further ensure his continuous stay there leading to expansion.

The expansion may be vertical or horizontal, or it may be further diversification in new greenfield projects. The main effort is directed to make him locate all his ventures there. It is imperative that there be an excellent rapport in all these organizations so that they can achieve their common goal.

The biggest roadblock for co-operation usually is not the desire of the individuals who are staffing and manning these operations. It is, more often than not, lack of legal and financial mechanisms for achieving this laudable object. All possibilities for different administrations are agreements without any formal incentive, like state subsidy or lower taxes. There has to be a system that takes care of the appropriate return for each player. In many cases, each organization may be operating as a profit center. It has to be ensured that the profit center concept takes into consideration the social accountability object as well.

Relations between transport and land use are usually left to the mechanics of the functionaries at the local level only. This means that in some cases

the planners work on it, but in most cases it is only more or less left to intuition. The only developed methodology relies on formulating appropriate standards for optimum use of all resources.

Fostering competition is left to local or regional activity. Administrative authorities can have some funds for supporting such activities. The regional administration can launch more such programs as they have full authority to support economic and social development. The concept of branch or department orientation should be discarded, and the concept of joint effort to achieve the goal must be the guiding principle.

By adopting a cocerted coordianted approach, the parties having diverse jurisdictions can provide direction to the diverse aspects of demand management and adopt sustainable orientation to achieve the end objective. The real and meaningful objective is to increase economic activity in the metroplotian areas where complicated responsibilities need deep cooperation to entice and retain the industrial investment

Conclusions

The study shows that it is the involvement of the agencies and individuals in diverse organizations that is more important and relevant for attracting and retaining investments of economic growth. The law of division of labor requires that each agency manages its portfolio. However, when that agency, in the process of managing its affairs and promoting its activities, starts behaving in a manner as if it were the monarch of all it surveys, the real problem arises.

As long as the attention from the major objective does not deviate, as long as interjurisdictional competition is more in the shape of interjurisdictional coordination, it is beneficial for the metropolitan area. The interjurisdictional competition should be subsume to disparate elements presenting a coherent whole. Their activities have to be dovetailed in the policy strategy evolved jointly and the parameters of work of each component and subcomponent clearly delineated.

Some economists agree, keeping in view the market metaphor, that a system of numerous small governments does offer some inherent advantages over such a system that has fewer larger agencies. However, in keeping in line with the market failure theory, many economists are diametrically opposed to this recommendation. They favor a perceptible and a definite shift towards a more consolidated system with one or a few local governments or governmental agencies. Both sides advance plausible theoretical arguments that seek to explain why more or less consolidated local administration would end in producing the more preferred outcome.

The preferred outcome, of course, is to make the area a more attractive and desirable place to live and work and thus up with superior economic performance. Our study reveals that a system of local government that is not fully consolidated produces superior economic performance.

Centralization of decision-making can, and does, result in whimsical and capricious decisions that may not be all the time the desirable ones. Thus, decentralized system does result in interjurisdictional competition but, given the vision and leadership, the decentralized system does provide evidence that goes in favor of this management concept.

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It is important to observe that competition as a concept does promote healthy attitudes. It also might reflect a condition under which locational decisions by businesses are a function of independent local efforts to attract them. At the same time, the communities in these metropolitan areas might react more as a function of what other communities are doing rather than any underlying dynamic by which business decisions are molded or directed by the local offers.

The review of the literature and the cas