The choice of economic development goals is inherently subjective and complex. It is far too simplistic to say that the sole objective of development policy is to make the regional economy grow faster. A higher aggregate growth rate is not sufficient in itself to guarantee an improvement in the economic or social well-being of the residents of the region. A broader menu of objectives will invariably enter into the decision-making process. The political system will be called upon to identify the appropriate set of goals, to assign relative values to each of the various goals, and ultimately to choose among them.

Policy Objectives

Regional policymakers will typically seek to achieve certain broad economic objectives such as increased industrial output, lower unemployment, higher per capita incomes, and an adequate level of public services. At the same time, they will usually have distributional goals as well, such as reducing inequality in the distribution of income, minimizing the number of people with incomes below a specified level, and increasing the stability of incomes and employment. Even if policymakers were somehow able to agree on objectives, it will generally not be possible to achieve all goals simultaneously. A world of finite resources inevitably requires trade-offs and compromises among objectives.

Stimulating the regional economy to achieve aggregate objectives may result in lower costs through economies of scale and agglomeration, increased choices of goods and occupations, upgrading of the labor force, increased returns to factors of production, and new local markets that create further growth opportunities. On the other hand, if the growth is too rapid, bottlenecks and resource constraints may force up the cost of living. If growth occurs primarily in industries requiring
highly paid, skilled workers, it will add to income and also increase inequality in the distribution of income. This will stimulate large population inflows which can strain amenity resources and add to the costs of providing public services. The goal of providing a high level of public services may require the imposition of high tax rates on private economic activity. That tax policy may not be consistent with the goals of rapid economic growth and low prices.

These examples illustrate the conflicts that arise among the various policy objectives and the compromises that often have to be made. A government pursuing policies designed to achieve one goal may find that the policies have consequences, intended or unintended, that undercut that government's ability to achieve other goals. The situation is further complicated by the fact that there are several levels of government involved in regional development, each pursuing different objectives, following different policy strategies, and having different powers available to implement those strategies.

National policies may give some consideration to regional impacts, but generally this is distinctly secondary to the achievement of national objectives. National security and economic goals may, for example, call for policies that foster rapid development of domestic energy resources in order to reduce dependence on imported supplies. Those same policies may severely strain the economy and environment of the region where the resources are located, producing a potential conflict between the objectives of the national and regional policymakers.

Policymakers in the resource-poor regions may also perceive detrimental effects as industries and workers move to the regions whose growth is being stimulated by resource development. This is undoubtedly one of the factors underlying the continuing surbelt vs. frostbelt controversy. Declining regions argue that the federal government should assist them by providing tax breaks, subsidies, and financial assistance to attract new industries, or at least to keep old firms from moving out. Yet these policies may deter capital and labor from moving to those regions where they can be most productive. If migration leads to a more efficient distribution of resources, it may be in the national interest to facilitate such movement rather than to prop up the declining regional economies. Again there is potential conflict between national and regional objectives.

Throughout most of our analysis, we are primarily concerned with the objectives of the individuals and governments in the region being targeted for resource development. National goals for resource development are largely outside the scope of our study, though we recognize their role in setting the context for regional developments. Regional policies to achieve regional objectives are interesting in their own right and, increasingly, are affecting our ability to achieve national goals. When regional impacts are not given proper weight in setting national development policies, it is not surprising to find that local governments tend to resist such policies. It is our contention that many such conflicts could be avoided or minimized by giving more careful attention to regional effects in the process of determining national policies. One of the motivations for our study is to provide better regional information to assist in foreseeing and hence coping with potential conflicts between federal and regional goals.

Powers of Government

In seeking to achieve their objectives, there are several powers regional governments may exercise to influence the size or the distribution of the benefits and costs of development. First, all levels of government own or manage certain public resources such as mineral rights, water rights, public rights-of-way, and forest and range land. The policies the government pursues in managing these public resources can profoundly affect the extent or timing of regional economic and population growth and may influence the distribution of benefits and costs of development. In some cases, especially in the western states, revenues from some public lands may be dedicated exclusively to a single public purpose. For example, in the State of Texas, public school lands provide substantial mineral royalty revenues for school districts in which the minerals were found, and the University of Washington is a major landholder of forested lands in western Washington State. This occasionally results in different units within local or state government being at odds over management policy.

