Time to End the Economic War between the States

Lawrence W. Reed

An economic war between the states has broken out. This war is not the healthy competition favored by most economists, whereby states attempt to attract businesses by improving the overall climate for enterprise and making state government lean, unobtrusive, and inexpensive. That broad-based approach, which plays no favorites among particular companies, affirms the truism that economies, to quote Irving Kristol, "aren't machines to be fine-tuned. They're more like gardens to be watered and tilled."

Rather, this is a war of the industrial policy planners and their economic development bureaucracies. Their arsenals are composed of selective tax abatements and credits, outright grants to specific, high-profile businesses, job training subsidies, low-interest loans, tax-exempt municipal bonds issued for private benefit, and infrastructure spending that often goes beyond what state government would normally do as populations and the general economy expand. Each battle in this war brings with it the pageantry of ribbon-cuttings and photo opportunities for the politicians, who claim new, mystical powers of distinguishing the winners from the losers in the marketplace.

In making his case for state industrial policy, Wayne Sterling, director of Virginia's Department of Economic Development, is not shy about the marketplace prescience of state government bureaucrats: "Each grant must specifically serve an industry sector or cluster that *we've* identified as pivotal to the commonwealth's long-term future growth." (Emphasis added.)

This war is becoming an exercise in mutually assured destruction, or at least one in which all victories are Pyrrhic ones at best, with the victors losing almost as much as the vanquished. Many governors, state legislators, and policy analysts already understand the destructive nature of these beggar-thy-neighbor practices. They should make a major effort to seek ways to establish economic peace in the Republic.

Competing through Kickbacks

Especially since 1976, when Pennsylvania successfully lured Volkswagen with an $86 million package of loans, subsidies, and abatements, states have been adopting similar schemes with great gusto and fanfare. Southern states have used them ostensibly to shore up their high-tech economies. Midwestern states, battered by the

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economic restructuring of the 1970s and 1980s, have engaged in a tit-for-tat escalation to retain jobs and lure more businesses across state borders.

And it is not just states engaging in these practices. Amarillo, Texas wins the prize for coming up with the most brazen approach to development incentives. In 1993 Amarillo officials sent checks for $8 million apiece to 1,300 companies around the country. All a company had to do to cash its check was commit to creating 700 new jobs in Amarillo.

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New York and New Jersey recently engaged in a high-profile tussle over two commodity exchanges—the Coffee, Tea and Sugar Exchange and the New York Cotton Exchange. New Jersey offered to cut the exchanges' property taxes by 50 percent for 15 years and to provide millions of dollars' worth of other attractions if the exchanges would move their headquarters to the Garden State. The total value of New Jersey's offer was about $80 million. In what the *New York Times* labeled "the most lucrative package of subsidies ever provided by New York City," the Big Apple teamed up with the state of New York to raise the ante by offering a package worth $91 million—the equivalent of $26,000 for every job "saved." For now, the coffee traders and the cotton barons will stay put in New York City.

The incentive packages have become increasingly generous in spite of dubious results. Indeed, a 1989 report from the Council of State Governments stated emphatically, "A comprehensive review of past studies reveals no statistical evidence that business incentives actually create jobs. . . . They are not the primary or sole influence on business location decision-making and . . . they do not have a primary effect on state employment growth." They may, however, shift tax burdens onto those who lack political ties, increase the size of state bureaucracy, hinder future tax reform, and bestow alarming discretionary powers upon the boards and commissions that hand out the benefits.

Andrew Cline of the John Locke Foundation in North Carolina has examined the track records of state industrial policies and concludes, "To date, not one incentives proponent has been able to demonstrate that government incentives create a net benefit for the general public. It's just robbing Peter to pay Paul." His colleague at the foundation, economist John Hood, poignantly adds, "Creating jobs is not the goal of these programs. The goals of these programs are to create job announcements."

