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AMERICAN STATES AND THE INDUSTRIAL POLICY DEBATE

Like other recent economic policy discussions, the debate over industrial policy is receiving considerable attention from the media and politicians of the left and right. In part this is because 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. But it is also a debate that has deep roots in the classic arguments between advocates of economic planning and those who urge a greater reliance on the unencumbered marketplace. This most current version of that "great debate" emerged in its present form in the late 1970s and early 1980s following the economic failures of Keynesian policies and the political successes of supply side economics.

The increasing popularity of industrial policy as an alternative to Keynesian and supply side proposals owes much to some very articulate academic advocates (e.g., Alperovitz and Faux, 1984; Bluestone and Harrison, 1982; Magaziner and Reich, 1982; Reich, 1983B; and Thurow, 1980 and 1983). Although differing somewhat in the details of their approaches (Dubnick and Holt, 1984, pp. 9-15), these 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 (e.g., Schultze, 1983; also see Bartlett, 1983). Despite this significant opposition, however, industrial policy seems to be attracting a growing number of advocates among political, business, and labor 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 and their communities. Whether called industrial policy or labelled economic development or industrial development, the bottom line is that American states have consciously and deliberately[1] 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.

There are a number of reasons why the states are ignored in discussions of industrial policy. Under the dominance of the Keynesian paradigm, American economic policy has become national in scope; there has not been a significant role for the states in that arena since at least the early 1930s (see Stein, 1969). Despite their apparent break with the Keynesian approach, some industrial policy advocates obviously inherited the myopic views of their New Deal predecessors and have thus remained blind to state economic policy activities. The tendency to overlook the states also may be attributed to the fact that most of the participants in that debate are economists trained in approaches that lack an institutional or political dimension. Concern for state governments among professional economists often seems limited to specialists in public finance.

There are, of course, those industrial policy advocates who do not ignore state industrial development efforts but dismiss them as either inconsequential or a fundamental cause of our current problems (e.g., Goodman, 1979). Finally, there are industrial policy advocates who refer to state activities in their expositions--sometimes in a positive light (e.g., Alperovitz and Faux, 1984, pp. 243-248), more often in negative terms (Bluestone and Harrison, 1982, pp. 180-188)--but without really addressing what overall role they play (or might play) in a national industrial policy strategy.

The issues raised here concern the lack of attention state development policies are receiving in the industrial policy debate. Is such indifference warranted? If not, what impact will discussions of the role of the states have on the industrial policy debate?

THE RELEVANCE OF STATE POLICIES

There can be little doubt that the various industrial and economic development programs of state and local governments have played some role in the current malaise of the American economy. That point is not at issue here. Rather, the key question relates to the relevance of state programs to a national industrial policy effort. Thus, we must first assess whether state policies warrant the attention of industrial policy advocates by examining the actual and potential influence they have in the American economy.

That assessment can be carried out by focusing on the possible means by which state governments influence the behavior of industries or specific firms. Such policy options at the state level are not infinite in number. 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 a variety of policy options at their disposal. The present, tasks are to consider which options are available to states and to examine which are most utilized under existing constraints.

In a recent analysis (Dubnick, 1983), I examined the roles that states can and have played in economic policy by surveying state activity in six areas that might influence business decisions: market "climate", access to markets, degree of competition within a market, availability of market relevant resources (land, labor, capital), market risks and liabilities, and regulations governing production and distribution of goods and services. Among these alternative policy paths, the states have been most energetic in providing resources to businesses (through direct and indirect subsidies) and in their efforts to create and advertise attractive "business climates."

For example, Table 1 reflects the growing number of states offering selected incentives programs and financial assistance to businesses that choose to locate or expand their operations within their respective jurisdictions. In addition, many states have passed legislation giving local governments considerable flexibility in their dealings with business firms that seek tax breaks or other forms of public subsidies. In the area of market climate, many states have invested heavily in media campaigns to convince businesses of the virtues of moving to their respective jurisdictions. One recent business magazine advertisement read "KENTUCKY &

CO., The State that's run like a business", while other ads in the same issue proclaimed the benefits of doing business from a location in Tennessee, Indiana, Alabama, Louisiana, or Michigan.

Table 1
MARKET RESOURCE PROGRAMS: A SAMPLING, 1966/1983

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.. (See Dubnick, 1983).

In addition to the heavy emphasis states currently place on providing market resources and promoting their local economic climates, they recently have been quite active in trying to enhance the market access of local businesses. It is not uncommon, for instance, for governors and other public officials to undertake annual trade missions to Europe and Asia to promote the sale of goods produced in their state. This promotional attitude also has been reflected in a growing willingness on the part of many state policymakers to liberalize workmen's compensation requirements and to take other measures to reduce the financial risks and liabilities of doing business in a particular state. Even in those businesses where states have been traditionally quite restrictive regarding market access and industrial structure (e.g., banking), there has been a notable trend toward deregulation.

