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A THREAT OF INDUSTRIAL BLACKMAIL

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INTRODUCTION

Before the 1960s, major industrial location decisions were, to a considerable extent, shrouded in secrecy. Most firms feared that public disclosure of their ongoing location searches would inflate real estate prices. When Walt Disney sought in the early 1960s to buy 43 square miles (or 27,443 acres) of orange groves in central Florida for his planned Disney World, the land was actually purchased by several different law firms, most of whom did not know Disney was the buyer. These diversionary tactics were justified on the grounds that, if the landowners knew a single buyer was involved and the buyer was Disney, they might withhold strategic pieces of property and inflate their prices.[1]

Many firms still hold their expansion plans close to their corporate chests; however, beginning most noticeably in the mid-1960s, a sizable number of firms began to change their industrial location strategy. In contrast to keeping their plans quiet, many firms — especially very large ones — began announcing their expansion intentions to political leaders within selected communities. While the professed purpose may have been to find the most advantageous industrial site, a hidden motivation for these announcements has always been to pit communities against one another in a competitive struggle for the jobs and tax bases that are at stake. Communities and states have responded to the competitive challenge by offering a wide range of industrial inducements: the issuance of industrial development bonds, which ultimately means the purchase or lease prices of the land and plants involved are subsidized by government; the making of federal, state, and local government grants that cover the installation costs of roads and interstate interchanges and of sewer, water, and gas lines; and the exemption of the industrial property from local property taxes for several years. State and local government development boards have even built plants and leased them to firms at nominal rental rates, all in the interest of securing industrial jobs and a greater tax base.

When Teledyne, Inc., planned the construction of a new plant in South Carolina in 1981, it considered locations in Oconee, Anderson, Pickens, and Laurens counties. Oconee County got the plant, which in full operation will employ 500 workers. It won the competition, however, only by agreeing to build the plant and then lease it back to Teledyne at favorable rates — a concession the other counties were unwilling to offer.[2]

After acquiring its first U.S. plant to produce Rabbits, Volkswagen found that it did not have the necessary "pollution rights" to operate its Pennsylvania plant. Because pollution for hydrocarbons in the area of the VW plant had reached the legal ceiling, a hydrocarbon "offset" had to be made in another production process before VW could start production. In order to keep VW, the state agreed to keep the area's overall pollution level within legal limits by shifting to a less polluting but more expensive asphalt processing and road paving method.[3]

In the early 1980s another industrial strategy began to emerge. Rather than pit communities against one another over the location of new plants, firms began to announce plans to close one or more plants, giving the communities affected an opportunity to bargain over their closure.[4] In 1980 General Motors announced that it planned to close two outmoded Fisher Body plants and replace them with a new $800 million Cadillac plant that might eventually employ as many as 6,000 workers. It informed the city of Detroit that, unless a suitably large land tract (500 acres) could be found in the city, General Motors would have to locate its proposed new plant in another area of the country.[5] Because the proposed new plant could mean over $8.1 million a year in business tax revenue (even after a twelve-year, 50 percent property tax abatement) and $1.5 million in wage taxes, Detroit responded by offering to condemn, under its powers of eminent domain, a 250-acre section of the city known as Poletown, encompassing 3,500 mainly Polish residents, 150 businesses, and sixteen churches. The city bought the land for approximately $200 million, $150 million of which came from federal sources.

In order to sell the land to General Motors (for a little more than $8 million), Detroit in the end had to remove forceably many of the residents of Poletown. At present, although the buildings of Poletown, including a Catholic church, an emotional centerpiece in the controversy, have been removed, the promised Cadillac plant is not scheduled to be in operation until sometime after 1985. Given the downward trend of automobile sales, the plant may never be built.

In 1982, because of severe financial difficulties, International Harvester began to close and consolidate several of its 23 heavy equipment plants. In one contemplated plant closing, Harvester informed Fort Wayne, Indiana, and Springfield, Ohio, that one of the cities would see its plant closed, asking at the same time that each consider buying its plant and leasing it back to Harvester.[6] Without question, Harvester saw in the sale-leaseback plan a means of securing capital that, because of its heavy indebtedness and the looming threat of bankruptcy, it could not obtain from private markets. By September 1982, each city had offered to buy their respective plants for $30 million or above, using a combination of public and private monies.[7] Because they involved the potential, continued employment of more than 7,500 workers in cities that were suffering substantially higher unemployment rates than the national average, the sale-leaseback arrangements were eagerly supported by community leaders. In October 1982, the Fort Wayne plant was selected for closing.[8] Why Fort Wayne was selected is much less important than the fact that officials of two cities, set in competition with one another, were willing to pay more for their respective factories than the market would have allowed. If that were not the case, Harvester need not have gone to the governments of Fort Wayne and Springfield in search of a sale-leaseback contract.