Ever conscious of image and the "big splash," state development officials usually devise plans that favor big businesses and discriminate against small firms. They chase smokestacks and auto plants, and frown on retail or service firms that might actually have more staying power. Firms that do not qualify for credits or subsidies must compete against those that do, raising the question of fairness. As Sam Staley of Ohio's Buckeye Institute for Public Policy Solutions puts it, "The incentive game is unfair to Ohio businesses that cannot, or do not want to relocate to another state. Alabama, for example, outbid two other states last July for a new steel plant that will compete with a preexisting Alabama facility. The same thing happens in Ohio—assistance goes to firms willing to locate in the state. Meanwhile, loyal Ohio businesses subsidize these competitors through higher taxes. Despite granting hundreds of millions of dollars to specific businesses through tax abatements and other incentive programs, business taxes continue to increase."

Staley's point is supported by economists at the Federal Reserve Board of Chicago, who estimate that Ohio businesses pick up significantly more than their share of the tab for state services. More importantly, the Ohio Public Expenditure Council reports that taxes paid by businesses for tangible personal property increased by a record $76.3 million to $1.3 billion in 1995.

Sometimes firms cannibalize one operation in order to secure an incentive deal to open a new plant in the same state. In a recent review of companies that had received state grants in the name of economic development, The *Charlotte Observer* found these examples:

- This End Up, a furniture manufacturer, accepted $230,000 and other incentives from the state for a new plant near Fayetteville that would employ 200. Then it closed a Raleigh plant that employed 150.

- Quaker Oats received $98,000 for a new 98-worker plant near Asheville. It then closed another North Carolina operation where 70 people worked.
- Seffi Industries took $300,000 and promised to create 300 new jobs. A few months later, it not only failed to open a new plant or hire a single new person, it went out of business altogether.

Costly Incentives

In the rush to fashion the next industrial policy contrivance, the bigger picture is shoved aside. The fact is that the value to a firm of a state's typical, limited-term incentive package pales when compared to factors such as overall tax burdens; a reasonably priced, skilled labor force; the relative cost of compliance with regulations; efficient transportation facilities; crime rates; utility services and costs; education quality; and the general quality of life. If a state is not competitive in those areas, a business will go elsewhere, despite the subsidies and credits dangled before it.

Development professionals in the private sector know that companies usually make their location decisions in private, then hold out for the best incentive deal they can get from gullible state officials, playing one state's officials off another's. State incentives sometimes play a role in the very last stages of selecting a location, but otherwise they are not viewed by most businesses as critical factors in choosing a site.

That fact was borne out in a comprehensive 1993 survey conducted by the International Association of Corporate Real Estate Executives and the American Economic Development Council. Eight hundred corporate real estate executives and economic developers rated incentive packages very low (14th of 17 factors) relative to other factors in the overall site-selection process. Only 23 percent indicated that incentives played an "important" role.

A 1994 survey of 145 North Carolina manufacturers produced similar results. Conducted by researchers at the University of North Carolina at Charlotte, it showed that state business assistance and local business support programs ranked 22nd and 23rd respectively, among 34 factors.

One reason for the low priority of incentives early in the search for a plant location is the fact that they are short-term in nature and dependent upon the political climate and its ephemeral personalities of the moment. Writing in the October 1993 issue of *Corporate Real Estate*, Mark Klender, a senior manager in the Deloitte & Touche Realty Consulting Group in Chicago, made an important observation about this point and offered a bit of advice to firms: "After incentives run their course, the corporation faces the basic attributes that the community offered sans incentives. Incentives cannot compensate for a location that is far from markets, does not offer the necessary skills in its labor force, is a tough place to transfer and recruit key positions, is a much higher-cost location than that of the corporation's competitors, has troublesome labor relations, or has an inhospitable regulatory environment. For this reason, companies should not be weighing incentives heavily—if at all—in the early stages of the site selection process. Make sure the community works from key operating cost and condition perspectives!"

