
ENDOGENEITY AND ENVIRONMENTAL POLICY: HOW LOCAL INSTITUTIONS STRUCTURE LOCAL DEMAND

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Abstract

One of the central themes of local government in a federalist system is the concept of nested institutions, where local governments operate within an environment of constrained policy options. Recent work in the field of environmental economics has highlighted the difficulties that arise when trying to assess the public's taste for different policy options when the public's experience is constrained or limited. Local governments in a federalist system thereby offer a unique environment for examining constrained publics and the problems that may arise when dealing with endogenous policy alternatives. This article draws on the recent literature on local institutions and environmental policy to develop a model for explaining local government behavior, and uses a case to illustrate the model's application. I conclude that traditional models of policy analysis may require some translation for realistic application to local governments

Introduction

Evaluating the impact of local government policies within the United States has been a perennial source of innovation and frustration for academics and practitioners alike. Such sentiment is often attributed to the difficulty encountered when searching for appropriate outcome measurements for local governments within the larger state and national policy arenas (Bartik, 1991; Hatry, et al., 1990). Nested institutions and the bundling of services can lead to muddled evaluations of local influence, leaving local policymakers with a limited ability to demonstrate progress towards community improvement goals (Reese and Fasenfest, 1999; Tao and Feiock, 2003).

In these discussions, economic development policy has often been singled out as a policy area that poses unique challenges for local government because of classical and neoclassical assumptions about the behavior of markets in general (Tiebout, 1956; Peterson, 1981). However, recent work examining questions of political economy within a federalist framework has raised the question as to whether other policy areas, such as growth management, land usage and environmental regulation, may be just as prone to such challenges (McCabe, 2000; Clingermayer and Feiock, 2001). This literature focuses on the way in which local policymakers utilize institutional arrangements, such as the creation of special districts or the adoption of “reformed” government structures, such as council-manager systems, to achieve particular policy goals in a wide variety of areas.

One of the consequences of these structural choices, however, is the establishment of institutions that may outlive their progenitors and policy goals by a lengthy period of time. This article will examine two potential outcomes that may result from such institutional choices at the local level: first, the addition of yet another layer of constraints on the actions of local governments to those already present within the difficult issue of “nesting”; and second, and perhaps more importantly, the way in which such choices structure the preferences of local residents for certain types of policy. I will examine these outcomes within the framework of endogenous preferences, or locally rational affection, that develops in both local policymakers and their constituents for certain policy outcomes, and will demonstrate how such a framework might explain decision making behavior at the local level on environmental issues. The consequences of such behavior for environmental outcomes will then be discussed and evaluated.

The Case for Local Environmental Policymaking

Local governments are often considered the first and the last lines of defense in battles against social ills and problems of collective action. This is especially true for environmental problems brought on by urban conditions, where the burden of responsibility for action has long been placed at the local level (Kraft, 2000; Ostrom, Schroeder and Wynn, 1993). As Michael Kraft points out in his discussion of the history of U.S. environmental policy and politics,

“[F]ederal environmental policy was only slowly extended to control of industrial pollution and human waste. Air and water pollution were long considered a strictly local matter, and they were not high on the national agenda until around 1970” (Kraft, 2000: p. 21). The proximity of problems such as waste disposal and the provision of clean water to local governments and the resultant need to address such problems at the local rather than federal level seems obvious in retrospect (Luton, 1996). Yet the association of such issues with public health rather than environmental concerns contributed to a perception of disjuncture between local governments and environmental issues until relatively recently (Kraft, 2000).

Environmental policy at the local level, when considered at all, has generally been typecast as a local government response to groups opposing rapid urban growth. This framing of local environmental issues has been due in part to the confluence of two very different bodies of literature. The first has been the urban planning and politics literatures and their examination of how local governments can anticipate (and thereby plan for) problems associated with rapid, unchecked growth (DeGrove, 1984; Logan and Molotch, 1987; Vogel and Swanson, 1989; Deyle and Smith, 1998; Wernstedt, 2001). The second has been the literature within public administration and political science examining the development of a federal approach to environmental policy (Mazmanian and Sabatier, 1989; Ostrom, Schroeder, and Wynne, 1993; Ringquist, 1993; Eisner, Worsham and Ringquist, 2000; Kraft, 2001b). Although this latter literature often focuses on the role of state and federal agencies and institutions, the examination of local policy impact or the importance of local cases in shaping policy has often been key. The urban studies literature has merged these two bodies with concerns that have traditionally been the hallmark of local politics, economic and community development, to create a unique standoff between the politics of growth (including planned growth) and the politics of grassroots environmentalism, or antigrowth.

