INDUSTRIAL POLICY IN AMERICAN STATES: THE INVISIBLE SIDE OF THE DEBATE

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I. INTRODUCTION

Like other recent economic policy discussions, the debate over industrial policy is getting considerable attention from the media and politicians. The economic problems of the 1970s continue to plague policymakers and their advisors despite reductions in inflation and unemployment as well as some improvements in GNP growth and productivity. It is a debate that emerged following both the perceived failures of Keynesian policies and the political successes of supply side economics.

As an alternative to those schools of thought, industrial policy has some very articulate advocates, including economists Robert Reich (1983) and Lester C. Thurow (1983). They and other industrial policy proponents posit the need to deal with current economic problems through direct microeconomic policies that focus on the development or revitalization of specific industries. This prescriptive position has, of course, generated opposition from both sides of the economic policymaking mainstream. On the right, industrial policy advocates are criticized by Reagan Administration officials (e.g., Donald Regan, Martin Feldstein) as well as other conservative economists (see Stein 1983). Among liberals, leading Keynesians (e.g., Charles Schultze, Paul Samuelson, Alfred Kahn) are increasingly vociferous in their opposition (see Bartlett 1983). Despite this significant opposition, however, industrial policy seems to be popular among a growing number of political, business, and labor opinion leaders.

The nature of the debate over industrial policy is becoming clearer each day, and at the heart of the speeches, writings, and heated exchanges is the question of whether or not the U.S. should have a national industrial policy. What is missing in all this rhetoric is an awareness that industrial policy is not new to the U.S.; it is, in fact, a common part of the policy agenda in the fifty states. Whether called industrial policy or labelled economic development or industrial development, the bottom line is that American states have undertaken the task of attracting new industries, retaining old ones, and helping current industrial residents to expand (or at least maintain) market positions and production facilities.

The basic assumption of this paper is that the industrial policy debate is now focusing on the wrong question. The issue should not be put in terms of whether we ought or ought not to have a national industrial policy. Instead, <u>the question is whether we need one national industrial policy rather than the 50 we now have.</u>

To better understand the need to recast the industrial policy debate, it is necessary to examine the actual and potential range and depth of industrial policy activity at the state level. This paper is an attempt to take the first steps in such an examination.

II. THE FRAMEWORK

Industrial policy options at the state level are not infinite. Various constitutional, legal, economic, political, fiscal and historical factors limit what state governments have done and can do to attract, maintain, and/or promote industries in their jurisdictions. Nevertheless, all states have some form of industrial policy. The present task is to consider various options available to them and to examine which are most likely to be utilized under existing constraints.

The framework underlying this presentation posits six leverage points which any government might use to influence the actions of individuals, firms, or entire sectors of the economy involved in industrial development and related activities. These leverage points -- market climate, size, structure, resources, risks/liabilities, behavior/behavior norms -- represent the points of potential vulnerability for all markets to governmental policies. Together they represent an alternative to traditional approaches to describing public policies toward business and (more specifically) provide an appropriate foundation upon which to built an analysis of industrial policies in the states.

The actual policy tools a government can use to operate these levers -- e.g., moral suasion, antitrust policies, regulation, public ownership (see Shepherd 1975; Priest, Stanbury and Thompson 1980) -- will vary from jurisdiction-to-jurisdiction and case-to-case. Similarly, the level of application will also vary. For example, some of the leverage will be applied directly to specific individuals or firms, as in the cases of the Lockheed and Chrysler bailouts. At other times, the leverage will be applied industrywide, as in the case of protective tariffs and other forms of product-specific protections. Finally, some of the leverage will be administered indirectly through policies aimed at industry-relevant segments of the general population, as in the case of using income tax credits to promote the use of energy saving products in home construction and remodeling. Because of their variability from state to state, both policy tools and levels of application are useful measures for comparing industrial policies. In that way they complement our framework by providing us with operational constructs.