Harvester also announced in 1982 that it was closing its plant in Louisville, Kentucky. At approximately the same time, Harvester told Rock Island, Illinois, that it would transfer its terminated rear-end transmission operations at Louisville to Rock Island if Rock Island and the State of Illinois would cover part or all of the $10 million cost of transporting equipment from Louisville to Rock Island and of installing the equipment in Harvester's Rock Island plant.[9] Since the relocation of the transmission works would add approximately 550 jobs to the community's employment base, Rock Island (which, like Fort Wayne and Springfield, was experiencing heavy unemployment at the time) agreed in September 1982 to pay $6 million of the transfer expenses. The State of Illinois also agreed to funnel a $1 million grant into Rock Island for retraining Harvester workers who would take the jobs at its expanded facility. Crucial to the negotiations was the city's belief that the 800 workers then on indefinite furlough at the Rock Island plant (which, at its peak, in 1979 employed 3,500) might never be rehired if the local government aid were not forthcoming.

Concession bargaining over closure has not been restricted to basic industries in the private sector. It is a growing phenomenon in professional sports and even government. In 1982, the Federal Aviation Administration began consolidating many of its field offices around the country. In order to attract the consolidated regional offices, communities have been competing for the regional offices by offering to lease office space to the FAA at nominal annual rates. Anderson County, South Carolina, offered in summer 1982 to lease the FAA office space for $1 a year at the county airport, currently being used as a field office. Trey Senn, Executive Director of the Anderson County Planning and Development Board, remarked, "We may not get the regional office, but surely no one will undercut us on price."[10]

The owners of the Washington Capitals, a hockey team that plays its games just outside the nation's capital in Maryland, threatened in June 1982 to take their franchise elsewhere unless four conditions were met by local fans and governments by the end of August 1982. The conditions were (1) the sale of 7,500 season tickets, (2) sellouts for the first seven home games, (3) a reduction in the rent on the coliseum, and (4) a reduction in the entertainment tax on tickets from 10 to one-half of one percent.[11] All conditions were met in an eleventh-hour campaign, and the team pledged to stay another year.

Across the U.S., similar threats of closure are being made. To keep plants open, firms have asked, or demanded, financial concessions by communities. There is need, therefore, to explore the economic consequences of concession bargaining by communities(which, understandably, has been termed "industrial blackmail"). The overriding issue is whether or under what circumstances concession bargaining is a boon or bane to community reindustrialization efforts. Because community concessions on plant locations and plant closings are conceptually similar and because the former will lead, in a competitive government environment, to the latter, such an investigation must deal generally with both location and closing concessions. However, bargaining by governments, when it involves taxes imposed on the entire community and subsidies limited to a segment of the community, is conceptually distinguishable from bargains struck in private markets. For this reason, the first step is a restatement of fundamental market principles.

BARGAINING WITHIN PRIVATE MARKETS

Bargaining over resource prices is integral to competitive market processes. After all, bargains made subject to revision are what markets produce. Because bargains can be almost anything the trading parties choose to make them, markets exhibit considerable flexibility, an important advantage since consumer tastes and conditions of production fluctuate. Furthermore, when made in the knowledge of alternative resource prices and with all costs and benefits considered by the trading parties, the bargains struck in markets give rise to an efficient allocation of resources. Efficiency in the allocation of resources is simply the economist's way of saying resources have been so divided among competing uses that the value of the resulting combination of goods and services, as evaluated by those involved in the market transactions, is maximized.[12]

Market system failures to achieve maximum efficiency are fully acknowledged in economic literature. These failures stem primarily from the presence of monopoly power and the existence of "external benefits and costs" in production and consumption. In the interest of maxmizing profits, monopolies tend to hold back on production, forcing their prices and profits upward. An inefficiency occurs in the sense that consumers would pay a price for additional units that would more than cover the additional production cost. Because the monopoly will not allow these additional units to be produced, resources migrate to other uses, giving rise to "too little" of the monopolized product and "too much" of other goods (in the sense that consumers would prefer more of the monopolized product and less of other things).