Placing local environmental policy within such a framework has shaped the discussion by scholars of such policies in an interesting way. The language of tradeoffs is prevalent, where economic development is often pitted against environmental protection or aggressive growth management, where the adoption of either policy type is framed as a zero-sum game (Logan and Molotch, 1987; Vogel and Swanson, 1989; Ringquist and Feiock, 1998; Feiock and Stream, 2001). This is partly due to the way in which federal

environmental policies have been portrayed, where clearly the politics of growth and the politics of conservation are at odds (Commoner, 1990; Rifkin, 1991) and where there are marked differences in the way in which the major political parties offer their respective stances on these issues (Herron, Lavin, Cram and Silver, 1999). At the local level, however, the evidence that such tradeoffs exist is mixed, especially if environmental policy is expanded to incorporate current trends towards creating “livable cities” through the adoption of local policy tools. Such tools often include initiatives to incorporate planning for greenways and open space in redevelopment areas or in new developments, as well as funding schemes for improved infrastructure, such as construction-based fees meant to curtail costs to a community imposed by new development.

In this way, local governments can be seen as taking a broader view of the needs of Tiebout’s median taxpayer. Labor and capital have long been assumed to be mobile, not necessarily loyal to the politics of place, and local governments have attempted to thwart mobility when it proves costly (loss of median taxpayers), but encourage it when there are gains to be had (gain of median taxpayers). Therefore it stands to reason that local governments who perceive a link between attracting (and retaining) median taxpayers and improved “livability” will attempt to find a compromise between what have otherwise been perceived as competing policy approaches. However, their attempts to do so will be constrained by the unique conditions imposed by federalism.

“Nested” Local Institutional Settings

One of the most common observations about local governments in the United States is their status at the bottom of the federalist constitutional totem pole, where power is fragmented and diffuse, creating what Seidman and Gilmour have referred to as “cooperative feudalism” (Schoettle, 1990; Seidman and Gilmour, 1986). As such, local governments have been conceived of as “nested” institutions, constrained by rules at the federal and state levels (Ostrom, 1990). Yet they must also respond to uniquely local demands, resulting in local institutions that are remarkably uniform in structure but equally diverse in approaches to solving problems.

However, many have argued that the constraints of nested institutions trump the diversity of local demands, creating a parity of

expected outcomes across a wide variety of settings. As Clinger-mayer and Feiock (2001) state:

Federalism reinforces the separation of institutional choice from policy choice. At the local level, many important institutional choices are determined by state law or by federal courts. No amount of cycling of tastes over institutional choices within a locality will change the institutions chosen by a higher level of government unless there is comparable cycling of preferences at this higher and decisive level (p. 118).

Such institutions include the types of public offices that a local government must provide. For example, most states have either a constitutional or statutory provision requiring that local governments (city or county) must have an officer in charge of local law enforcement, and the state dictates whether such an office is elected or appointed. Many states require similar provisions for health care, where local governments must provide some kind of health unit that offers services running the gamut from childhood vaccinations to the testing of drinking water sources. More importantly, states also structure the way in which local governments establish rules of engagement with the citizenry, such as notice for public hearings, guidelines for council or commission meetings, and rules guiding local electoral practices.

The Argument for Local Choice

Despite these kinds of constraints, local governments are still afforded certain freedoms to make institutional choices that reflect local tastes. Steven Maser (1985) has made this argument with respect to city charters, where, for example, cities may choose whether they will have a city manager at the helm of bureaucratic structures or whether they will opt for strong mayors who are more directly accountable to political pressures. These institutional choices have concrete ramifications for the types of policies and the character of response that local governments will provide to their constituents. As Maser points out, switching the locus of authority for a tool such as the city budget from the office of the mayor to a bureaucratic agency may limit the input that the public has and thereby alter the public agenda in substantial ways.

Clingermayer and Feiock (2001) have characterized the consequences of such institutional choices as having both short and long term effects. The choice of institutions may be done for short-term reasons, such as the reinforcement of existing local power structures. But there are also long-term effects once such institutional choices have been made. They state, "Policy choices derived from institutional constraints at one point of time may lead cities down the road of path-dependent development. Once one path is taken, it may be costly, if not impossible, to move toward a dramatically different set of policy objectives" (p. 118).

Clearly, however, these are decisions that can be made locally. The question becomes whether the nature of the impact of nested institutions compounds or constrains local power, and whether the impact is significant.

