A Review of Economic Development Programs of the US Federal Government and Eleven States

December, 1992

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Ottawa, Ontario

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INTRODUCTION

This report provides an overview of US government assistance to non-agricultural business and highlights trends in economic development policies. The review covers the US federal government and eleven state jurisdictions: California, Massachusetts, Michigan, New York, Georgia, Montana, Washington, Texas, Pennsylvania, Ohio, and Illinois. The study reflects the results of ongoing research by the US Policy Studies Group (USPSG) at Dalhousie University. Descriptions of the primary initiatives from each jurisdiction will supply a context for the statistical data on the different types of assistance.

Analysis of the research is organized into two major sections. First, federal government activities will examine the various programs and policies which tend to establish a relatively common basis for many state level efforts. Second, the economic development strategies of individual state governments will outline the major tools used for implementing policies in eleven states.

In order to establish an understanding of the underlying basis of this research, some preliminary remarks concerning our approach and methodology are necessary.

Research Approach

The data on which this study is based was collected over a 3 year period beginning in 1988. Extensive on-site data collection and interviewing were conducted to assure the most complete information possible. Information for the various states was collected at discrete points in time and this study reflects the information at the time the research was conducted. Accordingly, state and federal summaries represent a snapshot of a particular point in time and some jurisdictions are more current than others.

USPSG's research approach is to identify all potential forms of assistance by the United States government to non-agricultural business. Any public intervention activity that reduces the input costs or business transaction costs is a potential subsidy. Our inventory of business assistance programs is substantiated with secured public documentation to maintain the highest level of integrity possible in the data.

Currently, neither the U.S., Canadian, or international (GATT) definition of subsidy provides precise standards against which individual economic development program characteristics can be evaluated. The US Policy Studies Group employs the U.S. Government definitions of both the term subsidy and the classification of types of assistance. The U.S. Tariff Act definition, which is similar to that in Canadian legislation, defines subsidy as a:

> "Benefit provided or required by government action to a specific enterprise or industry, or group of enterprises or industries, public or private, whether paid or bestowed directly on the manufacture, production, or export of any class or kind of merchandise."

This is a relatively broad definition and captures most significant benefits. Practical application of this definition has the potential to result in a wide array of general service public goods being considered as subsidizing private business. For the purpose of our inventory database, economic assistance must have a business focus with the intention of providing a commercial benefit to business, either directly or indirectly, including cost avoidance actions.

PART A. US FEDERAL GOVERNMENT

In the 1990s, the US Government's economic development policy takes place within a context of historically established characteristics. Influences from this setting are important to understanding how economic development policy is structured to deal with the sluggish US economy, fiscal deficit, savings and loan crisis, and the relative economic position of the US in the international trade arena. The US Government's approach to economic growth and development evolves within a milieu that is predominantly shaped by five major features.

First, the ethic that private industry needs an expansionary economic climate free of government regulations which distort business decisions strongly dominates perceptions and attitudes of business-government relationships. Second, large corporations have developed sophisticated relationships with decision makers. Third, the decentralized government and political system allow for special interests to secure support and modification to government regulation and programs through a series of trade offs between different power brokers. Fourth, there is a deep-seated belief that national security is dependent upon an independent and vibrant group of defence-critical industries. Last, the US Government's support of basic scientific research is deemed necessary to preserve and strengthen the sound technological base which is essential for both the protection of national security and provision of unmet domestic needs.

Given these five major factors and the US Government's fiscal capacity, a complex system of Federal economic development policies and programs employ the following mechanisms:

A. tax expenditures (abatements);

B. government support for research and development;

C. government action to ensure active and stable sources of financing through private markets;

D. favourable regulation of and systemic support for certain priority industries, especially ones considered as defence critical;

E. sophisticated communication, transportation, and urban infrastructures;

F. direct grants, loan, and service support for small and disadvantaged businesses.

Comprehensive research has been conducted on programs and policies concerning item "F" described above. Current, trends have been identified in budgetary documents and analyses to provide general descriptions of items "A" & "B". Additional research efforts in both the literature and the field are needed to obtain high quality information regarding the specifics of items "C", "D", and "E". From the 137 Federal programs identified by USPSG, the values of business assistance are as follows:

Table 1.

Summary of US Federal Support
By Types of Assistance

(in millions, 1989 dollars)

Grants	$6,837.2
Loans and Loan Guarantees	$3,684.0
Provision of Services	$3,590.5

USPSG has qualitatively classified the programs according to the level of information available. Classification A programs are identified as available business assistance programs in the U.S. Government's catalogue of domestic assistance. Classification B programs are identified as assistance programs in US Government documents but not as principally directed to assisting business.

Classification C programs are not identified as an assistance program in directories but basis for inventory inclusion is found in congressional budget justifications, statements, and legislation. According to these three classifications, the number of programs in each category is as follows:

Table 2.

Qualitative Classification of US Federal Support (in millions, 1989 dollars)

	No. of Programs
Classification A	43
Classification B	70
Classification C	24

While some economic growth and development programs arise from specific functions of the US government, others are generally available policy initiatives.

The following table identifies the US federal support expenditures by functions for 137 programs in the inventory data base:

Table 3.

Summary of Federal Support by Expenditure Functions

(in millions, 1989 dollars)

	Grants	Loans and Loan Guarantees	Provision of Services
Industry Sector Targeted:			
Natural Resources	237.8	125.8	1,750.1
Transportation	1,581.4	13.7	40.8
Environmental Protection	868.6	--	48.8
Financial Sector	--	--	130.2
Other	195.4	--	20.0
SubTotal	2,883.3	139.5	1,990.0
Generally Available:			
Economic Development	1,422.9	3,544.5	1,483.3
Research and Development	--	--	35.4
Employment Training	2,531.0	--	13.4
Other	--	--	1,600.5
TOTAL	$6,837.2	$3,684.0	$3,590.5

For comparative purposes, Summary table B-8 of the 1989 edition of the National Accounts of the US (Subsidies and Enterprise Deficits Accounts), contains the following estimate figures:

Total	$29,680 million
Less Agriculture and Housing	24,500 million
Balance	$ 5,100 million

The US National Accounts treats R&D grants as a purchase of service and consequently, reduces the comparability of our figures with their figures. Furthermore, loan write-offs are not captured in the US National Accounts system.

Additional programs with a total value of $10 billion, including loans and loan guarantees, have been identified but further research is required to verify the exact value and appropriateness for inclusion in a subsidies inventory data base. Also, given the massive size of the US public service, other federally funded activities are still buried within different elements of the bureaucracy. A long-term research program is necessary to identify, monitor, and track US economic development activities.

Examples of government support to industry, including the broad area of R&D and general regulation, range from support for fish hatcheries to assistance for a tailored clothing technology corporation, to the possible transfer of the Land Remote-Sensing Satellite System (Lansat) to the private sector. The US bailout of the savings and loan industry through the off-budget Resolution Trust Corporation (RTC) requires further investigation given the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)that authorized $50 billion to close or sell hundred of insolvent institutions. Congress expects another $25 to $30 billion more will be required to cover net losses.

The US government provides support to small businesses and disadvantaged persons in business through the Small Business Administration agency (SBA). The types of support include start up loans or loan guarantees, training, and management advisory services. A few regional development programs offer infrastructure, low cost financing, planning, and training.

Through a number of different mechanisms, the US government also provides support to more established and larger firms. One funding mechanism is to provide for technology development and transfer either directly through joint ventures between businesses and/or universities. Another mechanism is through the use of defence-critical firms which are protected from offshore competition. Last, packages can include one or a combination of, export assistance, services, information and/or financing arrangements.

