

Balancing Competing Interests in American Regional Governance^{*}

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Abstract

We study regional governance in the United States. Many public policy decisions taken at the local level have implications for actors in other political jurisdictions, leading to calls for greater regional coordination. However, all regional governance efforts face a fundamental tension: local governments must give up some authority to achieve regional benefits. Local actors may then be held accountable by their constituents for regional outcomes. Regionalism thus compels local governments to ask: what are the expected *local* benefits of regional policymaking, and how do those benefits compare to the expected *local* political costs of delegating power to the region? In other words, regionalism may be advocated to solve economic problems that transcend local political boundaries, but its outputs are expected to also reflect its members' local political and economic interests.

This paper examines the actions of regional governance efforts and assesses how these efforts strike a balance between regional and local interests. We propose a theory of regional governance that draws upon insights from collective action theory, microeconomics, new institutionalism and game theory. Our theory generates hypotheses about how regional governance efforts balance local and regional interests. We test these hypotheses with data from a large national sample of regional councils.¹ Regional councils are one class of regional governance efforts that exist nationwide and that represent an important form of regional governance. We find that while regional interests do, in fact, shape RC activities, local interests appear to play an important role as well. We also find some evidence that regional institutions help mediate this balance, although data limitations temper our confidence in these preliminary results.

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¹ Note: the current version of this paper is limited to data from the 87 currently operating regional councils in the six Great Lakes states.

Introduction: The Promise and Problems of Regional Governance

American local governments pursue a vast array of activities, from urban renewal to social service provision; from suburban growth control to rural service delivery. Despite their differences, local government policies share an important common characteristic: while made at the local level, these decisions often impact people in other political jurisdictions. Zoning ordinances that allow the construction of housing tracts in one town, for example, may destine neighboring towns to increased traffic, treeless landscapes, and “big box” shopping centers; a local government’s decision to attract a revenue-generating “nuisance” business – like a prison or landfill – may create costs for surrounding communities. Local government choices may also benefit neighboring jurisdictions: economic policies that attract more desirable businesses may increase property values across the region and increase local tax revenues, and coordinated service delivery may decrease costs for participant jurisdictions. Indeed, in an increasingly interconnected society, the decisions of towns, villages, cities, and counties produce important spillover effects or externalities at the regional level.

Scholars and observers of American local government have long recognized these spillover effects and advocate for *regional governance* as a way of rationalizing local policy-making (Katz 2000). At its simplest, regionalism helps “internalize” the negative externalities generated by uncoordinated policy (e.g. DiMento and Graymer 1991; Kresl and Gappert 1995; Peirce 1993). Regionalism also offers the possibility of promoting more activities with positive externalities (e.g. Jacob 1984). And regionalism can encourage coordinated efforts to capture economies of scale in service provision (e.g. Schechter 1996). All three of these outcomes can

enhance social efficiency, and all have been identified as motivations for regional governance in the United States (Downs 1996, 2004; Foster 2000, 2001; Sandler 1992).²

Regional governance exists in various forms throughout the U.S (Katz 2000). Some states, such as Tennessee, Washington, Oregon, and Florida, have recently adopted statewide policies that mandate extensive regional coordination regarding land use and conservation policies (Rohse 1996; Gale 1992; Bollens 1992). Most other states rely primarily on voluntary approaches to regional governance, enabling but not requiring intergovernmental cooperation (Rohse 1996; Burns 1994). As a result, we now observe a wide and diverse range of regional governance efforts across the American policy landscape. These efforts range from small-scale attempts by neighboring local governments to engage in coordinated planning, to large-scale multi-purpose regional councils responsible for a wide range of planning, policymaking, and service delivery activities.

Despite the frequent occurrence of regional governance in the U.S. (and abroad), there is remarkably little systematic research explaining why local governments engage in regional cooperation and what regional entities actually do. Advocates of regionalism either point to potential efficiency gains or use functional arguments about how local problems can be solved through regional efforts. Advocates of “subsidiarity” present normative arguments for regionalism, suggesting that the control of government should exist at the level closest to the affected constituents (Dowling 2003; Kahler and Lake 2003). Thus, most existing approaches, to a greater or lesser degree, explain the actions of regional entities by their promise of enhancing fairness or economic efficiency.

² Discussions of regionalism parallel scholarship on globalization, which points to the collective benefits of authority migration away from the nation-state and toward supranational institutions (for a review of these approaches, see Kahler and Lake 2003).

But what advocates often fail to acknowledge is the underlying political dilemma associated with regional governance: local governments may need to give up some authority to achieve regional coordination. Indeed, this is the whole point of regionalism – local governments, acting independently, produce policies that are different from (and presumably inferior to) outcomes that would be produced by a regional body. The rub, however, is that local political actors may then be held accountable for regional policies that are contrary to the preferences of their local constituents. This tension lies at the heart of regional governance, especially in matters of land use, where the American legal system places significant authority in the domain of local governments.³ Local governments contemplating regional policymaking are therefore compelled to ask: in addition to the *regional* efficiencies that could be captured through regional policymaking, what are the expected *local* benefits, and how do those benefits compare to the likely *local* political costs associated with delegating power to the region?

