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### Author

Muller, Brian

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# THE RISE AND FALL OF THE ENTREPRENEURIAL STATE: The Case of Texas in the 1980s

Brian Muller

## Abstract

*This article examines the evolution of Texas economic development policy during the 1980s as a movement toward, and subsequent undermining of, what Peter Eisinger termed "the entrepreneurial state." Based on interviews with economic development practitioners, the article explores the history and outcomes of the effort in Texas to shift policy attention and public resources towards small and medium-sized farms and businesses in non-metropolitan areas. It concludes that entrepreneurial strategies have become institutionalized in state law and embedded in local practices. However, the leadership and innovative programs for direct intervention pursued in the 1980s fell victim to statewide politics and institutional constraints so that such strategies today are only a minor part of overall non-metropolitan development efforts in Texas.*

## Introduction

Since the early 1980s, state governments in the United States have undertaken a vast array of economic development experiments from microenterprise lending to the formation of manufacturing networks. The mid-1980s were particularly heady years; policy advocates argued that state governments, acting as "laboratories of democracy," could initiate or manage deep restructuring processes in state economies (Osborne 1988). Peter Eisinger (1988) gave this generation of development policy one of its defining labels—the "entrepreneurial state."

In retrospect, these experiments have been a mixed bag. Even in such "successful" states as Connecticut, Michigan, Massachusetts and Pennsylvania, programs have been heralded widely and then criticized intensively. Many state economic development innovations of the 1980s have been short-lived, falling victim to budget constraints or political shifts.

Among researchers, too, some of the enthusiasm for state development programs appears to have waned over the past few years. In a recent attack on the tenets of small business policy, for example, Bennett Harrison argues that researchers such as David Birch (1979) have

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exaggerated the economic importance of small business. Harrison (1994) suggests that the preoccupation with entrepreneurship during the 1980s obstructed our view of the concentration of economic power in global corporations.

Many recent program evaluations, as well, have found that sub-national development programs have only a modest impact on regional economic performance. Timothy Bartik, for example, estimates total expenditure on state development programs at about \$12 billion annually—a drop in the bucket of a trillion dollar economy (Bartik 1994: 105).

This paper assesses the successes and failures of the entrepreneurial movement through a case study of non-metropolitan economic policy in Texas. Entrepreneurialism came to the center of the Texas state policy debate during the mid-1980s with the creation of more than 30 distinct programs. These evolved out of widespread criticism of the state's economic policies of the 1960s and 1970s, which subsidized large-volume resource commodity production and recruitment of manufacturing branch plants. As in many other states, however, entrepreneurial programs were controversial, and by the early 1990s appear to have fallen out of favor with the legislature and among statewide elected officials.

Eisinger and others have alerted us to the existence of this new body of economic development practice, but there is still a dearth of detailed case studies by which we can judge its performance. This generation of Texas development policy offers a vantage point for evaluating the outcomes of state entrepreneurialism. In this article, I adopt the underlying theme of Eisinger's argument and examine public entrepreneurialism as a problem of institutional evolution: an effort by Texas state government, building on historical experience and inherited institutional patterns, to redefine the economic problems and advantages of non-metropolitan Texas and to reform state economic development practice accordingly. My approach is structured around three questions. First, was public entrepreneurship new and a "genuine reordering of long-established relations between the public and private sectors?" Second, to what extent did the principles and strategies of public entrepreneurship become embedded in Texas economic development institutions? Third, what pressures led public entrepreneurship to emerge and then recede as a primary policy interest within Texas state government?

This research is based on review of policy documents and personal interviews with about 50 key informants, representing both state pro-

gram administrators and local economic development practitioners.<sup>1</sup> The paper is divided into four parts. The first briefly reviews Eisinger's theory of state entrepreneurialism and related ideas of regional economic governance. The second examines the factors which have influenced the waxing and the waning of the entrepreneurial state in Texas. The third section evaluates the extent to which entrepreneurialism has become embedded in the practices and policies of non-metropolitan economic development policy in Texas. The concluding section draws broader implications about the usefulness of public entrepreneurship as a state development strategy.

### **Public Entrepreneurship as a New Institutional System**

Over the past decade, a large body of literature has developed to describe the processes by which regional economies adapt to global competition. Until recently, however, there has been little systematic effort to examine the adaptive role of regional government. Even in manifestos for regional economic autonomy, the activities of sub-national governments are often obscure.<sup>2</sup>

Over the past few years, however, there has been a confluence of research among economists, planners and political scientists which has served to re-focus interest in regional economic strategy. Several strands of this research have become influential. First, investigations of industrial districts and milieux suggest that configurations of public organizations can at times be important elements in the "glue" binding together networks of innovating firms (Rosenfeld, 1993). Second, the evidence of decline in the economic power of nation states, associated in part with the growth of supranational trading zones, has led planners and researchers to ask whether this will leave more "maneuvering space" for regional initiative. (Meegan, 1994; Camagni and Capello, 1990). Third, examination of the practices of economic development has expanded dramatically and now offers a broader base for institutional evaluations and comparisons (Brace, 1994). Together, these strands of research provide a new handle for exploring how regional governments influence economic performance.