One of the major fiscal mechanisms of US governments, from the federal to the local level, is the use of tailored tax incentives for stimulating specific economic activities. Tax programs attempt to act as a lever for promoting private sector activities without having to incur outright budget expenditures or the political pressures associated with spending. Recently, the US federal government attempted to stimulate entrepreneurial activity and higher risk investments with a 30% capital gains exclusion for capital gains realized after March 15, 1990. Congressional budget analysis estimated the net revenue forgone would total to $12.0 billion from 1991 to 1995.[1]

Tax incentives are also integrated into competitive technology policies related to research and development. Amendments to he Stevenson-Wydler Technology Innovation Act of 1980, aimed at enhancing manufacturing technology development and transfer, are being proposed in a House bill [HR 5231] the "National Competitiveness Act of 1992". The authorization of appropriations for the bill amounts to $121 million for 1994 to 1995. The House Committee on Science, Space, and Technology has examined the bill and on August 12, 1992 recommended to the House that the bill be passed.

To encourage greater private sector R&D investments, the US government proposed to remove the Research and Experimentation (R&E) tax credit from expiration on December 31, 1990 to a permanent status. Businesses can reduce their tax liability by 20% of the amount by which R&E expenditures exceed a base amount computed with reference to the taxpayer's historical research expenditures. Also, the R&E allocation rules were extended and revised to allow for a R&E deduction from current income as cost of doing business. In total, Congress estimated that the R&E tax incentives will reduce corporate income tax receipts by $10.6 billion between 1991-1995.[2] R&D tax incentives are one example of the US government's integration of multiple mechanisms and policies for developing competitive technology policies.

The US government's R&D policies and budget bear special attention to their current trends. R&D is receiving a continual increase in budget allocations and actual expenditures. The 1993 budget proposes a 3% increase of $2 billion for a total of $76.6 billion for R&D and R&D facilities. While federal civilian R&D will increase by 7%, defense-related R&D will increase by only 1%. Also, a 3% proposed increase in 1993 to $579 million is aimed at increasing technology transfers from Federal laboratories to the

1. Reischauer, R.D. An Analysis of the President's Budgetary Proposals for Fiscal Year 1991. Congressional Budget Office. March, 1990.

2 Ibid. p. 44-46.

private sector.[1]

US federal regulations also contribute to the Administration's policy concerning private sector development of R&D. Industrial R&D collaborations have increased and resulted in increased R&D activities. This was facilitated by the National Cooperative Research Act (NCRA) of 1984 which enabled private companies to form research alliances without fear of antitrust violations. Since December 1991, 263 private sector consortia have been registered with the Justice Department.[2] Future expansion of the legislation is intended for joint production ventures. The Department of Commerce also proposes the Strategic Partnerships Initiative for the development and application of large-scale enabling technologies among private firms.

In addition to the summary overview of business assistance programs, the US Government's use of tax expenditures and support of R&D have been highlighted briefly in order to show their influence on overall competitiveness. The following section outlines state government activities in supporting business through various economic development mechanisms.

PART B. STATE GOVERNMENT ECONOMIC DEVELOPMENT STRATEGIES

Beginning with the Carter Administration and accelerating with the Reagan administration, a significant shift occurred in the domestic policy relationship between the federal and state governments. The federal government withdrew from many domestic activities and as a result, state level governments took on more responsibilities. In the process, state governments exerted greater influence and power over economic development issues within their own jurisdictions.

This section summarizes the types of business assistance programs in eleven states and the current trends facing each one. In general, all the states have active economic development strategies that foster an integrated approach with multiple programs and policies.

Often the programs are "stacked". In this approach, a wide array

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1 Budget of the United States Government Fiscal Year 1993. Ch. 6 "Enhancing Research and Development and Expanding the Human Frontier". Washington: US Government. 1992.

2 Ibid.

of tools that include federal, state, and sub-state level support is compiled in one incentive package designed to recruit a firm. A local non-profit organization could coordinate federal funds, state retraining programs, local tax incentives, and infrastructure development for all tailored to the needs of one firm. The federal agencies often act as the "wholesalers" of business assistance programs while the state level government act as the "retailers" by applying for and administering the programs according to local needs. Recently, the state level governments are also making moves to become "wholesalers" and leaving the "retailing" to sub-state level organizations that are either public or non-profit.

The business assistance programs in our inventory have specifically isolated state budget dollars by using budget documents and internal program documentation obtained directly from program personnel. In order to avoid double counting, some business programs within state jurisdiction were omitted because all of the funding was received from federal sources. For the eleven states, the business assistance programs have been grouped into four categories: capital (which include loans, loan guarantees, and equity), grants, services, and tax incentives.

State governments have followed the pattern of the federal government in the heavy use of tax incentives as a tool for economic development. In 1989, New York, at $3.4 billion provided the most capital financing, of the 11 states. This included venture capital, loans, loan guarantees, bonds, and seed capital. California provided the second largest amount of capital financing at $1.1 billion. At the other extreme, Texas provided no programs to assist in meeting capital financing needs.

Table 4.

Summary of Non-Agricultural State Assistance Programs for Business

($US in millions for 1989 or 1990)

	Capital	Grants	Tax Incentives	Business Services	Total
CA	1,105.9	19.6	1,590.8	98.2	2,814.5
GA	58.4	4.0	46.3	152.9	261.6
IL*	144.5	61.1	N/A	14.3	219.9
MA	131.4	16.7	1,958.6	10.7	2,117.4
MI	970.4	110.9	2,696.5	55.5	3,833.3
MT	17.3	6.4	61.0	9.2	93.9
NY	3,447.1	33.7	1,191.7	18.6	4,691.1
OH*	92.4	30.7	3,335.3	5.6	3,464.0
PA*	42.9	100.2	4,465.8	25.2	4,634.1
TX	000.2	3.4	3,354.8	24.9	3,383.3
WA*	5.2	2.1	946.4	14.6	968.3
sub-total	6,015.7	388.8	19,647.2	429.7	26,481.4
Federal Gov't	5,072.0	5,980.0	22,850.0	3,093.0	36,995.0
Total	$11,087.7	$6,368.8	$42,497.2	$ 3,522.7	$63,476.4

* FY 1990 figures; CA - California, GA - Georgia, IL - Illinois, MA - Massachusetts, MI - Michigan, MT - Montana, NY - New York, OH - Ohio, PA - Pennsylvania, TX - Texas, and WA - Washington State.

Michigan and Pennsylvania provided the largest amount in total grants in 1989 with $111 million and $100 million, respectively. Illinois, New York, and Ohio supplied significant amounts in grants for business assistance with $61.1, $33.7 and $30.7 million, in 1992, respectively. Washington State spent the smallest amount for grant programs in supporting business development with only $2.1 million in 1990.

Provision of business services below market value included site location assistance, management consulting, marketing, information dissemination, trade missions, one-stop shopping for permits, and training disadvantaged groups. In 1989, Georgia's expenditures for the provision of business services were the largest at $152.9 million while Ohio spent the smallest amount with only $5.6 million. There is a trend toward increasing the provision of business services while decreasing grant programs.

State tax incentives included tax credits, tax abatements, and special allocation rules. The data for tax incentive programs was gathered from tax expenditure budgets which reflected state estimates of foregone public revenue from the individual programs. Only tax incentive programs targeted for business assistance were included in the inventory. In 1990, Pennsylvania's tax expenditure budget was the largest of all eleven states at $4.5 billion. Georgia provided for the least amount of tax expenditure at $46.3 million but the state already has an extremely low tax rate.