We study this fundamental tension between regional governance and local politics. We argue that to understand what regional governance efforts do – and to assess their potential for taking on new responsibilities – scholars must consider not only the regional interests to which these efforts respond (i.e., the nature of the externalities they seek to internalize and the economies of scale they seek to capture), but also the local political and economic interests of their individual members. We hypothesize that how regional governance efforts strike a balance between regional and local interests may be a function of the regional entity's institutions. In some places, the regional decision-making process empowers individual local governments, allowing them to retain significant authority over policymaking and hence shifting the balance of

³ In *Euclid v. Ambler Realty Co.*, 1926, the US Supreme Court validated municipal zoning. Most state constitutions empower local governments to establish policies to regulate the use of land within their jurisdictions (Tarr 1998), especially through planning and zoning powers. There are also a number of federal and state laws and regulations that provide broad parameters on land use. Below we consider some of these state and federal laws and policies as potential mechanisms for facilitating, or potential constraints that prevent, regional cooperation.

policy outcomes in the direction of local interests. In this case, unless regional and local interests are closely aligned, we expect that regional governance efforts will rarely produce outputs that are politically costly to member local governments. In other cases, regional institutions advantage regional interests. These institutions shift decision-making authority to the regional entity, allowing it to undertake a wider range of activities and to achieve outcomes that generate more regional benefits.

We study these dynamics in the context of regional councils. There are currently 516 regional councils (RCs) operating in the United States.⁴ RCs are multi-purpose, multi-jurisdictional public organizations created through state legislation. Most were established in the 1960s and 1970s to administer federal and state programs (primarily in the area of transportation), though several dozen more have been added in recent decades.⁵ RCs operate in all states except Rhode Island and Hawaii, and serve 35,276 of the approximately 39,000 general-purpose local governments in the United States. RCs' voting members are mostly local governments and school districts, although many invite other public, private, academic, nonprofit, and civic organizations to participate, often as nonvoting members. Currently, these regional councils pursue policy in a variety of areas including transportation, economic development, environmental quality, land use, job training, housing and community development, emergency and disaster services, data collection and analysis, technical support, and social services. They bring together participants at multiple levels of government to "foster regional cooperation, planning, and service delivery" (NARC website, www.narc.org).

⁴ These 516 RCs are members of the National Association of Regional Councils (NARC).

⁵ RCs include many metropolitan planning organizations (MPOs) which are the entities responsible for administering current federal highway programs at the local level (see <http://www.fhwa.dot.gov/reauthorization/safetea.htm>). However, MPOs represent a minority of RCs: only 35% of the RCs in our dataset are MPOs, while 51% of the 340 MPOs currently in existence are RCs.

We focus our empirical analysis on regional councils for a number of reasons. First, regional councils are a common and potentially important form of intergovernmental cooperation that have received very little scholarly attention.⁶ Second, there exists a comprehensive list of RCs and so we can be confident that our sample is not systematically biased. Third, RCs are relatively comprehensive in geographic coverage and so allow a multi-state analysis. Fourth, regional councils exhibit substantial variation in terms of the activities they pursue, the institutional arrangements and legislative mandates that shape their operations, and the social/ political/ geographic/ economic environments in which they operate. Thus, while they differ in important ways from many other forms of intergovernmental cooperation, we believe that by limiting our focus to regional councils, we can better understand some of the most important examples of intergovernmental cooperation while allowing enough variety to produce generalizable results.⁷

The paper is organized as follows. In the next section, we present our theory of regional governance. We then describe our hypotheses, data sources, and variables. We present our empirical analyses, discuss our results, and end by describing implications, extensions, and next steps.

A Theory of Regional Governance

We develop a theory of regional governance that draws upon insights developed within a number of intellectual traditions including collective action theory, microeconomics, new institutionalism, and game theory.

Analogies and intellectual traditions

⁶ Cite studies of regional councils.

⁷ Discuss how RCs differ from other forms of IG cooperation.

Our intellectual starting point is collective action theory. All regional governance efforts are to some degree voluntary endeavors in which potential participants face incentives to free-ride.⁸ The literature on voluntary associations emphasizes two distinct points at which voluntary efforts confront barriers to collective action. The first occurs when individual actors seek to initiate cooperation (Burns 1994).⁹ Given our empirical emphasis in this study on decision-making within long-established regional councils, these factors are of secondary relevance.

The second point at which barriers to collective action occurs is later in the process, when parties to the agreement seek to sustain and expand cooperation through specific activities. Here the emphasis in the literature is less on collective action and more on bargaining and collective choice (Ostrom 1990). Given our interest in the evolving functions of regional efforts and the discretionary activities they engage in over time, these factors are of primary concern to us.¹⁰

Microeconomic theory helps us understand local governments' potential economic motivations for regional cooperation. Building upon the analogy of the firm, cooperation between local governments can produce higher levels of economic efficiency. These efficiency gains can come about in at least three ways.

- 1) Capturing economies of scale: Many local government activities involve increasing returns to scale, that is, outputs increase more than in proportion to an increase in inputs.