External costs are costs of production not incurred by the producers of the product (and imposed on some third party not involved in the trade), while external benefits are benefits of consumption not received by the buyer (and received by some third party not involved in the trade). Where external costs exist and no reasonably inexpensive method is available for internalizing the external cost (meaning the the full burden of production cost is imposed on the producer), the good or service will tend to be underpriced and oversold. The additional expense fishermen must incur in fishing the lakes of the country because of "acid rain," which in turn is due to pollution, is a classic example of external costs. The polluters can underprice their products because a part of the production cost is imposed on the fishermen, resulting in too many of the polluters' products and too few fish being produced.

Where external benefits exist and no way can be found to internalize the benefits (meaning sellers can charge for the benefits received by others), the good or service in question tends to be underpriced and underproduced. A classic example of an external benefit is the security people feel when criminal activity is deterred. If the government were not involved in police work, the public would individually buy less police protection than they would if they could charge for the benefits received by others. An inefficiency exists in our examples in the sense that consumers would prefer more of one thing and less of something else. Again, this result emerges because market prices do not reflect the full costs and benefits of the goods that are traded.

Outside of these cases, bargains struck within markets must reflect the considered choices of the participants, meaning each party to the trade must weigh off the costs and benefits of what he or she does. These trades increase community welfare because of the differences in relative evaluation of what is traded. Each trader has to bear the full cost of what he does, meaning simply he acts (trades) on a comparative analysis of the value of what is forgone with the value of what is received. Presumably, trades only occur when the benefits to each exceed the costs to each. Of course, when people seek to maximize their own individual welfares, they may be inclined to impose as many of the costs of their trades as they can on others. When they are successful in doing that, resource allocations are misdirected trades, and overproduction is encouraged. As long as people are denied the benefits of their efforts, potential mutually beneficial trades will be left unexploited; when all benefits are not received by the person who has to incur the costs of production, it stands to reason that fewer costs will be incurred — fewer trades will occur.

JUSTIFYING GOVERNMENT SUBSIDIES

The foregoing discussion is relevant for one simple reason: Subsidies to sway industry location or closure decisions are often justified from an economic (as opposed to a political or ethical) perspective on what are thought to be "externality" grounds. "The whole community benefits" is an often heard refrain. After all, when a new plant moves in, the number of jobs in the community is increased, wages of workers rise along with the competition for labor, real estate prices go up, and the tax base is expanded. When a plant is subsidized under threat of closure, the argument retains its essential character: When the subsidies work, jobs are saved, wages and real estate prices are kept from falling, and the tax base is held intact. As the argument is developed, the location inducements can have a multiplying effect within the community: the workers directly affected by the subsidy will tend to spend a sizable share of their income on locally produced goods and services, the producers of which will buy from others in the communities, and so forth — all of whom will pay into the tax coffers.

Admittedly, with any particular industrial location inducement, there may be losers as well as winners. For example, many people who do not share in the growth in personal income may suffer higher rents (because of inflated property values). However, proponents of this economic development policy (often referred to as "industrialization" or "reindustrialization policy") may reason that over the course of many such inducements, almost all in the affected community will <u>on balance</u> benefit.

Although they may affect few jobs directly, government subsidies of sports facilities, such as enclosed stadiums, are also justified on externality grounds. The fans who attend the games and concerts gain directly: they can see events that they would not otherwise have a chance to attend (or could attend only at considerable expense) and they see them at reduced, subsidized prices. However, others also gain (there are externalities), or so the argument is made. Because of the stadium, others benefit by knowing they could attend if they ever decided to attend. Also, the community financed sports (and fine arts) facility will act as a magnet, attracting more visitors and more firms and giving rise to the multiplier effect on jobs, incomes, and taxes noted above.

Any subsidy can be viewed by community leaders as an investment that is recouped by way of greater incomes and taxes in the community. Residents may have to pay higher taxes to cover the subsidy, but they have higher incomes from which they can pay their taxes. Indeed, if the subsidies are planned carefully, some special industrial location inducements will even lower the average tax rates of the citizenry. The greater tax base may permit a spreading of the community's tax burden. Note was made above that the proposed Cadillac plant in Poletown would return approximately $10 million in local tax revenue each year on a local government investment of $50 million (plus cost of services to the GM plant, if it were ever built).

