AN INSTITUTIONALIST TAKE ON STATE ACTIVISM IN ECONOMIC DEVELOPMENT: A THEORETICAL FRAMEWORK

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Abstract

This article explores theoretical aspects of state activism in economic development to address specific gaps in the literature. I content that state economic development is a complex and dynamic phenomenon which can not be adequately conceptualized nor modeled using ad hoc classification systems, taxonomies, nor conceptual frameworks. Instead, I propose a theoretical framework which has two principal governmental functions. Each function is defined by a typology of four policy types which are theoretically grounded and organized within an institutional framework. This theoretical system addresses the limitations of efforts to account for foundational economic determinants of state development and to assess both the linkages between policy types as well as the linkages between state economic development and institutions. The narrow and often competing perspectives of previous studies can present a distorted picture of state activism in economic development. This study seeks to present a clearer and comprehensive description of this phenomenon.

Introduction

State governments have a lengthy history of pursuing strategies to develop their economies (Wood, 1993). This activism is perhaps more extensive than many people realize (Anderson, 1989). One can trace its development from the current "entrepreneurial" strategies (Eisinger, 1988) to the "smokestack chasing" of the 1930s (Hopkins, 1944) back to the building of roads, canals, and later railroads in colonial times (Goodrich, 1965), from which the beginning of any investigation of state economic

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development should be rooted (Burkhead, 1989: p. 41). Yet, while state activism in economic development is well established, research on development strategies is still in a formative stage (Kalleberg, 1986). Theoretically speaking this policy domain may still be considered *terra incognita*.

Theoretical research on state economic development can be categorized into four distinct levels: ad hoc classification systems, taxonomies, conceptual frameworks, and theoretical systems (Parsons and Shils, 1962). An *ad hoc classification system* is the most rudimentary of theories. It consists of arbitrary categories constructed to describe and organize empirical observations. Examples of ad hoc classification systems in the economic development literature would be the works of Plaut and Pluta (1983) and Bingham and Bowen (1994). The next level of theories are *taxonomies*. Typologies constructed under this theoretical model have carefully crafted definitions, are closely aligned to the empirical world, and are often interrelated. However, taxonomies only describe empirical phenomena, they do not offer explanations. Berman and Martin (1992) and Reese (1993) provide examples of taxonomies of development programs.

Conceptual frameworks are more sophisticated theories than lower level classifications because they provide explanations and predictions for empirical observations. Still, the explanatory and predictive powers of conceptual frameworks are limited because their propositions are not deductively derived. Development studies within this tradition would include the works of Eisinger (1988) and Fosler (1992). The highest level of theorization, according to Parsons and Shils, is *theoretical systems*. In addition to combining taxonomies and conceptual frameworks they offer descriptions, explanations, and predictions about a phenomenon in a systematic manner. They also do not limit the scope to particular aspects, however much need there is for careful study the sub-systems themselves (Spengler and Allen, 1960).

State economic development is a complex and dynamic phenomenon which can not be adequately conceptualized nor modeled using ad hoc classification systems, taxonomies, nor conceptual frameworks. Spengler and Allen (1960) argue that any theory of state economic policy which fails to recognize all relevant sub-systems and their interaction is inadequate (pp. 7-9). This suggests ". . . the necessity of . . . a more complete statement of what is necessarily involved in any theory of economic policy (Samuels, 1966: p. 2)." Accordingly, this article develops of a theoretical framework for state activism in economic development. It is intended only to highlight the complexity of relevant factors and their interrelationship while at the same time casting them in an institutional framework which can help explain the structuring of various policy types as well as the shifts between policy strategies.

Limitations of State Economic Development Theory

The majority of studies on state activism in economic development fall into one of the first three theoretical levels. Although these types of theoretical models are useful, they have several weaknesses which I outline here.

Static Representation of State Activities

An obvious limitation of extant development theories is that they provide only stagnant, short-term analyses of state activism. It is important to emphasize that the ". . . capacity of state institutions to correctly read prevailing economic forces and reorient state economic strategy accordingly" is not static (Fosler, 1988: p. 8). Over time and across states, it is demonstrably dynamic. In addition, for a long time, scholars have continued to be preoccupied with the issues of the moment. Researching "hot topics" appeases practitioners that are dissatisfied with broad abstract theories that may appear to have no immediate relevance. The problem with this practice is that long-term guidance is marginalized.