During the 1980s, state governments competed fiercely with one another to recruit business to their various jurisdictions. The process resulted in a bidding war as each state tried to better the others with increasingly attractive incentive packages. The packages combined not only regular business assistance programs but also ad hoc arrangements custom tailored by the specific local jurisdictions to the firm's interests. Some winning jurisdictions began to wonder whether they had given too much away as cost-benefit ration began to exceed one.

State governments faced a dilemma in which they were unable to pull out of this bidding process without incurring political loss and negative ratings in national rankings. The next trend in economic development strategies was diversifying from predominantly industrial recruitment to creating/growing small entrepreneurial enterprises, expanding local businesses, and retaining firms within the state. Business assistance programs targeted each initiative in a very specific manner since the different economic development strategies required different tools. For example, small entrepreneurial firms needed business services in management and market consulting as well as start-up venture capital. They have less need for tax incentives and large industrial infrastructure which are more appropriate for industrial recruitment and/or expansion.

During the late 1980s and continuing into the 1990s, state governments have taken an increasingly comprehensive and strategic approach to business assistance. Business assistance programs are shifting toward the provision of services rather than the provision of financial assistance such as grants. A more comprehensive perspective is leading toward the addressing of social issues within the business assistance programs which, for example, target chronically unemployed, minorities, women, and inner city locations. In addition to providing jobs, governments are attempt-ing to control and decrease social costs through these efforts.

In summary, competitive economic development strategies at the state level are becoming increasingly sophisticated even though there is a range of actual development between the individual states. Also, business assistance programs have developed more integrative, comprehensive, and strategic approaches for competition in the international arena. In the following sections, specific descriptions of business assistance from eleven states is provided for a closer look at individual state government strategies.

California

California's gross domestic product would rank seventh if it was a nation. Each year, California produces over $730 billion in goods and services. The economy's diverse industrial base includes major industries that range from high technology, electronics and aerospace to agriculture, food processing, tourism and film production. During the last five years, export trade out of California has grown by 112%.

Currently, California's economic development strategy's main objective is to build a stable business climate based on job creation and development of economically depressed areas. The primary mechanisms for achieving these goals are export development, promotion of high technology industries, and expansion and retention of existing business. Through the California Department of Commerce, four major business incentives were highlighted:

- 29 designated enterprise zones;
- matching funds for collaboration aimed at commercializing competitive technology;
- seven major financing programs;
- six designated US foreign trade zones.

California acknowledges 2% of its $47.8 billion state budget as support for economic development. USPSG has identified 122 Californian economic development assistance programs worth $2.8 billion in 1989. Tax expenditures made up the largest component of this total with 84 programs valued at $1.6 billion. California has over 300 tax expenditure programs but the 84 programs accounted for have a business target based on either an industrial sector or a geographical location. The total value of tax expenditure programs is an underestimate of the total. Where dollar values were not provided for tax expenditure programs, the amount used for calculation was zero.

Table 5.

California's Fiscal Exposure by Types of Subsidy Objectives

($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	1,067.4	10.9	600.9	10.1	1,689.3
Regional Development	5.5	8.0	0.0	0.4	13.9
Adjustment to Competition	2.0	0.7	700.9	81.5	785.1
Social Development	0.0	0.0	0.0	0.0	0.0
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Business	6.0	0.0	289.0	4.0	299.0
Export Promotion	25.0	0.0	0.0	2.2	27.2
TOTAL	$1,105.9	$19.6	$1,590.8	$98.2	$2,814.4

California's state constitution prohibits the Legislature from making direct loans to private industry. A variety of arm's length capital financing mechanisms are used to facilitate such loan and loan guarantee programs. The 17 loan and loan guarantee programs were the second largest segment with a fiscal year exposure total of $1.1 billion. Six programs targeted specific sectors while six targeted particular geographical regions. The remaining programs supported export promotion and assistance to small and medium business.

Business services accounted for $98 million through 12 state programs. These programs provided service below market costs. Business service programs varied in shape and form but engaged in activities such as disseminating management and technical assistance to industry through seven regional development corporations, six small business development centres, enterprise zones, business incubators, a network of small business resource centres in the university system, and four business and industrial development corporations.

California provides over $19 million in grants to support business activities. Most of the funds are used matching private sector efforts. Emphasis is placed on the stimulation of investment in commercializing high-tech R&D innovations.

The 122 business programs documented and their value provide evidence of California's aggressiveness in economic development strategies. The state continues to be a very dynamic and diversified economy which enables it to withstand business cycle down turns more successfully than most other states.

Georgia

Georgia experienced a relatively vibrant economy during the latter half of the 1980s with a slight slow down in the 1990s. In business climate surveys, Georgia, especially Atlanta, ranked very favourably in comparison to other states. The primary strategic thrust in marketing Georgia for economic development is a strong pro-business climate.

Three competitive policy mechanisms support Georgia's pro-business environment--low tax rates, right-to-work labour legislation, and strong cooperative business-government relationship. In the fiscal year 1988 to 1989, state-funded economic development totalled $230 million in 84 programs. The number and amount of special business incentive programs is limited. Most of the programs offer services below market value.

Georgia does not use a unitary tax method, hence the corporate tax is 6% of income apportioned to Georgia. This rate has not changed since 1969. State sales tax is 4% with some municipalities adding on a local-option of 1% to reduce property taxes and/or a 1% special, local-option sales tax that must be directed to funding specific projects.

Labour legislation, which does not require workers to unionize, is heavily marketed as a pro-business feature. A copy of the legislation is included in most information packages sent to businesses that are considering Georgia as a location.

Business-government cooperation is exemplified by the leadership of the Economic Developers Roundtable which develops and maintains state-wide involvement from the different industry sectors. Membership is extended to organizations and not individuals. Eight major Georgian companies, the state Chamber of Commerce, and Georgia's Department of Industry, Trade, and Commerce are actively involved in the organization.

Table 6.

Georgia Expenditures on Economic Development
($US in million, 1989)

	Equity	Grants	Loans	Business Services	Tax Incentives
Agric'l	0.0	0.0	51.0	32.0	0.0
Timberl'd	0.0	0.0	0.0	34.0	0.0
University	6.0	0.0	0.0	39.8	0.0
Other State	0.0	4.0	1.4	47.1	46.3
TOTAL	$6.0	$4.0	$52.4	$152.9	$46.3

The potential intervention categories listed above reflect all types of intervention noted in Georgia. Due to constitutional constraints, economic development spending on incentives is relatively low. In fiscal year 1988-89, 3.7% of Georgia's $6.2 billion total expenditure was identified as providing assistance to business for economic development purposes.

Apart from the agricultural, timberland, and university-run programs, the state economic development funding amounts to $98.8 million with $46.3 million of that in sales tax exemptions for manufacturing and pollution-control equipment. Discretionary, state-run, non-primary resource, economic development spending is $52.5 million for all significant state-level programs.

The development and implementation of Georgia's aggressive economic development activities arises from the combined efforts of the state government, municipal governments and the university system. The Department of Industry, Trade, and Tourism plays a pivotal role in co-ordinating the private, public, and academic sectors. State government economic developers work closely not only with one another but also with their counterparts in private industry, municipalities, and universities. As a result, the economic development network acts much more as a unified whole than many comparable efforts in other states.

State funding of $31.1 million is channelled through the agricultural experimental stations to the agricultural sector. Timberland programs provide for reforestation and fire protection both of which have potential subsidy effects in Georgia for two reasons: First, most of Georgia's timberlands are privately owned. Second, the state does not receive tax revenue for protection. Timberland property taxes accrue to the municipalities which also provide a tax subsidy to forest companies.