Endogenous Policy Choices and Three Models of Local Decision-making

In order to evaluate the relative impact of local policy choices, an explanation of how such choices might be modeled within a local, nested setting is in order. I draw on three separate literatures to develop such a model: the behavioral literature within organizational theory, the policy analysis literature, and economics. Recent work in economics has attempted to examine the nexus between behavioral theory and economics (Ferrante, 1999), but such work lacks the context for analysis attempted here. The policy analysis literature in particular sets up expectations of behavior that need to be addressed in tandem with that provided by economics, since the limitations placed on the development of policy alternatives through nested institutions is not usually considered. Each of these models will be developed and considered within the environment of endogenous policy making, where the implications of path dependent decisionmaking will be discussed.

Structuring Local Policy Preferences: The General Approach

The general model for policy analysis as taught in academic settings and as understood in political settings can be found in a wide variety of texts on the topic. It should be said at the outset that this model is not without its critics (see especially Stone 2002). However,

the model is so prevalent that despite variations, it can be argued that the basic blueprint remains as follows.

1. Define the fundamental issue and lay out the goals of the analysis;
2. Identify the alternate courses of action;
3. Forecast the consequences of the alternatives;
4. Compare and evaluate systematically all possible outcomes; and
5. Choose the most preferred alternative. (Gupta, 2001; p. 72).

This is a fair representation of the models available from any number of sources from the field of policy analysis (please see, for example, Weimer and Vining, 1992; p. 205; Munger, 2000; p. 7; Stokey and Zeckhauser, 1979; pp. 5-6; Stone, 2002; p. 8; Bardach, 2000; p. xiv). Indeed, this is the basic model for rational decision-making, and despite its critics, it remains a cornerstone for the analysis of policy at all levels of government. Its inherent appeal lies in the ubiquity of its application to a plethora of policy areas, and the ability to bring the model to bear on problems that range in scale from a city budget crisis to decisions on national defense. Its utility lies in its flexibility, where the criteria for evaluating alternatives can be tailored according to the audience in question. If, for example, the audience is a local government with a need to evaluate the consequences of different budgetary practices, the model can provide the framework in which to conduct such an evaluation. Or, alternatively, if the audience is the House Subcommittee on Crime, Terrorism and Homeland Security, the model can be adapted to include evaluative criteria that consider political as well as economic consequences. Thus the model provides a rather robust basis for political and administrative decisionmaking, and its appeal is readily apparent.

However, as is typical with models that have served long enough to be considered a dominant paradigm, the rational decisionmaking model has drawn its share of criticism. For local governments making policy decisions, this criticism is especially relevant. There are three general caveats that are put forward within the literatures mentioned above, and each has bearing on the local decision-making arena. What follows is an examination of the arguments behind each caveat, and an explanation of the way in

which such arguments may be brought to bear on the unique circumstances surrounding local policymaking.

Endogeneity and the First Limitation of the General Approach: Procedural versus Substantive Rationality

Students of public administration are no strangers to the first limitation argument. Herbert Simon outlined the initial idea most succinctly within the concept of bounded rationality, but further developed the distinction in his later work in organizational psychology (Simon, 1986). In a perfect world, (the one, we are told, that is inhabited entirely by economists) choices between different policy outcomes are based on informed preferences, where the substance of the decision is what drives the ultimate choice of outcome. However, Simon points out that there are several constraints present in typical decisionmaking that preclude the salience of substance as the driving force behind any given decision. For example, lack of complete knowledge of the topic at hand, or lack of sufficient time to make a truly informed decision may skew one's perception of the viability of particular policy options. In some instances, options will not be considered at all because of such constraints. Thus Simon suggests that procedural rationality is a far more consistent and realistic metric for determining how decisions are made.

Procedural rationality is an excellent way to describe the generic policy analysis model. The process prescribed by the model is designed to maximize the information made available to policymakers where there is an implicit understanding that all options may not be considered, and that those making policy decisions may therefore not be fully informed as to the substance of the issues at hand.

The limitations of procedural rationality as a basis for analysis lie, of course, in the substitution of the question as to *what* issues policymakers are considering with *how* issues are considered by policymakers. This is particularly evident within hierarchical structures, where the rationale for decisions is often based upon process rather than substance. It can also be argued that the same is often true in public sector organizations, where due process is considered key to the justification of the fairness of decisions, which sidesteps the question as to whether the underlying issue is just or

fair. Local governments often find that their decisions are endogenous to what happens at higher levels of government. But what are the implications of procedural rationality and endogeneity for local governments making decisions about local environmental policies?