Parochial Theoretical Perspectives

Studies employing these theories are also characterized by parochialism. Scholars evaluate state development policies from various narrow and competing theoretical perspectives. The results have been contradictory findings and mixed conclusions regarding the efficacy of state activism in economic development (Mavima, Wilson, and Feiock, 1997). While some researchers conclude that development policies indeed have positive economic effects (e.g., Aschauer, 1997; Bartik, 1991; Dye, 1980; Feiock, 1991; Storm and Feiock, 1999; Jones, 1990; Newman, 1983; Olson, 1982), others find these programs have no effect (Bingham and Bowen, 1994; Brace and Mucciaroni, 1990; Plaut and Pluta, 1983; Smith and Fox, 1990; Tompkins and Bowman, 1990). Still others argue that there are benefits, but they are negligible, at best (Ambrosius, 1988; Hanson and Berkman, 1991; Leicht and Jenkins, 1994; Turner, 1996).

Inadequate Conceptualization

Perhaps the most serious weakness of these models is the inadequate conceptualization of state economic development with respect to the lack of substantiated theory. Ironically, researchers are not hesitant in introducing new theories; there is an ample supply in the literature. What concerns scholars such as Trogen and Feiock (1996) is that "in trying to understand the economic development process we are not confronted by a lack of a theory, but instead a multiplicity of theoretical models. Yet, in many cases, the theory underlying empirical examinations of the effects of development policies is assumed, or is not made explicit (p. 4)." Grant, Wallace and Pitney (1995: p. 136) go further to argue that the " . . . undertheorization of economic development strategies, as well as the essentially ad hoc nature by which many measures of economic development policy are constructed" is a major shortcoming in the literature.

It should be clear that, although such theoretical research may provide fascinating reading and important insights, it does not, however, facilitate systematic study and analysis. In fact, this work offers little scope beyond the economic cost and benefits of individual programs or policy types. This myopic tunnel-vision approach to state activism in economic development has fragmented initiatives resulting in diluted policy content (King, 1992), in addition to frustrating scholars' attempts to "read" wholesale shifts in policy direction (Immergut, 1992).

Theoretical Framework for State Economic Development

I develop a theoretical framework of state activism in economic development using constructs from the extant literatures on growth theory, economic policy, and international development. These constructs are then organized within an institutional framework.

Theory Construct

Although scholars disagree about a number of issues concerning economic growth(1) such as whether a specific factor of production is exogenous or endogenous, or if growth rates converge or diverge, or how best to allocate resources, there is broad consensus about what determines growth (Amacher and Ulbrich, 1992).(2) The growth theory literature suggests there are four interrelated determinants: (a) capital investment, (b) technological advancement, (c) labor investment, and (d) improved organization.

Capital Investment: Theories underlying capital investment(3) posit that by not consuming all resources today, the economy frees up resources for investment to be used for manufacturing goods and services in the future. The accumulation of physical capital increases the society's output capacity. Surplus production can be reinvested in manufacturing activities, which, in turn, results in greater surplus, and so on (Goldsmith, 1995).

Studies on capital investment find that it has an irreducible function in the growth of an economy. Scott (1992) argues that physical capital appears to be a far more important determinant of economic growth than neoclassical theory suggests. Brierly and Costello (1996) examined state economic environments and conclude that although capital, labor, and technology were largely determined exogenously, states still exerted some influence over these factors, which all significantly impacted growth rates. Also, Di Pietro, Sawhney, and Jampani (1993) found that capital and labor significantly impact growth rates in a cross-country study.

