THE ROLE OF SUBNATIONAL GOVERNMENTS IN THE AMERICAN ECONOMY: WHY THE STATES ARE IMPORTANT

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Most observers of American public policy undervalue the role state governments play in the U.S. economy and economic policymaking. That conclusion is easily drawn from a general survey of the recent literature on American economic policy, and it is the purpose of this paper to reassess that undervaluation in light of available evidence.

The "undervaluation" of the state role in this policy arena takes a variety of forms. Most obvious are those analyses which completely ignore the American states and their local subdivisions in discussions of economic policy or the economic condition of the United States. Typically, such indifference is the product of conceptual "blinders" rather than any explicit assumption that subnational jurisdictions play no role in the economic policy arena. Most important in this regard has been the tendency of economic analysts (as well as policymakers) to view the American economy and its problems in stictly macro-level and nation-level terms. The result is that they focus almost entirely on aggregate data that unintentionally excludes factors defined in subnational terms and ignores state and local level participation in determining the shape and direction of the U.S. economy.

For example, despite the availability of relevant data, Edward F. Denison's recently published Trends In American Economic Growth, 1929-1982 makes no effort to consider interstate or interregional patterns of economic change during that period.[1] On a less technical level, recent works by academics who have a personal familiarity with economic policymaking at the highest levels of government reflect a similar indifference. In both Economic Policy Beyond the Headlines by George P. Shultz and Kenneth W. Dam and Presidential Economics by Herbert Stein, there is hardly a passing reference to the states as actors in the economy or economic policymaking.[2] In these and other studies of economic policymaking, it is Congress (rather than the states themselves) that is seen as reflecting the actions and interests of local and regional producers and consumers. That focus on Congress reinforces the indifference to subnational factors because it highlights the inability of those who supposedly represent states and localities to generate a coherent and unified perspective on economic policy issues.[3]

Our concern here is not with those who undervalue the role of the states because their intellectual frameworks overlook the place of subnational jurisdictions in the American economic policy arena. One hopes that such oversight can be corrected by pointing it out to those whose analyses have have been distorted as a consequence.[4] Instead, we are more concerned with those analysts who explicitly undervalue the role of the states by adhering to unsubstantiated arguments regarding the subject. This undervaluation is manifested in three distinct hypotheses:

(1) That the role of the states in American economic policy has been to create unnecessary legalistic obstructions to

the effective operation of a national marketplace and to generate market inefficiencies that place the U.S. at a competitive disadvantage in the world economy.

(2) That the contribution of state government policy activities is negligible and inconsequential to the overall condition of the American economy.

(3) That the states are strategically irrelevant in U.S. economic policymaking.

It should be obvious at first glance that these three contentions both contradict and complement each other. To admit to hypothesis (1) -- that states obstruct the efficienct operation of the national marketplace -- is to argue that hypothesis (2) is incorrect by definition; while the acceptance of hypothesis (2) regarding the unimportance of the states in the U.S. economy fits quite well with hypothesis (3). In this paper, however, it is not the logic of or interactions among these three contentions that is being questioned. Instead it is the empirical reasonableness of each that is challenged.

STATE OBSTRUCTIONISM AND MARKET INEFFICIENCIES

Federalism and the role of the states in the general scheme of the U.S. public policy system has always annoyed some analysts. In its most extreme form this annoyance has led to serious calls for abolishing the state-based federal system and eliminating any constitutional claims to sovereignty that subnational units might have. In 1933, Luther Gulick went so far as to declare that the "American State is finished. I do not predict that the States will go, but affirm that they have gone."[5] Basing their proposals on conclusions similar to Gulick's, several respected students of American government have called for major constitutional reforms that would reshape the federal system into a more rational organization based on larger regional -- if not strictly national -- jurisdictions.[6]

