

## PUBLIC ENTERPRISE AT THE STATE LEVEL

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Public economic policy in the seventies faces two conflicting tendencies. One is the failure of the economy to function at sufficiently high levels of employment and with sufficiently equitable distribution of income to provide adequate levels of living for everyone. An old problem perhaps, but in a relatively new context: political impatience with the failure of liberal, New Deal-style redistributive and stimulatory policies to do what they are designed to do.

We need not here repeat the radical argument that these programs in fact are designed and used in ways to serve the established powers (e.g., Piven and Cloward's argument on welfare), instead we add what might be called the new "conservative" critique on efficiency and productivity grounds. That is, welfare, poverty and manpower programs, indirect regulatory mechanisms and bureaucracies, and highly aggregated macroeconomic policy manipulation have weighed the state sector down in a maze of bureaucracy and have sapped the strength of the economy by using more and more tax money less and less efficiently. The New Deal is dead; the question remains: long live. . . what?

On the national level the problem of how to replace New Deal macroeconomic policies is most acute. For some years, economists have been aware that the range of macro-policies at their disposal only affect highly aggregated variables, and that specific industries, except for defense, were only affected by generally indirect regulatory and taxation mechanisms. Manipulation of these variables has been increasingly less successful in dealing with the problems of inflation and unemployment. Recently, Leontieff and Eckstein, among others, have called for broader national economic planning to make macro-policy more effective on an industry-by-industry level. However, the capability for that type of planning is far from being established.

It is in these general contexts that this working paper on public enterprise can be justified on a variety of grounds and can deal with a number of specific economic ills. It is also, in terms of the above issues, both a significantly more efficient way of organizing the state sector of the economy and gives the state a significantly more direct and disaggregated way of approaching the problem of planning.

The term public enterprise refers to any enterprise of the state sector which involves direct state ownership and operation of the productive apparatus of the economy; and which primarily uses the criteria of self-support though the generation of revenues from its dealings with the public, private enterprises, or governmental agencies or enterprises. While the control of a public enterprise rests with public bodies and its function is to serve the public interest, broadly defined, it is generally constrained by the criteria of self-support or profitability in its activities. We use the words "primarily" and "generally" because there are many cases in which public enterprises may operate, at a loss by legislative restriction, its own definition of the public interest, or economic necessity.

There are numerous examples of public enterprise. The Port of Oakland, the Berkeley Marina, U. C. Press, parking garages in many cities, the several thousand municipally-owned and state-owned utility systems, the Tennessee Valley Authority, N.Y.'s Triborough Bridge and Tunnel Authority, many transit authorities, municipally-operated airports, and municipally-operated garbage companies are all examples of presently functioning public enterprises. Some of these are explicitly organized as semi-autonomous public corporations; others, such as some garbage collection services, operate as public enterprises in fact if not in name by the collection of user fees adequate to cover costs of operation. Still others, particularly transit systems, are organized as public enterprises but require massive subsidies.

For the most part, public enterprise in the U. S. have entered relatively limited arenas. These arenas have been those in which natural monopolies exist (utilities, bridges); where absolutely necessary services are being provided (garbage, transportation); where the scope of operations is so large as to preclude private enterprise (certain water projects); where private enterprise has failed (transit systems, railroads (forthcoming)); to a lesser extent the promotion of economic development (airports, ports); and the use of already publicly owned valuable land (marinas, industrial parks). California has previously used the promotion of economic development as a justification in its Squaw Valley development for the Olympics (an unfortunate precedent).

The general criteria of self-support provides a political justification relatively easy to make to a tax-paying public. That is, public benefits can be provided without continual drain on the taxpayer. Criteria for continuation of a policy are ready-made; if a public enterprise cannot perform satisfactorily enough to support itself, there may be good argument for discontinuation. The same cannot often be said for many government programs.

The most pressing argument for direct state entry into the economy comes in the face of the failure of the state economy to achieve full employment, both for cyclical and structural reasons. For the alleviation of cyclical unemployment, the state can invest in sectors of the economy which have laid off workers due to cyclical fluctuations; can invest to alleviate critical bottlenecks which have slowed down productions; can initiate new enterprises which will generate direct and indirect employment; can stabilize output in key industries to smooth out the cycle; can encourage output by affecting the price level of key productive inputs; and can generate revenues to further employ more people. For structural unemployment, it can direct investment into depressed areas, and direct resources to those who normally would not have them. Just about every form of public enterprise can have positive employment effects, from development bank loans to land-banking, to a state energy corporation.