This means that if several small producers combine their activities and hence can together

⁸ Some regional governance efforts are established in response to federal or state mandates, making them voluntary only in a limited sense, although individual members may retain substantial discretion in their participation decisions. We consider the effects of these federal and state mandates in our theory and analysis below.

⁹ These factors include number of members (see Olson 1965; Hardin 1982; Johnson and Libecap 1982; Taylor 1987; Ostrom 1990), preference heterogeneity (Olson 1965; Eggertsson 1990; Snidal 1994; Martin 1994; Libecap 1994), presence of a leader (Frohlich et al. 1971; Olson 1965; Kindleberger 1973; Gibson, Ostrom, and McKean 2000) monitoring (Keohane and Ostrom 1995), resources (Ostrom 1990; Keohane and Ostrom 1995), etc.

¹⁰ Of course, these two stages are not independent – actors anticipate likely bargaining outcomes when they contemplate joining a regional effort, and decisions to undertake new activities are made with an eye to how those activities may impact recruitment of new members. In future research, we intend to expand our empirical focus to newly forming regional entities and model the first order collective action problem explicitly and jointly with the second order problem we study here.

produce the same level of outputs with a lower level of inputs, total costs are reduced and so cost savings can be realized. In terms of regional governance, activities intended to capture economies of scale include joint data collection, emergency dispatching, technical assistance, and water, sewer, and solid waste provision. In economic terms, these policies are intended to reduce the average cost of service provision to the involved set of members. These policies parallel Peterson's (1981) allocational policies.¹¹

- 2) Increasing positive externalities: Positive externalities exist when one or more actors' activities produce benefits for other actors. Regional policies intended to increase positive externalities include economic and community development programs, business attraction and retention efforts, revolving loan funds, brownfield redevelopment policies,¹² and regional infrastructure projects. In political economy terms, these policies are constant-sum. While they may benefit some local areas within a region more than others, their primary goal is developmental rather than redistributive.
- 3) Reducing negative externalities: Negative externalities exist when one or more actors' activities produce costs for another actor or actors. Regional policies intended to reduce negative externalities redistribute the costs and benefits of activities within a region, and include such policies as land use planning and zoning, conservation, and environmental improvement. In political economy terms, they are zero-sum, and their primary goal is redistributive.

¹¹ Peterson defines developmental policies as those which enhance the economic position of a city; redistributive policies as those which benefit low-income residents by have a negative impact on the local economy; and allocational policies as those which are more or less neutral in their economic effects. Peterson's concern with inter-jurisdictional competition focuses his analysis on the *local* economic impact of local policy, while our approach, which emphasizes regional cooperation, shifts the emphasis to the *regional* economic impact of local policy.

¹² Brownfield redevelopment policies (and other redevelopment policies) share some important similarities with negative-externality-reducing policies, in that they are intended to improve the environment through mitigation of historical damages. However, since those noxious activities occurred in the past, the goal of brownfield policies is not to reduce the polluting activities, but rather to provide resources for improving and redeveloping the land. As such, they are more similar to the other positive-externality-increasing policies listed here.

In microeconomic theory, economic efficiency can be enhanced when firms negotiate and construct a contract that allows them to combine their production activities or that includes the costs of externalities. But arriving at this cooperative agreement in local politics is complicated by at least three factors. First, as discussed in the context of collective action above, the incentives to free-ride are omnipresent, even if all local governments agree on the economic benefits of a regional solution. Second, political choices have both financial and political consequences (Clingermayer and Feiock 2001). For example, citizens may attach symbolic value to local authority over a particular policy, even if a coordinated policy would, in fact, make them better off economically.¹³ Likewise, citizens may be unwilling to bargain or accept compromise solutions with a neighboring jurisdiction. Local officials who pursue cooperative solutions that are contrary to their constituents' preferences – even if those solutions are economically efficient – risk being punished at the polls. Third, a local government's long-term strategic considerations may obviate cooperation (Downs 1996). Regional agreements may lock a local government into an uncertain set of future regional policies. This uncertainty may be exacerbated in regions experiencing rapid social or economic change, or with heterogeneous populations that are likely to have conflicting views over policy priorities. Such discord between regional economic benefits and local political costs may prevent the achievement of a cooperative agreement.¹⁴ Thus, given these impediments to ad hoc contracting between neighboring jurisdictions, delegating some authority to an ongoing regional governance effort may be the only feasible way for a local government to prevent or promote externality-producing activities by its neighbors.

We can reference other theories to understand the policy-making processes and outcomes that follow local governments' decisions to internalize externalities through a regional entity.

¹³ Efforts to coordinate policy for fire or police services may be especially vulnerable to these concerns (Ostrom, Parks and Whitaker 1978).

¹⁴ For a similar conceptual approach from the international relations literature, see Kahler and Lake 2003.

Using the insights of game theory and the new institutionalism helps us think about regional decision-making as a bargaining process. A regional entity's activities result from bargaining between heterogeneous actors. These actors are primarily local government officials (though they may also include private and non-profit sector representatives) who represent the interests of their local constituents. The institutions of regional entities shape the way members interact, the powers they hold, the actions they take, and ultimately the way their preferences are reflected in policy outcomes. In other words, institutions can alter the balance between local and regional interests in the formation of regional policy.

