In the Enterprise Zone

"An Evaluation of California's Enterprise Zone Programs" by David E. Dowall, in *Economic Development Quarterly* (Nov. 1996), Sage Publications, 2455 Teller Rd., Thousand Oaks, Calif. 91320.

Nearly 40 states now have enterprise zone programs that give tax breaks to businesses in blighted inner-city areas. The aim is to stimulate economic development. In California, the results have been underwhelming, says Dowall, a professor of city and regional planning at the University of California, Berkeley.

He looked at 13 of his state's 34 enterprise zones, ranging from the Barrio Logan area of San Diego in the south to Eureka in the north, and including the Watts, Central City, and Pacoima areas of Los Angeles. All were launched in 1986. Over the next four years, Dowall found, the number of firms operating in the zones increased by only 287 (to 8,018), or less than four percent. There was evidence of unusual job growth (relative to the particular county and industry) in only two zones (Pacoima and San Jose), and even in those, the programs may not have been responsible. Of 159 businesses that Dowall surveyed, only 36 said their decisions about location or expansion had been influenced by the incentives.

Tax records indicate that businesses in the 13 zones claimed some $10.6 million in state income tax credits between 1986 and 1990. Fewer than 1,000 jobs—only about six percent of the total net increase—were ostensibly "created" as a result. The credits, representing less than one-half of one percent of the total net taxable income ($2.7 billion) earned by zone businesses, were too small, Dowall notes, to have much impact. He favors throwing more money at the problem, including regulatory relief and financial and technical aid for zone businesses, investments in infrastructure, and job training.

Diminished to Death

"Increasing Returns and the New World of Business" by W. Brian Arthur, in *Harvard Business Review* (July–Aug. 1996), Boston, Mass. 02163.

The law of diminishing returns is one of the most useful contributions economics has made to humanity's tiny stock of comfortable truisms. Now, however, economists may have to take their gift back.

The law holds that a producer who continually increases output will eventually encounter limits: pouring more resources into production will yield diminishing returns. A farmer, for example, will eventually be forced to put lower-quality land into production, cutting profits. Diminishing returns, in the writing of the great 19th-century economist Alfred Marshall, were a crucial force in bringing prices and market shares into equilibrium in a market economy.

The principle still largely fits the "bulk-processing, smokestack economy," argues Arthur, an economist at Stanford University, but in today's high-tech economy, a new "law" is in effect: the law of *increasing* returns.

High-tech goods are different in large part because their production costs do not rise. High-tech producers put most of their money into research, not production. The first copy of Windows cost Microsoft $50 million; subsequent ones cost $3 apiece. The law of diminishing returns does not operate through costs alone. An automaker, for example, suffers diminishing returns when it exhausts the customer base for its brand. Beyond a certain point, Ford must cut prices to sell more Tauruses.

But such limits do not always completely apply to high-tech products, Arthur contends. "If a product or a company or a technology—one of many competing in a market—gets ahead by chance or clever strategy," he maintains, "increasing returns can magnify this advantage, and the product or company or technology can go on to lock in the market." That is what happened in the early 1980s, for example, in the market for operating systems for personal computers. Even though computer programmers regarded it as an inferior system, DOS eventually prevailed over its competitors. Users had too much invested in learning the ways of DOS to switch. Software developers put more of their efforts into writing programs for DOS. Microsoft got a lock on the market.

The law of diminishing returns still applies in the traditional, bulk-production part of the economy. In that environment, Arthur observes, a hierarchy of bosses and workers, planning, and controls are the rule, whereas in the high-tech world, the continual "quests for the next technological winner" require "flat" hierarchies and maximum freedom for employees.

The two worlds of today's economy are not neatly divided, Arthur says. Hewlett-Packard, for example, designs knowledge-based devices in Palo Alto, California, and manufactures them in bulk elsewhere. Most high-tech companies have both types of operations, but the firms often keep them separate, he says, because the "rules of the game"—and the underlying economic laws—are different for each.

SOCIETY

Why America Got Malled

A Survey of Recent Articles

The malling of America must be almost complete now. At last count (1995), the country had 41,235 operating shopping centers (including some 1,800 large regional malls). Most Americans seem satisfied with this, but not all. Some critics, such as Kenneth T. Jackson, a historian at Columbia University, are appalled by the sameness of these cathedrals of commerce—"the same products, the same stores, and the same antiseptic environment." Others, such as Lizabeth Cohen, a historian at New York University, worry that, by "privatizing" public space, malls may pose a grave threat to democracy.

Why did this strange fruit flourish in the American landscape? Scholars usually point to Americans' postwar rush to the suburbs and to their love affair with the automobile. (The former was given added impetus by rising racial tensions in the cities, and the latter was abetted by the Interstate Highway Act of 1956.) Thomas W. Hanchett, a historian at Youngstown State University in Ohio—who joins Jackson and Cohen in *American Historical Review* (Oct. 1996) in examining the malling of America—has a different explanation: a 1954 change in the U.S. tax code.

Shopping centers rarely sprouted before Congress made the change. Entrepreneur J. C. Nichols's Country Club Plaza, a Spanish-themed cluster of upscale shops in Kansas City often cited as the world's first full-blown shopping center, attracted much publicity nationwide when it opened in 1922, but only a handful of imitators. "The problem lay in the economics of development," Hanchett says. "For a developer dealing in raw land at a city's edge, the swiftest and easiest return came from simply selling lots or houses. A shopping center, by contrast, required the investment of considerable construction capital. Once built, its rental spaces had to be managed carefully over many years in order to generate a profit."

After World War II, shopping center devel-

The Unreal Environment

When Americans enter the mall, they are leaving something vital behind, writes noted architecture critic Ada Louise Huxtable in *Preservation* (Mar.–Apr. 1997).

The changeover from the street to the enclosed, security-controlled mall, where one feels safer than on city streets and where so much of our social and communal life has been relocated, has transformed and diminished the use and meaning of the public domain. There is a growing controversy as to whether the mall is public or private space, with constitutional freedoms or its own police powers. The critic Michael Sorkin argues that this murky area—the increasing privatization of publicly used malls as a substitute for the almost extinct communal function of the street and the square—marks a trend toward the end of public space, with alarming ramifications in terms of democratic diversity and freedom. . . . The cocoon of the mall protects not only from assorted discomforts and troubling diversity but also from our inclusive, democratic history.