However, one simplified model, which we can call the California Gold Mining Corporation, is worth noting here for purpose of comparison with traditional public employment programs. Public employment costs the state the full wage of the worker, who is often employed in relatively non-productive, paper-pushing work with no direct return. If the state were to hire workers to mine gold, and purchase or produce labor-intensive gold-mining equipment within the state, it could at least sell the gold (\$170 per ounce) to generate more revenues to further employ more people. Even at a loss, the state is generating more employ-

ment per net dollar expended than outright public employment, unless both gold mining and the production of equipment are heavily capital intensive or if administrative expenses are excessively high.

State enterprises in sectors of the economy which are heavily monopolized can directly affect the price levels of goods by engaging in competitive pricing practices. A state energy corporation which lowered the price of energy to municipal utilities or generally to consumer is the most obvious way of how public enterprise can achieve this function. The state's ability to lower prices, applicable to any industry where prices are kept artificially high, might have indirect employment benefits through the stimulating effect of price reductions.

A state commodities trading and stockpiling function could be used to counter the detrimental effects of commodities hoarding and speculation, either for California-produced commodities or world market commodities like sugar. In addition, the state purchasing department could use its potential leverage power to lower the prices of goods bought by public institutions on all levels, again with indirect employment benefits and large revenue savings. Saskatchewan has state trading boards, and Federal agricultural programs have been involved in commodity trading.

A state sector faced with increasing demands on its resources is impoverished partially by the indirectness of its sources of income; i.e., it must rely on taxation of surplus funds after the directly productive sector has generated income and profits. Were the state to enter into this process, it would have direct sources of funding rather than relying on squeezing the surplus, and could use this money for continued employment generation or general revenues and lower taxes. Utility operation is only one example of enterprises which could perform this function for the state, as it does in cities such as Palo Alto, where up to 1/3 of general city revenues are generated yearly by the municipal utility.

One form of structural unemployment stems from the existence of chronically depressed areas, often secondary cities in an urban complex, smaller rural cities, or rural areas dependent on seasonal employment or natural resource development. In addition, particular areas may be hard hit by the business cycle or by recession in particular industries. The ability to direct investment funds to specific geographical locations, rather than general economic stimulation, is necessary for any substantial relief of long-term structural unemployment and for relief of overpopulation in urban areas. A Development Bank would have this ability, as would an Economic Development Corporation in its land-banking and direct investment functions, particularly in natural resources such as timber and mining. This power is presently used through decision to locate government facilities in particular places; it needs planning and extension.

The redistributive capability of the state sector, mainly transfer payments and progressive taxation, involves ex post decisions after income has initially been distributed by the production process. Public enterprise can direct income to poor communities, can train and employ low-income people directly, and can establish narrower income differentials within its enterprises. Examples here include various direct enterprises, state-aided CDC's and co-operatives, worker-

owned enterprises, and agricultural land-leasing policies. Again, the role of the state here has been long recognized; however, the actual mechanisms have been limited.

Public enterprise can promote economic democracy through encouragement of CDC's, cooperatives, and union enterprises. More generally, legislative and public (gubernatorial appointment) participation in the decision-making of public corporations implies the representation of the public in major economic decisions. Also, public corporations can experiment with worker's management. British Columbia and Saskatchewan have recognized this goal in a variety of ways, including establishment of producer cooperatives and encouraging some worker participation. In the U. S., farm cooperatives have been encouraged.

Private profitability criteria exclude the production of certain goods which may be socially beneficial but do not provide immediate or substantial returns on investment. Low and moderate income housing is the most obvious example of this failure; others may include a range of items from integrated recycling operations to provision of low-cost vacation facilities. The Defense establishment is the most overwhelming example of use of this type of state function in the U. S., though it has abstained from direct ownership and management. Water resource development is another example of U. S. recognition of this function.

Natural resource-using companies which must follow narrow profitability criteria may not be able to rationally plan environmentally-sound programs, particularly if long-range planning is involved. The freedom of the public enterprise from maximum and short-run returns on investment can exploit resources such as timber and fisheries in environmentally rational ways, with the benefits accruing to the state, and employment maintained.

Without public enterprise, the state must rely on indicative planning to develop its planning capacity. Such planning relies on the participation of private enterprise, which, while attainable, leaves the state with little in the way of enforceable power. Planning power ultimately rests with the investment decision, and public enterprise gives the state that direct investment capability.