As the occupants of the inner circle of nested institutions, local governments operate within a contradictory arena of limited fiscal powers and supposedly endless opportunities for innovative action. In fact, the first is often hypothesized to drive the latter (Osborne and Gaebler, 1992). The fiscal limitations are usually imposed at the state level, and implicit in these limitations are decisions about what local governments should or should not do. Because their decisions are structured at higher levels of government, local governments may often find themselves applying procedural rather than substantive rationality to policy decisions. As argued by Clingermayer and Feiock (2001), this may manifest itself in institutional choices, rather than actual consideration of potential policy outcomes. Thus, for example, the initial choice between reformed and unreformed governments may have been substituted for choices between competing policy options surrounding specific issues of local public interest.

However, procedural rationality may also be extended to specific policy areas within the local decisionmaking arena. Research examining the effects of government institutions as mediating factors on local policy decisions has demonstrated that some policy areas, such as economic development, are particularly sensitive to such factors (Sharp, 1991; Feiock, 1994; Schneider and Teske, 1993a; Schneider and Teske, 1993b). Unreformed governments in such research seem far more prone to adopt a wider array of financial tools in response to fiscal constraints than do their reformed counterparts, and additionally seem to exhibit far more sensitivity to the vagaries of economic change. These findings appear consistent with arguments that have been made within the state-level economic development literature (Brace, 1993), suggesting that investment in institutional development (such as agency expertise over time) serves as a buffer against economic downturns, thus allowing states to weather such periods in less disruptive ways.

But these findings also suggest that nested institutions tend to compound one another. In other words, when questions of substance

are decided at higher levels of governance, local institutions may standardize decisionmaking so that the range of options available to local policymakers is predetermined. Thus reformed governments may be better at limiting the policy arena, thereby minimizing risk surrounding local policy decisions. This may also suggest that unreformed governments may have more incentive to act both as public entrepreneurs, since their policy arena may be less procedural in nature, but they may also have the incentive to take on more risk, for good or for ill.

In the realm of local environmental policy, there has been some recent attention paid to ways in which local governments structure their decisionmaking. Wernstedt (2001), for example, examines the role that local governments have carved out for themselves within the specter of “the quintessential centralized federal program”(p. 298), Superfund. He uses three cases to illustrate the variety of approaches local governments have taken in structuring land use to improve the efficacy of cleanup at a National Priority List (NPL) site. In two of the cases, a different kind of environmental problem is identified by local groups and brought to the attention of the United States Environmental Protection Agency (USEPA) and the state government authorities. In the final case, the state of California suspects contamination at a federal military site and initiates an investigation of soil and groundwater quality. In all three instances, Wernstedt notes that the program may be placed within the larger context of devolutionary approaches to environmental regulation. He concludes that as long as local actors have sufficient access to credible information about a contaminated site and the options available to the local community, local actors will be effective in addressing cleanup concerns. This is, of course, assuming that the federal government continues to provide a legal and regulatory framework that offers credible punishment for perpetrators who do not comply. Such a framework also serves to tie the hands of local policymakers who may wish to behave in a manner that is politically expedient (Shanoff , 2002: p. 18)

One of the implications of such a conclusion is readily applicable to the preceding discussion of local institutional structures. In local governments with structures that retain information over time (such as reformed governments), the ability of local groups to adopt some of the monitoring costs related to environmental issues would be greatly enhanced. In fact, Wernstedt

uses Portland, Oregon as an example of a city that manages to incorporate permitting for brownfields redevelopment within existing city functions (p. 310). However, in an unreformed government, local actors may perceive environmental risk at higher levels and be more likely to take actions that are less predictable.

Endogeneity and the Second Limitation: Incommensurability of Preferences for Outcomes

Another assumption that underlies the general policy analysis model is the ability of policymakers to rank their preferences for different policy outcomes. This assumption is key to the process of analysis, since the justification for choosing a final policy alternative is generally predicated on the ability to rank preferences. Although there has been much discussion in the literature as to what can be done if certain outcomes are equally preferred (Stone, 2002; Gupta, 2001), there has been relatively little discussion of a more fundamental issue that is usually discussed in the field of philosophy: incommensurability.