Technological Advancements: As important as the accumulation of capital is to increased economic growth, in the long run, it's impact will presumably succumb to the laws of diminishing returns (Ricardo, 1817; Romer, 1986; Goldsmith, 1995). Production functions tell how much input (e.g., capital and labor) is needed to produce a certain level of output, given the state of technology. Technology can change and enhance production by providing workers with more efficient and effective equipment, resulting in a rightward shift of the economy's production possibility frontier--increasing growth (Amacher and Ulbrich, 1992). It is important to note that this type of growth is distinct from the other ways of increasing growth. Technological advancements can (1) produce more output with the same mix of inputs, (2) produce the same level of output with a smaller volume of inputs, or (3) reduce the time required to produce a unit. As can be seen, these mechanisms account for contributions to growth not considered by undifferentiated increases in amounts of inputs.

Labor Investment: The literature on labor economics has grown quite large in the past few decades. Labor investment advocates argue that a better educated and skilled workforce is more productive. DeGregorio's (1992) study of Latin American countries showed that the quality of workers, as measured by literacy rates, had a positive effect on growth. Barro (1997) finds that more schooling and better health interact to produce faster rates of economic growth. Romer (1989) modeled human capital (i.e., literacy levels) in an endogenous model and found that the rate of investment helps explain the rate of growth in cross-country regressions. As illustrated by these examples, the accumulated evidence of the literature suggests that the intrinsic characteristics of workers, not simply the total number, has a significant impact on economic growth.

Improved Organization: In formulating a theory of economic growth, understanding the various properties and contributions of capital, technology, and labor is necessary but insufficient. Capital, technology, labor, and organization or *institutions* are interrelated and one can be understood and explained properly only by understanding the others. Institutions are an important part of the economic framework for states; they can either facilitate or hinder the process of economic growth (Ranis, 1989). Gwartney and Stroup (1993, p. 18) state that ". . . effective organization will facilitate social cooperation and channel resources toward the production of goods that people value."

The power of institutions and its capacity to determine growth comes from its important role in defining and determining economic relationships. In this sense, institutions provide three essential ingredients for economic growth--structure, process, and incentives (Adams, 1993). The structural dimension of institutions organize and form a regulated social space within which people operate and communicate through established links with other institutions. Institutions also shape and coordinate the sequence of economic activities. They determine the process of how business is conducted, not simply the business themselves. Lastly, incentives (or disincentives) is a mechanism of social order so that individual behavior can be controlled.

Typology Construct

Although growth theory and economic policy have emerged into distinctive fields, Karl Polanyi (1957) argues that the substantive approach to orthodox economics inevitable leads to policy. To state Polanyi's sentiments from the opposite perspective, the current interest in the effectiveness of state development policies can be understood only against the background of presently applied theories and practices of growth theory. Over the past few decades, growth theorists have gained valuable insight into the determinants of economic growth, as we have seen. Yet, this knowledge is rarely used in studies on the efficacy of state economic development policies. Dewey (1954) thinks this is a mistake. He argues that "the tools of social inquiry will be clumsy as long as they are forged in places and under conditions remote from contemporary events (p. 135)." Therefore, building upon growth theory and development literatures, a typology can be derived that corresponds directly with these determinants. They may be categorized under the terms (a) supply-side or incentives, (b) demand-side or "entrepreneurial," (c) human capital development, and (d) institutional capacity building, respectively.

Incentives Policies: Capital is defined as all aids to production that are human creations rather than resources found in nature. It includes tools, factories, warehouses, and inventories. Growth theory tells us that an increase in capital will increase economic growth. States measure capital by the number and type of businesses located within its jurisdiction (Atkinson, 1993; Waits, 1998). Incentive policies, which characterize states' systematic efforts to attract large corporations from outside their jurisdiction, are instruments that help states increase their stock of capital. These inducements typically include state funded speculative building incentives, state general obligation and revenue bond financing, income, inventory and property tax incentives, and tax exemptions on equipment, land, or capital improvements.

Entrepreneurial Policies: This approach to state economic development, like incentive policies, has its roots in growth theory (Eisinger, 1989: p. 7). Concerning the entrepreneurial function, Schumpeter (1962) wrote that "the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates (p. 83)." From this perspective, entrepreneurial policies can be said to increase productivity in three general ways: high technology development, venture capital funding, and export-promotion projects. These endeavors, which are typically too risky for private investors, are viewed as positive-sum rather than zero-sum (Goodman, 1979). In other words, they emphasize facilitating growth processes from within, rather than influencing particular firms in their choice of location, thus, creating new demand.