Eisinger's characterization of the entrepreneurial state, published in 1988, informed and in part foreshadowed much of this subsequent research. Eisinger describes the defining character of the entrepreneurial state as the use of "demand-side" policies, which influence markets selectively through instruments such as venture capital funds and technology transfer agencies. Demand-side policy emphasizes "discovering, expanding, developing or creating new markets." It focuses on generation of new capital; formation of new, indigenous

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businesses; public participation in high-risk enterprises; and provision of selective development assistance, “according to strategic criteria.” He contrasts these policies with the “supply-side” tradition, which indiscriminately recruits industries by subsidizing production inputs such as land and labor (Eisinger 1988: 12).

Eisinger locates the entrepreneurial state within a Schumpeterian framework. He casts bureaucrats—rather heroically—as risk-taking innovators overcoming resistance to industrial change. In Schumpeter’s words, “To act with confidence beyond the range of familiar beacons and to overcome that resistance...define the entrepreneurial type as well as the entrepreneurial function” (Schumpeter 1962: 132, cited in Eisinger 1988: 8).

The entrepreneurial state is revolutionary in two dimensions. On the one hand, it supports the introduction of new products and thus the reorganization of specific industries. On the other hand, the entrepreneurial state endeavors to restructure state government through the creation of programs that help incubate new products and businesses.

Demand-side interventions tend to occur early in the development process of a business or product, according to Eisinger, and influence the deep structures of business opportunity: availability of capital, access to markets, and use of innovative technologies and new products. Thus, entrepreneurial interventions require sophisticated and non-traditional skills among state bureaucrats, including market research, finance and understanding of technology. Entrepreneurialism also requires a higher level of planning; Eisinger characterizes demand-side policy as a “more highly-rationalized system of public subsidy in which planning, forecasting, technology assessment and strategic analysis are the critical tools to selective interventions” (Eisinger 1988: 335).

Finally, Eisinger refers to the entrepreneurial state as a “policy domain,” in which a small elite act to articulate policy goals and create the coalitions necessary to implement them. The policy domain is an arena in which actors address specific kinds of public problems; it is peopled by “pro-growth” coalitions including state officials, university administrators and faculty and businesspersons (Eisinger 1988: 7).

Thus, demand-side policy can be viewed in four dimensions: (1) a system of programs such as venture capital pools; (2) a broad theory of state action in which governments act as principal agents of economic change, restructuring both themselves and industry in the search for new markets and products; (3) a set of skills, development

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ideologies and practices in use among a group of state bureaucrats; and (4) a network of public and private actors organized around specific development strategies. It is also important to emphasize Eisinger's historical argument. The entrepreneurial state appeared during the 1970s as a sharply defined alternative to, and even a competitor with, the industrial recruitment state of the 1950s through the 1970s. And just as "the Roman arch gave way to the Gothic," the emergence of the entrepreneurial state opened up "new design possibilities to the imagination" (Eisinger 1988: 7).

### The Making of the Texas Entrepreneurial State

Texas entrepreneurship strategy arrived at the center of state policy debate during the mid-1980s, after a tortuous path of legislative commissions, gubernatorial task forces, and agency initiatives. The debates about public entrepreneurship were framed as a broad set of questions about the appropriate role for Texas state government in promoting private enterprise. But they were also rooted in specific institutional and political histories, and expressed deep conflicts between competing sectors, particularly agriculture and high technology. The following section describes the institutional patterns underlying the entrepreneurial state and its evolution through the early 1990s by looking at (1) the emergence of state small business policy during the 1970s and early 1980s; (2) the organization of specific entrepreneurial programs during the mid-1980s targeted to natural resource and electronics industries; and (3) a period of reaction and adjustment beginning in the late 1980s.

#### *The Beginnings of Entrepreneurial Policy: Small Business Programs and the Critique of Industrial Recruitment*

According to legislative and agency staff, the origins of entrepreneurship policy in Texas lie in debates during the mid-1970s about the appropriate state role in assisting small businesses. Long before David Birch's research was publicized, a small-business constituency had emerged in Texas. Advocates argued that state policy was biased towards the recruitment of new and larger manufacturing industries, and against start-up enterprises and existing retail and service businesses.