Incommensurability is usually defined as “the absence of a common measure” (Raz, 1998: p. 110), where the process of comparison is hindered by the lack of a standard unit of analysis. This is a relatively common problem in policy analysis, and one to which many texts pay a great deal of attention (Weimer and Vining, 1992: pp. 259-311). However, more recent work has highlighted a deeper issue within this question of methods, and this is the issue of value incommensurability. Unlike incommensurability in general, value incommensurability arises when making a decision constitutes comparing “multiple irreducible ends” (Ellis, 2001: p. 45), or where the comparison of competing values is meaningless. This kind of comparison is most likely to take place when decisions are being made that cover composite values (Ellis, 2001: p. 46), or where a multitude of values may contribute to a decisionmaker’s perception of his or her preferences. The difficulty lies in the inability of the decisionmaker to link his or her ultimate preference to the relative strengths of the contributing values. Thus, incommensurability “claims pose a direct challenge to the view that decisions with multiple objectives can be made rationally. If someone can’t compare her options with respect to a covering value that has her activated ends as contributory values then she can’t identify any best action(s) to perform” (Ellis, 2001: p 46). The elimination of a “best” option

based on a breakdown in the process of analysis highlights an Achilles' heel for the general model.

The consequences for local policymakers can be far more complicated than for those at other levels of government. Since local policymakers operate within nested institutions, where policies may be "bundled" together over different levels of government, the contributing values that make up a given policy option may be very difficult to disentangle. Thus determining preferences for one outcome or set of outcomes in particular using the traditional approach may give rise to the perception that local policymakers are simply "shooting anything that flies" and "claiming anything that falls" (Rubin and Rubin, 1987: p. 39). The rationale behind a given decision can fall prey to multiple interpretations, thus leaving no clear linkage between policy deliberation, adoption and expected outcomes. While such occurrences may be fairly commonplace at the local level (and as Majone might argue, in politics in general), if they lead to difficulty in providing a reasonable argument as to why a particular policy outcome was preferred, then the justification for action remains blurry in the eyes of the local electorate, and policymakers may start to suffer a decline in legitimacy (Majone, 1989: pp. 29-34).

Environmental policy decisions have, of late, been championed at the local level, as discussed earlier (Kraft, 2001a: pp. 1483-1484; Orr, 2001). Devolution of decisionmaking has been argued to be more effective by moving the locus of decisions closer to the places where outcomes are expected to take place, while retaining the command and control structures for enforcement purposes at the federal and state levels (Wernstedt, 2001: p. 297). This rationale is very much in keeping with the idea of "loose-tight couplings" put forth by Peters and Waterman (1982), where enough discretion is granted to lower levels of decisionmaking to enable the most efficient use of knowledge, but where monitoring is still maintained at higher levels so that lower level decisions remain accountable. However, if the rationales of local officials in making policy decisions are muddled by "bundling" of contributory values from multiple levels of governance, the potential for misunderstanding increases. This problem would apply to both the perceptions of local actors and to interested parties at the state and federal levels. To illustrate, let us return to the earlier example of the political opposition documented between pro-

business/pro-growth and pro-environment/antigrowth coalitions at the local level.

Wernstedt (2001) highlights the way in which traditional political cleavages can be blurred when policy choices are structured at multiple levels of government. In each of his three cases, differing relations between local activists seeking the improvement of NPL sites and the local business community resulted in differing levels of success in gaining the cooperation and compliance of potentially responsible parties (PRPs) and the support of state and federal agencies. Those local governments who brokered friendlier terms between the business community and local environmentally concerned groups were more likely to receive assistance from state and federal level agencies. Such *pax humana* was not always palatable to local groups, however, especially when the PRP was viewed as both an environmental and a moral miscreant. Those groups that chose to be more confrontational did not always find a great deal of support at higher levels of government.

By refusing to negotiate, local groups can arguably make the case for incommensurability of values between themselves and those on the opposite side of the political cleavage. However, whether or not local groups view their preferences as incommensurable with those they oppose may depend greatly on how the issue is framed by local governments, the level of egregiousness on the part of the PRP, and on the kinds of incentives offered for negotiation at higher levels of government. Unless these perspectives are taken into account and incommensurability is considered a legitimate threat to resolving a local environmental problem, the consideration of options by local policymakers may never be viewed as satisfactory by their constituents.

Endogeneity and the Third Limitation: Locally Rational Affection and the Inner Circle of Decisionmaking

Perhaps the most important assumption of the general analysis model is the key concept that lies beneath its ability to adapt to different contexts and environments: the idea that those making a given policy decision can apply their own evaluative criteria to a range of policy outcomes, thus ensuring that the outcome chosen is the most appropriate for a given situation. Thus policy outcomes can

be judged as accurate depictions of policy preferences within a decisionmaking arena.