Human Capital Development: Until Schultz's (1961) seminal work, Investment in Human Capital, the concept of improving the quality of the labor force through investments in workers had been largely neglected. Schultz convincingly argues that investments in education, training, health care and nutrition, and relocation to better jobs could be considered a process of accumulating capital, which could later be drawn upon to increase a worker's productivity and income. He called this process investing in human capital. Schultz goes on to say that investing in human capital is just as important to economic development as investing in physical capital. Nespoli (1991) goes so far as to argue that the contribution of a quality labor force "... to economic growth is recognized as greater than that of physical capital (p. 17)."

Institutional Capacity Building: In the management of states' economies, the development of institutional capacity is seen as a critical determinant of economic performance. Berman and Martin's (1992) study found that state innovativeness was "... directly linked to particular institutional conditions (p. 18)." Indeed, institutional capacity building has become somewhat of a policy orthodox surrounding issues of state economic development (Berman and Martin, 1992; Fosler, 1992; Brace, 1993). States have assumed growing significance within the emerging new federalism. However, states vary in their ability to influence economic performance based on the policies they pursue (Feiock, 1989; Grady, 1989). On the one hand, distinctive forms of state development policies appear to be a by-product of the devolution of powers and responsibilities from the federal government (Eisinger, 1988). On the other hand, and more importantly, they are also a product of autonomous actions among institutions within states' system of governance.

There are a number of ways in which states' institutional capacity may influence the health of their economies (Jackson, 1988). Capacity building might entail better structural arrangements among existing institutions (i.e., state agencies and their environment). Here, economic performance is a function of the ability of administrative agencies to successfully implement policy objectives. Institutional capacity building might also entail greater delineation of procedural processes. The enforcement of rules and procedures reduces uncertainty, which in turn facilitates economic stability, signaling low risk investment calculations to actors (Swank, 1996). Another way in which states' institutional capacity can affect their economic performance is by promoting or favoring particular technologies, industries, and groups via targeted incentives.

Intervention Construct

Although much of the performance of states' economies is a product of exogenous forces, calculated government decisions and actions remain a key factor (Samuels, 1989). There are two primary roles states have historically played in managing their economies (Binks and Vale, 1990; Kent, 1982; Luedde-Neurath, 1988; White and Wade, 1988 ;Yu, 1997). The basic features of these two roles have been consistently documented in extant research. The fundamental characteristics of one role is that the state leaves virtually all the investment and production decisions to the private sector. The state engages in no conscious development planning; it plays a supportive role to business (Krasner, 1978). In the other role, the state is a principle actor in economic development. It pursues a deliberative strategy of investment, offering incentives, and regulating the efficient allocation of goods and services (Krasner, 1978).

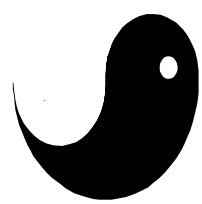
These two forms of state intervention are identified and examined in several studies. Goodrich (1968) calls his framework *State-In, State-Out*. It refers to the sequence of policy initiatives in which there is intensive government action followed by subsequent withdrawal from such activity. Luedde-Neurath (1988) also distinguishes between two types of government intervention strategies, facilitative(4) and directive. Under the *facilitative* strategy the state attempts to restore and maintain the "proper function" of the market by providing basic goods and services such as infrastructure, education, etc. In the *directive* role, the state aims to achieve predetermined results by means of conscious interference with market forces and the selective application of incentives and/or controls. Similarly, in examining the Korean government, Pack and Westphal (1986) label these roles *indirect* and *direct*, respectively.

There are two problems with these types of studies, however. First, they provide static theories of state activism. State and private forces are assumed to reach some intermediary or optimum equilibrium. Second, they offer only extreme perspectives of each role or type of intervention. However, research and experience shows that (1) there is a spectrum of efficient combinations of state and private collaborations, and (2) there are no pure forms of any government. Therefore, a more appropriate framework is needed.