In sum, we argue that the actions of regional entities in general, and regional councils in particular, result from the combined influences of regional and local interests as they are mediated through the entity's institutions. We represent this theory in figure 1 below.¹⁵

Figure 1 Here

Hypotheses – Regional Interests: Regions across the country face very different economic circumstances. We can think of these economic factors as generating a region's supply of, and demand for, economic opportunities (Swanstrom 1985; Katz 2000).¹⁶ On the supply side, some regions, such as Las Vegas and San Diego, are characterized by robust economies and rapid economic development. Policymakers in these regions have a large and diverse supply of opportunities for attracting jobs and development projects as developers seek to locate "where the action is." This means that efforts to attract development can be targeted towards the most

¹⁵ In our theory, we posit an extremely simple preference aggregation process where both preferences and institutions are fixed and exogenous (see figure 1). Much of the recent literature on legislative institutions upon which our theory is built emphasizes institutional choice (i.e., endogeneity). In some ways, the assumption of exogenous institutions is more plausible in the current application since RCs are established by state mandate and some but not all of their internal rules and procedures are dictated in the enabling legislation. However, these institutions are not strictly exogenous in the sense that RC members may be able to change some of their provisions. We address the question of institutional change within RCs in our subsequent discussions.

¹⁶ Note that these pressures take place at the level of the region. In other words, we assume that developers seek opportunities within a given region, and not necessarily a particular community within that region.

attractive, high-quality projects, and policymakers may have more latitude to pursue negative-externality-reducing policies to enhance quality of life, even at the expense of new job creation. Other places, such as Buffalo and Toledo, are characterized by stagnant economies and low growth rates. In these places, the supply of opportunities is more limited. To the extent that policymakers in low-growth communities seek to attract jobs and growth, they may need to be more aggressive in attracting development and less selective about the projects they pursue, taking advantage of opportunities to create positive externalities across the region and to capture economies of scale in service provision. They may even be willing to sacrifice some quality-of-life concerns of local area residents in order to provide economic stimuli through new development.

On the demand side, we expect citizens with different levels of wealth to demand different kinds of goods and services (Stein 1990; Wacks and Dill 1989). For a given level of economic opportunities, low income citizens are apt to demand goods related to job creation and economic development; higher income citizens are more likely to demand goods related to their quality of life such as environmental policy.

This analysis implies the following empirically testable hypotheses. In terms of our theory, our null hypothesis is that RCs respond only to these regional economic factors.¹⁷

1. Regional Growth Hypothesis: Regions experiencing rapid economic growth will be less likely to invest in policies to generate new economic opportunities and will be more likely to undertake policies that limit the negative consequences of development. Regions experiencing slow economic growth will be more likely to undertake activities intended to create positive externalities and will be less likely to undertake policies to reduce negative externalities.

¹⁷ All of our hypotheses imply a *ceteris paribus* condition (that is, holding other factors constant).

2. Regional Wealth Hypothesis: Regions with relatively wealthy residents will be more likely to adopt policies that reduce negative externalities. Regions with lower income residents will be more likely to undertake activities that promote positive externalities and capture economies of scale.

Hypotheses – Local Interests: RC members are primarily local government actors who derive their office, power, and authority from the citizens in their jurisdictions. Most members are elected representatives – city council members, township trustees, county commissioners, etc. – who are appointed by their legislative or executive bodies to represent their jurisdiction’s interests on the regional council. How they go about representing their jurisdictions addresses one of the most important and vexing questions in political science – the relationship between citizen preferences and legislator behavior.¹⁸ While a full-scale empirical study of local political representation is beyond the scope of the current study, we build, as a starting point, upon the logic of spatial competition and the median voter model, assuming that local government representatives take positions that roughly correspond to the preferences of the median voter in their jurisdictions. In other words, we focus on the economic and political factors that may shape citizen preferences for certain policies and assume that local representatives take positions that roughly correspond to how their jurisdiction’s median voter responds to those factors.¹⁹

¹⁸ A full-scale empirical study of political representation requires that we estimate both what citizens want and what their representatives do, and then model the relationship between these two elements. A further complicating factor is that in a fully specified model, the actions taken by local representatives at the local and regional levels are jointly determined. In other words, a local representative may choose to pursue some policies at the local level and others at the regional level. Thus, an exclusive focus on either level to some extent misrepresents the set of choices made by local officials. To our knowledge, such a model does not exist in the literature.

¹⁹ This assumption, of course, greatly simplifies what we know about legislative behavior and the many factors that may lead to non-median outcomes. However, we believe that the theoretical robustness and analytical power of the median voter model justifies this approach. For a recent review of the literature on political representation, see Gerber and Lewis 2004. In future research, we intend to further develop this part of the study.