Governments as fiscal entities collect taxes and fees and spend money through transfers and purchases of goods and services to achieve certain public purposes. The taxes and fees collected represent a reduction in spending power of the private economy and further affect the private sector through their influence on the cost of living. Transfers and purchases stimulate the regional economy by adding to incomes and to the demand for local goods and services. Government expenditures also contribute directly to the quality of life in the region by providing a variety of public services. Thus, even if the government does not
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Intend to affect economic growth, its day-to-day fiscal activities will most assuredly influence the level, timing, and distribution of regional development.

State governments hold certain police or regulatory powers over public health and safety, environment, corporate law, banking law, minimum wage, and public utility regulation. These powers, which may be shared with or augmented by federal, multistate, and local government units, can be manipulated to encourage or discourage the growth of private enterprise and to alter the distribution of benefits and costs. Finally, the regional government may play a role in education, technical assistance, research and development, and promotion of new industry. Or it may play an advocacy role vis-à-vis federal laws and regulations regarding health and safety, transportation, education, housing, budgetary allocations, and so on.

Part of the purpose of planning development policies at the regional government level is to develop a coherent conceptual framework within which the government policymakers can see the effects and coordinate the use of their individual government powers. Further, such a planning exercise will trace the effects of outside agents, such as the federal government, on the region and will help the regional government prepare appropriate responses. The purpose of federal government policy planning at the regional level is to see how federal actions which may be a result of national policies will affect a particular region.

The following sections discuss four key categories of policies through which government powers can be used to influence regional development: (1) management of natural resources, (2) fiscal policies, (3) industrial development, and (4) income distribution policies. In each case we will discuss what the government is trying to do, the economic justification for the action, and the constraints on the regional government's ability to influence the development.

Management of Resource Development

As holders of various public resources, particularly timber and mineral rights, both the regional and the federal government can influence the pace of regional development by the rate at which they sell or lease development rights, and by the conditions which they place on the development. One of the key problems in managing resource development is controlling the boom-bust strain exerted on the region's economy and social fabric during the process of resource exploitation.

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A second problem area concerns the regional government's long-term strategy for using funds generated by resource extraction. A third problem is deciding whether to encourage local processing of extracted resources, since this processing has an additional impact on the regional economy over and above the extraction itself. Finally, there are the questions of how the regional governments can best cope with the problems generated by federally controlled resource developments and to what extent the federal government can itself control or alleviate such problems.

Both the regional and federal government have a variety of policy tools to use in addressing each of these problems. For example, as lessor of the resource base, a government can alter the timing and intensity of the associated development boom by specifying an appropriate construction schedule in the lease, by requiring preferential the leasing of certain disadvantaged groups such as unemployed local residents, and by requiring the use of self-contained camps for the housing of large but temporary work force to reduce community impacts. It can also attempt to stage the development so that the peak activity comes at a time when the economy is in a position to absorb the impact. However, manipulating the timing of the development process itself is typically difficult to use in the case of minerals extraction in frontier areas because of the uncertainty surrounding the timing and size of mineral finds, which in turn makes uncertain the level and timing of development.

The state or local government may attempt to adjust its expenditures to compensate for the development-induced fluctuations in the private demands on the economy. It may, for example, try to cushion the regional economic downturn following the boom with public works programs, income transfers, and other spending measures. On the other hand, it may exacerbate the boom and bust by trying to maintain per capita government services in the face of rapidly fluctuating populations. The federal government can use its expenditure policies to moderate its regional impacts by appropriately introducing measures such as revenue sharing and public works projects.

A regional government may also have to decide upon a long-run strategy for using any funds generated by the resource development. Choosing the appropriate strategy is particularly important if a substantial surplus is derived from a nonrenewable resource, as in the case of revenues from an exceptionally large deposit of minerals. Three major options for use of transitory resource revenues are saving and
investing the funds for use after the resource is exhausted, spending them on current account operating programs, and investing the funds in social infrastructure capital. A fourth option, investing in local private development projects directly or through development banking, is somewhat trickier in that a regional government following prudent financial management policies might simply displace funds otherwise available in private markets. A fifth option which has great deal of short-run popularity is to disburse the proceeds to private citizens either directly or through tax cuts.