Universities play an important role in implementing many of the business service programs. With $45.8 million in state funds, the universities sponsor vast, complicated, state-wide programs that also include federal and municipal funding. For example, between Georgia Tech and the University of Georgia, three networks of 45 offices administer programs to support small businesses, agriculture, and high technology. A fourth network of ten offices is in the process of being established out of Georgia Tech. Additional economic development activities may be ongoing in the Georgia State University system and the 30 senior and junior colleges of the state.

Although Georgia's muncipalities were not investigated in a comprehensive manager, a sampling of three out of 150 development authorities revealed $12 million in economic development support. The programs involved a mixture of property tax abatements, below-market-cost land and facilities, municipal bond guarantees, industrial park development, free management consulting, regulatory action, and free road, water and/or sewer construction.

Private sector involvement in economic development can be illustrated in the support for Atlanta's Chamber of Commerce. This is the largest chamber in the US with a privately funded budget of $5 million and a staff of 80 out of which 20 concentrate on economic development. Furthermore, many large firms, such as utilities, railroad, and banks, have economic development departments. Georgia Power has the largest with 20 staff members.

Overall, the private-public development network is key to Georgia's economic development. New businesses entering the state are quickly supplied with all required government and business contacts and never left wondering where to find a supplier, what regulations have to be met, and who are the necessary contacts in government. Marketing concentrates on factors already discussed - low taxes, pro-business climate, and right-to-work legislation - as well as climate, quality of life, and transportation infrastructure.

Illinois

Illinois has a relatively strong economy. However, Illinois's economic structure is evolving as manufacturing and agriculture decline while service industries become more important. While the manufacturing sector lost 23.4% of its jobs between 1980 and 1986, the service sector recorded a 19.5% increase in jobs. Recent studies indicate that the manufacturing industry is not declining but experiencing a shift from labour-intensive to capital-intensive production modes. Organizations are adopting more automation and high technology as well as modernizing existing facilities to increase productivity.

In 1986, the state's economic development strategy centred around the campaign to "Build Illinois". This program focused on diversifying the economy to reduce recessionary impacts and the sluggish growth of traditional industries. The three primary thrusts in the strategy were infrastructure development, economic incentives, and worker retraining. Illinois budgeted $2.3 billion over five years to support the program.

The Department of Commerce and Community Affairs (DCCA) spearheads economic development in Illinois but had not integrated various other efforts into the "Build Illinois" campaign. "Build Illinois" is a loose structure, compared to some more integrated strategies found in other states.

Appropriations for "Build Illinois" ended in 1990. Many of the programs continue through revolving loan funds which were established during the preceding years. The new thrust of programs targets technology development, commercialization, and adaptation. One of the major programs highlighting this effort is the Technology Challenge Grant Program which appropriated about $20 million in 1990, $17 million in 1991, and $6 million in 1992.

Table 7.

Illinois' Fiscal Exposure by Types of Subsidy Objectives

($US in millions, 1990)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	75.1	3.3	--	3.1	81.5
Regional Development	0.8	2.7	--	0.0	3.5
Adjustment to Competition	63.2	55.1	--	3.5	121.8
Social Development	0.7	0.0	--	0.3	1.0
Income Maintenance	0.0	0.0	--	0.0	0.0
Cultural Maintenance	0.0	0.0	--	0.0	0.0
Assistance to Sm/Med Business	4.7	0.0	--	1.6	6.3
Export Promotion	0.0	0.0	--	5.8	5.8
TOTAL	144.5	61.1	--	14.3	219.9

The constitution and the legislature of Illinois do not prohibit the state from making direct loans to private industry. Illinois's average state budget over a period of six years from 1986 to 1991 is about $21.9 billion. The average state expenditure for economic development over the six years examined was $273 million per year.

Illinois has a total of 47 business assistance programs. From this total, 34 programs were primary programs with 13 programs that were secondary. A program may have a loan and a grant component but the primary emphasis may be on the loan segment while the grant provides a subordinate component. These programs are divided amongst different subsidy types such as loans, grants, bonds, provision of goods and services, and equity. If cost recoverable programs were excluded, the average state expenditure decreased to $62 million.

In 1990, the total state expenditure on business assistance programs was $221.5. This figure is under estimated due to the lack of information on tax expenditures. Illinois does not publish a tax expenditure budget and as a result, more detailed study is required to uncover tax benefits available to industry.

In general, Illinois lacks an overall definition for its economic goals and policies. The coordination between developing and implementing its economic development programs is poor. A few programs are very large but expenditures fluctuate widely. Although expenditures for the DCCA are large both in financial and human resources, the state-wide economic development apparatus as a whole is unwieldy and bureaucratic. Currently actions are being taken to address these problems. One such action is the formation of a committee to study and coordinate a review of activities to date.

Massachusetts

The two dominant thrusts of Massachusetts' economic development strategy are the leveraging and the targeting of business assistance programs. In the former, public capital is provided where it will ensure a significant leveraging of private sector investment. For example, a state loan or grant attempts to leverage two to four times the original amount from private industry. Targetting identifies declining or disadvantaged regions for assistance. The state expects the economic multiplier to be much higher due to the lower overhead in these areas.

Massachusetts' economic development strategy relied on creatively shifting initiatives to off-budget authorities and corporations. This was necessary due to several major constraints which included:

a) the 1975 Massachusetts Supreme Court case that precluded regions and localities from granting special tax abatement incentives to individual industries (Sudbury vs Comm. of Corporations and Taxation, #366 Mass. 558);

b) a 1976 state law mandating a balanced state budget; and

c) a 1980 property tax revolt ["Proposition 2&1/2"] which capped local tax rates and made them regionally equitable. As a result, organizations like MASSPORT, the independent non-profit operating authority of the Port of Massachusetts, have been given the authority to issue tax-exempt bonds. Also, ten "quasi-public" investment corporations can leverage private capital with public funds.

The quasi-public corporations play an important role in industrial development and housing. The "quasis" use either state appropriations, state bond funds, or authorization to issue their own bonds to further leverage private investment in private industries or targeted regions through matching fund programs. Private industry would be targeted on the basis of being a mature industry, small business, or in the high technology sector.

One unique manoeuvre in Massachusetts' industrial policy involved leveraging private financing for industrial development in exchange for alterations to the state's tax law. Two private financing corporations, the Massachusetts Thrift Fund for Economic Development and the Massachusetts Capital Resource Company, use monies pledged from thrift (savings) banks and insurance companies to target the development of specific levels of the industrial economy. In exchange, the financial institutions managed to obtain favourable changes to the tax law which benefited the thrift/ savings banks by an estimated $27 million.[1] This type of policy would not appear in the state budget expenditure estimates but certain private industries would receive a distinct advantage.

The average state budget expenditure between the fiscal year 1986 and 1990 was $11.5 billion. For the same time period, the average public expenditure total for supporting business was $2.8 billion which amounted to approximately 24.8% of the budget. This included grants, loans and loan guarantees, tax incentives, and provision of business services below market value.

In 1989, the total amount of business assistance was $2.1 billion to support 101 programs. Numerous programs formed different segments of a primary program combining to stack different types of incentives. There were 69 primary programs and the number of secondary programs incorporated as part of a primary program was as many as three per program.

1 Massachusetts FY90 Governor's Budget narrative "Annual Value of Tax Reduction" p. 53.

Table 8.