There were others who did not go as far as to call for the eliminatation of states or regionalization, but who argued for greater centralization and policy coordination within the current federal system.[7] Implied in this perspective was a concern for the negative impacts of a fragmentary policymaking system. Their calls for greater centralization and coordination of the states' role has been heeded in recent decades in most domestic policy arenas, e.g., highways, education, social welfare, civil rights, etc..[8]

But it is in the economic policy arena that the role of the states seems to have generated the greatest annoyance. The concerns in this area are three fold: first, that the very existence of state legal jurisdictions imposes unnecessary and excessively high costs (actual and potential) for American businesses; second, that the explicit pursuit of parochial state interests works against the national economic interests of the country as a whole; and third, that active economic development programs at the state level create market distortions and inefficiencies that spillover into the national economy.

On the first point, there is a long history of complaints reflecting problems inherent in having a national system of laws that is formally divided among the states and the federal government. Geographically, the American legal system is composed of at least 51 distinct (although related) jurisdictions. The economic consequences of this fragmented legal structure became evident in the second half of the nineteenth century. Leaders of emerging industrial sectors who were attempting to expand their markets realized they needed to support the creation of a national regulatory structure for certain businesses (e.g. railroads) if they were to avoid the parochialism and radicalism of state politics and policies.[9]

The impacts of America's fragmented legal system on the national economy are no less worrisome today. We "all suffer the nuisance of living in a federal system," argued Michael Kinsley in a 1981 critique of President Reagan's new federalism proposals.

> Everyone knows . . . that America fritters away far too much brainpower on legal matters while the Japanese are inventing computers that design robots that build automobiles and so on. One main reason is federalism. Half of the standard three-year legal education could be wiped out if we had a single government with a single set of courts administering a single set of laws. Almost that many lawyers could be wiped out, too.[10]

According to this argument, what has emerged out of the fragmented legal system is a set of alternative legal contexts within which a wide range of pro-business and anti-business interests find a home. In some jurisdictions, state legislatures and state courts create a legal environment favorable to certain businesses; in other jurisdictions, a less favorable legal climate for business exists. Despite this seeming diversity in legal environments, it is the less favorable legal climates that tend to take priority. This is due to that provision of the U.S. Constitution which posits that "Full Faith and Credit shall be given in each State to the Public Acts . . . and judicial Proceedings of every other State." Under that provision, it the most restrictive law or court decision that is likely to emerge and take precendence.

A plaintiff seeking to stop a merger, for example, might be turned down in one jurisdiction but find a another court that is willing to hear its case. This was the case in the recent lawsuit involving Pennzoil and Texaco over the latter's acquisition of Getty Oil. On January 4, 1984 a merger between Pennzoil and Getty Oil was publicly announced; only the paperwork remained for the deal to be consummated. On January 5, it was announced that the Pennzoil deal was off and it would be Texaco who would purchase Getty Oil. On January 10 Pennzoil filed suit in a Delaware court to stop the merger but was turned down in its efforts to enjoin Texaco's officials. Without hesitation Pennzoil turned to a Houston, Texas court where it not only got a hearing of its case but was eventually awarded a settlement of over $10 billion by an very sympathetic jury. The lesson here is clear: not only does the fragmented legal system give access to all potential market intervenors; its is likely to give greater weight to ~~the most~~ a more severe intervention. Given the increasing litigiousness of American society,[11] Peter Huber and others have argued that this fragmented legal system places American businesses at a considerable disadvantage relative to its overseas competitors.[12]

The second contention of those who view state activity as obstructionist and the source of market inefficiencies focuses on the parochialism of some state actions and how they often run counter to the national interest. The best examples of this charge come from the area of special state taxes. Severance taxes on royalties from oil and other mineral resources have been a prime source of revenue for Texas, Oklahoma, and other southwestern and western states. In years of resource abundance and low fuel prices these taxes were hardly an issue, but in periods of national scarcity (e.g., oil from 1973 through 1983) those taxes were regarded by many as inequitable and not in the national interest. For some, the maintenance of severance taxes in the face of a national resource crisis was uncalled for; it represented a willingness on the part of some Americans to take advantage of problems facing their fellow citizens. Furthermore, as the crisis became more severe and prices for those scarce resources rose, the taxing states benefitted from a increasing revenue windfall which was paid for by Americans in other parts of the country.