The logic of this approach can be expressed in terms of a distinction between policy strategy and policy tactics. A great many studies of political economic activities (including industrial development and policy) focus on governmental tools and techniques rather than public sector strategies for influencing businesses (e.g., Dahl and Lindblom 1953: 7-16). But the use of these tools and techniques depends on policy strategies and the theories they imply. Whether explicitly or implicitly stated, public policies toward business involve assumptions regarding the vulnerability of the marketplace to manipulation. Pressman and Wildavsky (1973) point out that public policies are actually theories ("If X, then Y.", p. xxi), and this is no less the case in government industrial policies than in any other arena. Upon examination, policies yield information about the theory or theories that spawned them and reflect the overall strategies being implemented through specific programs. The choice of specific policy tools or a level of application are tactical decisions. While those decisions are important in the empirical study of industrial policies, strategies are the foundation of our framework.

In the following overview, possible state industrial policy activities in each of the six strategic categories are discussed with the intention of providing examples and seeking to explore the parameters of state-level actions. Again, these are preliminary steps toward a systematic study of state industrial policy activities. Thus, while the central questions here are descriptive, the objectives are ultimately explanatory and evaluative. They should be assessed in that light.

III. MARKET CLIMATE

"Organizations are inescapably bound up with conditions of their environment," state Pfeffer and Salancik (1978:1), and this fact has not been lost on industry decision-makers. The marketplace is rarely static, and private sector firms have become increasingly aware of their vulnerability and the need to reduce uncertainties caused by hostile or ambiguous surroundings (Lawrence and Lorsch 1969). When choices do have to be made -- whether involving the closing of a financially troubled plant, making new investments in existing units, or siting a new facility -- the "climate" of the market can play a significant role. Thus, creating the appropriate market or business climate is one leverage point public policymakers can consider in their search for effective industrial policies.

Describing how governments deal with the marketplace's climate depends on how we define our concepts. Business climates are sometimes regarded in objective (i.e., measurable) terms; that is, climates are perceived as a bundle of specified conditions and one can assess a market environment by evaluating how close the real world comes to some idealized standards. So, for example, an ideal climate for the banking industry would be one without interest rate ceilings and with relatively few or no restrictions on how banks may invest their funds. Given those somewhat objective criteria, business climates for banks in the fifty states can be evaluated with an eye toward selecting the most favorable among them. Citicorp's recent move of its credit card division to South Dakota and its decision to purchase a local bank in that state are as much reflections of a warm business climate for the banking industry as they are reactions to changes in the details of state legislation. Similarly, many industries have found the business climate of North Carolina and other southern states extremely inviting in recent years, and this has paid off for those states in record levels of economic growth.

There are those who argue that business climates cannot be objectively measured, and that a more subjective view is needed. Harding (1983) argues that business climates cannot be effectively assessed by measuring some specified factors such as labor productivity, taxes per capita, etc.. Such measures imply the existence of an ideally "good" or "poor" climate for all businesses. But given the diverse requirements of different firms and industries, as well as the difficulties of measurement, such absolute and idealistic standards are unlikely to be of much value to decision-makers. A good climate for bankers in South Dakota may be a poor climate for auto manufacturers. It's all relative. What can be used in place of such objectives measures, Harding states, are the "attitudes of the population and its elected and appointed government officials toward business" (1983: 22). If those attitudes are favorable to business in general and/or a particular industry, that information will be factored into the decision-makers calculations.

To the extent that state officials believe market climates to be crucial variables in business decisions, they have a number of policy options at their disposal. These range from those that can enhance widely used objective measures to those that present a positive image of public and official attitudes toward business in the state. On the objective side, commonly used factors focus on available capital resources, labor (e.g., average weekly wages, union membership, level of education, productivity), types and level of taxation, current business activity, etc. (see Posner 1983). In each of these areas, state government can have some impact by using its other leverage points (see below). For example, the availability of capital resources can be enhanced through a variety of government programs ranging from direct state assistance to low interest loans and loan guarantees. Labor costs and productivity can be made more attractive to industries through adjustments in minimum wage and workmen's compensation laws and state investments in training and relevant educational programs. By taking these steps, state officials may not only improve their relationship with specific firms or industries, but also lend greater credibility to claims that theirs is a good state in which to do business.