Massachusetts' Fiscal Exposure by Types of Subsidy Objectives
($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	2.4	4.4	1,039.9	7.7	1,054.5
Regional Development	37.4	10.5	1.5	0.3	49.6
Adjustment to Competition	73.4	1.8	765.8	0.0	841.0
Social Development	0.0	0.0	151.4	0.0	151.4
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	18.2	0.0	0.0	0.6	18.9
Export Promotion	0.0	0.0	0.0	2.0	2.0
TOTAL	$131.4	$16.7	$1,958.6	$10.7	$2,117.4

Currently, Massachusetts is facing immense pressure to address economic problems and rebuild some of their economic development network. The impact from the demise of the "Massachusetts' Miracle" affects all industries in the state. During the boom period of the mid-1980s, Massachusetts benefitted from escalating defense spending, increases in the high tech sector, growth in the financial industry, and a variety of related economic activities that spun off from these sectors. As a result of these favourable trends, the development and coordination of the state's economic development networks were neglected.

Massachusetts requires a coherent policy for its economic development strategy. This task is formidable as the government attempts to address 'emergency' problems that constantly arise from a weakened public infrastructure. Business assistance programs will likely continue to operate in a 'patchwork' and 'bandaid' fashion given the existing context.

Michigan

"Building the Future", the Michigan Strategy, is Governor Blanchard's blueprint for the state's economic development agenda. Both state and local level governments have major roles in supporting and fostering economic development. The strategy is intended to diversify the economy from heavy resource industry and auto manufacturing. Sectors being encouraged for development include biotechnology, automation of industries, information technology, and composite material manufacturing.

Michigan employs a variety of policy mechanisms that include tax incentives at the local and state level, provision and leveraging of private financial support to business through actions of the Michigan Strategic Fund, and training and infrastructure development programs.

Michigan's annual state budget expenditure in 1989 was approximately $16.0 billion. Financial support for 103 business assistance programs amounted to $3.833 billion. This accounts for all forms of support including the non-budgetary dollar outlay for tax incentive programs and targeted infrastructure programs financed by bond proceeds.

Michigan, like many other governments, employs tax incentives as mechanisms to implement economic development strategies. Michigan has 44 tax incentive programs which amounted to $2.7 billion of support for private industries. Some are specifically targeted to particular industry sectors.

Michigan's sectoral development programs are targeted at industries such as transportation, logging, mining, communications, chemicals, and other resource industries. Out of 103 programs, 53 are considered to have a predominant sectoral development objective. Of special interest are the programs targeted at the venture capital and financial industry. These include the Business and Industrial Development Corporations (BIDCOs), Minority BIDCOs, the Seed Capital Program, and the Venture Capital and Leveraged Buy-Out Fund.

Table 9.

Michigan's Fiscal Exposure by Types of Subsidy Objectives
($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	957.9	70.4	124.5	18.0	1,170.7
Regional Development	0.0	3.8	525.2	3.8	532.8
Adjustment to Competition	1.0	33.8	1,124.7	25.0	1,184.5
Social Development	4.7	0.0	21.1	2.3	28.1
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	3.1	2.9	901.0	1.1	908.1
Export Promotion	3.7	0.0	0.0	5.4	9.1
TOTAL	$970.4	$110.9	$2,696.5	$55.5	$3,833.3

Some programs do not have a sectoral development objective, but have informal allocations into specific sectors "through the use of discretion on deciding eligibility for assistance". These programs are identified as 'adjustment to competition'.

Capital for equity plays a substantial role in Michigan's economic development strategy. The programs are concentrated in the 'Michigan Strategic Fund' within the Department of Commerce and the 'Venture Capital and Leveraged Buy-Out' Division of the Department of the Treasury.

Overall, Michigan continues to attract and recruit businesses through the provision of incentives rather than services. The amount spent on providing business services below market value is the lowest out of all four categories of business assistance.

Montana

Montana's small economy is heavily dependent on natural resources. Since the state has no sales tax, the non-renewable resource tax for public revenue is vulnerable to the fluctuations in international commodity prices and market demands. Thus, the financing of economic development programs needs to contend with a budget that changes accordingly.

The Business Assistance Division of the Department of Commerce (DOC) provides a variety of business services and trade assistance. Other divisions in the DOC administer programs for tourism, local government assistance, transportation, and housing. Quasi-indepen-dent agencies facilitate development financing programs.

Economic development programs in Montana face a number of statutory and constitutional restrictions with respect to the methods of assistance. For example, coal severance tax cannot be used for funding direct loans to businesses. However, the Montana Board of Investments circumvents this restriction with an indirect loan mechanism, the Coal Tax Loan Program, that permits private financial institutions to lend to businesses at favourable rates.

Montana's public revenue is extensively earmarked for restricted expenditure purposes which constrains the government's budgeting and policy process. In 1984, 61% of state tax revenues were earmarked for special purposes compared to the national average of 24%.[1]

The Montana state government is not permitted to take an equity position in private enterprises. But the Montana Science and Technology Alliance operates a seed capital program which provides venture capital financing and benefits from any appreciation in the value of a borrowing firm.

Montana's financial documents indicate that the government spent 5.8% of its $1.3 billion budget, or $76 million, on "economic

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1. State of Montana, Office of the Legislative Fiscal Analyst. 'An Analysis of Earmarking Revenues and State Special Revenue Accounts in Montana', 1986, p. 9. Memo.

development assistance". This figure is both inflated and under estimated. The figure is inflated by expenditures on welfare, housing, and federal funds for economic development and assistance. Simultaneously, the figure is under estimated because it does not capture tax expenditures and major off-budget activities such as the Board of Investment's development finance programs.

Table 10.

Montana's Fiscal Exposure by Types of Subsidy Objectives

($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	4.5	5.3	46.6	5.8	62.2
Regional Development	0.0	0.0	3.7	0.0	3.7
Adjustment to Competition	12.8	1.1	10.5	0.2	24.6
Social Development	0.0	0.0	0.0	0.0	0.0
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	0.0	0.0	0.2	2.7	2.9
Export Promotion	0.0	0.0	0.0	0.5	0.5
TOTAL	$17.3	$6.4	$61.0	$9.2	$93.9

Montana's expenditure for economic development programs totals $93.9 million for the fiscal year 1989. Again, this amount is under-estimated due to lack of information for some tax expenditure programs. The $61.0 million in tax expenditures is accounted for by forty programs of which 29 were targeted specifically for sectoral development.

Thirteen different programs were identified providing business capital assistance which totalled $17.3 million. Nine of the programs had adjustment to competition as the primary objective.

The provision of business services is relatively minimal since from a budget of $9.2 million, $4.9 million was devoted to a tourism program for the state. Thus, the state's network of support services is minimal in comparison to other states.

In summary, Montana relies upon providing industry with incentives rather than services in the state's economic development strategy. The main type of incentive is in the form of tax credits, deductions, and abatements.

New York

New York State's economic development strategy has developed a more centralized and co-ordinated approach since 1987. The Omnibus Economic Development Act of 1987 granted explicit authority to the Commissioner of the newly created Department of Economic Development to create State economic development policy.

The Act stressed the need for the delivery of services at the regional level and the integration of the State's economic development services. Hence, three major public benefit corporations--the Job Development Authority, the Urban Development Corporation, and the Science and Technology Foundation--were brought under the auspices of the new economic development department.

Constitutional constraints have always affected the relationship which the State government maintains with the private sector. The New York State Constitution prohibits the State from directly funding private sector enterprises. As a result, the public benefit corporations and regional industrial development agencies function as assistance brokers to business. These "legally" arm's length organizations provide the necessary mechanisms for the state to circumvent the constitutional restrictions and offer financing incentives to private enterprises.

Financial constraints within the state have spurred the restructuring of assistance programs. Leveraging state investment and concentrating assistance by "stacking" programs are the two most prominent mechanisms that allow the state to extend its "bang for the buck". New York integrates a number of economic development tools to provide assistance to business. These include loans, loan guarantees, grants, tax incentives, and the provision of services below market value.