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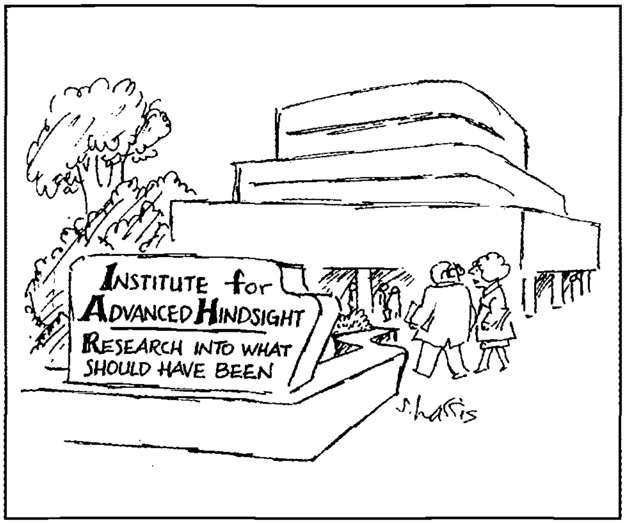
The claims of state development czars are almost always overblown, in part because they consider only the more visible side of the ledger. To employ a useful analogy, imagine a thief who robs every house in a neighborhood and then heads for a nearby shopping mall to spend his loot. The czar would interview only the store clerks, note increased sales, and pronounce that a burst of economic development had taken place. The downside of state incentive packages—from the anti-competitive effects on nonfavored firms to the opportunity cost of foregoing a more general tax reduction—is rarely discussed.

Adam Zaretsky, an economist at the Federal Reserve Bank of St. Louis, in the January 1994



issue of the *Regional Economist*, notes that state development officials typically enlist local economic development departments or university professors to forecast the likely outcome of an incentive offer: the potential number of jobs that might be created and the potential increase in revenues that those new workers will generate in income and sales taxes. Such reports, he warns, "should be read with a wary eye, as the incentives to either inflate or deflate the results often depend on the author's affiliation or source of funding." Furthermore, Zaretsky says, "not all effects can be reliably quantified, usually because broad assumptions that are not always verifiable must be made."

The result was a robust state economy that by 1995 was outpacing the nation's and producing the lowest unemployment rate the state had seen in 25 years.

Sources of Jobs

Most jobs, it should be noted, are created by existing firms within a state, not those relocating from out of state. Take the case of Ohio. David Kraybill, an economist at The Ohio State University, estimates that 78 percent of all new jobs created in Ohio were created by local firms in 1993, the last year for which such data were calculated. The remaining 22 percent came from companies that were either moving from somewhere else in Ohio or moving into the area from another state. In some regions, over 90 percent of the jobs were created by firms expanding in the local area.

More fundamentally, most state governments are simply unable to assist significant numbers of firms on a case-by-case basis. Once again, Ohio is a good example. The Ohio Department of Development advertises 45 different programs that can provide assistance to expanding and relocating firms. Thirteen of these programs are designed to provide financial assistance and 15 others provide technical assistance.

Kraybill estimates that about 40 percent of the state's businesses are expanding or starting up. Since Ohio has about 250,000 businesses according to development officials, this translates into about 100,000 growing businesses. Yet it is estimated that fewer than 400 companies—less than two-tenths of 1 percent of Ohio's companies—received direct state assistance last year. In 1993, the last year for which hard data were publicly available, 277 firms received assistance, down from 324 in 1992. This means that Ohio provides financial assistance to fewer than four-tenths of 1 percent of the growing firms in the state. Even if this number doubled, the state would be assisting fewer than 1 percent of all growing firms.

Ohio Governor George Voinovich credits his administration's incentive programs for grabbing businesses away from, among other states, neighboring Pennsylvania. But taxes may be a far better reason for a company to leave Pennsylvania and move west. Companies face an 8.5 percent corporate income tax in Ohio, or they may choose to pay an alternative capital-stock tax if that works out to be lower. Pennsylvania's corporate income tax is 9.9 percent, and companies have no choice but to pay a capital-stock tax on top of that, bringing the total to more than 12 percent. In a 1992 National Governor's Association report, Jay Kayne wrote, "According to many business executives, 'It is not so much what the state does for us. We are more concerned about what a state might do to us.'"

In the spring of 1995, Michigan rejoined the incentive war after a brief but very profitable absence. The legislature adopted Governor John M. Engler's proposal for a new state agency, the Michigan Economic Growth Authority (MEGA), which grants selective tax credits to in-state firms that agree to create 75 or more new jobs, and out-of-state firms that agree to relocate to Michigan and create 150 or more new jobs. The administration estimates that the MEGA program will give birth both directly and indirectly to a total of 20,950 new jobs, if all 25 awards the law permits are made in a year. Even assuming the one-sided ledger approach of the administration, 20,950 jobs in a state workforce of 4.5 million may produce a few attractive photo ops, but the number is statistically insignificant.

