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Institutional Collective Action During Covid-19: Lessons in local economic development.

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Abstract

At this point, little is known about local government responses to the economic crisis caused by COVID-19. This crisis is happening on Main Streets around the nation. This article examines how some local governments are taking collective action in partnership with others as well as organizations at the local and regional levels. What is unique is that collective action is rare as it relates to traditional economic development practices, yet it is occurring and leading to the offerings of multi-institutional grants and low interest loans. However, some newer supply- and demand-side actions are the result of a lack of resources and need for expediency. Practitioners can learn about these collaborative economic development actions other governments are taking, and how these partnerships can stabilize their local economies.

Evidence of Practice

- Institutional Collective Action is happening within local economic development, but is not wide-spread.
- Local governments are actively engaging in formal and informal economic development arrangements.
- Some traditional local economic development policies are being used, but low-cost, innovative practices and policies are being adopted.
- Collective action is occurring on both the supply- and demand-side of the local economy.

Keywords: Institutional Collective Action Framework, local economic development, COVID-19

Introduction

COVID-19 has brought about large and immediate changes to our society, healthcare system, and economy. Local governments have been on the forefront of dealing with these complex challenges often with limited resources. One of those challenges is the economic impact of the sudden closure of non-essential businesses in their community. As consumer spending slows resulting from people staying home, it has put significant strain on local businesses, and therefore local economies.

Economic development is an essential task for most local governments in the United States. These governments usually spend months crafting economic development policies and programs tailored to recruiting or expanding individual companies and industries. However, due to the economic fallout of this crisis, most local governments are pivoting towards policies and programs that attempt to sustain their current businesses and local economy. Unlike the Federal Government, local governments are ill equipped to handle this sudden transition which necessitates innovation and creativity in the support of their local businesses.

The purpose of this article is to examine how some local governments across the country are attempting to stabilize their economy by assisting businesses from two perspectives. First, local governments in the same metropolitan region are facing the same dilemmas, and in some cases are taking collective action. The Institutional Collective Action Framework (ICA) is used to examine how these cross-institution partnerships are forged to achieve collective action (Feiock 2013). Second, the economic development policies and activities implemented collectively have

assisted businesses with their operating costs (supply) or attempted to increase consumer spending to the businesses (demand).

Institutional Collective Action Framework During COVID-19

Cities have been presented with a complex ICA problem. Limits imposed on economic activity (often by states) to mitigate the spread of COVID-19 are impacting their ability to foster economic stability and support business. The ICA problem exists between neighboring local governments, the state government, federal government, public health agencies, local businesses, other public organizations, and citizens. The tradeoff is that normal participation in local economies will increase the risk of the spread of COVID-19 among individuals—who each can pose negative externalities on one another. Ultimately, social distancing guidelines set by a community are to enable some form of continuous, albeit diminished economic activity while infection from COVID-19 is a risk. These guidelines essentially mitigate the negative externalities of COVID-19 of sick individuals.

One major problem arises within the COVID-19-local economy and ICA dilemma: *coordination*. This is particularly true when multiple organizations partner to stabilize economic activity. Coordination problems result from complex and interconnected tasks and only increase with the number of actors present when issues of collective action arise (Feiock 2013). This is evidenced by the response to the crisis from New York to Wuhan to London.

The ICA Framework provides multiple mechanisms that institutions can use to overcome the dilemmas that negatively impact a collective response to COVID-19. The mechanisms are based

on two dimensions; *social embeddedness or arrangement*, and the *complexity of the network and actions*. The first dimension considers whether collective action is based on social embeddedness of the institutions, some political authority, or contractual arrangement. Social networks of institutions can replace more formal arrangements because the relationships among institutions lower transaction costs associated with collaboration (Granovetter 1985). The second, considers how many institutions are involved in the collective action, bilateral or multilateral, and how encompassing the action is, single or multi-issue. Based on these two dimensions, the ICA Framework provides a set of parameters on how to categorize collective action.

Several mechanisms based on the ICA Framework have arisen in the policy area of local economic development. On the first dimension, the type of relationship between the institutions, collective actions have been based on embeddedness and contractual agreements. The immediate need for action does not allow local governments the time to create another jurisdictional authority, delegate authority, or impose authority onto another entity. Instead, local governments are relying on existing formal and informal relationships. With regards to the second dimension, the collective actions have ranged from bilateral to multilateral relationships.

ICA Solutions

Based on the circumstances during the COVID-19 crisis, informal networks, working groups, service contracts, and partnerships/multilateral Interlocal Agreements (ILAs) are useful mechanisms for institutions to take collective action.

Informal networks and working groups allow local governments (and other institutions) to rely on existing relationships to work together during this crisis. Institutions can then freely enter and

exit a coordinated economic development response as needed. This has been prevalent for activities that do not require institutions to directly contribute financing for the economic response, such as joint marketing efforts to promote opened businesses in their communities to increase demand among consumers and sharing information about federal and state programs to their business communities to help with supply costs.