Local Demand: American local governments derive their revenues from a variety of sources, including intergovernmental transfers, property taxes, income taxes, sales taxes, fees, debt, etc. These revenues then finance a wide range of local government services (Peterson 1981; Stein 1990; Fischel 2001). In some communities, local governments provide, and citizens receive, ample, high-quality services. In other communities, local governments' ability to provide services lags demand, either because their willingness and/or ability to increase revenues is restricted (Dye and McGuire 1997), or because the local government's spending priorities are out of alignment with citizen preferences. Whatever the cause, when the gap between demand for local government services and their provision is large, local governments may seek to attract new development to help fund new and improved services through increased fiscal capacity. When the gap between services demanded and services provided is relatively small, local governments may place less emphasis on revenue-creating activities. This gap may be quite independent of the overall wealth of the community. We posit this relationship in the following hypothesis:

3. Local Demand Hypothesis: When more RC members have large service gaps, that RC will be more likely to adopt activities that increase positive externalities and capture economies of scale.

Local Politics: For a given level of demand, whether citizens prefer local versus regional provision of municipal goods and services will be shaped, to some extent, by the degree of similarity between jurisdictions. In extremely homogenous regions, citizens in neighboring communities are likely to share common policy preferences and priorities. As the heterogeneity of residents across member jurisdictions increases, local governments may face greater resistance from constituents who may be reluctant to share power with dissimilar communities (Foster

2000, 2001; Wacks and Dill 1989). These political costs will be highest in policy areas that involve significant redistribution between members.

4. Local Politics/Heterogeneity Hypothesis: As the social and economic circumstances of a region's population diversify, RCs will be less likely to adopt redistributive policies that deal with negative externalities.

Hypotheses - Institutions: RCs are policymaking bodies whose members (primarily local government officials) represent the interests of smaller, geographically defined constituencies (i.e., citizens and local interests) within the regional body. These members interact and bargain within the context of formal institutions characterized by explicit powers and constraints, formal rules and procedures, and informal norms and practices. In terms of their basic powers, RCs resemble voluntary associations in which members enter into agreements in order to achieve goals that cannot be reached individually.²⁰

RC institutions shape the way individual members interact and, hence, help determine policy outcomes. Building on collective action theory, we hypothesize that collective action – both reaching and sustaining agreements – becomes more difficult as the size of the council increases (Olson 1965).

5. Collective Action Hypothesis: As the size of council membership increases, RCs will undertake fewer activities.

²⁰ RCs are not formal governments, in the sense of possessing independent taxing and coercive powers over their members, but rather rely on various forms of voluntary financing (e.g. grants, dues, donations) and voluntary compliance. RCs' mandates tend to authorize multiple but limited purposes. Member governments may be authorized to commit resources to an RC, but they are not bound to comply with regional policies by a higher legal authority. Individual representatives tend to be appointed by the local government members they represent, rather than directly elected to the RC.

To identify the effects of specific institutions on the relative importance of regional versus local interests within RCs, it is instructive to imagine and compare two stylized models of RC decision-making. In one extreme case, individual members retain virtually all of their local decision-making authority, and RC institutions allow each member a veto over policy proposals. In other words, members base their decision to support a policy strictly on their evaluation of local benefits and costs. If the benefits outweigh the costs for all members, the policy is adopted by the regional entity; if any one member finds the costs to be greater than the benefits, we would expect that member to veto the policy. The RC may provide selective incentives to facilitate collective action, but only if all members agree that such incentives should be provided. In this extreme case, power is distributed equally across members, local interests prevail, and the RC undertakes only those collective activities that make all members at least as well off as uncoordinated action. Such RCs may find it especially difficult to undertake negative-externality-reducing policies since they involve a zero-sum redistribution of benefits and costs between members.

In institutional terms, features of an RC that empower local interests include unanimous consent and supermajority decision rules, equal powers among members, many veto opportunities for individual members, committee systems that allow small coalitions to veto or challenge proposals, and limited staff powers (who might advocate regional interests).

Now consider the case in which the regional body enjoys significant power vis-a-vis local governments. The institutional features of such an RC include decision rules that entail lower thresholds of agreement (e.g. majority rule), fewer veto opportunities, and regional staffs with

strong agenda-setting powers and substantial resources to facilitate trade-offs and cooperative solutions.²¹

6. Voting Rule Hypothesis: When an RC requires high levels of member support for certain actions, (i.e. it utilizes supermajority or unanimity rules), local interests will dominate regional interests, and the RC will be less likely to undertake activities aimed at reducing negative externalities that involve significant redistribution between members.
7. Veto Opportunity Hypothesis: When an RC allows individual members to veto, challenge, or opt out of collective decisions, it will be less likely to undertake policies that seek to reduce negative externalities. We hypothesize similar effects when an RC allows small coalitions of members to veto policies that are majority preferred (as with a committee system).
8. Leadership Hypothesis: When an executive director, chair, or other member holds significant power in an RC, it will be more likely to undertake activities to reduce negative externalities.
9. Capacity Hypothesis: As an RC increases its organizational capacity, in terms of staff, expertise, resources, and technology, it will be more likely to undertake each type of activity.

