CRITERIA FOR AND A MODEL OF EFFICIENT LOCATION
SUBSIDY DESIGN AND ADMINISTRATION: COMMENT

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Professor Asch has focused on an inevitable proposal--that of Federal monopolization of industrial location subsidies. Federal monopolization will appeal to many concerned with regional problems and the idea deserves consideration. I believe, however, the more carefully the proposal is considered, the less attractive it will appear.

The first point involves the standard of comparison used by Professor Asch to judge the workability of a Federal location subsidy monopoly. The standard of comparison is, of course, competitive local subsidization. But there is a problem in his comparison. The conception of local development efforts which he relies on is quite misleading in terms of the operation and effects of competitive subsidization. He compares the potential efficiency of a Federal monopoly to the presumed inefficiency of local efforts. In so doing he has based his efficiency comparisons on a dated and unrealistic conception of local subsidies, one which views the process as chaotic, inherently wasteful, and largely irrational--as a competitive process virtually devoid of redeeming features. Highly persuasive arguments are now appearing which suggest the contrary. The theory is developing and it is becoming apparent that a greater economic rationality surrounds these efforts than was appreciated earlier: local subsidies can be economically efficient. Furthermore, the practical administration of these programs is far more sophisticated than yesterday's stereotypes reveal. It is now time to discard the earlier folklore that local subsidies are necessarily inefficient. Reliance on this older view detracts from the paper and creates a misleading context within which one is asked to judge the relative merits of a Federal monopoly.

Concerning the monopoly itself, would it be adequately financed and impartially administered? One need not consult a political scientist to understand why the adequate funding, which Professor Asch calls for, may be impossible to obtain. This is a vital issue. The crucial question becomes this: at what level will those in the high prosperity areas willingly finance the development of other regions? I am optimistic that many in the prosperous regions would favor the collective effort, but one cannot be confident. This suggests that monopolization could easily result in a substantially smaller total effort being made and a reduced overall effectiveness in solving local and regional problems--the opposite of what is hoped for.

Thus it might be better to avoid Federal monopolization, and thereby avoid limiting the total effort to that amount allocated to the monopoly. But, a case can be made for obtaining part of the resources for industrial location programs through Federal funding. Our experience with long-term local and regional stagnation, unemployment, underemployment, withdrawal from the labor force, and forced migration, suggests that the combined efforts of localities, states, and the Federal government have been, and remain, inadequate to solve these problems. This is striking in light of the common "between the lines" criticism, reiterated by Asch, that local subsidies alone will be excessive. Rather than being excessive, local efforts have been insuffi-

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cient to solve these problems and, alone, will probably be inadequate to solve them in the future. There is a theoretical reason for expecting the "total effort" of competing localities to be inadequate to solve entirely regional problems. It has been demonstrated elsewhere that industrial location efforts by underemployment communities can have favorable effects on the region and the nation, as well as the locality itself.¹ But if there are indirect and remote benefits accruing from industrial expansion generally not considered by localities in determining the extent of their program, it may mean their efforts are actually smaller than would be justified by a more complete accounting. What we have here is a variation on the usual externalities case. From this theoretical perspective, it can be argued that Federal (and state) activity should, at a minimum, attempt to compensate for this short-fall of local effort.

The local subsidy-Federal supplement approach leaves us far from the polar extreme of monopolization and raises questions which highlight the limits of knowledge in this field. Two related questions are especially troublesome. How should local and regional development efforts be financed so as to be adequate for the formidable tasks envisioned? How should the manifold tasks accompanying the needed development efforts be divided? Determining the most workable allocation of tasks and financing among the local, state, and Federal governments presents a theoretical as well as an administrative challenge. We cannot yet state confidently which of the possible finance and planning allocations will prove most effective. Given the state of knowledge, it is much too early to accept Professors Asch's view that monopolization is essential to the improvement in the aggregate efficiency of subsidy allocation, particularly since much of his case rests on the older view of competitive subsidization. Indeed, there seems to be few assurances that Federal monopolization would not retard the solution of local and regional economic problems.

FOOTNOTES

¹James R. Rinehart and William E. Laird, "Community Inducements to Industry and the Zero-Sum Game," Scottish Journal of Political Economy (February 1972) pp. 73-90.