State unitary taxes (in which a state taxes all the profits of a corporation operating within its boundaries and not just that portion of the profit attributed to the corporation's operations within the state) have also come under attack by national leaders as unwarranted and harmful to the national economy. This is particularly true of state efforts to levy the tax on profits made overseas as well as at home. The argument made by federal officials is that such a tax is not only unjustified, but also has adverse implications for American companies doing business abroad.

Still another area of concern ~~are~~ is extant and proposed state laws requiring a company to provide sufficient notice of its intention to shutdown a plant. Maine, Wisconsin, Michigan, Connecticut, and Massachusetts have such laws and many other states have been considering similar laws over the past two years.[13] Again, it is believed that such policies do little more than obstruct the smooth operation of the American economy.

In these and other cases, the central contention is that what is perceived as good for a state is not necessarily good for the nation. The typical solution proposed in such cases is for the federal government to either prohibit or nationalize those actions by states that are not in the national interest.

Finally, there are those who argue that state level economic activities do more than merely obstruct U.S. market; they also create distorting market inefficiencies by promoting poor economic decision making in both the private and public sectors. Robert Goodman argues that the long run costs of "public entrepreneurship" -- the efforts by states and their subdivisions to attract new businesses to their jurisdictions -- are too high to be justified.[14] According to Michael Kinsley, "very little new business is generated by the nation as a whole by letting corporations play the state legislatures off against one another."

> In fact, the process undoubtedly makes our economy less efficient and less productive by adding artificial considerations to business investment decisions. A company that ought to be locating a new plant near its markets will instead plunk it down in whatever state is temporarily ahead in the game of tax-incentive leap frog.[15]

* * *

The evidence backing each one of these arguments is anecdotal at best, and in most instances it is the logic of the thesis which seems to convince most people. For example, the lack of a single legal system poses obvious problems for businesses, especially in terms of actual or potential transaction costs that seem unnecessary. However, an equally convincing argument can and has been made that under appropriate conditions the fragmented American policy system offers opportunities and advantages to certain businesses that a unified system cannot.

The argument is most often made in regard to the formulation and enforcement of regulatory standards in the areas of the environment, occupational health, and worker safety. Rowland and Marz, for example, posit a Gresham's Law of regulatory enforcement in a federal system where economic concerns are major issues among the member states: lax regulatory enforcement will tend to drive out or replace more stringent enforcement.[16] An equally plausible logic can be applied to other aspects of the legal environment in which businesses operate. Under troublesome or merely uncertain economic conditions, it is just as likely for the fragmented legal system to facilitate economic activity as it is for it to be obstructive. Just as Pennzoil was able to find a Texas court willing to entertain its suit against Texaco, so Texaco was able find a White Plains, New York federal district court to temporarily stay the execution of the Texas court's judgement.

As for the parochialism of state level economic actions, two points have become quite clear in recent months. First, given the obvious interdependence among American states on economic matters, there are clearly limits to the effectiveness and value of any seemingly parochial action which a state may take. While five states had passed plant closure notification laws by 1984 and more states were giving serious consideration to similar measures, surveys of policymakers in other states indicated an inclination to avoid such policies because of the competitive disadvantage it imposes on them in their economic development efforts.[17] Ultimately even those states with plant closing legislation on the books might have to reconsider their current policies.

The same logic holds true for states adopting severance or unitary taxes, for eventually the costs of their decisions will have an adverse impact. In the case of severance taxes, the resulting increased costs of energy production and consumption will have to be moderated if investments are to continue in efforts to extract a particular resource at a given location. Alternatives can and will be found.[18] Similarly, states which tend to cast a wide net over taxable profits of a local corporation might be faced with the loss of its relevant corporate tax base if its unitary tax becomes too burdensome.