Network analyses of relations during disasters are instructive, but incomplete in understanding how economic development efforts are proceeding. There are more institutional structures being created on the fly with the implication being that there will be a long-term need for support. For example, in Youngstown and Warren, Ohio, a multi-organization task force was formed to identify the resources available to businesses and affected employees (WKBN Staff 2020). Notable groups participating in these efforts are independent chambers of commerce and foundations looking for ways to support their communities. In Buncombe County, North Carolina, the county is coordinating a service foundation that has been repurposed for COVID-19 relief, which supports a network of economic development resources throughout the county.

Cities and community organizations have embraced their facilitative role in less formal ways to spur action. In Raleigh, the economic development office is hosting weekly Zoom calls to offer resources and provide a space to discuss needs with the city's economic development staff. A call in late April resulted in a virtual collaboration of more than 150 in live attendance (City of Raleigh 2020). These efforts highlight what might be called 'passive partnerships' between different organizations engaged in collaborating to solve the problem, an ad hoc response in the

face of crisis. Cities are often at the heart of these informal groups, but involve participants from across their regions.

In contrast, service contracts and partnerships/multilateral ILAs require institutions to be legally bound by an agreement. While entering and exiting these arrangements limits flexibility, it provides stability and reassurance for those choosing to participate. Additionally, there are a set of expectations (legal, accountability, trust) for each institution in the arrangement to adhere to. There have been several examples where institutions have entered into a formal agreement for collective action during this crisis, all with some monetary contribution expected by one or more of the institutions. For example, local governments that lack the administrative capacity to manage a small business grant program may contract with an economic development organization, with the government providing the financing and the economic development organization providing the technical capabilities.

The mechanisms provided by the ICA Framework are a guide for local governments to overcome the dilemmas prohibiting collective action during this crisis. Examples can be seen in economic development actions concerned with both supply challenges, where the local economy attempts to reduce costs to local businesses, as well as demand challenges where it promotes the market by attempting to boost consumer spending.

In the next section, selected cases of collective action by institutions in different metropolitan areas are described. They are organized as either supporting the supply- or demand-side of the economy. Each of these collective actions fit within one of the ICA Framework mechanisms. They are either bilateral or multilateral, and formal or informal arrangements.

Local Economic Development Policies

Supply-Side Policies

The most common policy implemented by cities during this crisis has been grants to small businesses. Generally, these local governments are utilizing tools and funding mechanisms established before the crisis to distribute cash assistance to businesses, often from federal funding sources. During this time, there has been a shift as governments have created new grant programs specifically for businesses that have been affected by shutdowns. For most medium and small cities, this has involved the repurposing of CDBG or general funds that have gone unspent. For other cities, the governments have relied upon their general funds. In addition, cities such as Seattle, Washington, and Long Beach, California, have partnered with banks and other businesses to raise money for their stabilization funds. Seattle has raised at least \$15 million through this method (Stiles 2020).

In Fort Mitchell, Kentucky, the city government has appropriated \$100,000 to provide grants to small businesses in their community (River City News Staff 2020). These funds are intended to help businesses operating in the city for at least 60 days and negatively affected by the crisis. In addition, funds are restricted to the payment of utilities, rent, and payroll. City leaders expect to provide an average of \$2,500 per business, helping 40 businesses in total. Due to the limited administrative capacity of the Fort Mitchell, they are partnering with the regional economic development agency, Northern Kentucky Tri-County Economic Development Corporation (Tri-ED), to process applications and administer the funds. Tri-ED was a natural partner for the city as they regularly provide technical assistance on a range of public service issues to the city and

region. As a bilateral, contractual agreement between the City and Tri-ED on administering the grant program this fits the service contract mechanism consistent with the ICA Framework.

In Buncombe County, North Carolina, the county government along with the City of Asheville, Buncombe County Tourism Development Authority, and twenty other local government, private, and non-profit organizations have partnered to create One Buncombe, a 501c(3) relief fund (One Buncombe 2020). So far, the fund has accumulated \$1.1 million, with all partnering organizations contributing some amount. One of the goals of the fund is to provide low interest, bridge-loans of up to \$10,000 to small businesses until the businesses can receive a loan from the Small Business Administration. The loan can be used for payroll, accounts payable, fixed debts, and other bills unable to be paid due to COVID-19. Loan underwriting and administration is provided by Mountain BizWorks, a nonprofit community development financial institution.

One Buncombe is an example of how multiple public institutions, along with private entities, can partner with one another around a collective action problem. Like Fort Mitchell, institutions have contractually agreed to participate in the organization, specifically the agreement of providing needed relief funds. However, unlike Fort Mitchell, this is a multilateral agreement between different authorities and private organizations. Therefore, within the ICA Framework, this would be classified as a Partnership/Multilateral ILA.