The beginnings of the institutionalization of entrepreneurship policy can be dated to 1975, with the passage of the Small Business Assistance Act by the Texas legislature. This broadened the mandate of the Texas Industrial Commission (TIC) to incorporate services to small businesses. However, it provided little additional appropriation and

only the most general delineation of the kinds of services the TIC should offer.

Both published documents and interviews suggest that there was no dramatic improvement in TIC small business services after 1975, and increasing complaints from small businesses advocates. As one report pronounced, in a delicate but pointed comment, "The Task Force finds that a perception problem exists concerning the Texas Industrial Commission and its role in small business development... The Task Force finds that in order to overcome this perception problem, the TIC should be given the resources to serve the small business community in a more active and efficient way."

Through the early 1980s, lobbying on behalf of small businesses became increasingly sophisticated and focused. The Governor's Advisory Committee on Small Business recommended in 1981 that the state sponsor a Small Business Investment Fund to provide capital and take equity positions in business expansions or start-ups (Advisory Committee on Small Business 1981). In 1982, the Governor's Task Force on Small Business recommended that the Legislature create a franchise tax credit program designed to capitalize small businesses (Governor's Task Force on Small Business 1982).

In a sense, the period between 1975 and 1985 could be characterized as exploratory, as policy organizations in the state experimented with alternative program concepts. Relatively little new legislation was enacted and no significant programs were established; however, a constituency was emerging, and momentum building, for a major reorganization of state economic policy.

On the other hand, tensions in entrepreneurship policy were already appearing. Most significantly, the appropriate role of the TIC, the state's lead economic development agency, became increasingly obscure throughout this period, as it acquired additional demands and mandates. This confusion of purpose dogged the agency through a series of crises during the 1980s and early 1990s.

### *Potato Chips and Computer Chips: Alternative Paths to the Entrepreneurial State*

In 1982, Texans elected a slate of progressive Democrats to state-wide office, including Mark White as Governor, Jim Hightower as Commissioner of Agriculture and Ann Richards as Treasurer. These candidates all ran "reform" campaigns and viewed their 1982 election sweep as a mandate for new approaches to state policy.

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As evidence mounted that Texas oil and agriculture were faltering, two competing policies emerged. Governor White embraced “technology” industries, particularly microelectronics. He reorganized the Governor’s office and the Texas Industrial Commission (soon after renamed the Texas Economic Development Commission) with technology policy advocates in key positions. The key economic policy document produced during his tenure, the report of the Texas 2000 Commission, featured technology sectors and promoted a variety of “hands-on” policies, such as a major statewide venture capital fund designed to stimulate “strategic” industries. The inspiration for these policies came from a variety of sources, notably North Carolina (Research Triangle) and California (Stanford Research Park) (Schmandt *et al.* 1986).

While some entrepreneurship legislation was passed during Governor White’s tenure, the major economic initiatives were not presented in the form of new legislative initiatives, and in fact were largely off-budget. These included a dramatic expansion of technology programs in universities and allied institutions, and state commitment to the Microelectronics Computer Consortium (MCC) and, later, Sematech. Together, these programs represented an enormous state investment rooted in a new Texas-federal partnership (Muller 1988).

Jim Hightower, the Commissioner of Agriculture, presented a sharply delineated alternative: entrepreneurship policy for traditional natural resource industries in the state. He underscored the policy contrast in his press releases: “Texas needs to produce more potato chips, not computer chips.” Hightower’s sectoral argument was three-fold: food and fiber markets were in a phase of explosive growth; Texas was well-situated to exploit this growth; and the benefits of growth could be distributed widely through state policies providing a “little dab of help” to food and fiber “pioneers” (Muller 1987).

Under Hightower’s administration, the Texas Department of Agriculture focused on a niche market strategy in farming and agricultural manufacturing including (1) crop diversification, such as seafood, pinto beans, wine grapes, cut flowers, organic vegetables, aquaculture and even alligators and miniature horses; and (2) value-added processing such as ethnic foods, specialized apparel, industrial lubricants, and condiments and sauces (Texas Dept. of Agriculture 1986). To implement his strategy, Hightower made a point to hire new staff from non-bureaucratic backgrounds, including rural non-profit organizations such as the Federation of Southern Cooperatives and the Tennessee Agricultural Marketing Project. As the agency evolved, this



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staff gave TDA a particular talent for translating disparate local experiments into the institutional parameters and language of state government.

The program tools used by TDA were designed explicitly to reshape the food and fiber marketplace through five strategies:

*Redefinition of market values.* This strategy focused on generating marketplace excitement around new products and product types, through trade fairs, news conferences, logos, and the careful use of graphics and ad copy. TDA had a large publications and promotional staff and fully equipped printing office, and Hightower himself was a “tireless” promoter of new products. Approximately 1,500 businesses were enrolled in various market promotion efforts.