"Stacking" of programs is a prominent feature of New York's economic development strategy. This means that programs are used in combination with different sources of public monies. By concentrating intervention within specifically targeted regions, typically suffering from high unemployment and desertion by industry, the state is able to use a combination of small programs for a much larger overall impact.

Table 11.

New York's Fiscal Exposure by Types of Subsidy Objectives

($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	10.9	19.7	255.3	6.5	292.4
Regional Development	3,411.0	5.1	196.1	8.2	3,620.4
Adjustment to Competition	0.0	1.3	740.3	3.4	745.0
Social Development	0.0	0.6	0.0	0.0	0.6
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	5.0	0.0	0.0	5.0
Assistance to Sm/Med Bus.	25.2	2.0	0.0	0.5	27.7
Export Promotion	0.0	0.0	0.0	0.0	0.0
TOTAL	$3,447.1	$33.7	$1,191.7	$18.6	$4,691.1

In general, New York state's economic development programs appear small in dollar amount and not unusually innovative. But taken as a concentrated package, the compound value of the programs is significant.

New York state expenditure for economic development totals approximately $4.7 billion for 113 programs. The state relied heavily on capital financing incentives, some $3.4 billion, which included loans, loan guarantees, and bond financing programs. This is significant for a state that has constitutional restrictions against placing the government in a creditor position vis a vis private industry.

New York also employed tax incentives which totalled $1.2 billion. The state did not have a tax expenditure budget. The tax data was uncovered from a series of estimates put together as a baseline for use by the Governor.

The economic development programs in New York tend to target regionally depressed areas and technological innovations. The use of Economic Development Zones facilitates the regional programs. The Science and Technology Foundation administers thirteen programs for the development and commercialization of high technological innovations. The Foundation attempts to promote New York as a major R&D centre which fosters collaborative and cooperative alliances between the private, academic, and public sectors. In the fiscal year 1988-89, the state allocated $21.284 million, which was a dramatic increase from $0.312 million in 1980-81, for the Foundation's activities.

New York attempts to develop a comprehensive and integrated economic development strategy that addresses not only regional concerns but also structural changes in the economy. The government continues to employ multiple mechanisms in developing economic competitiveness.

Ohio

During the sixties and seventies, Governor James Rhodes was elected four times. His administrators focused on the development of the states infrastructure, especially highways, which accounted for half of the infrastructure financing, and did not fund state economic development programs. When Governor Richard Celeste came to the state helm in 1983, Ohio increased state support for non-agricultural business by more than 100% throughout the 1980s. The 1990s began with Governor Voinovich who intends to shift back towards lower taxation and provision of services to attract business.

Ohio's economy experienced major structural changes and a work force that was unprepared for new production technology. Historically Ohio has been a manufacturing state however the total number of manufacturing jobs peaked in 1969. Improved production techniques allowed manufacturing revenues to maintain a steady increase. Ohio faced the dual problems of high unemployment and a workforce with outdated skills.

The two primary thrusts of Ohio's economic development strategy are job training and commercializing technological innovations. In general, the state business financing programs leverage funds from other sources such as owner's equity, private financing, and federal assistance. State programs normally match 50% of project costs. Economic development programs tend to have two common features: one, a linkage to commercializing research and development from the universities and second, a requirement for job creation.

Almost all of the economic development activities are channelled through the Ohio Department of Development (ODOD). ODOD provides leadership in taking creative initiatives. The state government works with a series of Community Development Corporations at the local levels to develop a network for implementing the economic development strategies. Ohio's state government attempts to stimulate an effective economic development network through partnerships with business, academia, and local government.

The centre-piece of Ohio's research and development initiative is the Thomas Edison program which is housed within the university system. The Edison program has a long term commitment from the state to support innovators from conceptualization of an idea to the commercializing of products. The establishment of new industries from several products, such as biotechnology, polymers, welding, and advanced materials, is credited to the Edison program. Ohio also provides specific program support for small business innovations. To complement the federally funded Small Business Innovation Research (SBIRs) programs, Ohio established a state series of SBIRs.

Table 12.

Ohio's Fiscal Exposure by Types of Subsidy Objectives

($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	5.1	15.2	3,248.2	3.1	3,271.6
Regional Development	0.0	13.0	0.0	0.0	13.0
Adjustment to Competition	15.5	0.0	86.2	0.0	101.7
Social Development	3.7	2.5	0.0	0.0	6.2
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.9	0.0	0.9
Assistance to Sm/Med Bus.	68.1	0.0	0.0	0.0	68.1
Export Promotion	0.0	0.0	0.0	2.5	2.5
TOTAL	$92.4	$30.7	$3,335.3	$5.6	$3,464.0

In 1990, Ohio's estimated total public revenue from taxes was $11.9 billion. The state's economic development support to non-agricultural business was about $3.485 billion for 96 programs. The Celeste administration was responsible for establishing 90% of all the programs identified in this report on Ohio. Also, during Celeste's terms as Governor, a $346 million surplus was accumulated in a "Rainy Day Fund".

Governor Voinovich's entered the scene in 1991. His economic development vision is still not clear except that he believes in streamlined government. Voinovich reduced the budget of the Department of Development by $14.3 million which, if annualized, equalled a 12.2% cut. Ohio may be shifting back to lower taxes, fewer programs and/or reduced economic development expenditures, and packaging of support for large deals.

In the fiscal year 1990, Ohio has a total of 99 tax expenditure programs of which 54 had an economic development objective. While tax collection amounted to $9.313 billion, all tax expenditures totalled $6.028 billion--64.7% of tax collected. The value of economic development tax expenditures was $3.335 billion which represented 55.33% of the total tax expenditure estimate. Sectoral development was the objective of 47 tax expenditure programs.

Apart from the tax expenditure programs, Ohio had 34 non-tax programs which amounted to $128.7 million used mainly to support small business and for adjustment to competition. All recipients of R&D program support were encouraged to use the Ohio Industrial Training Program which assists in retraining of the workforce.

Two sector specific programs, the Coal Research and the Steel Futures programs, are targeted at developing new products for traditional industries in Ohio.

Although Ohio had 12 programs to support business services, the amount of state support was minimal. Dollar values were available for only five of the programs.

Ohio provided eleven grant programs of which two programs accounting for $13.0 million, were for support for municipal development. Sectoral development was the primary objective for five of the grant programs which totalled $15.2 million.

The pattern of Ohio's economic development mechanisms reveals a heavy reliance on providing private enterprises with incentives rather than services. The main mechanism is to target industry sectors with tax incentives some of which are as high as $720 million.

Pennsylvania

Traditionally, Pennsylvania's economy was based on coal, heavy metal, and manufacturing. Since the early 1980s, the state has been undergoing substantially changes as a result of declining markets, increasing foreign competition, and outdated production facilities. Thus, Pennsylvania's problems were similar to other states such as Ohio, that also experienced disruption in the traditional American industrial strongholds.

In order to deal with the magnitude of economic challenges, in the early 1980s, Governor Dick Thornburgh commissioned Choices for Pennsylvanians', an in depth study of the state's economy. The recommendations focused on the importance of entrepreneurial small businesses, diversification of the state's economy, and modernizing production facilities with advanced technology. Also, the state needed to address problems of regional disparity that were indicated by 1982 unemployment rates of 22.8% in Fulton County to 7.1% in Cumberland County.

Governor Thornburgh's term began in 1979. He believed that the responsibility of state government was to establish a participatory program that involved government, industry, labour, and academia as part of the economic solution. His goal was to diversify the economy for economic stability and job creation.