A second lesson about the parochialism of state actions learned in recent months is that those who live by the severance tax might die by the severance tax. The radical drop in oil prices during the first few months of 1986 have created nothing less than a fiscal crisis in the several states who have become so dependent upon it and other oil industry related revenue sources in recent years. It is estimated that every $1.00 drop in the price of a barrel of crude oil costs $100 million in revenues for Texas, $40 million for Louisiana, and $11 million for Oklahoma.[19] Among the other lessons being learned during this time of crisis is the need to diversify state tax sources. It is unlikely that state officials will be convinced to become too dependent on any idiosyncratic revenue source in the future.

Lastly, while there is some empirical support for the contention that state investments, tax breaks, loan guarantees, and related economic development efforts are likely to generate economic inefficiencies, the evidence is anecdotal and far from conclusive. The contention that state policy actions distort the marketplace is distinct from the argument that such policies may not be effective. Do state-offerred incentives accomplish nothing more than tempt businesses to move from one location to another without generating any net gain in productivity or reduction in product costs? On this point the evidence remains for the most part supportive,[20] and it continues to suggest that few (if any) major corporate decisions are significantly influenced by what states promise or deliver in the competition for economic development.[21]

The question of whether these policies generate market inefficiencies in the national economy, however, is a quite different matter. On this point the focus of attention is usually on the tendency for states and their local subdivisions to use their economic development capacities in attempts to rescue market losers rather than promote potential market winners. Under this logic, a troubled industry or business is more likely to receive help from subnational governments than an emerging business firm that holds great promise for the future. When states and localities invest in economic losers, they essentially interfere in the normal course of marketplace events and thus create a distortion with effects that will eventually spillover into the national economy. Providing financial or other forms of support to a dying business or outmoded plant has the same impact of a policy that attempts to prohibit or impede a plant closure.[22]

The evidence that states and localities will invariably invest in fruitless attempts to rescue losers is not overwhelming. For the most part it reflects historical patterns and perhaps even initial tendencies among subnational officials to try to save the threatened jobs of their constituents. Today there are just as many cases -- if not more -- demonstrating the opposite form of state and local behavior as well. In recent years the emphasis at the state level has been to diverify local economies and to attract new growth industries whenever possible -- high tech and service sector firms especially. For example, in the mid-1960s, after suffering through a long strike at the Kennecott mines, the State of Utah realized just how dependent it had become on that one industry and firm. The result was a shift in Utah's economic development strategy toward greater diversification of the state's economy. A similar phenomenon took place in North Carolina, Tennessee, and other states until it is now more commonoplace to hear of states seeking out and investing it economic development efforts on new and innovative businesses rather than the dominant sectors of the past.[23] In this sense, the can hardly be accused of creating inefficiencies by putting their support behind the economy's losers.

NEGLIGIBLE AND INCONSEQUENTIAL ECONOMIC IMPACTS OF THE STATES

The second basis for undervaluing the role of the states in the American economy is the contention that any activities state governments do perform are at best negligible and inconsequential for the economy as a whole. Backing this hypothesis are frequently cited research findings demonstrating that the actions of state and local government has little to do with critical decisions made by private sector managers.[24] There is also the commonly held belief that the impact of state actions on economic conditions is insignificant due to the relatively low levels of expenditures by individual states. While the federal budget is now in the trillions of dollars, some states (e.g., South Dakota, Vermont) spend less than a billion in any fiscal year.

The idea that state government activities have a negligible influence on the U.S. economy can only be endorsed by those who fail to comprehend the power of the policy tools at the disposal of all state governments. To understand just how much impact a state government can have, let us consider the various ways any government can intervene in the market place.