Saving the funds produced by resource development and investing them securely in regional, national, or international financial markets has little or no immediate impact on the regional economy. However, the accumulated funds that result can be used to support regional government spending in later years. Compared to the other options, it also spreads investment risk across several regions. Spending the funds for operating or capital expenses will immediately increase employment and output in the government sector as well as in the construction industry and related businesses, which will in turn stimulate expansion in the regional support sector and regional population growth through migration. Furthermore both government operating expenditures and infrastructure investment increase public services—operating expenditures provide services immediately while investment produces services more slowly but over a longer period of time.

As another element of resource management the government might require local processing of resources as a condition of sale or promote the processing of raw materials through subsidies. It could, for example, sell its resources at less than market price. Or, if the region is a significant user of the processed product, it could conceivably use taxes or regulations to discourage use of foreign sources of supply of the processed produce. In so doing, the region runs the risk of being found in restraint of trade, or of running afoul of other federal regulations. An example of region-oriented local processing requirements at the federal level is that the U.S. Forest Service requires primary processing of timber exported from National Forest lands in Alaska.

Local processing does not necessarily broaden the base of the economy. Indeed, if the industry truly depends on subsidized supplies of local resources to be competitive, it may actually make the regional economy more dependent on the existing resource base. However, it does retain within the region a greater proportion of the total national or international output and employment generated by extraction and processing of the region’s resources. If the resource industry continues to grow, the greater retention of value added will result in more economic growth in the region. If the regional government succeeds in encouraging (or requiring) the building of processing facilities at the same time as the initial resource development, the effect will be to exacerbate the effects of the boom. The processing employment and output may, however, mitigate the effects of the subsequent bust at the end of the initial resource development phase by contributing a more stable source of employment.

The federal government, in seeking to achieve national objectives, often makes important decisions affecting regional resource development. From the regional perspective, federal developments are largely exogenous forces; the region typically has little control over their size, distribution, and timing. The federal government owns substantial amounts of natural resources and may conduct leasing programs within a region in response to national goals. Subsequently regional governments may be called on to provide public services to support federal developments over which they have no control. In the absence of federal revenue sharing, the state may incur a net fiscal burden despite the positive impact on regional public revenue attributable to the growth produced by resource development. More broadly, a development showing net national benefits may impose net regional costs in the form of regional fiscal burdens, inflation, deteriorating public services, and short-term market and social dislocations.

The federal government can mitigate some of the adverse impacts of massive mineral leasing or defense programs in several ways. In the first place much of the boomtown problem caused by development may be a result of the size and pace of development. In some cases the federal programs could be instituted more gradually so that the boom and bust are less of a problem for the region, without greatly reducing national net benefits. Second, if timing of development is critical in order to retain net national benefits, the federal government may still reduce the adverse regional impacts of development by requiring that development workers live and work in self-sufficient enclaves. This will minimize their secondary impact on the regional economy, particularly on the demand for public services in the region, while still retaining some positive impacts on state and local tax revenues.

The federal government may also reduce migration to the region and thus limit the impact on regional public services during a boom by
Regional Government Fiscal Policies

The regional government may exert little direct influence over resource development if the resource to be exploited lies on federal or private land. However, a regional government can still profoundly influence the region's rate of growth by its actions as a fiscal manager. In addition, fiscal policy has an important influence on the way in which benefits and costs of growth get distributed.