RC institutions also reflect state- and federal-level influences. In terms of state-level influences, most RCs derive their formal powers from state authorizing legislation, and many also receive substantial financial support in the form of grants and transfers. Variations in these state-level influences may facilitate or undermine collective action within RCs, depending on whether they

²¹ One may legitimately ask why would members agree to these institutions that limit their autonomy? Several possibilities exist. First, they may have no choice due to state mandates that prescribe specific institutions and require local government participation. Second, they may face strong positive incentives to join, such as federal funding for important programs. Third, they may agree to give up authority (and possibly incur costs) on some programs in order to obtain benefits in other areas that the regional entity provides.

empower local interests (by making participation more voluntary and not tying funding to cooperative behavior) or regional interests (by mandating participation and by tying funds to particular cooperative outcomes). In terms of federal-level influences, RCs rely to varying degrees on federal funds and transfers. Depending on the kinds of behavior these federal programs mandate, reliance on federal funds may likewise facilitate or undermine collective action with RCs.²²

10. State Mandate Hypothesis: In states where regional decision-making is mandated by legislation or executive order, members will find it difficult to opt out of regional policies, and RCs will be more likely to deal with negative externalities.

11. Federal Funding Hypothesis: In RCs that receive significant federal funding for programs that mandate regional cooperation, members will find it costly to opt out of regional policies and RCs will be more likely to deal with negative externalities.

Data and Preliminary Analysis

To test these hypotheses empirically, we are planning an analysis of all 516 RCs currently in existence in the United States. These RCs are all members of the umbrella organization, the National Association of Regional Councils (NARC).²³ In the current version of the paper, we limit our analysis to the 87 RCs currently operating in the six Great Lakes states.²⁴

²² Analogies can be made between these transfers and the structure of relationships inherent to foreign aid. The magnitude of, and the conditions attached to, aid affect the choices of recipients (Gibson et al. forthcoming). Federal funds also significantly affect state-municipal relationships (e.g. Wolman et al. 2004)

²³ NARC was established in 1966 for “fostering regional cooperation and building regional communities.” They are an umbrella organization whose members include regional councils, councils of governments, and metropolitan planning organizations in 48 states. NARC’s activities include advocacy, membership education and services, and regional outreach (www.narc.org).

²⁴ These include Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. Complete responses are available from 84 of these 87 RCs.

In 2001, NARC conducted a brief mail survey of these members, including questions about the RC's size, membership composition, contact information, and activities.²⁵ Results of this survey provide a starting point for our data collection and analysis.²⁶

We posit our basic empirical model in equation (1) and describe each element in detail below.

$$\text{Activity}_{ij} = f(\text{Regional Interests, Local Interests, Institutions, Controls}) \quad (1)$$

Activity: The NARC member survey provided a list of 17 common programs or activities and asked respondents to mark any in which they participated; they also allowed for write-in responses, of which respondents offered approximately 700. We coded both the listed and write-in responses according to whether the activity was intended primarily to reduce negative externalities (*Negative*), increase positive externalities (*Positive*), or capture economies of scale (*Scale*).²⁷ We excluded participation in metropolitan planning organizations, rural transportation planning organizations, and transportation planning activities since many of the RCs in the sample were specifically established to fulfill these functions and our focus here is on voluntary

²⁵ These surveys were mailed to each RC's executive director and were completed by the director or his/her staff. We were able to verify some of the responses, such as population and land area, and found a high degree of reliability (approximately 97% exact matches). We are less optimistic about the reliability of the activity responses, however, and propose two new surveys (described below) that will allow us to both verify the existing data and obtain additional information about other aspects of RC activities.

²⁶ While the NARC member surveys provide a useful starting point for measuring RC activities, and show promising patterns that are consistent with our hypotheses (see Pilot Study section below), the data have several limitations. Perhaps most importantly, it is impossible to tell from the survey responses how important each activity is for a given RC in terms of either policy priorities or budget allocations. In addition, there is significant overlap in the categories, especially between the listed and open-ended questions, and it is unclear how respondents dealt with this overlap.²⁶ Therefore, we are planning an independent survey of RC executive directors to collect more detailed information about these activities, especially importance, degree of conflict among members, and approximate share of own-source and total budget allocated to each category and activity.

²⁷ Naturally, many of these activities have multiple goals. We seek to categorize activities according to their primary purpose.

or discretionary activities.²⁸ We also excluded housing programs since most of these programs are equally intended to both increase positive externalities and decrease negative externalities.

Table 1 reports our coding of these responses.

Table 1 Here

Regional Interests: We measure *regional growth pressures* with US Census data on population growth, jobs/100 people, new housing starts, and availability of farm land. We measure *regional wealth* as the mean of the population-weighted county median of household income for all counties within an RC (from the US Census). Since RC boundaries almost always preserve county boundaries (i.e., they contain only one or more complete counties), these measures are readily available and simple to construct.²⁹

Local Interests: We will measure *local demand* by first computing the ratio of local government expenditures to median household income for each RC local government member from US Census of Population (for income) and US Census of Governments (for expenditures) data files. We will then compute the median and standard deviation of that ratio for each RC. The median member's ratio will serve as our measure of local demand. We will measure *member heterogeneity* as the standard deviation across member local governments within an RC on several dimensions, including local service demand (above), population change, housing starts, income, and race/ethnicity. We also capture heterogeneity by total number of jurisdictions served, total number of counties covered, and presence of a large city.³⁰

²⁸ We do, however, test whether serving as an MPO or RTPO affects our coding of RC activities, and find that since nearly all RCs that serve as MPOs or RTPOs also engage in other *Negative* or *Positive* activities, the binary coding does not change when we include or omit these activities.