However, if such preferences are endogenous to institutional settings from outside the decisionmaking arena, then the logic of this link does not necessarily hold. This is the problem presented when considering locally rational affection (or disaffection), or the acquisition of local tastes for particular policies. Francesco Ferrante (1999) develops this idea through an examination of a perceived gap between Stigler and Becker's (1977) rational habit formation and Pollak's (1970) view of myopic habit formation. Essentially, the former posits that current decisions can be weighed against future choices because the value of any anticipated tradeoffs is fully understood by the decisionmaker, based on experience and the establishment of habits in preference formation. The latter view argues that no such knowledge can be assumed on the part of a decisionmaker, since future decisions may fall outside the realm of experience of the decisionmaker, and habit may offer no guidelines for future behavior.

Ferrante (1999) argues that the gap between the two views can be explored through the concept of locally rational affection. This concept borrows the view from rational habit formation that decisionmakers "recognize the impact of current choices on future preferences, that is, learn from their choices and form correct expectations. The contention is that the opportunities for this learning process are restricted to the actual...choices, so that the untried choices are excluded from the learning process and do not generate correct expectations on (dis)affection" (p. 69). To apply this to the policy realm, even if decisions are made in a non-myopic way (e.g. rationally), the nature of local experience will structure how policymakers "learn" from past experience. In other words, even if the analysis process provides some degree of competition between alternative policy options, there is no guarantee, as Ferrante puts it, that "everyone gets what he/she wants but rather the converse; namely that people come to want what they get" (p. 68).

The implications for local governments are substantial, especially with respect to environmental policy decisions. If prior experience *and* the process of habit formation structure how a local government assesses policy options, then local policymakers will be guided by local institutional knowledge as well as their own policy

experiences, where the less familiar a given option is, the higher the perceived rate of substitution for future outcomes. Thus local governments might be expected to behave less innovatively (be more risk averse) if their previous policy experiences have structured their preferences so that they are unfamiliar with environmental issues. Ferrante (1999) uses the example of “the absence of markets for the environment and the resulting underpricing of pollution...[which] has generated locally rational affection for pollution” (p. 82). In other words, local governments who lack experience with environmental problems may be unable, rather than unwilling, to make coherent policy decisions to address problems that arise. In this sense, institutional nesting may act as a buffer against local rational disaffection for environmental issues.

Intergovernmental Institutions, Local Policymaking, and Justice for All: The Fenholloway Case

The picture presented thus far of the challenges posed to the general model of decisionmaking by endogenous institutions and policy options is complex and contradictory. How might such limitations guide our expectations of local policymaking in the environmental arena? I will attempt to illustrate how this question might be answered through the examination of a case from the state of Florida. The case of the Fenholloway River offers much in one place. Local politics and activism, as well as local institutions, both public and private, have shaped the nature of government response to a perceived environmental threat: the contamination of local groundwater with a host of chemicals, including dioxin, one of the more notorious carcinogens. But the local response has been imbedded within a framework established well outside of the city limits. Thus by examining events that have transpired along the Fenholloway and in the City of Perry in particular, some light may be shed on just how nested institutions serve to structure decisionmaking behavior at the local level, and how such behavior deviates from the general model.

The City of Perry: A Brief History

Perry serves as the county seat for Taylor County, located on the West Coast of Florida, approximately fifty miles south of the state capitol, Tallahassee. Taylor County has relied heavily on the

timber industry as its historical economic base, due to its once abundant cypress forests. In 1914, Taylor County had the world's largest cypress sawmill, and for two decades, the county enjoyed unprecedented prosperity through the milling of cypress boards in two plants: the Burton-Swartz Cypress Company and the Burton-Scanlan Corporation located inland along the Fenholloway River (Tao and Bowman, 1993). However, overlogging eventually took its toll on the county's natural resources, and from the mid-1930s through the end of World War II, mill production declined until both mills were finally faced with closure.

In 1947, the Florida legislature intervened on behalf of Taylor County officials to designate the Fenholloway as "an industrial waterway" that could receive effluent in large amounts from an industrial operation. With such legislation in hand, Taylor County officials set off to recruit an industry that might take advantage of the unique resources they had to offer: good timber (although not cypress), two major railroads built right next to the former mill sites, and major highways within easy access of the former mills. They found a willing partner in Procter and Gamble, who owned a subsidiary in Buckeye Cellulose, a company specializing in the production of pulp. Buckeye agreed to relocate to Foley, a small town just to the southeast of Perry along the Fenholloway River. By 1954, Buckeye had finished construction of their own pulp mill and began production.