The government may attempt to stimulate the economy and redistribute the benefits of growth by cutting its own tax collections and thereby reduce the amount of money it takes out of the private regional economy. This will, at the same time, reduce the cost of living and provide incentives for private business expansion. It makes a significant difference, however, which tax is cut and whether the revenue loss is made up through an increase in natural resource revenues or through cuts in government spending. Also a number of factors limit the ability of the regional government to use tax cuts to control the regional development process. Business, for example, may not be persuaded to relocate by tax cuts, particularly if the tax cuts are matched by other jurisdictions. Some of the state tax reductions are merely recaptured by federal taxes, thus reducing the net effects on disposable income, business costs, and costs of living. Reductions in state individual and corporate taxes may result in reduced operating and wage costs within the region, but these effects may be passed on simply as windfall gains to stockholders living outside the region.4

On the expenditure side an increase in public service employment, transfers, or capital spending, whether financed by borrowing or by a surplus of resource revenues, may be used to increase the level of economic activity, in the short run at least. However, the state or local government may be limited in its ability to borrow, or it may have no surplus available with which to conduct expansionary fiscal policy. In such an event another way for the regional government to influence the rate of economic growth is to change the mix of public activities so that a dollar of public spending has a greater multiplier effect. Growth might be increased, for example, by concentrating government expenditures on particularly labor-intensive portions of the operating budget rather than by investing in social capital, since capital budget expenditures often involve relatively large purchases of goods manufactured in other regions.

The crucial factors affecting the amount growth that can be generated by any government as a fiscal manager are the size of the fiscal action, the type of action, and the structure of the economy. There are a number of key questions that one might reasonably ask in evaluating a fiscal policy strategy for the region. To what extent does a tax cut "pay for itself"? That is, does the cut in taxes generate enough economic growth so that a cut in tax rates does not reduce total collections? What difference does it make if the tax cut must be accompanied by a reduction in government expenditures to keep the budget balanced? What difference does it make if the government tries to maintain per capita services while cutting taxes? To what extent does migration respond to tax rates and levels of public services in the region? Are capital expenditures, which add to infrastructure capital but provide less immediate stimulus to regional economy, more or less effective than operating expenditures in stimulating sustained, long-run growth?
Industrial Development Strategies

Regional governments frequently concern themselves with attracting new industry or stimulating growth in existing firms. There are a number of different and sometimes conflicting motivations for this. It may be done to reduce unemployment, increase employment, increase incomes, provide additional tax revenues, or reduce regional costs of living. Unfortunately, it is not at all clear that regional governments can in fact devise policies that will significantly alter industry location decisions. And even if such policies are successful in altering these decisions, they may not be cost effective. Despite questions concerning their effectiveness, policies to influence industry location decisions continue to be widely employed by regional governments.

A government may use its powers as resource manager to foster development by requiring local processing of raw materials extracted from lands owned by the regional government or by making plant sites available at less than market value. It may use fiscal policy to stimulate industry by foregoing certain business or property taxes which it ordinarily collects in order to provide either a start-up or continuing subsidy for the targeted industries. It may exercise its regulatory powers by relaxing or favorably interpreting its regulations on environment, hiring, occupational safety, zoning, and so on. It may use its federal tax-exempt status to issue revenue bonds to reduce industry capital costs. Or, it may promote business with informational packages and technical and marketing assistance.

At least as important a question as how to attract industry is which industry to attract. Decisions in this area require that the government evaluate both the potential effects of proposed public actions to foster new industry and the effects of those industries on the regional economy. As pointed out earlier, a broad set of development goals requires that industrial development policy simultaneously be concerned with the effects on the tax base, required public services, environmental and social conditions, and the size and distribution of regional incomes. These effects will depend not only on the characteristics of the firm or firms attracted to the region but on the economic characteristics of the region as well.

Some of the main characteristics of an industry that affect the regional economy are its size, capital intensity, wage rates, occupational mix, markets, input requirements, and environmental effects. For example, a capital-intensive firm will produce a relatively large increase in the property tax base; it will generate less direct employment per dollar of investment; and, by creating fewer new jobs (both direct and indirect), it will induce less migration into the region, thus holding down the demand for additional public services. On the other hand, high-wage industries will have larger economic impacts, other things equal, than industries with the same investment/employment ratio but lower wages. Firms requiring skills not available in the region will directly increase migration by more than firms that can utilize skills available in the region.