*Reorganization of market institutions.* In this program area, TDA focused on the creation of new marketing channels, including farmers’ markets, export networks, specialty food brokers, and various producer directories and mail order catalogues. In the program literature, this dimension of TDA’s strategy is articulated in terms of economic equity—bypassing rigid and oligopolistic market structures to provide small and minority producers a fair market test for their products (Texas Dept. of Agriculture 1986). For example, the Direct Marketing initiative organized and directed more than 100 farmers’ markets with 3,700 participating farmers.

*Enhanced production inputs to “demonstration” enterprises.* About 40 TDA staff were engaged in programs providing technical assistance to businesses and local governments, debt and equity financing and grants. These services were directed to projects which were defined, after review, as being not only feasible—entrepreneurs or cooperatives were selected for their experience and financial commitment—but also “risky” in the sense of demonstrating a new process or market opportunity. Over 300 projects were aided through the program. For example, the Texas Agricultural Finance Authority loaned \$25 million in second-stage venture capital to projects including a leather tannery, a cotton processing plant, and a specialty meat products company. The Linked Deposit program funded more than 40 projects, including pasta manufacturers and exotic deer farms. The Agricultural Diversification Grant Program provided grants and technical assistance to set up agricultural business incubators and local revolving loan funds, and stimulate industries such as production of native plants, quail, figs, and goat cheese.

*Strategic regulation to establish market position.* This was articulated by 1986 as an effort to move rapidly into green markets and

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capture the environmental premium. One of its earliest products was a strict code for organic produce, later adopted in federal legislation, designed to provide organic farmers with marketplace identity. A number of more general regulatory actions were also undertaken to limit pesticide use among Texas farmers; this was part of a broad effort to promote the environmental safety of Texas agricultural products. Finally, TDA offered financing and business assistance to various green projects. These initiatives were incorporated into a policy manifesto published in the fall of 1990: the *Greenprint for Agricultural Development*. The Greenprint evaluated production economics and market potential in businesses ranging from cotton insulation to organic fertilizers. Environmental sustainability was intended to be a primary strategy for the Department through 1994 (Texas Dept. of Agriculture 1990).

*Cultivation of networks.* Finally, TDA sought to restructure markets by creating new forms of association. This included, on the one hand, establishing formal producer associations and cooperatives, for example, among grape growers, mesquite-chip and lumber producers, and vegetable packers. On the other hand, TDA sustained a web of informal relationships among a range of actors in the Texas food and fiber industry, including farmers, commercial bankers, venture capitalists, produce brokers, retailers, and crop researchers.

### *Cracks in the Golden Bowl:*

#### *The Politics and Management of Entrepreneurship Policy*

The 70th Legislative Session in 1987 may have been the high point of Texas entrepreneurship policy. Through this session, both TDA programs, and Hightower himself, remained popular. Texas technology policy, too, was riding a wave of success.

High-technology advocates and TDA became bedfellows during this session, creating a potent political alliance behind a major legislative package. This included a constitutional amendment which radically expanded the entrepreneurial powers of Texas state government. It allowed the state, for the first time since Reconstruction, directly to finance private enterprises. A second bill was introduced that would comprehensively reorganize the Texas Economic Development Commission, implanting new economic planning responsibilities, technology development authorities and small business mandates. The bill also renamed the agency, for a third time in a decade, as the Texas Department of Commerce (TDOC). Yet a third bill provided new financial tools to the TDA, including the full faith and credit of the state to raise \$25 million in venture capital funds. A fourth bill

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permitted local governments to increase local sales taxes for economic development projects. The statute defined project eligibility loosely; this gave local governments, for the first time in many years, the latitude to use local taxing powers to fund entrepreneurial projects. The agriculture/technology legislative package put into statute many of the institutional shifts already occurring in TDA and among technology programs. With passage of these bills, and the eventual approval of constitutional authorities by the voters at large, their supporters felt that they had a strong legislative and public mandate.

Rather quickly, however, administrative and political tensions appeared, and the perception of a mandate began to dissolve. There was a deepening attack on TDA by agricultural industries uncomfortable with the environmental and sectoral implications of TDA policy. The “3 C’s” of Texas agriculture—cattle, cotton and chemicals—became vehement opponents of Hightower.

With the support of the Republican Governor Bill Clements, elected in 1986, agriculture industry groups organized a series of forums and task forces to bring higher visibility to an alternative development policy, featuring strategies to improve the “economic climate.” This effort was attached to a larger business agenda in Texas articulated through the state’s Strategic Economic Plan (Strategic Economic Policy Commission 1989). The Plan made various recommendations including tort reform, overhaul of the Workers Compensation program, and trucking deregulation. These proposals dominated economic policy discussion and debate during 1988 and 1989, both in the 71st Legislature and on the editorial pages.<sup>3</sup>

During 1989, Texas Republicans, and particularly traditional agricultural interests, began to organize an electoral challenge to Hightower. The Republicans fashioned two critiques of TDA economic policies. They argued, first, that the agency was not sufficiently responsive to “mainstream” agricultural commodity producers, and second, that “fringe” industries promoted by TDA were not economically viable.