A more accurate description of the dynamic relationship between the two types of state activism is developed by Pereira (1993). In Economic Reforms and Cycles of State Intervention, Pereira argues that state intervention expands and contracts cyclically, and that with each new cycle the content of the intervention changes. Pereira's theory states that government's role in the development of the economy increases over time. The increase occurs because government continues to successfully perform a function that would otherwise go undone or be performed less efficiently. Eventually, however, state intervention starts to become dysfunctional. An indication of this malady is excessive regulation which, in turn, causes negative public savings, ultimately reducing total savings. At this point, state intervention contracts and the private sector's role expands. However, the private sector can not guarantee capitalist accumulation nor the equitable distribution of income by itself. Therefore, the state, once again, is force to step in to keep the economy running smoothly and efficiently.

Pereira does not provide a diagram for his framework; however, the cyclical pattern of state intervention and its propositions can be nicely captured by the Chinese yin and yang symbol in Figure 1. Instead of treating the two forms of state activism as contradictory concepts between which we are forced to choose, facilitative and directive activism (and their associated policy types) can be perceived as opposites and yet compliments to each other. My justification for the use of this symbol for the two types of state activism is based in Capra's (1984) observation that "this diagram is a symmetric arrangement of the dark yin and the bright yang, but the symmetry is not static--it is a rotational symmetry suggesting, very forcefully, a continuous cyclic movement . . . The two dots in the diagram symbolize the idea that each time one of the two forces reaches its extreme, it contains in itself already the seed of its opposite (p. 97)." Unwittingly, Eisinger (1993) observes the same phenomena in state activism. In describing the transition from industrial recruitment to entrepreneurial approaches, Eisinger states that ". . . there are signs that industrial recruitment activities are still well-entrenched and may even be enjoying a revival (p. 11)." Concerning frameworks that describe extreme roles for states, again, Eisinger's (1988) observation is consistent with this framework. He contends that "no state, however, represents a pure type, exclusively committed to either entrepreneurial or traditional policy approaches. Most states proffer a mix (p. 9)."

FIGURE 1
Relationship between the facilitative and directive forms of state activism, as illustrated by the forces of the yin and yang



As usefully as Pereira's cyclical framework is, his explanation of the external dynamics between the two roles of state activism is poorly crafted. Other than identifying the features of each role and what it looks like during the expansion and contraction phases, he fails to describe what mechanism or force propels the system in to a cyclical motion.

Institutional Framework

In the *theory construct* section presented earlier, I interpreted the growth theory literature as providing four key determinants of economic growth: capital, technology, labor, and organization. Since economic growth is a principle goal of state economic development, I used these four factors of production as the foundation upon which to build a policy typology. The *typology construct* section showed that the development strategies labeled incentive policies, entrepreneurial policies, human capital development, and institutional capacity building, respectively, directly correspond to the growth determinants. The *intervention construct* section established that there are two major intervention roles played by states. This intervention framework suggests greater fluidity and less polarity, than alternative approaches. Institutions provide the final piece to this framework. The literature demonstrates that institutional capacity rivals the contributions of capital, technology, and labor to economic growth. This section organizes the constructs we have developed using an institutional system.

Pereira maintains that nation states must remain strong in order to meet the dynamic challenges of controlling a cyclical economy. "The establishment of a strong state, however, involves the establishment of institutional mechanisms (Grabowski, 1994: p. 11)." Moreover, not only do institutions organize and enforce relationships among various factors within a state's environment, they are also a window into the intrinsic behavior and predictable outcomes of state activism. For example, each of the four types of economic systems--planned, market, mixed, and traditional--are built on distinct institutional arrangements. Without revealing information on a specific nation employing one of these four systems, a great deal can deduce about the structure, communication linkages, and short- and long-term effects of its economy. Having knowledge of the institutions allows us to make predictions about the whole system. Tool (1993, p. 9) argues that "development economics must be *institutional* economics." In short, institutions are the substance of economic development and the evidence of policy patterns not yet seen.

One reason why models of policy activism in the American states have not adequately addressed economic development issues is because institutions have been neglected. Figure 2 shows the complete framework. It is divided into two major sections, one labeled Directive Activism and the other labeled Facilitative Activism. These sections represent the two roles that state governments play in economic development. Previous works identify these phenomena, but fail to adequately account for the internal dynamics and the transition between them, other than listing exogenous forces. There are several important features that make up this system. They are described starting with the internal dynamics and then the external or transitional dynamics.