On the more subjective side, most states have been investing heavily in media campaigns to convince businesses of the virtues of moving to their respective jurisdictions. A recent issue of a popular magazine for small businesses carried several advertisements delivering such messages. The following is from a full-page color ad declaring the theme: "KENTUCKY & CO., The State that's run like a business."

> Will your business pick up the tab? If you're in a state that kept on spending during the recession, it's likely that your company's taxes will have to make up for any deficit. It's also likely there'll be a generous tax increase to pick up the tab for even bigger spending now that the economy is improving. After all, you can't expect thrift and good management in good times when it hasn't been exercised during the bad.
>
> In Kentucky, however, there is no tab. . . . [E]fficient, sound business management, not public expediency, provided the direction. . . .
>
> So, if your state is looking to you to bail it out, maybe you should bail out yourself. Come to the state that thinks and acts like you do and work with state government instead of for it for a change. (Inc.: 126)

Or consider the following advertisement from Tennessee:

> We could print a long list of golden promises about Tennessee's climate for new business. But we'd rather get down to brass tacks, and show you proof, not promises. Like our central location and our old-fashioned attitude toward hard work. We want to tempt you with a soothing climate and sensational life-style. More proof? We'll show you a growing list of major corporations that have come, and stayed. So look at others' promises and our proof. . . . (Inc.: 202)

Other ads ask readers to "Say Yes To Michigan" and its offer of free training for workers (Inc.: 163); or to consider Louisiana because, when it comes to business climate, "Louisiana does more than talk about it":

> Louisiana's actions on "business climate" speak louder than words. Check our record: Reasonable Tax Policies; Revenue Bond Financing; State-Supported Job-Specific Training Programs; Enterprise Zones; Businesslike Government; Fair Workmen's Compensation and Unemployment Laws. (Inc.: 4)

In addition, that same issue contained promotional ads from Alabama, Indiana, several localities, and even Northern Ireland. All were aimed at promoting the business climates of their area.

While there is evidence casting doubt on the value of such promotions, there also are analyses indicating a close connection between business climate and business decisions to locate plants or other faciltiies in states that rank high in that elusive factor (Cobb 1982: 224; cf. Harrison and Kanter 1978: 264-266). That fact makes it too risky for many states to ignore the potential payoffs of such media campaigns. "In the midst of heated competition for industry," notes Cobb (1982: 228), "a state . . . that did not engage in extensive promotional activity was likely to be labeled as indifferent or antigrowth. Such a reputation, no matter how undeserved, was extremely difficult to disprove."

The ability of states to change business climates -- or, at the least, their perceived business climate -- is limited by several factors. First and foremost is that a good deal of what determines business climate is out of the control of state governments. General economic conditions in the world, nation, and immediate region are often determinative. Consider, for example, the changes in Michigan's business climate when the automobile industry fell upon hard times during the 1970s. At the opposite extreme, Texas has been blessed with a highly rated business climate due primarily to strong and enduring demand for its oil and other natural resources. Should those resource markets become depressed (an all too possible scenario given recent gluts in the oil market), one can foresee problems in maintaining those high ratings. In short, in an increasingly interdependent and international economy, there are considerable limits to a state's control over its own business climate.

Second, many of the policy tools available for states to manipulate their business climates are linked to (and are often dependent upon) federal programs or policy initiatives. Federal laws and regulations regarding the use of industrial revenue bonds, federal funding levels for relevant programs and projects, the location of federal faciltiies and the awarding of federal contracts -- all these can have considerable impact on a state's business climate and are outside of the direct control of state officials. For example, there can be little doubt that Tennessee's business climate would be adversely affected by the shut down of Oak Ridge or TVA facilities, and while the state's congressional delegation or lobbyists can influence such decisions, there is still an inherent level of uncertainty built into that lack of control over such major ingredients in the state's economic infrastructure.