In Youngstown and Warren, Ohio, a multi-organization task force was formed to identify the resources available to businesses and affected employees. Notable groups participating in these efforts are independent chambers of commerce and foundations looking for ways to support their communities. The partnership involved both a horizontal collaboration between cities as well as cross-sector partners like businesses, nonprofits, and state.

Several communities have implemented tax relief programs. Most of these have taken the form of delaying payment of taxes that are currently due, something encountered by many sales tax intensive businesses like restaurants. Arlington and Henrico County, Virginia, has waived all late fees on taxes. Toledo, Ohio, has deferred payments on its small business loans. Other cities have gone farther to place moratoriums on evictions such as San Francisco, California, which has a moratorium on evictions of small- and medium-sized businesses. Covington and Dayton, Kentucky, have provided a grace period on occupational licenses.

Finally, many cities have implemented new websites specifically for COVID-19 relief efforts. Using the tools at their disposal, they have created lists of resources that local government and other organizations provide. The website provides a simple way to list existing tools without requiring significant overhead. These are another representation of the ‘passive partnership’ activity we have seen through webinars and convening meetings. The state of Missouri, like many states, created a coronavirus page listing resources for businesses. Sioux Falls, South Dakota, saw its local economic development foundation post information to connect employers and the unemployed. Cities as far afield as Palo Alto, California; Maplewood, New Jersey; and Cherokee County, Georgia, have deployed portals to help struggling businesses gain access to the resources they need. Some communities have set up hotlines for business information, including ones as small as Fremont, West Virginia.

Demand-Side Policies

One of the most elemental roles of economic development teams is to promote business, which they accomplish by providing monetary and non-monetary assistance. During the COVID-19 crisis, cities have enhanced these efforts. Unlike the supply-side supports described above, these

strategies have been more ad-hoc and appear related to the resources different organizations have within easy access.

The City of Hamilton, Ohio, has taken a unique approach to supporting local businesses by increasing demand. The City Council approved a measure to spend \$300,000 on gift cards from local small businesses in their community (Rutledge 2020). The funding will be given to the Hamilton Economic Development Corporation (HEDC) and the Greater Hamilton Chamber of Commerce (GHCC) to purchase gift cards. The amount of gift cards the organizations will purchase from each business will be determined by how much the businesses were approved for in an application process. In turn, the HEDC and GHCC will resell the gift cards in \$10 increments to consumers over the next year.

This approach is not only novel, but is another example of how a local government can partner with multiple entities to provide relief during this crisis. Within the ICA Framework, this activity would be considered another Partnership/Multilateral ILA due to the funding mechanism in place and the coordination between the city, an economic development organization, and a private community organization.

In the Puget Sound region of the State of Washington, approximately 20 cities and counties are participating in what is being called #SupportPugetSoundSmallBiz campaign (Derrick 2020).

The governments are partnering to create a comprehensive map through GIS to provide the geographical location of any restaurant, bar, café, and brewery that is open for delivery, to-go, and drive-through. In addition to the map, the local governments are encouraging consumers to use social media to promote their purchases from these businesses and encourage others to spend as well.

The mapping of opened businesses was originated by the City of Seattle and developed by the Seattle Information Technology office in late March. However, other city and county governments in the region contacted the city to participate. The marketing activities these governments are engaged in on behalf of their business community is an attempt to drive consumers to local businesses that are open during this crisis. The mapping and social media marketing activities were created by local government and co-produced by consumers.

Conclusion

The COVID-19 crisis has created an all-hands-on-deck situation for local economic development departments. The strategies discussed above demonstrate the emerging variety of economic development approaches that local governments are using in an attempt to mitigate the economic damage in real-time. The ICA framework provides a useful conceptual frame to discuss efforts that have included collaboration both active and passive. Future analyses will be able to uncover how frequently these different collaborations emerge and if and how they were geographically distributed or clustered. Several highlights bear discussion. First, information and communications technologies – such as websites, webinars, and mapping systems – were used to quickly respond and collaborate in the midst of the crisis even when no other policy was adopted by elected officials. Second, the flexibility of CDBG grants allowed many local governments to quickly shift unspent money from those programs into support programs for businesses. Third, collaborative relationships immediately sprung up, reinforcing embedded social networks, but were of two novel forms. Some were more institutionalized than in previous crises, hinting at long term partnerships that will survive through the duration of the pandemic and potentially grow over time. Others were passive partnerships, where the sharing of information, either through a website or webinars, brought groups together through technology. This type of passive

relationship has been underexplored in the ICA literature, but suggests ways groups can coordinate to provide value in resource-constrained times. Within the constraints of their institutional environment, local governments have sprung into action with the tools they have at their disposal. The blossoming of creative strategies across the country is a testament to the vitality of local governance, and they need to continue efforts to innovate and forge multi-sectoral and multi-institutional partnerships.

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