Ironically, Governor Engler was one of the last holdouts in this new economic war between the states. In his first term, 1991-95, he slashed the state's commerce department largely by abolishing a maze of selective subsidy and credit schemes erected by previous administrations. Adopting the "fair field and no favors" approach he championed as a state senator, he cut taxes and regulations across the board, perhaps more than any other governor. He moved aggressively to reduce Michigan's onerous costs of unemployment insurance and workers' compensation. Property taxes were slashed by more than 50 percent. Michigan's tax burden as a percentage of personal income dropped the state from a ranking of 16th highest to 27th. Privatization of state assets and functions sent a strong signal that Michigan was a business-friendly place again.

The result was a robust state economy that was by 1995 outpacing the nation's and producing the lowest unemployment rate the state had seen in 25 years. While per capita personal income rose by 3.8 percent nationally from 1992-94, it soared by 6 percent in Michigan. From June 1994 to July 1995, before the MEGA program got off the ground, companies in the Great Lakes state created new manufacturing jobs at a rate more than two and one-half times the national average—18,000 of them, an astounding one out of seven manufacturing jobs nationwide. A quarterly survey by Kemper Securities in March 1995 ranked Michigan's economic outlook as the best in America. Michigan, Governor Engler proudly boasted, was "turbocharging the national economy" entirely by getting government out of the way, not making it more "activist."

In the midst of unparalleled prosperity, however, the governor and his development czar Doug Rothwell declared that Michigan needed to jump back into the industrial policy business to compete, strangely, with the job-grabbing programs of states that often had higher unemployment and less healthy economic recoveries than Michigan's. Admitting that he wished he "didn't have to do it," Governor Engler's MEGA is evidence that tit-for-tat, not sound economic policy, is what propels state economic development strategies these days.

Superior Court Judge Julius Rousseau ruled in Maready's favor, decrying incentives as "an arbitrary way of spending public money."

Oddly enough, the broad-based, generalist approach to economic development is denigrated by the incentive advocates as "unilateral disarmament." The Michigan experience from 1991-95 suggests that it is just the opposite. There may be no better way to "arm" your state for economic development than to cut the burdens of government on everyone. Analysts are still shaking their heads over the incongruous stances of the Engler administration—trumpeting the state's stunning comeback under a policy of supposed "disarmament," while at the same time revving up subsidy schemes it earlier and rightly had condemned as counterproductive. If unilateral disarmament means turning a Rust Belt state into an economic dynamo in the space of one gubernatorial term, then we need more unilateral disarmament, not less.

A Federal Solution?

How can an end be brought to this destructive war between the states? Economists Melvyn L. Burstein and Arthur J. Rolnick of the Federal Reserve Bank of Minneapolis are calling for federal intervention on grounds that discriminatory state policies interference with interstate commerce. They seek congressional action to statutorily prohibit subsidies and preferential tax treatment. "To implement a legislative prohibition, Congress could impose sanctions such as taxing imputed income, denying tax-exempt status to public debt used to compete for businesses and impounding federal funds payable to states engaging in such competition." Also seeking congressional action is Ohio state Senator Charles Horn, who has introduced a resolution calling upon the state's congressional delegation to support efforts to "identify and eliminate federally funded programs that are used by the states" in the incentive wars.

Others raise questions about the ability of Washington's heavy hand to solve the problem. Congress might do more harm than good by actions that could restrict the healthy kind of competition between states that almost everyone favors. In this age of renewed federalism, perhaps this is one issue on which the states should find a way to prove they have indeed grown up.

The Clawback Approach

But getting the states to take action on their own will not be an easy task. Attempts have been made in the past and have availed little. "Ceasefire" agreements between states historically have broken down because one or more states perceives it to be advantageous to cheat and evade them. At the August 1993 National Governors' Association meeting, Illinois Governor Jim Edgar made several suggestions and proposed a set of guidelines to limit how much states would give away in subsidies and tax breaks. The states have done little to follow up on Edgar's ideas, except for one area: through what are called "clawbacks," they have begun to hold companies accountable for not living up to the commitments they make in exchange for the handouts they get.