Third, even in those policy areas where state government officials have potential for exercising leverage over business climate, political and ideological factors may make such actions too costly to pursue. While attracting new industries is frequently popular among voters, tax exemptions, loans and loan guarantees, and the other policies needed to promote such moves are sometimes frowned upon by the electorate. In this sense, the business climate must follow the political climate of the state.

Finally, history may also work against efforts to enhance a state's business climate. Some states have a reputation as being antibusiness or antigrowth built on past business experiences. Louisiana has worked hard to overcome an "anticorporate image" (Cobb 1982: 228), and the tone of its advertisement (quoted above) reflects that by asking potential investors to consider what the state government actually offers. Other states seem to have given up trying to directly confront their poor images, and instead have concentrated on other strengths to accomplish their industrial policies. And so, while New York State's perceived business climate has been tarnished in recent years, its vast capital resources and support programs for business have helped it overcome that negative image (see Posner 1983: 142).

IV. MARKET SIZE

Although there are bound to be exceptions to the rule, it is safe to assume that private sector firms and industries are interested in either increasing or controlling the size of their markets. Some may seek access to larger markets in order to improve their financial positions. Others seek to stabilize market size and thus protect their current positions. The motivations and objectives will vary. But whether measured in terms of access to a larger market or as a share of the current market, market size for a given product or service can prove useful as a governmental leverage point for influencing business behavior. A government able to demonstrate effective capabilities in this area will likely draw the attention of business decision-makers.

Unfortunately for most states, this is a particularly weak leverage point. Except in a certain number of traditionally regulated markets, state governments have little if any access to the major policy tools that might allow them to impact market size. Many of those tools are unavailable due to constitutional proscriptions or federal preemptions of state government powers over the products and services found in the flow of interstate commerce. In those markets where such intervention is legally possible, a demonstrable public interest must be involved and the resulting policies are difficult to administer.

Some states have traditionally determined the market size for public utility companies through the granting of geographically specific franchises as well as through the imposition of restrictions on how those companies may relate to the larger marketplace. In some states, natural gas utilities cannot be involved in the electric power utility business, and vice versa. In the oil production industry, the Oklahoma Corporation Commission and the Texas Railroad Commission (under powers granted in the 1935 Interstate Compact to Conserve Oil and Gas) have been controlling the production of those resources in their jurisdictions for decades (see Mead 1973: 209-211). The intention from the outset of such efforts was to limit the amount of production and thereby maintain price levels in a market that would otherwise be too large. Still another regulated sector susceptible to state market size control is the banking industry. In Illinois, for instance, bank branches were prohibited for many years, and only recently have those market size restrictions been liberalized enough to permit some branches and electronic funds transfer locations. At the other extreme are states like South Dakota and Alaska that have loosened their banking regulations considerably, thus allowing local bankers access into insurance, real estate, securities, and other related financial services markets that were previously closed to them.

Outside of these traditionally regulated areas, however, state officials can do relatively little of a formal nature to deal with industrial market size for the business community. What they can do is provide help in promoting the efforts of local industries to improve and widen markets. For example, it is not uncommon to read of governors heading state trade delegations to Japan, the People's Republic of China, and other potentially lucrative international markets. In addition, they can help lobby for protective federal policies relevant to major local businesses. State officials are found side-by-side with industry representatives in Washington lobbying Congress, the White House, or bodies such as the International Trade Commission on behalf of some favorable treatment for home grown production.