Moreover, during this same period, the Texas Department of Commerce, savaged both in the press and by the legislature for poor management, was repeatedly reorganized. In particular, the agency experienced great difficulty in starting up some of its technology programs. TDOC’s problems created an air of skepticism about entrepreneurship policy.

Hightower lost the election in 1990 by a small margin. After the new Agriculture Commissioner took office in 1991, TDA underwent a

dramatic internal reorganization. Some of the agency's entrepreneurial programs remained. According to interviews, these programs had built vocal constituencies and were perceived as being effective by legislators. However, the agency's focus shifted away from entrepreneurial initiatives, particularly those related to environmental products. Overall, state entrepreneurship appears to have waned in both metropolitan and non-metropolitan policy arenas.

Thus, the Texas non-metropolitan development policy debate during the 1980s was driven by a series of partisan and personal rivalries and by deeply conflicting views of appropriate development strategy. As state entrepreneurship navigated these currents, it encountered two serpents: sectoral politics and the managerial capabilities of program staff. TDA's efforts to reorganize markets aroused the antagonism of segments of the agricultural and chemical industries. During the late 1980s, these industries helped shift the terms of the economic development debate in Texas, and eventually helped defeat Hightower as Commissioner. Meanwhile, programs at the Texas Department of Commerce experienced widespread management problems. Together, these forces have pushed entrepreneurship policy to the sidelines of the economic development debate in Texas during the 1990s.

### **Have Entrepreneurial Reforms Become Embedded in Texas Economic Policy?**

In this section of the article I use four criteria to examine the extent to which entrepreneurial reforms have become embedded in the institutional structures of development policy in Texas: (1) the scale of entrepreneurial expenditures as a proportion of the non-metropolitan "development budget"; (2) the priorities of local practitioners in their use of state development programs; (3) the opinions of local practitioners about the performance of state entrepreneurship programs; and (4) the extent to which practitioners have adopted entrepreneurial strategies in their own practice.

#### *The State Non-metropolitan Development Budget*

The non-metropolitan "development budget" offers a view of legislators' state economic policy priorities. This "budget" can be calculated through a close reading of the Legislative Appropriations bill and the patterns of state tax exemption. While some budget items are not included or discernible in the Appropriations Bill, this approach offers a useful illustration of the broad patterns of where the Legislature is willing to invest state funds and offer tax benefits.<sup>4</sup> Four categories of expenditure can be defined.

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*Agricultural commodity programs.* Research and technology transfer programs—primarily dedicated to major agricultural commodities—represent over \$100 million of the state non-metropolitan development budget. In addition, agricultural state sales tax exemptions total about \$284 million annually.<sup>5</sup>

*Industrial recruitment.* The costs to the state of the business recruitment system are minor. The total state budget of the Texas Department of Commerce is only about \$5 million, of which only a part can be allocated to industrial recruitment activity in non-metropolitan areas. The other significant state expense is the Enterprise Zone Program, projected to cost approximately \$12.5 million in lost sales tax receipts during 1995.<sup>6</sup> Again, these costs are not broken down by metropolitan and non-metropolitan regions.

The major cost of industrial recruitment occurs at the local level, and is associated with lost revenue from local property taxes. These losses are notoriously difficult to calculate. The best available estimate for the late 1980s and early 1990s, based on a survey of Texas school districts, suggests that property tax losses increased dramatically during the late 1980s to \$5.7 billion statewide. The state authorizes and structures these losses through the tax code.<sup>7</sup>

*Low-income and minority programs.* Most of the expenditures in this program area are federal, but administered in Texas by state agencies. Because of accounting complexities, it is difficult to calculate costs to the state development budget. However, interviewees agreed that only a tiny portion of state development resources were dedicated to these programs.

*Entrepreneurial programs.* State entrepreneurial expenditures are also difficult to estimate. Under the broadest possible definition of entrepreneurial programs, the interviews suggest that such activities accounted for between \$5 million and \$8 million of the Texas Department of Agriculture's budget. The state expenditure on entrepreneurship programs in the Texas Department of Commerce was, at most, \$1 million. An additional \$25 million in "full faith and credit" state lending guarantees were actively utilized in TDA venture capital programs.

In this crude accounting, about \$600 million was budgeted for non-metropolitan economic policy during 1992, including state sales tax expenditures, research and extension, and targeted development programs. Less than \$8 million of this was dedicated to entrepreneurship programs (with an additional \$25 million at risk in state loan guarantees). This total is hardly a surprise, since many of these pro-

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grams were created during a period of fiscal constraint, yet it reveals the relatively low priority of entrepreneurship in the overall context of Texas non-metropolitan economic policy.