FIGURE 2

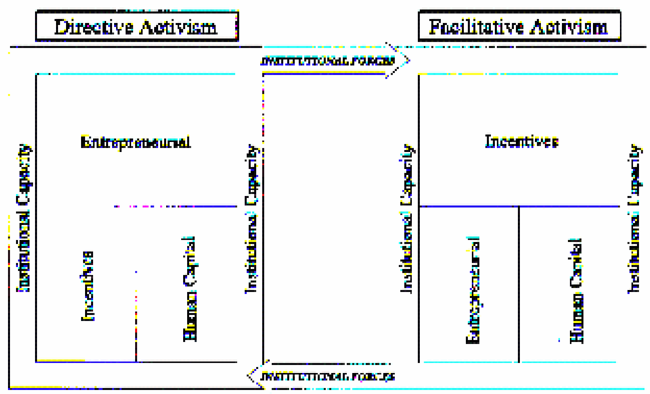


Figure 2. Theoretical System of state activism in economic development.

First, note each of the four policy types are available and utilized for both strategies. What distinguishes the directive from the facilitative role is how the institutional arrangements structure and prioritize the policy types. Different institutional arrangements structure the policy types into clearly distinguishable strategies. The policy types under each form of state activism are hierarchical; there is one dominant policy type supported by the other two. Directive Activism shows entrepreneurial policies as the dominant policy approach, whereas in Facilitative Activism the primary policy approach is incentives. This corresponds to Eisinger's "demand-side" and "supply-side" strategies, respectively.

Institutions are not neutral nor are they mere administrative tools. They are indelibly linked to history and crystalized experience (March and Olsen, 1989). Specific institutional arrangements favor particular rules, values, norms, and beliefs over others. Consequently, these policy types are not impartially exercised. They have unique politics and causes and effects (Lowi, 1969). Therefore, they are not employed with equal advocacy by policymakers; one policy type is used more frequently than the others, to the point that it, subsequently, dominates the prevailing politico-economic ideology.

Another important feature of this diagram is that, each policy type is shown as having its borders come in contact with the borders of the other policy types. This is meant to suggest that each policy type is effected by and affects the other three. This interaction contributes to the overall success of the strategy, implying that states must find the right “mix” of development policies. Also, institutional capacity is depicted as a harmonizing force (Samuels, 1966). One of the traditional characteristics of institutions is social order. The synchronization of freedoms and controls, continuity and change, and public and privileged information is a complex task. These currents and countercurrents must be balanced in order to help stabilize the economic environment. Institutional capacity both shapes and structures state development policies so that economic order is maintained. The fact that institutional structures are path dependent tells us a specific institutional arrangement is not likely to spawn equally powerful and competing policy types. One policy type will always be preferred over others and eventually come to define the entire intervention strategy.

The external or transitional features of this diagram are represented by the *institutional forces* that integrate the two types of intervention strategies, similar to the yin and yang symbol. These institutional arrangements not only foster distinct state actions, but also they are the impetus of wholesale change in policy strategies. Five institutional forces might induce transition from one intervention strategy to the other: diffusion, efficiency and power, relative prices, regime change, and irreversible investment.(5) From a *diffusion* viewpoint, greater institutionalization leads to less variety and diversity across state development strategies. As a competing policy approach gains popularity, the process of crystalizing rules and procedures gradually pushes an old strategy toward a new one. When economic development rules and procedures are tightly coupled across states, individual states will find it difficult not to comport accordingly (DiMaggio and Powell, 1991). From an economist's perspective efficiency and power are the engines behind change in policy strategy. Institutions will force change if all actors profit from the reform--*efficiency*-- or if some subgroup of actors has the *power* to change prevailing institutions against the conflicting interests of other groups.