Along similar lines, all fifty states have established state programs to help increase the exportation of their industrial and farm production (Industrial Development 1983: 9). Subsidies for and cooperation with important industrial associations are also common. In-kind support is even more typical: most states provide assistance for private companies bidding on federal procurement contracts. In some states, tax credits are offered to users of specified state products. In Florida, for example, a credit is applied to alcoholic beverages produced from designated agricultural products grown in that state. In Tennessee, tax credits are granted for using any products of that state's soil. Similar product-specific policies are found in Arkansas, Hawaii, and Louisiana (see Industrial Development 1983: 8, 10)

The bottom line, however, is that in the context of regional, national, and international economies, the ability of individual states to influence the market size of major businesses is negligible.

V. MARKET STRUCTURE

The degree of competition in a specific market can also be a salient factor in the decisions of firms and industries. The exact position a business assumes on market competitiveness and structure is variable. The steel and automobile manufacturing industries, for example, might like to see less competition from steel and auto imports. For them, there is too much competition and the market structure needs to be more closed and market entry a bit tighter. Industries which faced steep increases in fuel costs during the energy crises of the 1970s and 1980s often argued that there was too much concentration of market power and not enough competition in the fuels industry. Obviously, governments that are willing and able to deal with market structure will have some leverage in the industrial policy arena when such issues arise and become important to businesses.

For states, market structure offers a limited source of influence. Again, as with market size, the two key constraints seem to be lack of control over the market and the preemptive capabilities of the federal government. Try as they might, there is nothing of a direct nature the State of Michigan can do to alter the structure of the market for automobiles. In such cases, the states can offer legal and political support to the industry. Politically, they can promote the purchase of state products and join industry associations in lobbying for federal policies that will benefit local firms. Legally, states may join in or oppose antitrust lawsuits relevant to an industry. Such support -- or the expectation of it (which is relevant to the business climate) -- can have considerable impact on certain corporate decision-makers.

There are instances when more direct influence is possible, particularly if the industry in question relies heavily on intrastate business or competition. Under current federal policies and court decisions, state activity is itself exempt from antitrust laws. This opens a number of possibilities to impact market structure, for it provides the state's private sector with a means for controlling market competition. Thus, states can create franchises, protect monopolies, fix product or service prices, or do any number of things that can stifle or enhance market competition among an industry's members located within a state's borders. Only two requirements must be met: first, the purpose of such actions must be "clearly articulated and affirmatively expressed as state policy"; and second, "the policy must be 'actively supervised' by the State itself" [see Parker v. Brown, 317 US 341 (1943) and California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 US 97 (1980)].

On the surface, the antitrust exemption of state activity seems a potentially powerful industrial policy tool. However, its applicability to major industries is very limited. It has been used to influence the market structure of intrastate trucking, wholesale liquor distribution, public utilities, and other localized, intrastate businesses. It will not prove very useful for attracting investments and commitments from larger corporations which would find little or no advantage in dominating a local market. Similar limitations characterize still another powerful state policy tool -- licensure. A state's ability to structure professional and other occupational markets is well known, but it is unlikely that licensure or related mechanisms (e.g., intrastate franchises) can prove attractive to businesses dealing in national and international markets.

VI. MARKET RESOURCES

Land, labor, and capital, as every student of basic economics knows, are the essential ingredients for participation in the marketplace. It is the scarcity of those resources that underlies the dynamism of an economic system. That scarcity also provides state governments with their greatest opportunities and leverage in the area of industrial policy.

Whether provided directly through subsidies or other forms of state assistance, or indirectly through tax exemptions and credits, states have found the manipulation of market resources an extremely feasible and frequently effective means for maintaining, promoting, and attracting industries to their respective areas. The policy tools involved are usually linked to the state's own tax system or a pool of funds specifically designated for use in helping communities pursue industrial development. In other words, market resource strategies are, for the most part, controllable by state policymakers. There are various federal tax laws and securities regulations that form the foundation and parameters for state resource-based efforts, but there remains a significant number of options within those federal constraints. That fact and the perception that business decision-makers will respond to resource subsidy offers have made this the most often used leverage point in the state industrial policy arena.