### *Priorities of Local Development Practitioners*

I asked all informants during the interviews about their priorities in the use of state programs—that is, which state tools and expenditures were significant agents in stimulating local development strategies. The responses to these questions suggest that, in most cases, state entrepreneurship programs played only a secondary or indirect role.

*Prisons.* The pursuit of state and federal prison locations appears to have consumed a large part of the development effort among practitioners. Almost all interviewees said that they had seriously considered submitting a bid for a prison.

More than \$3 billion will be invested in non-metropolitan Texas during the round of prison construction beginning in 1991. The size of this investment dwarfs all other state development funding projected for rural areas during the early 1990s. About 72 rural local governments submitted proposals to become one of the initial sites.

The Texas Department of Criminal Justice (TDCJ) has required that cities provide 300 acres of land, as well as adequate and affordable wastewater treatment, accessible roadways, schools and medical facilities. In addition, the prison must be located within 100 miles of a metropolitan area.

According to local officials, obtaining a detention facility can be a windfall to successful bidders. It is equivalent to the ideal branch plant—stabilizing the community's economy while providing jobs for relatively low-skill labor. Moreover, some local governments now specify by contract that a certain proportion of the labor force must be hired from among local residents.

However, it was pointed out in interviews that entry into this bidding game is costly. One South Texas community, for example, estimated that they would need to spend \$3.1 million to extend their utility lines and improve their wastewater treatment plant in order to attract a prison. In many cases, communities must also hire a lobbyist and expend political chits to supplement their project contributions. Thus, the economic development resources of the community are tied up in a technically and politically complicated proposal process that tends to be of long duration.

*Other state facilities.* Interviewees also emphasized their efforts to attract other state facilities, including schools, hospitals and state of-

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fices. Overall, state appropriations represent a substantial flow of funds to non-metropolitan Texas. Of the \$25.9 billion in total FY 1992 expenditures, almost \$15 billion went to areas of the state outside the five most populated counties. While there was a larger per capita expenditure of state funds in the more populous counties (an average of \$1,764 for FY 1992), even Loving County—with a population of 91—received a total of \$93,713 (\$1,029 per capita). Even minor state offices can be important to the job base of small cities and are jealously guarded. For example, when the Texas Department of Transportation proposed closing several small-town field offices in 1991, there was a flurry of lobbying activity, and eventually the Department backed down.

*Industrial recruitment.* Finally, although many of the local officials interviewed spoke disparagingly of industrial recruitment, they continue to pursue new plant locations. One official said, recruitment is “do-able... We have the skills and wherewithal right now to market this area... Getting other kinds of investment would be far more complicated.” Another commented, “Industrial start-up or expansion capital is simply unavailable in rural Texas. We must look for outside partners.”

In this context, the estimates of lost property tax revenue described above, although tentative and without a metropolitan/non-metropolitan breakdown, are striking. They suggest that the use of land-subsidy tools in local development strategy experienced a rapid increase during the early 1990s.

### *Perceptions of State Entrepreneurship Programs*

While state entrepreneurship programs did not appear to be the primary drivers of local development efforts, all practitioners interviewed had experience with at least some entrepreneurship programs developed during the 1980s. All practitioners described themselves as current users of some entrepreneurship program, and almost all expressed interest in building their expertise in entrepreneurship strategies. A few practitioners had experience with almost all the major programs created during the 1980s. In this sense, the tools of state entrepreneurship appear to have become accepted as a normal part of doing business in the Texas economic development system.

In general, however, state development programs of all kinds were not viewed favorably by practitioners in non-metropolitan areas. As one local official exclaimed, “The programs are paralyzed. The bureaucrats make rules but no one makes real decisions. When they have funding, they sit on it—they cannot even figure out how to use

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it... The state creates complicated rules that distort how communities can use programs. You can't tell me that program needs are the same in Lufkin as they are in El Paso."

Within this overall context, entrepreneurial programs at TDA were generally praised, even by interviewees who were critical of Hightower. TDOC, on the other hand, was universally criticized for both overall agency strategy and program management from the mid-1980s through 1991. TDOC's problems lay in a kind of institutional indecisiveness. One practitioner commented, "TDOC wanted to be all things to all people." Another called the agency "undirected ... gutless."