In essence, there are potentially five leverage points in the market economy that a government can use (see Figure 1). These include market size, market structure, market resources, the degree of exposure to market risks and liabilities, and the rules and norms of behavior in the marketplace.[25]

Market size can be influenced by government efforts to expand the number of potential customers for a business' products and services. This can be done by reducing various barriers to trade or promoting the business' goods in a new market. The states have done this in a variety of ways, particularly in the creation of special offices to promote the overseas sale of goods and services produced in the state. Forty-eight states have such agencies, and many have offices or representatives located throughout the world. In several states these agencies work closely with the U.S. Department of Commerce. In Oklahoma, for example, a joint promotion program between the federal Commerce Department and the state's International Export Services agency has been credited with creating over 20,000 export-related jobs in 1983.[26]

State governments can also have a considerable impact on the degree of competition for any business through their capacity to manipulate <u>market structure</u> variables. We see this most often in state level economic regulation, particularly among banks, utilities, common carriers, and the licensed "trades" and professions. For example, consider the wide variation among the states in the area of banking laws. Some states allow branch banking while others forbid it. At one time in Illinois a bank could only have branches within a one mile radius of its main office. Governments can also control competition through state-level antitrust laws. Finally, states can grant franchises or make contracts with certain businesses that give exclusive rights to perform some service or provide some goods within their jursidictions. This happens most often at the local level where cities and counties sometimes give exclusive garbage collection or bus transportation rights to a private company.

Perhaps government's most important leverage point into the market place is in the provision of <u>market resources</u>. Most of these resources are financial in form and are provided primarily through direct subsidies and loans or indirectly through a variety of tax exemptions. Some states have been particularly innovative in this area. Enterprise zones, "incubator" locations, and other types of special economic development districts are increasingly common. Several states have arrangement for ongoing lending commitments from the state banking communities. In Illinois, for example, 300 banks have created a pool of $1 billion they are ready to lend to new or expanding businesses in the state.[27] In Connecticut, the legislature has establish a venture capital investing corporation which is allowed to fund up to 60% of new product development by any qualifying Connecticut company. In exchange, the state receives a royalty on all sales of the product. Massachusetts established a similar agency in the late 1970s which offers both equity and debt financing for promising private sector ventures based in the state.[28] Some states have made similar investments indirectly through their government-controlled pension funds. In 1984 state employee retirement funds invested $297 million in venture capital limited partnerships, and although they were not obligated to invest in their home state there is no doubt an effort made to give priority to local companies.[29]

A market resource of growing importance is access to scientific and technical knowledge, and for many states this has meant increasing investments in higher education, R&D facilities, science advisory boards and technical personnel, etc.. Research parks and research complexes now dot the U.S. countryside around every major university campuses.

Still another market resource of significance is labor, and in this regard many states have established training programs and centers to meet the needs of new and expanding businesses. Formal commitments to train a core labor force is typically part of the agreements state economic development officials will make when negotiated the siting of a major facility.

States can and have taken advantage of their legal capacities to adjust the risks and liabilities faced by private sector companies. Guaranteeing loans is a common (and seemingly costless) way for states to accomplish some reduction in the risks a business faces. Such a strategy also lowers the costs of a loan because interest rates are lowered. Business exposure to liabilities can also be eased by reducing business expenses. For example, a U.S. Department of Labor report found 45 states had increased their contributions to workman's compensation in 1983 and 10 states had broaden medical coverage under workman's compensation. Product liability laws will also vary among the states and are open to modification in ways that might be attractive to some particular company.

Finally, a state may use its leverage over the standards of behavior and norms applied in the market place. Here we are dealing primarily with social and environmental regulations. States can, within limits, work to modify those regulations or at least how they are enforced. If nothing else, they can help offset the costs of such regulations through subsidies or special tax breaks.