According to North (1990), *relative prices* are fundamental to changes in the ratio of factor prices, changes in the cost of information, and changes in technology, each of which could trigger a transition to a different policy strategy. *Regime theory* posits that a change in governing regime implies some degree of change in social, economic, and political mechanisms which can give way to a reformulation of state development policies. Finally, whereas as the previous four institutional forces pushed toward transition, the theory of *irreversible investment* pulls the current strategy toward a new one. Institutional economists have shown that sunk costs involved in most investments create a powerful incentive to hold back investment in uncertain environments (e.g., Bernanke, 1983; Pindyck, 1991). This waiting option can compound the negative effects of uncertainty causing a reversion to a previous policy strategy. Alzenman (1997) found direct links between sunk costs of investments and uncertainty with economic growth.

Discussion and Conclusions

Studies on state economic development have been conducted in relative isolation from each other with few attempts to integrate research findings into a more *general* framework. In retrospect, we may have contributed more confusion than clarity to the field. This raises several questions. Have we faddishly rushed to investigate first one, then another of this phenomenon's facets? Have we idiosyncratically defined our studies to satisfy pet interest? Have we been remiss in clearly defining and conceptualizing the phenomena being studied? Have we built on and extended previous work, or have we crafted an idiosyncratic--and non-comparable with previous work--study? While not diminishing the scholarly contributions of this body of work, the answer to each of these questions appears to be yes. Certainly, there are important gaps in our knowledge.

This article develops a general framework for state activism in economic development. The theoretical framework I have constructed has several advantages over other ad hoc classification systems, taxonomies, and conceptual frameworks. One advantage is a strong theoretical grounding. The theories undergirding each of the four policy types have been extensively studied and tested. Also, this theoretical framework incorporates the two dominant frameworks (i.e., supply-side and demand-side strategies) in the field, which have come to characterize most contemporary research on subnational economic development. At the same time, it goes beyond Eisinger's framework to offer some insight into the apparent cyclical character of state economic development.(6)

Perhaps the most important advantage of this framework is its comprehensiveness. All possible policies can be fit in one of the four broad categories. The focus of many previous studies has been to disaggregate government activism by studying individual policy types or programs; thus, fragmenting conceptualizations. Gray and Lowery (1989) convincingly argue that each and every program does not have to generate benefits greater than its costs. It is "in the aggregate" that "policy must be associated . . . with a state's economic success (p. 21)."

This theoretical framework seeks to contribute to the development literature by accounting for foundational economic determinants of state economic growth and assessing the linkages between policy types, institutions, and state economic development. A more systematic theoretical system such as is proposed here can provide a more complete and comprehensive perspective than that provided in extant work.

Notes

1. Although economic growth is only a portion of the broader framework of development, it is still a major economic goal, and one often used as a measure of policy effectiveness.

2. Researchers have found that there are many variables that can influence economic growth such as social capital, geography, even perceptions, which is what makes it difficult to control. However, these variables do not determine growth. An example using human procreation is helpful. It is well documented that an expected mother's genes, diet, mental and physical health, emotions, even verbal and non-verbal communication with her unborn child can impact (influence) many things about the infant's physiology. Nevertheless, these variables do not determine the conception itself. Growth theory is primarily concerned with the "conception" of economic growth.

3. Capital also includes infrastructure, the "circulatory system" of the economy that allows goods and services to move to market. Roads, tunnels, dams, sewers, and so forth, are the foundation upon which a society's economy is built. It is well known that insufficient or inadequate infrastructure can significantly hamper market efficiency (Goodrich, 1965; World Bank, 1994).

4. Yu (1997) finds it necessary to change Luedde-Neurath's original label from "promotional" to "facilitative." Although he never explains the reasoning for this alteration, I too, find it more

appealing. Nevertheless, credit is rightfully given to Luedde-Neurath.

5. This list is not intended to be comprehensive nor refined. Scholars focusing on this aspect of the theoretical system may find that adjustments are necessary, and welcomed.

6. At the beginning of this century and up until the 1970s, states were principally engaged in supply-side development or “smokestack chasing.” Since then policymakers have shifted their focus to demand-side or “entrepreneurial” development and intensified their efforts. Then in the early 1990s scholars (e.g., Eisinger, 1993) observed activity by states suggesting a movement back to the supply-side approach.

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