Interviews indicate that TDA drew its strength from the knowledge of its staff regarding specific marketplaces and production practices. This, in turn, was drawn from the networks that TDA developed among agricultural innovators and entrepreneurs in Texas and researchers from around the country. TDA created these networks by focusing on specific industries rather than defining its role as a provider of generic services. By specializing, even within agriculture, the agency acquired a practical knowledge of markets—and more importantly, an array of relationships among businesses, researchers and product brokers—that allowed it to provide useful information and contacts to entrepreneurs. Practitioners also remarked that TDA was willing to advocate loudly for new products and types of business. The agency became a "gigantic salesman" for agricultural diversification and the reorganization of markets.

TDOC, by contrast, was unable to find its voice in the entrepreneurial state. The interviews suggest that most agency staff continued to operate from a traditional industrial-recruitment world view, but the agency's mission became confused among the conflicting demands of entrepreneurial and chamber of commerce constituencies; eventually, the agency was paralyzed.

### *Local Entrepreneurial Strategies*

Finally, most practitioners interviewed are engaged in local entrepreneurial projects, independent of direct incentives from state government. These range from a waste-to-energy plant in central Texas to a beef snack food processing company in west Texas; local roles range from organizing a project feasibility study to providing short-term financing. Indeed, almost every practitioner was engaged in projects that went far beyond the traditional ideas of indiscriminate land or bond financing for industrial recruitment.



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There is anecdotal evidence that state programs played a role to inspire this flourishing of local entrepreneurship. For example, two local projects, both organized with TDA funds and assistance, received national awards for entrepreneurial innovation from the Department of Housing and Urban Development and the National Association of Rural Electric Cooperatives. These projects apparently became models for other small cities in their respective parts of the state.

Some of the interviews do describe projects that rely on the tools of industrial recruitment such as land subsidies, but employ these tools in targeted strategies that tend to be associated with entrepreneurialism. One practitioner, for example, organized a targeted recruitment campaign to persuade several small electronics companies, closely linked in a supplier network, to relocate to his city. This was eventually successful, with the help of a land subsidy and a variety of other entrepreneurial and non-entrepreneurial funding sources. In this sense, practitioners appear to make little distinction between entrepreneurship and industrial recruitment strategy.

### Conclusions

Entrepreneurship policy emerged in Texas during the 1980s as a new institutional form; Eisinger is correct in describing this as a “profoundly new reordering of relationships between public and private sectors.” As Eisinger suggests, this policy was rooted in an effort to influence markets and thereby restructure key industrial sectors in the state. A broad variety of governmental instruments were employed, from public finance to strategic regulation and provision of information.

Overall, public entrepreneurship has become an accepted function of government at several levels of government in Texas. A radical constitutional change has occurred; new programs have been authorized and implemented; many local development practitioners—the primary users of state policy—have become experienced with state entrepreneurial tools. However, several other major conclusions are drawn below.

*Entrepreneurial programs have strained the political and managerial capabilities of the Texas state economic development system.* As with many reform movements, the advocates of entrepreneurialism were overly optimistic. Beginning in the early 1980s, economic policy in Texas operated under the shadow of profound ideological and budget conflicts. Non-metropolitan areas were in the center of this vortex, in battles with large-volume agricultural commodity producers over policies such as organic labeling, and in hidden competition

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with other state development institutions such as the Texas Department of Commerce over legislative authorizations and appropriations. These conflicts blazed into partisan warfare in the general election campaign of 1990.

Public entrepreneurship in Texas also encountered a broad perception of managerial shortcomings. Practitioners criticized almost all state development programs, including the Extension Service and the industrial recruitment system. These perceptions of managerial shortcomings were vigorously fanned by partisan conflicts. In its Schumpeterian sense, entrepreneurial state government represented an effort to reorganize industry; this fundamentally implies sectoral struggle, both with traditional as well as other “new” industries. Indeed, Texas resource industries were dramatically restructured during the 1980s, partially as a result of entrepreneurial programs such as those at the Texas Department of Agriculture.

The contentiousness of the entrepreneurial state created instabilities, however. By the end of the 1980s, these appear to have shifted the political calculus among most elected officials. Public entrepreneurship implied a set of conflicts and risks which most elected officials did not want to absorb. Moreover, Texas was undergoing an economic recovery during the late 1980s, and elected officials may have felt less pressure from voters regarding economic development policy.

This experience raises questions about the capacity of the entrepreneurial state to sustain itself. In Texas, it may have been more successful as a short-term effort to restructure agricultural markets than as a long-term program to reform state government. Two conditions would be necessary for the entrepreneurial state to grow successfully on the program base created during the mid-1980s. First, state agencies would need to substantially upgrade their administrative skills. Second, statewide officials and agency staff would need a strong stomach for mediating conflicts between competing economic sectors and alternative views of economic change.