Pennsylvania's economic development program is a partnership of public, private, labour, and academic resources. Implementation of Pennsylvania's economic development strategy relies on partnerships between the different sectors. The Governor's Response Team forms a consensus building mechanism through which local development agencies and business associations can address opportunities and problems throughout the state. Local or third party agencies act both as a flow-through mechanism for assistance programs and as a partner to coordinate project development.

The economic development system in Pennsylvania has evolved over a period of 40 years with a considerable increase in both activity and financing during the 1980s. With collaboration between the different sectors, three complimentary programs have provided focal points for the overall economic development strategy: the Ben Franklin and Regional Enterprise Programs, 1982; the Renaissance Community Program, 1984, and the Economic Development Partnership, 1987. Pennsylvania has employed a number of different mechanisms to implement its economic development strategy.

The economic development mechanisms include infrastructure development, research and development assistance, technology transfer services, work force training and development, and tax expenditures. Pennsylvania employs these tools in 108 economic development programs which had a total value of $4.634 billion in 1990. This amount includes tax expenditure programs that do not have actual dollar outlays from the state budget. The state revenue is approximately $13.7 billion for the 1991-92 fiscal year. Other sources, such as federal monies and bonds, provide further financial support for state expenditures.

Table 13.

Pennsylvania's Fiscal Exposure by Types of Subsidy Objectives
($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	10.0	37.3	1,792.3	0.0	1,839.6
Regional Development	22.2	44.1	69.8	0.0	136.1
Adjustment to Competition	5.1	10.7	2,431.0	6.7	2,453.5
Social Development	5.6	0.0	20.7	0.3	26.6
Income Maintenance	0.0	0.0	0.0	6.6	6.6
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	0.0	0.9	152.0	1.1	154.0
Export Promotion	0.0	7.2	0.0	10.5	17.7
TOTAL	$42.9	$100.2	$4,465.8	$25.2	$4634.1

Pennsylvania relies heavily on tax expenditure programs in its economic development strategy. The estimates are calculated on a revenue loss basis rather than on the level of government expenditure necessary to replace the tax expenditure program with an equivalently beneficial state funded activity such as a grant or loan program.

Pennsylvania has 165 General Fund tax expenditure programs with 62 programs having an economic development objective totalling $4.2 billion in lost revenue. Thirteen programs did not have the necessary information for an expenditure estimate.

Although Pennsylvania does not provide extensive funding for business services, many of the capital financing programs and grant programs have a service component incorporated. The state has 32 capital financing programs and 26 grant programs that are funded with $42.9 and $99.6 million, respectively.

Pennsylvania's pattern of public expenditure on economic development indicates that the state uses tax incentives as its primary tool of business assistance, and business financing assistance as the second choice. However, of greater significance is the process of Pennsylvania's integration of various tools and mechanisms in overarching strategies.

Under the Ben Franklin Program, state contributions to date of $220.7 million have leveraged $882.0 million of private investment. The funds supported research projects of entrepreneurial companies and adoption of new technologies in existing firms. The decentralized delivery mechanisms allowed four Advanced Technology Centres to address specific regional issues with a network of local business, academics, and public employees.

Second, the Renaissance Communities Program (RCP) was designed to work in conjunction with the Ben Franklin Program and the Regional Economic Development Program. The focus of the RCP was on areas devastated by the collapse of the steel industry. Three features of the program were: grant programs targeting the steel communities, partial state funding supporting several large projects, and $1.0 million in annual grants from the Steel Valleys Assistance Program for four public-private economic development coalitions.

The Economic Development Partnership inaugurated a 45 member policy board to advise on the direction of economic development planning and priorities of development projects. The Board also works with the Governor's Response Team which focuses on coordinating projects, cutting through interdepartmental red tape, facilitating environmental licensing, and resolving conflicts. Officials of the Board also liaise with other State departments such as Commerce, Education, Transportation, Labour and Industry, and Community Affairs.

Overall, Pennsylvania employs a wide variety of tools and mechanism in an integrated fashion to develop and implement an economic development strategy. The state hopes to adapt to changes in international competition by retraining its work force, modernizing outdated facilities, and commercializing more innovations in viable entrepreneurial enterprises.

Texas

The economy of Texas is dominated by the oil and gas sector which tends to fluctuate widely according to the boom and bust cycles of international prices. Almost every industry in the Texan economy is tied to oil and gas money through direct and indirect expenditures. As a result, in spite of the state's relatively "anti-subsidy" attitude, the drop in world oil prices is causing a trend toward greater public sector involvement in economic development activities.

Three significant factors shape economic development activities in Texas. First, Texas has been enormously influential at the federal level because the state's relationship with many of the major players at the White House--Rayburn, Johnson, Bush, Baker, and Conley. Texas is also the recipient of some major federal projects and military expenditures such as NASA, Sematech, and the Super Conducting Super Collider. Bail-out of the savings and loans industry is another prime example of federal assistance to the Texan economy.

Second, along with being "anti-subsidy", Texas is also "anti-tax" to the extent that there is no corporate or personal income tax. Therefore, tax expenditure programs may be minimal given the state's taxing structure.

Third, Texas is reputedly run by business interests which may be able to skilfully hide special breaks and incentives to private industry. The Texas Department of Commerce (TDOC) was only created in 1987 with less than one percent of the total state budget expenditures. In the fiscal year 1989, the department had a budget of $321 million of which $300 million was Job training Partnership Act and Community Development Block Grants, both from the Federal government. TDOC has little influence and substantial organizational problems. Many employees in the department were fired in 1990.

Economic development efforts have been spearheaded by the private sector through organizations such as the chambers of commerce, private foundations, and utilities. However, the involvement of these organizations appears to be declining.

A state-wide referendum indicates a collective change in attitude about the role of government in economic matters. The Texan constitution prohibits the government from distributing grants to private enterprises or being a creditor for debts of private industries. However, recently a state-wide referendum permitted the legislature to create loan and grant programs. The programs may be a means of developing and diversifying the economy, eliminating unemployment, stimulating agricultural innovation and related enterprises, and developing or expanding transportation and commerce in the state.

Prior to the referendum, the state circumvented the constitutional restrictions by providing funds to community organizations which in turn funnelled the money to business enterprises. The changing attitudes to economic development have led to a strange pattern of program development. Programs are often legislated but not funded. For example, the Small Business Innovation Research Program was designed to attract federal matching funds. The guidelines were never fully developed and the program appears to exist largely on paper. Other programs go through a similar process. Some are even marketed despite the fact that they are virtually nonfunctional. This appears to hold for many municipal programs as well as those at the state level.

Table 14.

Texas' Fiscal Exposure by Types of Subsidy Objectives
($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	0.0	3.4	3,242.6	18.4	3,264.4
Regional Development	0.2	0.0	2.0	0.1	2.3
Adjustment to Competition	0.0	0.0	109.4	4.3	113.7
Social Development	0.0	0.0	0.0	1.6	1.6
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	0.0	0.0	0.0	0.4	0.4
Export Promotion	0.0	0.0	0.8	0.1	0.9
TOTAL	$ 0.2	$3.4	$3,354.8	$24.9	$3,383.3

From field investigations, our research has identified 193 state programs in Texas. Total state expenditure for these programs amounts to $1.446 billion. For individual programs, the dollar amounts tended to be modest in relation to the size of the state. Also, dollar amounts were not available for a number of programs given their recent establishment.

The pattern of Texas' economic development programs reflects the state's attitude toward the free enterprise. While there is no income tax on either individuals or corporations, the state's major source of revenue is from a six percent sales tax rate which provides for 53.6% of the total state tax collections. Cities augment the state tax with an additional city sales tax. The second source of state revenue is the franchise tax which taxes corporations at the greater of $5.25 per $1,000 of "taxable capital" or a flat rate of $68.00, which ever is greater. The franchise tax provides 5.3% of total tax collections.