Empirical analysis of the actual profitability of this form of community investment is mixed. A number of studies have found that few firms make their location decisions on the basis of community concessions.[13] When community inducements are more or less decisive, they tend to affect the choice among communities within a given state or region of the country; state and local government inducements, in other words, affect in a very minor way interregional location decisions.[14] This is largely because the concessions tend to be widespread, as would be expected in a competitive government environment, and tend to be offsetting. Still, other analysts have argued that inducements can, for the communities involved, provide a rather hefty annual rate of return on the investment, extending up to 87 percent.[15] This statistical debate is, however, largely a side issue for the purposes of this discussion, in which the central concern is whether or not community locational and anti-closing subsidies to businesses tend to promote efficiency (that is, avert market externalities) or promote inefficiency (create externalities of their own).

AN ASSESSMENT OF THE ARGUMENT

There must be an element of truth in the foregoing argument. And there is some truth to the statement that plants that move into a community do give rise to "externalities" (although not necessarily the kind of externalities that fit the pure problematic kind, known among economists as "technological externalities").[16] Local government subsidies can and often do give rise to jobs, which in turn may give rise to other employment opportunities within the community. The problem is that this tells only part of the story. A complete assessment of subsidies in any form and for any purpose requires a look at the costs of community development strategies.

Local government subsidies to attract or retain industrial plants must come out of the pockets of people, either as taxes or borrowed funds. The drain on these pockets will also have multiplying effects, but in the opposite direction of the subsidies. The relevant questions are whether the subsidies <u>on balance</u> give rise to more jobs within the community; whether the costs and benefits of the program through time balance out over the residents and, if they do not, whether taking from Peter to give to Paul can be justified on ethical or community welfare grounds; and which level or levels of government are best suited for funding industrialization or reindustrialization programs. All of these issues reduce to the highly normative, but politically important, question of whether governments, as a matter of organization prerogative, should be allowed to compete for industries by providing specially targeted benefits for prospective or distressed firms within communities. The analysis relates directly to the issue of appropriate regulation <u>of</u> government (not <u>by</u> government).

As a matter of national policy, federal efforts to encourage plant openings or discourage plant closures with federally financed concessions through industrial development bonds and economic development grants must be seriously questioned. To see the validity of that position, consider first the position of the individual "very small" local government that is one of many equally positioned local governments. From the perspective of one of these local governments, the "employment and tax base multiplier" justification for opening and closure concessions has (depending on the size of the locality and how other communties respond) a measure of validity.

Especially for very small communities, taxes that are collected from local residents would largely have been spent on goods and services "imported" from elsewhere. While some jobs may be lost initially in the community because of a decrease in local purchases by the citizens who must pay the subsidy bill, more jobs <u>can be</u>, but not necessarily will be, added than lost. In this idealized "small" community, the costs of the industrial subsidies will, by the virtue of the community's size, tend to be paid by the beneficiaries of the subsidies (there will tend to be few externalities on the tax or subsidy side of the industrial concession). The subsidy will, therefore, tend to be evaluated by the voting residents, as all efficient economic decisions should be, in light of the <u>full</u> costs and benefits of the proposal. Furthermore, it should be noted that the emerging competition among many small local governments can result in lower tax rates and higher quality local government services. These lower tax rates and improved services can stimulate investment.

Under small local government competition, a discriminatory tax and service policy (one that differentially benefits one group of businesses at the expense of other residents and businesses) will be difficult to maintain. Those local firms and residents who feel they are discriminated against in the taxes they pay or the services they receive retain the option to move elsewhere. The smallness of the political units insures the existence of location options.

If the concessions do not result in lower taxes and higher quality services, then the concessions will tend not to be made. Concessions in the "small government" political environment tend to be a part of a positive sum game, an argument developed in some detail by economist Charles Tiebout.[17] This is because concessions that are unproductive on balance will reduce the overall competitiveness of the community and thus become counterproductive; the local government would then have to make concessions to offset its relatively higher taxes, thereby prompting the exodus of firms and residents. Any differences that exist in the way local governments treat firms, in such a competitive government environment, must reflect differences in the costs of collecting taxes or providing services to different types and sizes of businesses. To reemphasize a fundamental point, if a "small" local community attempts on balance to help one business group at the expense of another, the group that is penalized will move elsewhere, saddling those who are the beneficiaries of the concessions with the entire tax burden.