*The direct influence of the entrepreneurial state is minor in proportion to other state programs.* A third conclusion of this research is that the entrepreneurial state in Texas is weak with respect to other state priorities. State investment appeared to wield substantial influence in non-metropolitan regions; however, this influence did not, in most cases, promote entrepreneurial activity. Indeed, state influence may have undercut entrepreneurship by inducing localities to pursue public jobs and construction subsidies. The programs considered ef-

fective in supporting entrepreneurship were too small to have significant investment impact on non-metropolitan Texas.

In its prison construction program, the state of Texas operated much like a private firm seeking site advantages for its facilities; the state asked for local land and infrastructure subsidy in return for state investment and jobs. Interviews indicate that non-metropolitan communities bid for prisons because city leaders felt they had few alternatives to sustain local economies.

Likewise, small cities appear to have increased the pace of industrial recruitment in the search for manufacturing or warehouse facilities that could provide a new economic base for the community. The state continues to support local recruitment efforts primarily through programs of the Texas Department of Commerce.

It is important to point out, though, that state entrepreneurialism may have exercised an important intangible influence, at least in the short term. Much of the effort at TDA was directed toward product promotion, the creation of marketing networks, and the restructuring of market institutions. This influence was exerted less through program investment, and more through regulatory structures, personal networks, media images, and intellectual currents among economic development practitioners. TDA's influence, as Marshall said of industrial districts, was "in the air."

*The entrepreneurial state in Texas has evolved into a menu of services rather than a set of directed interventions.* As small cities have expanded their competition, they have essentially taken on much of the risk that the state has avoided. Through passage of the economic development sales tax, the state has liberalized their ability to undertake risky projects. Small cities appear to be self-directed in policy; they are looking to the state not for primary leadership around economic development issues, but rather as a neutral funding pool.

This research suggests that non-metropolitan economic policy in Texas was fragmented during the late 1980s. As the entrepreneurial state became less potent, the entrepreneurial small city emerged. Local practitioners discuss state programs as a menu of assistance from which they pick and choose, depending on the needs and parameters of a specific project they are promoting. Many small cities appear to be fairly sophisticated users of both demand-side and supply-side programs, often simultaneously, fitting together whatever programmatic pieces they can. In general, the demand-side/supply-side dichotomy could not be applied to much of the local practice described in this research.

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On the other hand, the function of the entrepreneurial state as a projector of trends, indicative planner and strategy coordinator appears, in large measure, to have atrophied. Texas state government probably administered a more coordinated planning system for the commodity resource industries that dominated non-metropolitan Texas through the 1970s, than for the entrepreneurial industries that have emerged since. Eisinger described state entrepreneurialism as holding the promise of a "more highly rationalized" economic planning system. Instead, non-metropolitan Texas appears to operate increasingly as a league of city states.

### NOTES

<sup>1</sup> The author worked for the Texas Department of Agriculture from 1985 to 1990. Interviews were conducted during 1991 and 1992 as part of an assessment of Texas rural development policy funded by the Aspen Institute/Ford Foundation. This assessment was prepared for the 72nd Session of the Texas legislature with the support of the Texas Center for Policy Studies. Interviews were open-ended discussions designed to identify significant experiences and issues regarding management of state entrepreneurial programs. The identity of interviewees is confidential to encourage them to be candid. See Muller 1992.

<sup>2</sup> Kenichi Ohmae (1993), for example, argues that the "region state" is in "ascendancy." Ohmae suggests that nations have become incapable of governing regional economies; only regions themselves have sufficient knowledge to guide their development process. However, Ohmae provides only the slightest hints of the institutional content of this "region-state."

<sup>3</sup> The Governor's Task Force on Agricultural Development, comprised of 26 agricultural industry leaders statewide, advocated a similar program of reduced regulation, tort reform, and overhaul of workers compensation in its final report submitted in December of 1988 (Governor's Task Force on Agricultural Development 1988).

<sup>4</sup> This method is based on personal conversations with staff of the Corporation for Enterprise Development and the Nebraska Department of Commerce. I have organized the state non-metropolitan "development" budget to exclude appropriations for education and transportation. Although these are the largest state budget items directed to rural areas, they cannot be defined as development expenditures because their development benefits are not necessarily captured by non-metropolitan regions. Regulatory programs are also excluded because their influence is not normally felt through state appropriations.

<sup>5</sup> These include sales tax exemption for seed (\$11 million); livestock (\$92 million); horses, mules and work animals (\$6 million); farm supplies (\$43 million); feed (\$89 million); and agricultural machinery and equipment (\$43 million). Based on 1993 projection in Texas Comptroller of Public Accounts 1991, and on personal conversations with staff of the Texas Comptroller of Public Accounts.

<sup>6</sup> See Fiscal Note to S.B. 41, 72nd Legislature, 2nd Called Session.

<sup>7</sup> Based on property tax board statistics compiled by Catharine Clark, director of the Texas Center for Education Research, and reported through personal conversation.

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