If the region contains markets for the output of the new industry or provides inputs to it, this will increase the overall impact of the industry by adding secondary effects to the direct impacts. Over time, import substitution may reduce income leakages from the region and thus increase the overall responsiveness of the economy. Whether the government should encourage import substitution industries in preference to exporting industries is a tougher issue, however, since the increased responsiveness will also exacerbate the downturn if development activity should slow down.

Environmental emissions from new processing plants could conceivably conflict with existing industries such as fishing or tourism which depend on the natural environment. The conflict is even broader if the government uses its regulatory powers to institute and enforce overall environmental quality standards. For example, as a condition of locating a petroleum tank farm in Long Beach, California, Standard Oil of Ohio was required in 1978 by the California Air Resources Board to subsidize the reduction of other sources of hydrocarbon emissions in the Los Angeles basin. Regional governments attempting to attract new industry must consider effects on the environment and existing industries in any comprehensive benefit-cost calculation.

Other characteristics of the regional economy that are important in determining overall effects of introducing new industry include the existing size, efficiency, and occupational mix of the labor market, the age/sex distribution of migrants, the tax structure, the demand for public services (which affects government spending per capita), and the business services and range of products available to new industry. The characteristics of the labor market are important in determining the level of migration necessary to clear the labor market when new industry is attracted and will influence the characteristics of the migrant population. The age/sex distribution of migrants will be largely determined by the type of jobs made available but will also be influenced by the
region's recreational opportunities, climate, and available public services such as schools. The availability of business services and products will help determine whether forward and backward linkages are possible when the new industry is introduced and the extent to which income earned in the region will tend to leak out.

In addition to the policies used to attract new industry, a regional government may implement policies designed to condition or direct the resulting impact on the economy. It might provide subsidies or other assistance to promote the growth of local suppliers and local markets for the new industry. Public job training and apprenticeship programs may be coordinated with the new industry's requirements to improve the match between the industry's requirements and the regional occupational skills pool, thus minimizing the amount of migration required. Finally, the regional government may provide public utilities, roads, schools, medical care, and so on, or may require (within the limits of the law) the industry to supply these, depending on whether the government wishes to attract or discourage the industry and/or related migration.

**Income Distribution Policies**

Analysis of public policy should be concerned both with the effects of the policy on the population as a whole and with its effects on particular population groups such as unemployed persons, low-income families, or minorities. Different kinds of development may have very different effects on the distribution of income, depending on the number and type of jobs created, the job skills the region's resident population possesses, and the relative labor force participation rates of migrants and residents. Regional and federal governments may view these distributive effects as desirable (e.g., if regional growth tended to equalize the distribution of income by bringing the unemployed into well-paying jobs) or as undesirable (e.g., if income disparities increased because wages of those at the lower end of the income distribution did not increase along with those at the upper end). Also, as part of the industrial development process, regional and federal governments may pursue policies specifically intended to improve the distributional consequences of the development.

Job-training programs can be used to match the occupational skills of the resident population more closely to those required by new industry. These programs are generally intended to produce some or all of the following results: (1) the proportion of the resident labor force employed tends to increase, reducing unemployment; (2) the migration into the region required to fill new jobs is reduced, which tends to reduce the rate of growth of population; (3) lower population growth, particularly through a smoothing of the boom-bust cycle, reduces the demand for public services and the drain on regional government treasuries; and (4) if the new job holders come primarily from ranks of the chronically unemployed or underemployed, the level of per capita income tends to rise and the distribution of income to narrow somewhat.

Regional governments often try to impose local-hire requirements on the new industry in order to capture a larger share of the income gains for the current residents of the region. Although it is unconstitutional for a regional government to require discriminatory hiring practices by making residency the sole criterion for hiring, current interpretations of the Constitution suggest that there may be ways around the problem that give substantially the same effect. If, for example, it is declared legal to discriminate in favor of regional residents who are unemployed, it would only be necessary for those employed to quit their jobs in order to qualify. In any case a targeted local-hire program might be set up in which persons with skills required by new industry must be taken first from local sources. This would effectively exclude migrants from some segments of the work force, and the rate of migration would then be reduced relative to the no-local-hire case. The local unemployment rate would be reduced, and if the jobs in the new industry are relatively high-paying, at least some local workers would be receiving higher incomes.

**Notes**


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