When small governments make concessions, externalities of a sort tend to exist.[18] The governments that make the business concessions force other governments to make similar concessions. However, these "externalities" are market signals like prices; they induce governments to operate efficiently and aid in allocating public resources among competing uses.

As a community becomes larger and more inclusive of the country's citizenry, concession bargaining becomes progressively more questionable from both efficiency and equity perpectives for the community that makes the concessions. In a very large community — for example, a country the size of the United States — the funds for the concession will be drawn from people who, by definition of the community's size, would have spent most of their income within the community. Any concession, then, tends to result not in an increase in the tax or employment base for the community (i.e.,country), but a locational shift in the tax and employment base within the community. While a shift in the tax and employment base may be a legitimate objective of government, the point here is that, as the community becomes larger, the multiplier argument developed above tends to lose its force. The concession may have a positive multiplier effect within sectors of the community; but the taxes will tend to have a negative offsetting multiplier effect within other sectors in this larger community. Given these conclusions, critical questions abound when any reindustrialization proposal is tendered at the federal level. For example, why would a country the size of the U.S. be interested in funding concessions that would divert jobs from cities and towns in Kentucky or Idaho toward cities and towns in Michigan? What is the market failure involved? Indeed, the movement of firms from Michigan to Kentucky may be a clear indication that the market is working well, sending out the right signals. To the extent that federal funding of concessions is not uniformly distributed, government can distort signals, giving rise to a government imposed externality.

Economists James Buchanan and J. E. Moes have argued that federally funded business subsidies are a means of offsetting union imposed wages that are held rigid above competitive levels and are standardized across the country.[19] Federal subsidies are seen from this perspective to be a second-best policy — a means of adjusting regional pricing signals to reflect true regional comparative advantages that are obscured by uniform wage rates. Since costs are largely subjective, it could be asked whether government is capable, even conceptually, of appropriately assessing whether government subsidies will not delay the the breakdown of uniform wage signals, and whether the implied redistribution of income (which may very well be from the relatively poor to the relatively rich) is in line with social objectives expressed by an array of other government policies. If government concession funding is distributed uniformly across communities, with no implied redistribution of purchasing power, the federal funding will lead to a competitive bidding war among communities (as federal funding has)[20] with most of the funds being realized in subsidies to the owners of footloose capital (and the more mobile the capital, the greater the subsidy, ceteris paribus). Some investment will be stimulated by the federal funding; however, some investment will be deterred by the taxes involved. And there is a question whether subsidizing business according to the mobility of capital should be a national objective. The subsidies will certainly encourage capital mobility, which is viewed as the source of major social problems by advocates of reindustrialization policies.[21]

In larger communities, business concessions have a greater potential for being a negative sum game. One group can seek concessions, imposing their cost on the rest of the community. In terms of the national community, people have few havens to which they can run and escape the tax burden imposed by the concessions. Indeed, it is the people's relative inability to avoid the tax burden of redistributive programs that offers a central government monopoly power, that is, the power to charge higher than competitive tax rates, to provide lower than competitive services, and to differentially benefit one group at the expense of another group. This progressive inability of people to move as the inclusiveness of government is increased has led advocates of welfare programs to contend that redistributive programs should be a function of the federal government. When applied to business location and closing decisions, however, the issue of the ethics of the redistributive objective must be raised. The concession subsidy can easily benefit the relatively high income workers, managers, and stockholders of firms at the expense of the rest of the community, many of whom may have lower incomes than those who benefit from the concession. Indeed, the high noncompetitive wages of the workers involved may often be the source of the economic difficulties of companies contemplating closure.

Furthermore, workers always have an option of attracting employers or preventing their employers from moving elsewhere simply by accepting lower wages and allowing the company to remain cost competitive. If workers cannot lower their wages sufficiently to attract or retain their jobs, then resources in the firm, including the employees, should move elsewhere. If in the absence of the concession workers cannot regain employment at approximately the same wage, then their wage is artificially high because of restrictions on the labor market and the concession becomes a means by which workers in the community (i.e., country) who may be earning competitive wages are forced, by way of the tax and subsidy system, to prop up the wages of other workers that are above competitive levels.