As a comprehensive indicator of just how much the various states are doing in these various areas, one can compare the historical changes in market climate ratings developed by the business media. Alexander Grant & Co.'s ratings of "General Manufacturing Climates" of the continental U.S. states has seen considerable shifting over the past few years. Based on 22 variables weighted according to preferences established through a survey of relevant associations, the latest Grant ratings place

South and North Dakota first and second respectively, followed by Florida which held the top spot for three previous years. Nebraska, Utah, Mississippi, Arkansas, North Carolina, Georgia, and Tennessee rounded out this "top ten." Many of these states had "moved up" in the ratings in this and recent years due to two factors: changes in the weights given the different factors and changes in state level activities toward greater economic diversification.[30]

A more specific measure of changes in market climate activites over time is shown in Table 1. According to a comparison of Industrial Development magazine's annual survey of "The Fifty Legislative Climates" from 1966 and 1984, state activities in a variety of financial assistance areas has increased considerably.

TABLE 1: SELECTED STATE FINACIAL ASSISTANCE AND TAX INCENTIVE PROGRAMS, 1966 AND 1984

Program	Number of States with Program	
	1966	1984
State loans for building construction	11	28
State loans for equipment and machinery	8	25
State financing aid for existing plant expansions	14	35
Corporate income tax exemptions	11	28
Personal income tax exemptions	15	22
Excise tax exemptions	5	16
Tax exemptions or moratorium on land, capital improvement	11	34
Tax exemptions or moratorium on equipment, machinery	15	33
Tax exemptions on manufacturers' inventories	19	43
Sales/use tax exemptions on new equipment	16	40
Tax exemptions on raw materials used in manufacturing	32	46
Tax exemptions to encourage research and development	3	18

The point to be emphasized here is that states have been extremely active in the American economy in a wide range of areas. What evidence we have indicates that the number and intensity of those activities have been far from negligible. Having noted that, we cannot state with any degree of certainty just how significant that activity has been. Obviously, relying on state budget expenditures alone is not enough. All totaled, the states spen~~d~~t over $310 billion in FY 1982. However, that figure must be put in the context of the other state activities we've surveyed above. Add to that the role played by public employee pension funds (the top 100 held assets of $362 billion in 1985), and it would be absurd to regard the impact of the states on the national economy as either negligible or inconsequential.

THE STATES AS STRATEGICALLY IRRELEVANT

The final contention made by those who undervalue the role of the states in the American economy is that they are strategically irrelevant in national economic policymaking. According to this hypothesis, even if the states are economically significant, it would be impossible to develop an effective national economic policy strategy which took advantage of their potential power.

As has already been noted, the bias against state involvement in America's national economic policy strategies is evident from the minimal attention given to subnational units in discussions of economic policymaking at the highest levels of government. Even proposals for revising U.S. economic policy through industrial policy strategies have ignored or dismissed the potential role of the states.[31] Yet there is ample precedent for effectively involving the states in such efforts.

One indication that the states can play an effective role in a national economic policy strategy is the key role that states already play in other domestic policy arenas. We are all aware of the national government's increasing role in social welfare, education, highways and mass transit, and other domestic policy arenas; however we often forget that the programs upon which that growth of federal activity is built are intergovernmental by nature. Intergovernmental strategies have proven viable and effective vehicles through which national policies and priorities can be achieved.

A second indication of the states strategic relevance for a national economic policy is found in the roles they already play in such efforts. We have made explicit reference to the joint efforts of Oklahoma and the U.S. Department of Commerce in generating export-related jobs in that state. That kind of program is probably more common than most analysts think. Through a variety of means and mechanisms, states have become active participants in a number of federal efforts to improve the U.S. position in the world economy.[32] It is likely that a systematic investigation of other national programs related to the economic health of the country will turn up even more state involvement that has emerged in a hodge podge fashio~~p~~n over the past decade.

This is an area that needs much greater study. Not only is it necessary to study potential designs for an intergovernmental national economic policy, but it is also necessary to find out just how much influence the states now have on national economic policy strategies.