Intergovernmental Institutions and the Local Politics of a One-Company Town

As already seen, this case involved the cooperation between different levels of government, most notably state and local. But changing times and perceptions would also bring in federal level actors as participants. Since the Fenholloway was classified by the state as an "industrial waterway", it became known as a Class V (out of five potential classifications) waterway when the U.S. Environmental Protection Agency (USEPA) developed their classification system for all water bodies under the Clean Water Act of 1972. Additionally, permitting requirements for kraft pulp mills were originally instituted at the federal level under the philosophy that such facilities needed a great deal of leeway within a regulatory framework in order to remain in operation. Thus there was a common vision across levels of government as to what local policy

options would be during the first few decades of plant operation. This vision was also amenable to the private sector actor, Procter and Gamble's Buckeye Cellulose.

The plant provided much to the local community over the years. Aside from the 1,000 jobs for local residents, the plant also contributed half of Taylor County's property tax revenue (as the largest landholder) and approximately eighty percent of the county's overall economic base (Tao and Bowman, 1993). It was viewed as a "good corporate neighbor", providing steady income to residents and the opportunity for spread effects to flourish. By the late 1980s, the plant had garnered itself a reputation for sticking with the community, even in the face of offers to relocate. Other businesses had moved into the Perry area, providing additional opportunities for residents to remain. Thus the plant, as well as local city and county officials, received a great deal of credit for turning what was once perceived as dire economic straits into a relatively stable situation.

Local environmental policy, however, developed along a slightly different path, driven in part by changes in Perry's population over the years, where outsiders were drawn to the community by job opportunities. But changes in perceptions at higher levels of government also drove a changing perception at the local level as to what appropriate policy should be. This development of policy change was highlighted during a crisis that arose during 1991 and 1992 between the plant and local residents, where both realized that what had once seemed a common vision was no longer so.

Environmentally Friendly Corporations and Economic Viability: Convergence and Divergence

Although kraft pulp mills occupy a unique spot in the annals of environmental regulation, Procter and Gamble's Buckeye Cellulose was a model environmental citizen by almost all accounts. The plant anticipated federal regulation and implemented "best available technology" standards for treating plant effluent eight years before such standards were set (Tao and Bowman, 1993). They led the state of Florida as the first facility to institute computer-monitored treatment systems to ensure that the biochemical oxygen demand (BOD) in the plant's wastewater, which emptied entirely into the Fenholloway, always exceeded BOD standards set by USEPA for

kraft pulp mills. When the spectre of dioxin reared its head in the late 1980s, and was largely associated with the use of bleach in processing organic materials such as cellulose, the plant quickly switched to the use of chlorine dioxide to reduce the levels of dioxin in plant effluent without the urging of government officials. The company's track record was, according to regulatory standards, excellent.

However, in 1989, a unique confluence of circumstances served to change the views of some residents of Perry as to the quality of the plant's environmental record. The spring of 1989 through the fall of 1990 were marked by a severe drought in northern Florida, bringing on drops in groundwater levels and river flows throughout the region. Residents of Perry and Foley who lived along the Fenholloway began complaining of "foul-smelling wellwater" to the Taylor County Health Department in the spring of 1989 (Tao and Bowman, 1993). The Buckeye plant offered, as it had done when such circumstances arose in the past, to drill a new well for residents with water problems, and provide those residents with either bottled water, or a hook-up to city water that would be piped in. Such offers had been modus operandi for the plant in the past during similar droughts, and had been seen as part of their "good neighbor" policy. Although the plant admitted no culpability for the condition of residents' wellwater, the justification for the behavior was offered by the then-plant spokesman, Dan Simmons:

"The company was in a position where our neighbors had good-faith concerns about their water quality, and concerns that it might be connected to the plant. We acted immediately to help them get good, clean water, let the state agencies investigate, and let the chips fall where they may. Basically, we asked ourselves: What's the right thing to do? And the answer was that we had to help people solve a problem." (Hauserman, 1991: p. 6)

Since this had been company policy in the past, it came as something of a surprise to plant officials that residents were asking questions as to what the plant's intentions were in supplying clean water. The plant had never been connected with wellwater contamination along the river up to that point in time, despite what would seem to be obvious connections between plant activity, river flow and groundwater levels. In order to process cellulose, the plant had to pump an astronomical amount of groundwater up to the processing

facility, and then release the water as effluent after processing. During several months out of the year, the plant's effluent was the sole source of flow for the river. Despite these facts, no one had ever questioned the plant's justification for supplying clean drinking water. However, at the request of residents, local health officials tested wellwater samples, and in July of 1991, the contamination in wellwater was linked to the plant for the first time.