In short, as a community becomes larger, concession bargaining is likely to create problems of externalities rather than reduce them. The political decisions made to subsidize one set of firms will come at a cost that is "externalized" by way of the tax system to the rest of the population. If all groups enter the concession game, asking to be treated like other groups with special government programs, the outcome can be more resources spent in the political arena attempting to shift community resources around from one group to another and fewer resources and less income in the private sector.

MARGINAL AND INFRAMARGINAL CONCESSIONS

In highly competitive government environments, concessions on plant closings (such as the concessions that Detroit made for GM and Springfield made to International Harvester) are a natural, expected outgrowth of concessions on plant locations. Knowing that a community is sufficiently eager to attract new employment opportunities and additions to its tax base that it provides tax and benefit concessions for prospective industries, existing industries will see value in the threat of withdrawal from the community. All other conditions equal, a city should be at least as eager to keep its industrial base as it is to build on its base; it should, therefore, be willing to make the same concessions to existing firms, all relevant conditions equal, as to prospective firms. There will, therefore, be a tendency for each firm to view itself as the marginal firm.

When concession subsidies are initially provided, they may indeed be expected to affect marginally the level as well as the distribution of industrial investment. But with the passage of time, the concession benefits will become more generous and/or the quantitative and distributional impact of any given funding level on investment should dissipate, as all firms contemplating a location decision learn how to take advantage of concession bargaining and as existing firms that may not be contemplating an expansion or a move learn that concession bargaining over expansions can be applied to concession bargaining over closings. Accordingly, over time, funds intended to affect marginal investment decisions will be soaked up by what would have remained, in the absence of the concessions, inframarginal investment decisions. Alternately, the budget for concessions can be expected to escalate as inframarginal, as well as marginal, business location decisions are subsidized.

LARGE VS. SMALL FIRMS

The problem with concessions stems from the monopoly power assumed by governments (which arises because of the difficulty, i.e., cost of relocation). The concessions can be discriminatory in the sense that the tax burden is imposed on one group of residents at the expense of another group. The groups that benefit are likely to be those that have the political clout to redistribute income in their own favor. These groups are likely to represent large-scale employers whose employees represent a voting block and whose withdrawal may be a severe hardship to the community. International Harvester's proposal to Fort Wayne and Springfield that they buy and lease out Harvester's plants attracted the attention of community leaders not because it was the only firm about to leave those cities in 1982; there were probably many plants that shut down in those cities that collectively were responsible for more jobs. Harvester, however, received the favorable attention because of its command over a block of jobs, city voters, and tax base.

The uneven economic and political power among various employers means that the fundamental tax principle that "equals should be treated equally" will be violated. The larger employers will receive favorable tax treatment independent of the cost of providing the services or collecting the taxes. In addition, subsidies that tend to favor "large" firms will, in themselves, encourage larger firms than cost and technology conditions would dictate, generating a market inefficiency of its own.[22]

CONCLUSION

Industrial location strategies have changed significantly in recent decades. This change has occurred partly in response to the willingness of the federal, state, and local governments to use taxpayer monies to subsidize industries. A central argument of this paper has been that subsidies intended for industrial expansions will eventually be used to prevent plant closings. This is because firms, sooner or later, will learn that communities willing to subsidize the attraction of new jobs should be just as willing to subsidize the retention of existing jobs.

Federal government involvement in industrial location decisions, by way of tax-exempt industrial development bonds and economic development grants issued by local and state governments, has escalated dramatically over the past two decades. In 1960 the dollar volume of industrial development bonds (IDBs) amounted to only $46 million (although double the level of 1957); by 1967 the dollar volume had reached $1.5 billion; by 1979 the dollar volume was $7 billion. Federal economic regional development grants from the Commerce Department to states have risen equally dramatically from $127 million in 1969 to $500 million in 1981, and a substantial portion of these grants (how much cannot be calculated with precision) has been used to aid communities in financing industrial concessions. (Additional economic development funds are, no doubt, included in the budgets of other federal departments.) This rapid increase in IDBs and federal grants, however, is descriptive of a natural tendency of competitive communities to make use of all inducements at their disposal to attract industry. It also reflects the defensive posturing of communities interested in insuring that they do not lose their competitive position and do not lose their existing tax bases.