Thus the recent explosion of programs using market resource strategies should come as no surprise. As indicated in Table 1, the number of states using selected programs and approaches based on market resource strategies has more than doubled in almost every case between 1966 and 1983.

TABLE 1

PROGRAMS OF INCENTIVES AND FINANCIAL ASSISTANCE FOR INDUSTRY	NUMBER OF STATES WITH PROGRAMS: 1966	1983
State loans for building construction	11	26
State loans for equipment and machinery	8	24
State financing aid for existing plant expansions	14	31
Corporate income tax exemptions	11	25
Personal income tax exemptions	15	20
Excise tax exemptions	5	16
Tax exemptions or moratorium on land, capital improvement	11	30
Tax exemptions or moratorium on equipment, machinery	15	34
Tax exemptions on manufacturers' inventories	19	44
Sales/use tax exemptions on new equipment	16	38
Tax exemptions on raw materials use in manufacturing	32	47
Tax exemptions to encourage research and development	3	12

Source: 1st and 17th Annual Reports on "The Fifty Legislative Climates," in 1966 and 1983 issues of Industrial Development, a publication of Conway Publications, Inc.

Resources can and have also been used to offset the negative effects of regulatory policy. For example, states have few options when it comes to environment regulation; they must adopt, comply with, and enforce federally set standards (Dubnick and Gitelson 1982) that may have a negative impact on a state's industrial policy efforts. As a consequence, most states have established resource-based incentive programs to counteract those effects. All states except Georgia and Washington have programs to help finance the purchase and installation of pollution control facilities; two thirds of the states allow accelerated depreciation on pollution control equipment; tax exemptions for such equipment is found in a majority of states, and some even permit tax credits against a state's corporate income tax (Industrial Development 1983: 12).

There is an irony to all this, for as these resource-based programs proliferate, their uniqueness and utility to states as attractions to industries deteriorates. There remains a handful of states that have not yet joined the rush to what one critic has termed "public entrepreneurship" (Goodman 1979), and these generally show up on the lower end of business climate ratings. But as the economic crises of the early 1980s continues, there are certain to be even more states offering businesses larger and more lucrative incentive packages based on direct financial assistance and tax exemptions to attract attention and investment dollars. In the end, however, such packages will offset each other and businesses will either see little or no advantage to investing in any particular jurisdiction, or they will be able to use the situation to generate even more resource concessions or other forms of support from competing states.

In a related scenario, as national and local economies recover, protests against the "giveaways" of market resource-based programs might increase and we are likely to witness efforts to eliminate or effectively offset the impact of those programs through lower support or increased taxes on business. That possibility may be an important consideration among relevant business decision-makers, and states may take steps to counter that image by increasing the resources provided "up front" or by other steps that would make industrial development program reductions more difficult in the future (e.g., committing to long term loan obligations, building tax exemptions into the state's constitution, etc.).

As of now, the state industrial policy arena is predominantly resource-based. Other strategies take a secondary role. However, the future effectiveness of market resource programs is by no means clear. We are therefore likely to see a greater diversity in state program strategies.

VII. MARKET RISKS/LIABILITIES

An open and unencumbered marketplace is supposed to reward those who succeed in spite of exposing themselves to the market's many risks. If it were possible to reduce those risks or the actual and potential costs associated with them, a business is likely to seek the advantage gained therefrom. Governments able to manipulate the risks and liabilities of doing business can use these capabilities as a key leverage point for influencing business decisions.

As in other areas, the federal government has some advantage here, but its potential control is nowhere near complete. In some instances, federal policies can be complemented by state policies. For example, federal patent laws supposedly promote innovation and invention by offering legal protections for the patent holder to isolate a product from some of the risks of competition. While states cannot interfere with federal patents, they can enhance their value through laws protecting trade secrets.

