

**REASSESSING POLICIES FOR REDUCING REGIONAL  
DISPARITIES IN NORTH AMERICA:  
THE (MISPLACED) EMPHASIS ON GOVERNMENT  
SUBSIDIES TO PRIVATE INDUSTRY**

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In both Canada and the United States, we are now in our third decade of more or less planned government experimentation with policies ostensibly aimed toward reducing income and employment disparities between regions, states, or provinces. At least implicitly, nearly all such policies have had as their long-run objective the increased integration of all regions into a well-connected national, continental, and indeed international capitalist economic system (as opposed to an objective of promoting greater local self-sufficiency). The theoretical advantages of such integration have been taken for granted, especially by neoclassical economists, for so long now that most politicians would never think to question such a goal. Instead, what gets debated in Congress and Parliament are the alternative policy instruments for promoting it.

There is now an extensive evaluation literature on the costs and benefits of "regional policy" in North America, especially in the United States. Moreover, scholars in both our countries (and elsewhere) have begun to think the unthinkable, and to question the unqualified value of regional integration itself. For there can be little doubt that integration - defined analytically as increased mobility of capital, labour, and information across space, especially within and through the agency of the multiregional (often multinational) corporation - perpetuates inequalities, or reproduces new forms of inequality even as it eradicates other forms.<sup>1</sup> This is the basic idea behind the Marxist notion of "uneven development" [1;2;3;4;14;15;17]. The study of the destruction and re-creation of interre-

<sup>1</sup> Thus, for example, even as interregional per capita incomes may converge with the expansion of generalized capitalist relations of production, inequality is typically exacerbated *within* regions undergoing rapid development.

gional and intersectoral inequalities as capitalist economic development proceeds is a research area of the greatest importance to the reassessment of the objectives of regional policy [9].

As to the instruments of policy themselves, with one exception, governments in our two countries have drawn from pretty much the same menu. Leading the list (although often disguised as aggregate fiscal policy, and not identified as regional policy *per se*) are *incentives and grants to private industry*. These are ostensibly intended to "incent" capitalists to locate new branch plants (or to relocate older operations) in areas designated by government as "needy". Governments also attempt to use the construction of *public works* to steer private investment toward politically preferred locations. Various *intergovernmental transfers* are employed, whether through so-called "fiscal equalization" legislation ("revenue-sharing" in the States) or categorical block grants from the federal government to the states or provinces. A whole host of *human capital* (or what we used to call "manpower") programs, while seemingly directed toward individual workers (or future workers), can have differential regional impacts to the extent that they facilitate interregional migration, or subsidize the specific training of a particular pool of relatively cheap labour without which a particular firm (or group of firms) would not otherwise invest in a particular location. Our governments also, on occasion, have provided some form of *migration assistance* to workers themselves. The *location of whole complexes of government facilities*, as in your own New Brunswick Multiplex Project and in our creation of a major aerospace complex in Houston, Texas, is intended to create a "growth centre" or "growth pole" which might attract further private investment. And of course there is the direct government creation or relocation of productive capacity through *public enterprises*.<sup>2</sup> This list is surely not exhaustive, but it does seem to include all of the "big ticket" items on the menu since roughly 1960.

As sweeping generalizations go, it is probably not altogether irresponsible to suggest that public works, intergovernmental transfers, targeted job training, and migration assistance have proven to be efficacious (if not always economical) in at least some instances, under certain circumstances (*viz.*, when and to the extent that powerful private sector interests want and need the particular "inputs" which the policy is designed to produce). The record on growth poles is much more uneven, and the typically enormous social expense of such programs has - in a period of general fiscal crisis - pretty much done away with the lingering romance that some government planners have had with such schemes.

<sup>2</sup>Your Crown Corporations; since World War II this has been almost entirely off limits for the United States, being generally regarded as too "socialistic" even though it is a common policy tool in every other capitalist country in the world.

By contrast, there is practically no ambiguity at all when it comes to the evaluation of direct government subsidies to business to promote location-specific investments that (it is assumed) would not have been undertaken in the absence of the subsidy. *They don't work* - either in the United States [5;6;7] or in Canada [11;16]. Indeed, there is a good deal of evidence that this is one policy which has not worked very well *anywhere* in the capitalist world, even in Europe or Japan.

In the first place, the overwhelming finding from more than a hundred empirical studies is that there is no statistically verifiable evidence that such subsidies - especially via the tax system - lead to private business behaviour that would not have occurred anyway. This negative finding is reinforced by those studies which show that, increasingly, it is expected demand for the product (or service) or the availability of cheaper (or more tractable; e.g., non-union) labour power that overwhelmingly shapes decisions in the modern corporation about when, where, and how much to invest [2;10;12].

Second, the opportunity cost to the State - in the form of the foregone revenues which might otherwise have been used to finance other programs with a better performance record in terms of locational targetting (such as public works) or to reduce the national budget deficit (with the possibility of indirectly affecting interest rates) - has become enormous. By one especially clever calculation, federal, state, and local governments in the United States gave up more than \$35 billion in the year 1979 alone to finance tax breaks to private industry [8].

Some liberal politicians say of these policies that, even if they do not "really" tease out new investments, at least they "send a signal" to the business community that the government is not "anti-business". Maybe so. But the fact remains that, even as symbols of the intention to create a "good business climate", the incentives seem pretty useless if the State fails to exact some *quid pro quo* from the private sector at *some* point; e.g., in the form of planning agreements on local investment or at least local procurement.<sup>3</sup>

If the opportunity costs of subsidies to business are measurably large and growing, while the benefits in the form of genuinely new investment are quite possibly nonexistent, then such a policy amounts to the provision of windfall profits for corporate bottom lines. Stated even more bluntly, the State is regressively redistributing income from labour to capital, under the ideologically legitimating guise of "economic development". In the United States at least, some of us think this is by no means an entirely unintended impact of the policy [2:ch. 6;8]. Moreover, when such policies are deployed

<sup>3</sup>The General Development Agreements between your Department of Regional Economic Expansion and the provincial governments are no substitute for such legally enforceable contracts with individual *private* corporations.

at the regional or even municipal level, companies have shown themselves able to play off one sub-federal government against another, demanding (and usually getting) additional tax breaks or grants as the price for undertaking projects or for *not* moving away! In the United States, this has created a tax-cutting "second war between the states" which has further undermined the fiscal capacity of governments to afford to maintain social expenditure. To the extent that this indirect attack on the social wage weakens the power of labour as a class in its struggle with capital over market wages, the long-run redistributive effect of tax incentives to business is even more regressive than it appears from looking only at narrow cost-benefit analyses of the policy itself [2:ch. 6].

These brief and deliberately impressionistic comments cannot, of course, substitute for a thorough assessment of the research literature on subsidies to business (or any other policy to reduce regional disparities). I hope that policy-makers and their staffs in both our countries will pay more attention to this sort of research than they have tended to do in the past. In an era of fiscal crisis, embedded within what looks very much like a major international economic crisis, we can ill afford to continue to pursue socially useless and (some might say) even reprehensible policies when there is so much other important work to be done.

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