Two closely related points need to be stressed here. First, although states are very active in the economic policy arena, their current efforts do not reflect their potential capabilities for influencing business activity within their borders. The recent programmatic focus on providing market resources and developing an attractive business climate has drawn a great deal of attention, but there is a considerable arsenal of policy weapons at the disposal of state policymakers that remains relatively untapped. In fact, historically the states were (and in some instances remain) the most active jurisdictions in American government's relationships to business (e.g., Nash, 1964). What seems to have changed is the perceived as well as the actual role of state governments in American economic policy. Today's state policies reflect a much narrower view of state government responsibilities in the economic arena.

Second, in terms of their actual and potential powers, states have jurisdiction in many areas that are central to the discussion of industrial policies. This finding has obvious implications for the national industrial policy debate. Over the past half century, states have been exercising their policy options in those areas of the economy that were left to them while Washington concentrated on fiscal and monetary strategies. However, in light of the microeconomic programs advocated by proponents of a national industrial policy, it is possible that we will witness a renewal of intense programmatic and constitutional confrontations between national and state governments over policy jurisdictions and the nature of federalism. On a more positive note, due to their experience in microeconomic policy, state officials can provide national policymakers with advice and program resources that might prove extremely useful in the eventual design and implementation of a national industrial policy. A great deal depends, of course, on how national and state policymakers perceive and react to each other's initiatives in this area.

The crucial point of this discussion is that *states cannot be and should not be ignored* in the debate over national industrial policy. In terms of current activity and potential power, the states are an integral part of the American economic policy arena. For advocates of industrial policy to continue to ignore them would be a critical error.

THE IMPLICATIONS

What impact would their inclusion of the states in industrial policy have on the policymaking process? The effects are likely to be centered around three types of issues: Constitutional, policy, and programmatic.

Constitutionally, the questions that might be raised are few in number but potentially significant. As noted above, the seeds of a constitutional conflict between national and state governments are found in the most popular industrial policy proposals. Many of the proposals call for the direct involvement of Washington either (1) in programs that currently involve it only indirectly or (2) in efforts that traditionally fall within the exclusive jurisdiction of state and local governments. Recent history has shown that states and their subdivisions are not likely to surrender their assumed prerogatives without at least a legal fight.

Similarly, on the policy level there are likely to be numerous questions raised regarding the relative impact of various proposals on the states and regions as well what roles the states might play in such a national effort. Intergovernmental lobbies have become a significant force in Washington (Haider, 1974), as have regional coalitions among members of Congress (Dilger, 1982). Given this political environment and the obvious stake of subnational governments in the design of a national industrial policy, it would be naive to assume that industrial policy proposals would pass through Congress unaffected by state and local demands.

The most likely result is a national industrial policy that includes a major role for state governments in specific program development and implementation. As Pressman and Wildavsky (1979, pp. 161-162) concluded in their classic study of the Economic Development Administration's efforts in Oakland, the problems associated with intergovernmental programs are pervasive, numerous, and inevitable. It is not reasonable to expect a national industrial policy to fare any better on a programmatic level, but it is even more unreasonable to assume that these problems can be circumvented by ignoring state governments and advocating a highly centralized approach.

Lest this analysis be mistaken for an attack on the concept of a national industrial policy, let me emphasize that I intend nothing more than to raise some questions that have thus far been avoided. The value of any national industrial policy proposal should not be based on the lack of concern for states in the current debate. That kind of problem is easily resolved through analysis and further discussion. Rather, industrial policy proposals are most effectively evaluated in contrast to their major alternatives, (e.g., the Reagan Administration's supply side strategy and mainstream Keynesian approaches). In that light, they seem to warrant very serious consideration.

NOTE

[1] The fact that states have made explicit efforts in this area is an important point in light of a difference of opinion among industrial policy proponents regarding policymaker intentions. In defining industrial policy, Reich (1983A, p.3) has used the term to apply to "the sum of [a nations'] microeconomic policies . . . as they affect the pace and direction of industrial change." Others have used the term more restrictively by stressing that industrial policy exists only when microeconomic policies are *explicitly* used for those purposes. For example, Bluestone (1983, p. 25) defines industrial policy as "*the coherent and planned use* of government tax, subsidy, procurement and capital instruments to encourage investment and disinvestment in a manner consistent with growth and the minimization of the social costs of industrial transformation and dislocation" (emphasis added). When discussing industrial policies of American states, I will be referring to efforts based on "the coherent and planned use" of government programs.

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