Tax incentives are exemptions, rebates, or credits. Texas has 43 tax incentive programs with a sectoral development objective. The largest program is the "sales tax exemption for property used in manufacturing" which has an estimated value of $4.938 billion for the 1989-90 biennium. Not all programs had an estimated value which means the total of $3,354.8 billion for all economic develop support is underestimated. Texas records the tax incentives for two years in the odd year. Therefore, the calculations for this report divided the 1989 figures in half.

The second largest group of programs provided by Texas are business services. Research identified 45 business service programs that primarily provide research information and services for specific private industry sectors; 23 of the programs have a sectoral development objective.

Although Texas has fifteen programs identified as financing assistance for business capital, only one program had a dollar value for 1989. The other fourteen programs are established but have no financing, were awaiting funds, or exist only on paper.

Texas has three grant programs of which financial information was available for only one. The other two programs were awaiting funds.

Overall, Texas has the most hands-off approach to economic development policy of any state studied. The pattern of activities, or lack thereof strongly reflected the state's attitude and industrial context.

Washington

Washington has diversified from an economy based on agriculture and forestry to one hosting a proliferation of high-technology firms such as aerospace, chemicals, electrical machinery, electronics. and scientific instruments.

Three major factors affect Washington's economic development strategy:

- the northwestern location with natural harbours allows

Washington state to become a "Gateway to the Pacific";

- federal expenditures, especially through defense contracts and military bases, contribute towards the economy's industrial profile. Approximately one in thirteen Washington Employees works for the federal government;

- the aerospace industry, also with defense procurement contracts, is the state's leading export industry and the largest employer. Most of the high-tech industrial activity is concentrated in the Puget Sound Corridor.

Washington is experiencing economic growth which shifts the government's attention toward growth management issues. The state is attempting to manage transportation, education, and infrastructural issues to support feasible development and growth. Growth is not occurring evenly across the state. The eastern half of Washington tends to experience a lower level of economic activity than the western coastal region.

The shift in economic development activities has been away from industrial recruitment toward business expansion and job creation and/or retention within the state. In addition, policy makers have tried to strengthen rural-urban linkages to help disperse the concentration of growth from the larger communities to the smaller ones. Spreading growth outward from urban centres would alleviate some of the pressures from development.

The Washington Department of Trade and Economic Development is the main focal point for implementing state economic development policies. Currently, the state focuses on developing the forestry, bio-technology, film and video, and food processing industries.

The state also aims to create and maintain an entrepreneurial climate. For example, the Self Employment and Enterprise Development program, provides business training and allows laid-off employees to collect their unemployment insurance in a lump sum to use as start-up capital in their own small business. Washington has a constitutional prohibition against the lending of the state's credit. However, funds are channelled through local governments and/or non-profit organizations to private industry.

The private sector involvement is solicited through a network of local associate development organizations known as Team Washington. Over 3000 businesses are members of the state and local economic development organizations. The network is a cooperative effort between state/local governments and public/private sectors to implement the state's economic development activities.

Washington State uses a biennial budget. Actual state expenditure for fiscal year 1988-89 amounted to $10.6 billion. State expenditures for the principal economic development agency totalled to $12.6 million in 1989. This amount accounted for approximately 0.13% of the total state budget.

Table 15.

Washington's Fiscal Exposure by Types of Subsidy Objectives
($US in millions, 1989)

	Capital	Grant	Tax Incentives	Business Services	Total
Sectoral Development	0.0	0.0	936.7	6.1	942.8
Regional Development	1.2	0.0	0.0	0.8	2.0
Adjustment to Competition	4.0	2.1	9.7	7.7	23.5
Social Development	0.0	0.0	0.0	0.0	0.0
Income Maintenance	0.0	0.0	0.0	0.0	0.0
Cultural Maintenance	0.0	0.0	0.0	0.0	0.0
Assistance to Sm/Med Bus.	0.0	0.0	0.0	0.0	0.0
Export Promotion	0.0	0.0	0.0	0.0	0.0
TOTAL	$5.2	$2.1	$946.4	$14.6	$968.3

For economic development activities in Washington State, 158 business assistance and tax expenditure programs which totalled $968.3 million were identified. However, the amount is under estimated since complete financial information is not available for all of the programs.

Tax expenditure programs make up the largest portion of economic development programs. There are 140 programs valued at $946.4 million. With the exception of two tax expenditures directed at regional development, the remaining 138 have a sectoral development objective. Washington does not tax personal or corporate income, interest, dividends, or capital gains. State and local taxes are derived from three major taxes: retail sales and use tax, business and occupation tax, and property tax.

Washington provides most of its businesses services program in a general fashion which focuses on adjustment to competition as the primary objective. Many of the service programs provide information and management consulting to small private enterprises. Both capital financing assistance and grant programs are minimal.

In summary, Washington state does not need to provide incentives for industrial recruitment or development of private enterprises because of the current growth and development. The government is more concerned with managing the pressures placed on infrastructure and shaping the diversification of activities.

CONCLUSION

Governments in the United States, both at the federal and state level, continue to be very active in the promotion of economic development. The variety and number of programs is extensive. Although many governments use a mixture of tools and mechanisms to implement their economic development strategy, tax expenditures are the preferred instrument. In ten of the eleven states, as well as the Federal government, tax incentives have largest monetary value and the greatest number of programs when compared to other types of programs.

Economic development initiatives target specific activities such as research and development, commercializing of innovative products, small business, regional disparity, workforce training, and development of industry sectors. "Stacking" of programs is often used to address the multi-faceted nature of the problems. This allows economic developers to integrate funding support from not only different programs but also from different levels of government--federal, state, and local. Many of these programs are nominally generally available but are exploited largely by specific sectors or firms.

The highly decentralized manner of program administration makes complete identification of all the financial information difficult. In the future, the data may even be more problematic to obtain as the federal and state governments are becoming more "wholesalers" rather than "retailers" of economic development programs. As wholesalers, government would legislate the authorization for a program and provide the financial appropriations. But another agency, such as an arm's length non-profit corporation, would apply for the funds and administer the program to final end-users. This practice promotes more local initiatives, reduces public administration costs, and increases efficiency for program delivery. As a result, private industry receive much more tailored and customized business incentive packages.

In addition to the current inventory of economic development programs, four areas should be examined very soon in the US regarding public support for business enterprises.

a). Individual business incentives packages for attracting large firms bear further investigation because the offerings tend to be unique and quite substantial.

b) The network of universities supporting economic development with not only research and development activities but also in providing business support services need to be examined much more closely.

c) The defense budget is being reduced in real dollar terms for the first time since the end of the Vietnam War and actual budget outlays would be the lowest since before World War II by 1995 as a percent of GNP. Together with this reduction, the US federal government is shifting resources from defense to civilian R&D. Further economic development activities are expected to be spawned by this particular trend.

d) The Resolution Trust Corporation's responsibility for bailing out the savings and loans industry provides tens of billions of dollars in potential subsidies to the sav-ings and loan industry and to their depositors. The spec-ific industries benefiting from this bailout need to be identified and researched in much greater detail to exa-mine the extent of the support which they are receiving.

Developing an internationally competitive economy will be a constant overarching objective for US governments given the mounting pressures from international trading. Economic development programs will become increasingly innovative as state governments compete with each other for economic prosperity with fewer and fewer resources. These activities will need monitoring and international disciplines to prevent the expansion of unfair competitive practices.