CONCLUSION TO AN INCONCLUSIVE SUBJECT

Obviously, the arguments made here are preliminary ones. They actually raise more research questions than they supply answers to. More research is needed to deal with the hypotheses upon which the undervaluation of state government roles in the American economy are based. Our initial "feel" for the data tend to reinforce our sense that the states are not merely a source of market obstructions and inefficiencies, that they do have an important place in the American economy, and that they can be strategically integrated into a national economic policy strategy.

This paper also suggests the need to measure the comparative use of different industrial policies among the American states. The leverage points indentified in this paper (market size, market resources, etc) suggest a way to measure the relative efforts of different states in the area of economic development. Such an analysis may produce findings that will indicate why some states have enjoyed relative success in their economic development efforts, and others have not. In sum, state level research on economic development can provide information about the importance of states in the national economy and the factors that contribute to the success of different state industrial policy efforts.

ENDNOTES

[1]Edward F. Denison, TRENDS IN AMERICAN ECONOMIC GROWTH, 1929-1982 (Washington, DC: The Brookings Institution, 1985).

[2]George P. Shultz and Kenneth W. Dam, ECONOMIC POLICY BEYOND THE HEADLINES (New York: W. W. Norton and Co., 1977); Herbert Stein, PRESIDENTIAL ECONOMICS (New York: Simon and Schuster, 1984).

[3]See Allen Schick (ed.), MAKING ECONOMIC POLICY IN CONGRESS (Washington, DC: American Enterprise Institute for Public Policy Research, 1983); especially Lance T. LeLoup, "Congress and the Dilemma of Economic Policy," pp. 6-37.

[4]See Mel Dubnick and Lynne Holt, "Industrial Policy and the States," PUBLIUS, 15, no. 1 (Winter 1985), pp. 113-129.

[5]Quoted in Terry Sanford, STORM OVER THE STATES (New York: McGraw-Hill Book Co., 1967), p. 21.

[6]In making brief reference to these proposals, Martha Derthick cites the work of William B. Munro, William Y. Elliot, and Rexford G. Tugwell; see her BETWEEN STATE AND NATION: REGIONAL ORGANIZATIONS OF THE UNITED STATES (Washington, DC: The Brookings Institution, 1974), p. 5. For the most part such proposals have not been taken seriously; see Richard Leach, AMERICAN FEDERALISM (New York: W.W. Norton and Co., 1970), pp. 127-128. Nevertheless, such suggestions reemerge from time to time in the popular press. For example, see Michael Kinsley, "The Withering Away of the States," THE NEW REPUBLIC, 184, no. 13 (March, 28, 1981), pp. 17-21; also see Joel Garreau, THE NINE NATIONS OF NORTH AMERICA (Boston, MA: Houghton Mifflin Co., 1981), especially pp. 1-13.

[7]See James L. Sundquist with David W. Davis, MAKING FEDERALISM WORK: A STUDY OF PROGRAM COORDINATION AT THE COMMUNITY LEVEL (Washington, DC: The Brrokisng Institution, 1969); also Roscoe C. Martin, THE CITIES AND THE FEDERAL SYSTEM (New York: Atherton Press, 1965).

[8]See Jerome J. Hanus (ed.), THE NATIONALIZATION OF STATE GOVERNMENT (Lexington, MA: Lexington Books, 1981).

[9]See Gabriel Kolko, THE TRIUMPH OF CONSERVATISM: A REINTERPRETAITON OF AMERICAN HISTORY, 1900-1916 (New York: The Free Press, 1963), pp. 161-163. Also Sidney Fine, LAISSEZ FAIRE AND THE GENERAL-WELFARE STATE: A STUDY OF CONFLICT IN AMERICAN THOUGHT, 1865-1901 (Ann Arbor, MI: Ann Arbor Paperbacks, 1956), pp. 353-362.

[10]Kinsley, "The Withering Away of the States," p. 13.

[11]See Jethro K. Lieberman, THE LITIGIOUS SOCIETY (New York: Basic Books, 1981).