In other cases, the states might do a great deal more than the federal government. Loan guarantees provide an example. While used only recently and sparingly at the federal level to aid industries (e.g., Lockheed and Chrysler), such guarantees are increasingly common at the state level where they function both to reduce risks associated with corporate investments and indirectly to increase business resources through lower interest rates on loans.

In the area of liabilities, the federal government has again used its power sparingly, usually to meet some specific need. The 1957 Price-Anderson Act, for example, "provided government indemnity to back up private companies insuring nuclear reactors" (Davis 1982: 217), thereby effectively limiting the liabilities of those businesses. The pharmaceutical industry received an exemption from all liabilities for their production of swine-flu vaccines in 1976 (see Silverstein 1981: chapters 9-10).

At the state level, there are rarely any industry specific liability programs. Instead, time limits on all liabilities is more common. For example, in most states there is a statute of limitations of 4 years on simple breach of warranty, and 6 to 12 years on negligence and strict liability cases (Lusk, et al. 1982: 720-722). Where there are industry specific policies, they are usually limited to those businesses which are traditionally regulated by the state and typically involve little more than limiting financial liabilities for named products services.

In fact, except for various loan guarantee programs, states have not found much use for the risk/liabilities leverage points in their industrial development policies. Most legislation in these areas are general in nature as well as application and cannot be easily targeted to a particular firm's or industry's needs without raising a number of legal and political issues. What a company might look for, however, is how well businesses fare in the implementation and litigation processes involving product liabilities, etc.. Here again, however, we are discussing business climate as much as market risk/liabilities as a leverage point.

VIII. MARKET BEHAVIOR/BEHAVIORAL NORMS

The direct regulation of business behavior has not been popular in recent years. The current conventional wisdom is that government interference in the day-to-day operations of business is "unreasonable," is having a negative and costly impact on the economy, and can only be counteracted through systematic deregulation (e.g., see Bardach and Kagan 1982; Weidenbaum 1980). While most of the deregulation rhetoric has been aimed at federal programs, states have not been immune (see Babbit 1980). In the midst of that debate, however, many have lost sight of the potential usefulness of strategic regulation as well as deregulation for state level industrial policies. In the competition for industrial development, states can and have used deregulation <u>and</u> regulatory controls to enhance their efforts. The most common paths has been through formal deregulation and the lax enforcement of existing regulations (Rowland and Marz 1982). Thus, in competing for industries, states tend to participate in what Cary terms a regulatory "rush to the bottom" (cited in Noam 1980: 203).

This has been especially true for the economic regulation of those industries which are regulated primarily at the state level. For example, competition to attract or retain life insurance firms in specific states has created a situation where that industry faces few if any significant restrictions. Being a white collar, environmentally clean, highly mobile, financially lucrative industry, life insurance enterprises have a variety of locational options to select from, and it is clear that they will look to the "lowest bidder" (in regulatory terms) (Orren 1974: chapter II).

This generalization is not so simply applied when it comes to environmental and social regulations. Particularly when dealing with "dirty," relatively immobile businesses (i.e., with investments in large factories and fixed equipment), such anticorporate regulations may not become less demanding or less stringently enforced. The determining factor would seem to be the strength of enduring support for the regulations, the relative importance of the industry in question to the state's economic conditions, and the salience of economic policy issues (Williams, 1983: 363-369). Where the support is weak, the industry is important, and economic conditions are deteriorated, the "rush to the bottom" is likely.

However, there are also situations when stricter regulations and regulatory enforcement may provide advantages to a firm or industry that a state is seeking to retain or attract. In this case we may witness a "rush to the top" (Noam 1980: 203-204). For instance, the state regulation of labor unions is likely to increase as industrial policy becomes more important. There are, of course, "Right to Work" states in which effective union organizing is quite difficult. In states lacking that statutory status, strict requirements for establishing union shops are increasingly common (e.g., Colorado requires 75% of voting employees to vote yes for union shop designation; see Goodman 1979: 36). Other forms of regulation that might prove peripherally inviting to business decision-makers are fair trade rules and prohibitions against some forms of advertising (e.g., for "professions" such as lawyers, optometrists, etc.). These fair trade laws and other restrictive regulations are likely to have a negligible impact on large corporations both because of their relative insignificance to most major industry decision-makers and due to recent legal and legislative actions to eliminate them or reduce their impact (Babbitt 1980).