²⁹ The exception is New Hampshire. For that state's seven RCs, we will rely on a combination of town, city, and county-level data to estimate RC wealth.

³⁰ We have constructed several of our measures of member heterogeneity for the 87 RCs in our Great Lakes sample. Additional measures involve the tedious but straightforward process of downloading electronic census files,

Institutions: To test our institutional hypotheses, we use data from three sources: the NARC surveys described above, additional surveys of RC executive directors that we are currently designing, and the formal by-laws of each RC, obtained via the internet when available or requested from RC staff. This stage of our data collection and variable construction is currently underway.

Controls: We include a number of RC-level variables to capture the influence of other factors on RCs' choice of activities, including population, area, total number of activities, and state fixed effects.

Results of Great Lakes Regional Councils Analysis

The Great Lakes states represent a challenging environment for RCs, since state governments have, to date, taken a very limited role in mandating or encouraging regional governance; RCs in the region therefore have few means for offsetting local government disincentives and encouraging regional cooperation.³¹ Nevertheless, our preliminary analysis of RCs in the Great Lakes area, reported in Table 2, provides impressive support for several of our main hypotheses.

Each column of Table 2 reports the results of a separate logistic regression, where the dependent variable is whether an RC reported undertaking *Negative*, *Positive*, or *Scale* activities, respectively.³² The independent variables are grouped according to the hypotheses they are

selecting a subset of variables and local government units, calculating the measures described above, and aggregating those measures to the RC level. We hope to include those additional measures of local demand and heterogeneity in future versions of this paper.

³¹ In other words, all of the states score low on the *State Mandate* variable.

³² As discussed above, data for these dependent variables are from the RC member surveys and are coded according to Table 1. We are sensitive to inferential problems that may arise due to non-independence between activities and

intended to test. Note that the variables measuring regional growth pressures, regional wealth, number of counties, percent nonwhite, number of staff, and several controls are identical to those we will use in the national-level analysis. Data to measure local service demand, other aspects of member heterogeneity, and RC institutions are yet to be collected from the sources discussed above; we use the best available proxies in this preliminary analysis.

In the *Negative* regression, we find that the probability of an RC undertaking activities to reduce negative externalities increases in areas that have experienced greater population growth, as predicted in our Regional Growth Hypothesis, but that this effect is non-linear and decreases in the fastest growing areas (as shown by the significant negative coefficient on $(Change\ Pop)^2$). We also find, as predicted in our Regional Wealth Hypothesis, that *Negative* policies are significantly more likely in wealthier regions. Our results also show some support for our Heterogeneity Hypothesis. *Negative* policies are more likely in single-county RCs and are less likely in RCs with the greatest heterogeneity in population (as measured by % Nonwhite High, a dummy variable scored one for RCs whose non-white population is one standard deviation above the Great Lakes mean) and growth rates (as measured by the standard deviation in county-level population change within each RC).³³ We interpret these results with caution, however, since the data are at best rough proxies of underlying heterogeneity in member preferences and most of these effects are insignificant. Finally, the coefficient on *Staff* is negative, contrary to our Capacity Hypothesis, the control variable for total activities is statistically significant, and the pseudo- R^2 is .31.

Table 2 Here

will explore appropriate econometric techniques (such as a version of seemingly-unrelated regression adapted for binary dependent variables) in future versions of this paper.

³³ For this pilot study, we measure variance across counties; for the proposed national analysis, we will construct comparable measures of variance across an RC's local government members.

In the *Positive* regression in column 2, we also observe a significant effect of Regional Growth Pressures, though the character of the relationship is different than in the *Negative* equation. Specifically, we find that a shortage of jobs in the region, rather than an influx of people, is significantly related to the probability of adopting positive-externality generating policies (i.e. the coefficient on *Jobs/100* is negative). *Positive* policies are less likely in wealthier regions (as predicted in our Regional Wealth Hypothesis). They are also more likely in single-county RCs (though not significantly so) and are less likely in places with high degrees of population and growth rate heterogeneity. Controls for population and area are also significant.

Finally, in the *Scale* regression in column 3, we find that regional growth and income effects are unrelated to the probability of adopting *Scale* policies, but that heterogeneity is quite important. *Scale* activities are less likely in single-county RCs and are more likely in RCs with high racial heterogeneity. They are less likely, however, in RCs with higher variance in member growth rates and are unrelated to staff size.

To summarize the results of our preliminary analysis, we find that RC activities are related to regional interests, in a manner consistent with the logic we propose in our theory, and that they are also related to some measures of local interests, though these effects are weaker and are more limited by current data availability. However, given the consistency of these findings across specifications, we are encouraged by the preliminary results. Our national-level analysis and improved measurements will allow us to more fully test whether RC activities are responsive to member interests and RC institutions in a wide range of political, economic, and institutional settings.

