

## Beyond Money and Banking: How Federal Reserve Banks Can Inform Broader Economic Policies



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This magazine has dedicated considerable attention over the last couple of years to the strategies employed by local and state governments or public-private partnerships to promote economic development. This issue of *Region Focus* contains a story about one of the more controversial of these strategies — the tax incentives and subsidies offered to firms to influence plant and other business location decisions. While some see such measures as a useful tool for attracting new investment into an area, others see the bidding wars that sometimes result as mutually destructive contests that weaken state and local governments fiscally without significantly affecting ultimate outcomes.

As always, our reporter sought out economists with expertise on the subject at hand, and, as is often the case, he found good sources within the Federal Reserve System. The thoughts of Ray Owens, one of our own Richmond Fed economists, are prominently featured in the article, as are those of Art Rolnick, director of research at the Minneapolis Fed. In fact, the development of the Federal Reserve Banks’ interest in and expertise on this subject is an interesting story in its own right.

The Minneapolis Fed’s 1994 Annual Report issue of its magazine *The Region* included an essay titled, “Congress Should End the Economic War Among the States.” Like our own Bank, Minneapolis uses its Annual

Report to put forward discussions of important economic policy issues. While I am quite proud of the essays that have appeared in our own Annual Report, I will readily acknowledge that this particular essay from our sister Bank had an especially substantial — and I think constructive — impact on public discussion of this subject. The essay contributed to its consideration in Congress, as noted in our article in this issue, and also led to a National Public Radio symposium on the topic in 1996. In addition, the essay motivated further thinking and research on the topic by other economists, including several here at the Richmond Fed.

This story has not yet reached a conclusion. A broad consensus on the issue of special incentives for business location has yet to emerge. Most people recognize the destructive potential of bidding wars. But some would argue that there are enough special cases in which incentives are beneficial that a blanket prohibition, such as the one suggested by the Minneapolis Fed, is unwarranted. Still, while the Minneapolis position has not won the day, debate about how states and regions should promote their economic growth is certainly further advanced than it was before the Minneapolis Bank got into the fray.

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instructive. It illustrates how the Reserve Banks, through their research and publications functions, are able to promote public awareness and greater appreciation of a wide array of economic policy problems, from monetary policy to international finance and trade to regional economic development. Indeed, our unique position as regional Reserve Banks gives us the opportunity to serve as a link between the local and the national aspects of policy issues.

So I tip my hat to the Minneapolis Fed for a job well done. And I look forward to future opportunities for our Richmond Fed to contribute to the building of well-informed public opinion on matters of economic policy.

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FEDERAL RESERVE BANK OF RICHMOND