Louisiana, Ohio, and Texas are among the states that have passed laws mandating that companies give back at least some of the value of previous incentives if the agreed upon number of jobs does not materialize or if the companies leave prematurely. Because courts generally have ruled that clawback provisions must be spelled out in careful detail to be enforceable, states and municipalities are likely to become increasingly picky about the terms of incentive deals. While it may seem reasonable for governments to protect themselves from companies that do not keep their promises, Adam Zaretsky sees a serious problem arising over the definition of job creation. He asks: "Should all jobs be counted, or only those jobs that were created because of the financial assistance offered? How long must a job be retained to qualify as job retention? Should only certain levels or types of jobs be included, or should jobs be weighted by their pay? Should jobs filled by workers from underrepresented groups count differently? How much time should the firm be given to create these jobs?"

Clawback programs are already beginning to bite. The Minnesota Supreme Court, for instance, upheld the city of Duluth's prohibition of the transfer of equipment purchased by private companies with tax-exempt municipal bond funds. When a private company that benefited from just such a public bond sale attempted to move away and take the equipment with it, Duluth sued and won. As clawbacks become more common and more proscriptive, companies may find incentive deals less and less attractive. But expecting this development to end the economic war between the states is probably wishful thinking, and, in any event, clawbacks do not address the many other defects of the "industrial policy" approach.

Small businesses that are not well-connected politically are beginning to cause problems for development officials. Because they often see themselves as being taxed to bribe the bigger guys who get the handouts, spokesmen for small firms are speaking out against selective tax breaks and subsidies with increasing frequency

In other cases, small firms are demanding equal treatment. In Michigan, small, high-tech entrepreneurs are protesting the state's policy of wooing big companies with tax breaks; they are organizing a lobbying campaign to convince officials to give them tax breaks too. The spectacle of one interest group after another lining up to take advantage of selective and highly discretionary government support may further undermine public confidence in development policies. It strengthens the hand of those who say that so many demands for special treatment constitute proof that taxes are too high on everybody to begin with. A *general* tax reduction, they note, would cut the value and importance of *selective* breaks, diminish the number of requests for them as well, and spread the benefit of lower costs fairly to all businesses, regardless of political connections.

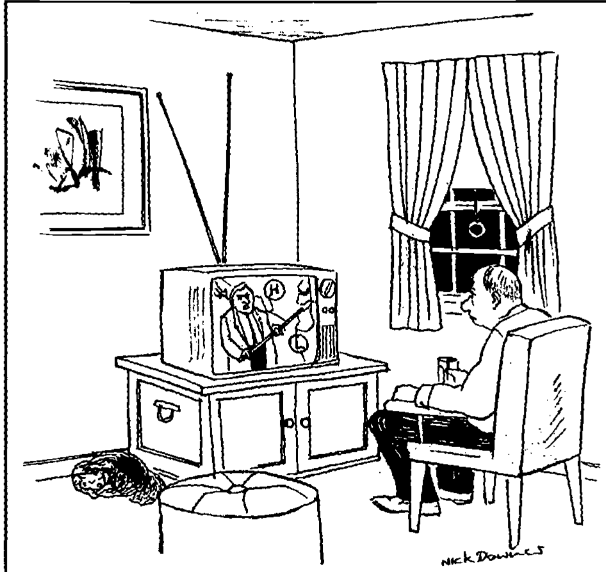
Court Challenges

North Carolina lawyer William Maready decided to do something about the problem himself, in a case with a local focus but with implications for state policies everywhere. Last year he filed suit against the city of Winston-Salem and the county of Forsyth, arguing that incentives to keep or attract businesses violated Article V, section 2(1) of the state's constitution, which provides that "the power of taxation shall be exercised in a just and equitable manner, for public purposes only." Maready argued that incentive deals amount to the taxing of existing, local firms to pay for the relocation or expansion of other, often competing businesses. That, he said, was use of public resources for an overwhelmingly *private*, not public, purpose.