Extensions

Our study is rich with related research opportunities. Using the approach outlined above as our research platform, we plan to pursue numerous theoretical and empirical extensions. These include:

- Exploring the first-order collective action problem by examining the creation of a sub-sample of RCs, comparing their experiences to those of areas that did not create RCs, and comparing the histories of RCs that formed earlier to those that formed later.
- Tracing a subgroup of RCs over time to see how changes in institutions, interests, and resources affect regional governance outputs.
- Conducting in-depth case studies of RCs in selected states.
- Comparing RC activities with those of other types of regional governance efforts.
- Analyzing differences in political environments across local government members to better model the link between local politics and regional outcomes.
- Measuring policymaker assessments of regional governance through additional on-line surveys.
- Measuring citizen perceptions and acceptance of regionalism through public opinion surveys.

Implications

Our approach integrates political and economic factors into a theoretical framework that is applicable to a wide range of regional governance efforts. In particular, our approach allows us to model and analyze pro-growth economic development policies, slow-growth land use policies, and cost-saving joint service provision policies under the same theoretical umbrella. Our null hypothesis is that the policy outputs of regional governance efforts are shaped exclusively by

regional considerations. This null corresponds to the implicit perspective of advocates who focus on the efficiency-enhancing potential of regionalism. Our contribution to the theoretical debate on regionalism in particular, and on intergovernmental cooperation in general, is to test alternative hypotheses about the relative impact of local interests, as well as the mediating effect of institutions on the balance between local and regional interests. Our preliminary results provide some empirical support for these alternative hypotheses and hence offer the promise of improving our understanding of a phenomenon of significant and growing importance in an increasingly inter-dependent world.

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Figure 1. A Model of Regional Governance

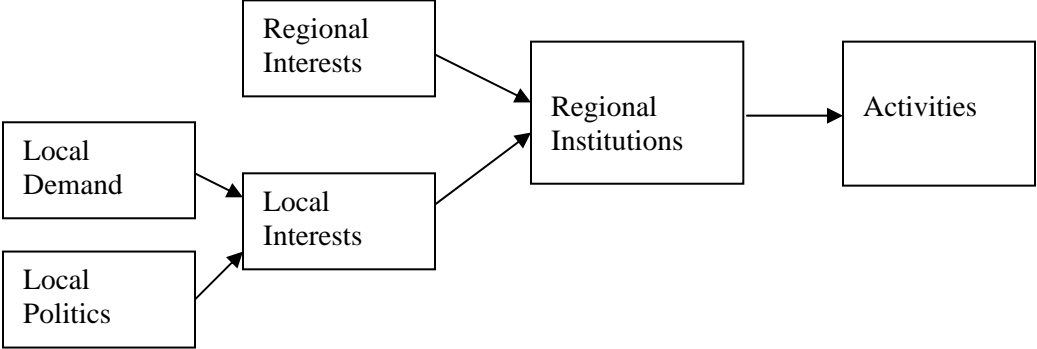


Table 1: Coding of Activities, NARC member survey, 2001-02

Activity	Responses
Reduce <i>Negative</i>	Land use planning, growth management, environmental improvement, air and water quality
Increase <i>Positive</i>	Economic development, EDD/EDA, SBACDC, community action agency, revolving loan fund, IRPF, workforce investment
Capture <i>Scale</i>	Information clearinghouse, 911/EMS/disaster, hazmat, GIS, data, utilities, solid waste, water management, technical assistance, procurement, services/administration, dispute resolution

Table 2: Effects of Institutions on RC Activities (Logit Estimates, N=80)

Hypothesis	Independent Variables	DV=Negative	DV=Positive	DV=Scale
Regional Growth	Change Pop 80-00	3.52 (4.36)	13.08 (15.99)	.67 (4.72)
	(Change Pop) ²	-32.71** (16.49)	-8.28 (55.13)	13.62 (14.88)
	Jobs/100	.000013 (.000012)	-.000080** (.000036)	-5.41e-06 (.000013)
Regional Wealth	Household Income	.00018** (.000092)	-.00050* (.00026)	-3.11e-06 (.00010)
Local Demand	N/A	--	--	--
Heterogeneity	Single County	1.33 (1.26)	3.42 (2.40)	-2.67** (1.34)
	% Nonwhite	13.40* (7.40)	-21.24 (18.99)	23.05** (9.87)
	% Nonwhite High	-.41 (1.50)	--	--
	St Dev Change Pop	-6.77 (7.47)	-32.58* (18.30)	-17.20* (9.13)
Collective Action	N/A	--	--	--
Voting Rule	N/A	--	--	--
Veto Opportunity	N/A	--	--	--
Leadership	N/A	--	--	--
Capacity	Staff	-.035* (.018)	.11 (.08)	-.015 (.019)
State Mandate	N/A	--	--	--
Federal Funds	N/A	--	--	--
Controls	Total Activities	.36** (.14)	.58 (.40)	.86** (.25)
	Population 2000	-7.11e-06 (7.29e-06)	.000048** (.000022)	2.84e-06 (7.92e-06)
	Area	.00019 (.00012)	.0040* (.0023)	.00010 (.00013)
	City>250,000	-.93 (2.38)	-3.60 (2.64)	.014 (1.89)
Constant		-8.97** (3.86)	13.10 (9.78)	-3.56 (4.21)
Pseudo R²		.31	.71	.37

**p<.05, *p<.10, standard errors in parentheses