Those figures on IDBs and economic development grants also represent a redistribution of the tax burden in this country that is difficult to justify on efficiency or welfare grounds. Perhaps, it is time that centralized, specifically federal, efforts to affect business expansion and closing decisions be revaluated. Given that subsidies to affect expansions will inevitably be converted to subsidies to prevent closings, it follows that such subsidies will be granted to large, politically powerful fisms. It is difficult to understand why the federal govesnment, especially, should, as a matter of economic development policy, become involved in redirecting the flow of jobs from those workers and communities who are willing to remain competitive to others who must be subsidized to compete.

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Notes

[1]Edward L. Prizer, "The Disney Decade," Orlando Land, October 1981, pp. 29-63. Disney ended up buying the acreage at an average price of $200 an acre. Once it was known that Disney had bought the Disney World tract, prices of surrounding land jumped six to seven times the previous selling price.

[2]Interview with Trey Senn, executive director of the Anderson County Planning and Development Board, Anderson County, South Carolina, September 9, 1982.

[3]See Bruce Yandle, "The Emerging Market in Pollution Rights," Regulation, July/August 1978, pp. 21-29.

[4]The entire extent of the new plant closing strategy is not known. The examples here are intended to illustrate the problems posed by such a strategy.

[5]See "The Rape of Poletown," Inquiry, August 3 and 24, 1981, pp. 11-12.

[6]See "Springfield-Worker: 'We'd Just Like to Have Some Answers'" and "Fort Wayne: Community Spirit Evident, But May Not Be Enough," Dayton, Ohio, Journal Herald, August 14, 1982, p. 1; and "Indiana City Offers Deal to Keep Harvester Plant," Washington Post, August 11, 1982.

[7]According to a Wall Street Journal report, Springfield offered a $30-million sale-leaseback plan on a 15-year-old plant at a time when Fort Wayne had put together a $9-million offer on a 60-year-old plant. Fort Wayne later countered, however, with a $31 million sale-leaseback offer. "Two Towns Fight to Keep Harvester Plants, Knowing That Only One Will Remain Open," Wall Street Journal, September 8, 1982, p. 35.

[8]"Ohio Wins Bid for Harvester over Old Fort Wayne Plant," New York Times, September 28, 1982, p. D-5.

[9]Telephone interview with Neal Nielson, City Manager of Rock Island, Illinois, August 16, 1982.

[10]Interview with Trey Senn, see note 2.

[11]Ken Denlinger, "What Capitals Need Is a Power Play Like Pollin's," Washington Post, August 25, 1982, p. D1.

[12]Alternatively, it may be said that an efficient market outcome occurs when resources cannot be rearranged among their alternative uses without reducing the total value of the goods and services produced.

[13]For a survey of the literature on the effectiveness of industrial development bonds, see Thomas L. Martin, "Tax-Exempt Development Bonds: Arguments and Evidence Concerning Their Effect on Business Mobility" (Clemson, S.C.: Economics Department, Clemson University, 1982), especially Section III.

[14] _Ibid_.

[15] James R. Rinehart, "Rates of Return on Municipal Subsidies to Industry," _Southern Economic Review_, Vol. 29 (1961), pp. 297-306.

[16] "Technological externalities" are contrasted in economic literature with "pecuniary externalities." Technological externalities arise because of some basic defect in the market's ability to internalize all costs and benefits without government intervention. Pecuniary externalities are financial costs imposed on others in the market _because of the operation of the market as a pricing system_. When demand goes up because more buyers enter the market, prices will rise, imposing in the process a greater financial or pecuniary burden on buyers who were in the market prior to the demand increase and who still want to buy the good at the higher price. Technological externalities result in misleading pricing signals and, therefore, misallocation of resources. Pecuniary externalities are the pricing signals that give market directions to resources.

[17] Charles M. Tiebout, "A Pure Theory of Local Expenditures," _Journal of Political Economy_, 1956, pp. 416-424.

[18] Again, these are pecuniary externalities.

[19] James M. Buchanan and J.E. Moes, "A Regional Counter-Measure to National Wage Standardization," _American Economic Review_, Vol. 50 (1960), pp. 434-438.

[20] Martin, "Tax-Exempt Development Bonds."

[21] See Barry Bluestone and Bennett Harrison, _The Deindustrialization of America_ (New York: Basic Books, 1982), Chapter 4.

[22] If subsidies are concentrated on firms that are failing, larger firms will be able to shift the sources of their revenues among plants in different communities, "justifying" subsidies in a way that smaller firms with only one location cannot.