Superior Court Judge Julius Rousseau ruled in Maready's favor, decrying incentives as "an arbitrary way of spending public money" that was not a legitimate use of the public purse. The city and county appealed to the state's Supreme Court which, on March 8, reversed the lower court decision in a 5-2 decision of breathtaking proportions. For the majority, Justice Willis Whichard wrote, "The General Assembly may provide for, *inter alia*, roads, schools, housing, health care, transportation and occupational training. It would be anomalous to now hold that a government which expends large sums to alleviate the problems of its citizens through multiple humanitarian and social programs is proscribed from promoting the provision of jobs for the unemployed, an increase in the tax base, and the prevention of economic stagnation."

The John Locke Foundation's Cline notes that "because Whichard has written this idea into constitutional jurisprudence, the state and local governments now can legally hand out public money to almost anyone, provided the recipient creates a few jobs to justify the appropriation." Incredibly, nowhere in his opinion did Justice Whichard address Maready's thorough argument that incentives produce no broad-based net public gain. Instead, says Cline, "he ruled that if a policy is *aimed* at helping the community, that policy will be considered constitutional regardless of whether it actually benefits or harms the community."

In a stinging dissent, Justice Robert Orr lamented that because the ruling was so sweeping, "little remains of the public-purpose, constitutional restraint on governmental power to spend tax revenues collected from the public." No evidence was presented of economic distress in the city and county from 1990 to the present time . . . . No evidence was presented that incentives paid or committed by the city and county improved the unemployment rate or that they otherwise resulted in meaningful economic enhancement. No evidence was presented that the incentive grants made by the City and County reduced the net cost of government or resulted in a reduction in the amount or rate of property taxes paid by, or the level of services rendered to, the citizens of Winston-Salem and/or Forsyth County."



"Due to a butterfly flapping its wings someplace, yesterday's forecast was completely botched."

Justice Orr observed that even if all of the jobs allegedly created by the incentives actually came to fruition and otherwise would not have materialized, they represented a minuscule percentage of the total county workforce. Moreover, many of those jobs went to local residents who were already employed in other local businesses. To claim that the incentives served a public purpose, one must ignore the fact that their benefits were concentrated on a few private parties and rely instead on a totally unsupported assertion that simply creating new jobs and increasing the tax base justifies the payment of tax dollars to private firms. If a potential corporate entity is considering a move to Winston-Salem but will only come if country club memberships are provided for its executives, do we sanction the use of tax revenue to facilitate the move? According to the majority opinion, that would be perfectly acceptable.

Public or Private Purpose?

The Maready case brings into sharp focus the matter of "public purpose" as a central conundrum in the economic development debate. The North Carolina Supreme Court's ruling takes the industrial policy gurus' perspective to its ultimate extreme: *any* use of public money, no matter how lavishly bestowed upon *private* interests, serves a *public* purpose even without considering evidence of *any* offsetting effects. To return to the earlier analogy of the neighborhood thief, the Court said that we need look no further than the thief's spending at the shopping mall; the folks back in the neighborhood do not count.

In Justice Orr's more thoughtful view, "An activity cannot be for a public purpose unless it is properly the 'business of government,' and it is not a function of government either to engage in private business itself or to aid particular business ventures."

From the history of the state of Michigan comes a lesson that complements the contemporary North Carolina story and may even suggest a solution to the present-day dilemma. Upon achieving statehood in 1837, Michigan jumped into industrial policy in big way—offering enticements to private firms and even "assisting" economic development by starting up state-owned railroads and canals. The legislature approved subsidies for sugar-beet producers, silk manufacturers, and sheep raisers, among others, to "increase and ameliorate the home market."

In barely a decade, the state's interventions were widely regarded as colossal failures, so much so that the state's constitution was rewritten in 1850 to excise state government from economic development altogether. The relevant passage from the Michigan Constitution of 1850 read, "The State shall not subscribe to *or be interested in* the stock of any company, association, or corporation . . . . The State shall not be a party to or interested in any work of internal improvement, nor engaged in carrying on any such work." (Emphasis added.) In the absence of state incentives, Michigan—surrounded by lakes and once thought of geographically as "the state on the road to nowhere"—went on to develop world-class industries in lumber, furniture, carriages, and ultimately automobiles.