[12]Peter Huber, "After Bhopal: Courts of Convenience -- or Have Lawsuit, Will Travel," REGULATION, 9, no. 5 (September/October 1985), pp. 18-23, 39-42.

[13]See Elizabeth Voisin, "States call for notice of plant shutdowns," CITY AND STATE, 2, no. 9 (November, 1985), p. 28. The Voisin article notes only two states with notification laws, Maine and Wisconsin. Other sources claim that five states had such laws by the end of 1984; see footnote 27 below.

[14]Robert Goodman, THE LAST ENTREPRENEURS: AMERICA'S REGIONAL WARS FOR JOBS AND DOLLARS (Boston, MA: South End Press, 1979).

[15]Kinsley, "The Withering Away of the States," p. 20.

[16]C.K. Rowland and Roger Marz ##

[17]Voisin, "States call for notice of plant shutdowns," p. 28.

[18]Bernard L. Weinstein, "Energy, Taxes and Growth," TRANSACTION, 22, no. 1 (November/December 1984), pp. 41-47. Cited in "State Severance Taxes: Are the Dangers Exaggerated?", REGULATION, 9, no. 5 (September/October 1985), pp. 47-48.

[19]Julie Truck, "Tumbling oil prices put strain on state, municipal bugets," CITY AND STATE, 3, no. 3 (March 1986), p. 2.

[20]See studies in Michael Barker (ed.), STATE TAXATION POLICY (Durham, NC: Duke University Press, 1983).

[21]See Vicki Quade, "Saturn spotlights states' folly," CITY AND STATE, 2, no. 7 (September 1985), p. 14. This article highlights the thesis that state efforts are not effective. The case in point is the well publicized selection process for the new General Motors Saturn plant. Despite the fierce competition involved in selecting that site, it finally went to a location in Tennessee where the state offered few incentives and much cooperation in response to questions asked by GM. If the decisions to develop the Saturn division of GM or to site the Saturn plant in Spring Hill, Tennessee proves inefficient, the blame for neither can be placed on state or local officials.

[22]See Richard B. McKenzie (ed.), PLANT CLOSINGS: PUBLIC OR PRIVATE CHOICES, rev. edition (Washington, DC: The Cato Institute, 1984).

[23]See the 1984 hearings of the U.S. Congress' Joint Economic Committee on CLIMATE FOR ENTREPRENEURSHIP AND INNOVATION IN THE

U.S., 98th Congress, 2d Session.

[24]See Barker (ed), STATE TAXATION POLICY.

[25]For a description of this simple yet useful model, see Melvin J. Dubnick and Barbara A. Bardes, THINKING ABOUT PUBLIC POLICY: A PROBLEM-SOLVING APPROACH (New York: John Wiley and Sons, 1983), pp. 120-137.

[26]Elizabeth Voisin, "Oklahoma, federal export efforts mix," CITY AND STATE, 3, no. 2 (February 1986), p. 24.

[27]OFor a brief general survey of state level activities in this area, see Jane Roberts, Jerry Fensterman, and Donald Lief, "States, Localities Continue To Adopt Strategic Policies," INTERGOVERNMENTAL PERSPECTIVE, 11, no. 1 (Winter 1985), pp. 19-29.

[28]Trudy Ring, "States turn to venture capital funding," CITY AND STATE, 2, no. 6 (July/August 1985), p. 6.

[29]On the growth of venture capital financing by state employee pension funds, see Trudy Ring, "State systems try out venture-capital pools," CITY AND STATE, 2, no. 10 (December 1985), pp. 13, 18.

[30]See Dorothy Parr Riesen, "Manufacturing climates of states surveyed," CITY AND STATE, 2, no. 7 (September 1985), p. 17.

[31]Dubnick and Holt, "Industrial Policy and the States."

[32]See John M. Kline, STATE GOVERNMENT INFLUENCE IN U.S. INTERNATIONAL ECONOMIC POLICY (Lexington, MA: Lexington Books, 1983).