The Transformation of Local Opinion: Nested Institutions and Endogenous Policymaking

The events that transpired in 1991 and 1992 in the city of Perry serve to highlight the dynamics that can occur within nested institutional settings when policy decisions are fraught with uncertainty because they have never been undertaken before. What is particularly interesting about this case is the lack of familiarity at both the institutional and constituent levels with the problem at hand and potential solutions. As such, it offers unique insight into how each of the limitations of the general analysis model may come into play when trying to assess an appropriate course of action at the local level.

After the plant had been positively identified as the source of wellwater contamination, several things happened at once. The USEPA had been notified by concerned residents who were questioning the motives of Procter and Gamble in providing access to clean drinking water. The agency was set to review the plant's application for renewal of their five-year discharge permit (Tao and Bowman, 1993), but did not demonstrate that these events would lead to a denial of permit. The state environmental agency, the then-Department of Environmental Regulation (DER, now the Department of Environmental Protection, or DEP), tasked with enforcing USEPA regulations, found no fault with the plant's handling of the situation. In fact, they were so impressed with the plant's record to date that they "went so far as to soften warning letters sent to residents with contaminated wells at P & G's request" (Tao and Bowman, 1993: p. 17). Local officials, most notably Perry's mayor, Richard Firth, and the Taylor County Commission chairman, Herb Hendry, were very vocal in their support of the plant. Their rationale was largely based on its contribution to the local economy and its loyalty to the community. Thus the different institutional

levels were in agreement, although for different reasons, as to what kind of action should be taken with the plant: none.

Citizens' groups, however, voiced very different opinions as to what policy options should be considered. At least three different grassroots groups sprang up around the discovery of dioxin in both the river and in well contaminants: Friends of the Fenholloway, Help Our Polluted Environment (HOPE), and the Legal Environmental Assistance Foundation (LEAF). HOPE in particular, headed by longtime resident Joy Towles Cummings, was very vocal in its linkage of contamination (and therefore responsibility for cleanup) to the Buckeye plant. The conflict between public opinion on the contamination, where the perception of risk to the community was high, and the opinion of local officials operating within the nested institutional environment was demonstrated in a poignant fashion during a Perry town meeting in February of 1992:

[R]epresentatives from the different stakeholder groups met to discuss their concerns. After presentations had been made about the nature of the problem, Joy Towles Cummings, head of HOPE, rose and gave an impassioned argument for cleaning up the Fenholloway from a very personal standpoint. When she had finished, Herb Hendry, the Taylor County Commission Chairman looked at her and said, "Joy, I've known you for over twenty years, and I've never heard you say anything like this before." She had touched a nerve in a small town's political center, and it was obvious to all present that the situation was more than political: it was personal (Tao and Bowman, 1993: p. 16).

The policy options eventually pursued by local officials were to "wait and see" what would happen at higher levels of government. In the minds of both the city and county, rash action on their part (censure of the plant, for example) would do more harm than good. The citizens' groups, however, did not take the same view. A lawsuit was filed against the plant by a mobile home park along the river, claiming damages to local property values due to groundwater contamination. Further complicating the issue was the city of Perry's own activity on the Fenholloway. Their wastewater treatment plant emptied into the river downstream from the Buckeye facility, and certainly was not improving the water quality as the river eventually made its way to the Gulf of Mexico. The consistency of the institutional view from the federal to the local level and the

perceived lack of “tried and true” options provided a much narrower set of proposed alternatives than local residents were willing to accept. In the end, however, in the absence of regulatory and statutory violations, the residents were left with little choice but to pursue the only remaining venue for action, the courts.

Conclusion

Russell Hardin (1996) argues that institutions serve a valuable role not played by individual actors within society. They serve to reduce the cost of information to the public at large, thus reducing the risk associated with making decisions in new areas of expertise. This is similar to the argument put forth by Clingermayer and Feiock (2001), where they argue that transaction costs may be reduced by particular institutional norms and structures.

The consequences, however, of nesting institutions, and the potential for “stacking” of institutional preferences, may produce stability over time, but may not always produce policy options that are the most desirable. This, of course, is one of the driving critiques of the general model of analysis. What the above discussion seeks to accomplish in examining the limitations of this model and the case of the Fenholloway is to highlight the unique nature of decisionmaking at the local level of government, and the way in which local governments’ position within the chain of nested institutions offers a unique vantage point for examining the limitations of institutional preference models. It is hoped that this will not be the final word on the problem of endogeneity at the local level, and that future research will take up this question. If local governments are to be the “laboratories of democracy” (Osborne and Gaebler, 1992), understanding the nature of how they make decisions is crucial.

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