An Amendment for State Constitutions

WHEREAS, *targeted business incentive programs such as direct grants, selective tax incentives, and abatement programs have proliferated into a counterproductive war between the states in our region, and now form the cornerstone of state sponsored "economic development" policies in many states; and*

WHEREAS, *these programs fail to promote healthy and even-handed statewide economic growth because they*

1. *unfairly penalize existing businesses and labor through higher taxes to subsidize large, relocating firms;*
2. *target relocating firms that, according to empirical academic research, add little if anything to net job creation;*
3. *serve only a small proportion of the firms that need tax and regulatory relief;*
4. *are minor factors in the plant location decisions of most firms;*
5. *give unfair advantages to large firms with the administrative capability to negotiate the "best" deal with state government; and*
6. *represent state-level industrial policies that attempt to pick winners and losers through the political rather than the economic process, with all the potential for political abuse that this implies; and*

WHEREAS, *spread of these policies to every state in our region effectively cancels the advantages their advocates initially promised;*

THEREFORE, BE IT RESOLVED, *that state governments should terminate targeted business assistance such as direct grants, selective tax incentives, and abatement programs and adopt a comprehensive economic development strategy based on statewide tax relief for all businesses and citizens, a "fair field with no favors" approach, budgetary restraint, high quality physical infrastructure, access to transportation, a superior education system, and market-based competition and deregulation. We also urge the Governors and Legislators in our states to call upon their counterparts in all the other states in the union to do the same.*

A Constitutional Amendment?

The clear line between "public" and "private" that Michigan established in 1850, and that Justice Orr addressed in 1996, is obviously in need of constitutional reclarification. Precise language establishing that delineation in the form of an amendment to the U.S. Constitution may be the best way to end the economic war between the states. Promotion of just such an amendment ought to come from the states themselves, and an opportunity to do so may be in the works. Awareness of the harmful effects of the incentive wars is reaching a critical mass that could open the door to real progress.

More than 100 distinguished midwest economists and policy analysts signed a Joint Resolution on State Economic Development Policy in September 1995, at the behest of the Buckeye Institute for Public Policy Solutions in Ohio, the Mackinac Center for Public Policy in Michigan, the Indiana Policy Review Foundation, and other free-market think tanks in the region. It urges states to abandon their industrial policies of picking winners and losers and employ time-honored strategies that benefit all businesses and entrepreneurs. It argues that because every state is now doing the industrial policy thing, any benefits any one state thinks it is reaping are probably being canceled out by another state's policies anyway. (See text of the resolution on the previous page.)

Perhaps such a resolution could be adopted by each state as an amendment to the state constitution. This would provide a legal basis by which the states, in essence, would bind themselves to do the right thing or open themselves up to challenges in the courts if they should stray from this principle. The problem here, of course, would be that states would be debating and acting on such a resolution over a period of years. Those states that have not yet adopted the resolution would be tempted for political reasons to remain in the game of bidding for business, knowing that neighboring states that have adopted the resolution could not make counter-bids.

That dynamic, of course, is based on the economic fallacy that state industrial policy works. But the political reality often is that those governors who make headlines by supposedly bringing in business reap the political rewards. To counter this situation, those supporting the resolution against industrial policy would have to engage in an aggressive public education effort in their states to demonstrate the folly of such a policy.

Prompted by the resolution, Ohio's Senator Horn is organizing a regional conference of legislators and policymakers for the purpose of addressing the incentive wars issues. If the conference materializes, recommendations the conferees might make—including a possible constitutional amendment—could become the basis for a serious national discussion.

Governors and legislators must rethink their economic development strategies and work to end this futile war between the states. In addition to their favorite pastime of lobbing valid complaints about what Washington does to the states, they should spend time addressing what states are doing to each other and themselves with misguided economic development policies.

In the end, states must recognize that they can foster superior and sustainable growth if they spend less energy on a few trees and care instead for the forest as a whole.

Selected Readings

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