The major point to be stressed here is that regulatory tools applied to influence marketplace behavior can be and have been used as part of overall strategies for industrial policies in the states. As with the other leverage points discussed in this paper, the value of regulation in this regard has its limitations. For the regulation of behavior to succeed as a part of a state's industrial policy program, it must be designed within the parameters of state authority to regulate and implemented within the context of appropriate political, economic and social conditions, i.e. the "right" business climate. Since some of these conditions are ambiguous, contradictory, or variable over short time periods, the utility of regulatory and related behavioral strategies is likely to be short lived and marginal in most states, but important to the efforts of some jurisdictions.

For example, anti-union regulations might be feasible and have long term effects in many southern states, but they are highly unlikely to appear in a place like Michigan despite deteriorating economic conditions. In a state like Colorado where unionism has deep roots in many communities, anti-union laws are probably temporary phenomena that might not continue after a shift in the make up of the legislature. The same variability holds true for environmental and social regulations. Efforts to deregulate as a part of a general industrial policy strategy will succeed easily in some jurisdictions, be impossible in others, and temporary in still others. Nevertheless, regulation and the ability to intervene in market behavior or behavioral norms remains a potential weapon in the states' industrial policy arsenal.

IX. CONCLUSIONS

In this paper, we have briefly examined the existence of and potential for industrial policies of American states by considering six strategic marketplace leverage points through which governments can act. This approach can facilitate the description, explanation, and assessment of current state industrial development efforts and related policies. In addition, the application of the framework tends to raise a number of interesting questions. One wonders, for instance, if state industrial policies are the product of an explicit effort to develop relevant programs, or whether they are merely the result of repackaging and rationalizing a variety of old programs. What are the similarities and differences among state industrial policies? Are there regional, demographic, social, economic, or political patterns in these similarities and differences? What are the direct and indirect implications of industrial policies? What are the implications of relying primarily upon market resource strategies? These and similar questions call for further examination, both at the comparative and individual case level.

Until we have some answers to these and related questions, it will be difficult to respond to the problem raised at the outset of this paper: what are the implications of having one rather than 50 industrial policy programs in the United States? As has been indicated, the pros and cons of a national industrial policy are being clearly articulated among scholars, in the press, at the highest levels of our national government. It is a debate that tends to ignore the existence of relevant state policies. That debate must be complemented by discussions focused on activities at the state level. This means that the debate over industrial policy must be expanded to include issues surrounding the rapidly increasing competition among state governments to retain their present industrial base and/or to attract new investors and jobs to their area.

Regardless of what the future holds for a national industrial policy, the present situation is one in which states have become competitors for industries, particularly in the market resource arena. Although this development has both its advocates and detractors, the controversies surrounding it have been relatively invisible. For the advocates, when considered from a national perspective, this competition among the states creates an overall business climate that will stimulate economic activity without imposing the negative costs associated with a more centralized industrial policy program. "[T]he fragmentation of government jurisdiction is beneficial," argues Tom Bethell, "because people always tend to seek out the jurisdiction having the lowest level of taxation and regulation. . . . [G]overnment thus compete with one another, bidding for residents (taxpayers). The lowest bidder, in a sense, sets the marginal price for government in all other jurisdictions" (Bethell 1981: 13). For critics, the competition represents a form of "legal bribery" that in the long run threatens job security, local environments, public sector solvency, and the national economy itself (see Goodman 1979: 7-8). Only by joining or relating to this debate will the current discussions surrounding a national industrial policy become meaningful.

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