## State Bank

### A. General purpose

A bank shall be chartered by the state to serve as a financial intermediary between sources of finance for the state (e.g., pension funds, sales of state revenue bonds, treasury deposits, and direct allocations from the legislature) and those sectors of the state economy and geographical areas of the state where investment funds are needed both to serve the economic well-being of the people of the state and because investment funds are not otherwise forthcoming in sufficient amounts from the private sector.

Economic well-being is defined in the following ways: (note: this is somewhat repetitive but is included here to give an indication of the type of legislatively-specified mandate the bank might have:

1. Immediate employment creation within the state in sectors of the economy or areas of the state where unemployment rates are excessively high.

2. Aid to areas which are blighted or depressed in a long-term sense, and in which economic resources available to the community are insufficient to alleviate the conditions of poverty and unemployment, subemployment, and underemployment.

3. Production in sectors of the economy which have clearly recognizable positive public externalities (i.e., neighborhood or environmental effects) and for which private funds are not forthcoming.

4. The maintenance of small enterprises which may be important to the state economy or to a particular area and which could operate profitably in the state if funds were available during a period of economic slowdown.

5. The diffusion of economic power to the non-profit, democratically controlled sector of the economy.

6. The maintenance of sectors which are critical to the economy and which, for reasons not related to state labor and product markets, are diminishing their level of activity in the state.

#### B. Areas of Activity

1. Capital to Community Development Corporations (CDC's). CDC's represent a significant way in which development in low income, chronically depressed areas can take place, provided there is sufficient technical assistance and sufficient sources of funding. The Bank could provide low-interest loans to CDC's, in conjunction with technical assistance from an Economic Development Corporation. It could also provide direct grants with specially earmarked funds for subsidy, or give equity capital with the expectation of royalties or dividends if the enterprise is successful.

2. Capital to community-based cooperatives. While not all cooperatives are exclusively in low-income areas like CDC's, loan to them offer the possibility of expansion of the democratic, non-profit sector of the economy. Such co-ops can include cooperative farms as part of a rural development program, housing co-ops, consumer co-ops, craft production co-ops in urban and rural areas, co-ops organized in other directly productive activities, and media co-ops (newspapers, cable TV, theatre), as examples. The Cooperative League of America sees great potential for expansion of this sector, with financing and proper organization.

3. Capital to trade unions or other workers organizations for direct operation of enterprises. When enterprises fail or move out of the state, or are threatened with closure because of environmental restrictions, the Bank can provide capital for transfer of ownership to worker-controlled enterprises, if there is sufficient worker desire and capability. In Vermont, an asbestos plant recently affected such a transfer. In addition, in trades with heavy unemployment, the unions may desire to initiate or purchase an enterprise, for which the Bank could provide capital. If the EDC took initiative in this direction, and provided technical assistance, we might expect some significant experiments in this direction, and develop a new capacity for combatting plant closings.

Histadrut, the Israeli trade-union organization, operates some of its own enterprises.

4. Capital to small and medium-sized independent businesses in the state. During an economic slowdown, small and particularly minority businesses run into difficulties partially because of capital shortages, which could be covered by the Bank. Independent businesses (i.e., those not branches of large corporations) often face the possibility of acquisition by larger corporations as they verge on failure, and might be suitable recipients of loans. Obviously, this sort of program (plus loan guarantee programs) are not new but have been extensively developed by the Small Business Administration and the Economic Development Administration.

5. Purchase of municipal bonds. In small communities and many cities, banks will not underwrite general obligation bonds which might provide immediate employment in construction. The Bank could enter here either as a competitive bidder or a bidder of last resort if it thought the risk was worth it. Tax savings to local taxpayers would be realized if interest rates on bonds were lowered. This should qualify as a potential use of pension funds.

6. Rural development functions. All of the described possibilities for the Bank include rural development implicitly. However, it may be desirable to separate and earmark funds which will specifically go to rural areas and coordinate those with the Department of Agriculture.

7. Capital to other public enterprises. The Bank should serve as financial intermediary for the Economic Development Corporation and its public enterprise functions. This may mean loans to state agencies which are establishing public enterprises, or, the bank would make loans to independent public corporations under the ECD. The general notion here is that the Development Bank is a major source of capital for public sector development.

8. Capital for housing investment. While some states already have housing finance agencies, that function could also be incorporated into the Bank for the purpose of coordination with other economic development functions, or, the Bank may want to enter the housing market on its own.

#### C. Operating Criteria

Within the general purpose guidelines specified earlier, the Bank should be free to operate with a mix of decision-making criteria. The general notion should be that the best interests of the state are served when the Bank is self-supporting and uses its funds on a revolving basis. Prof. Bennett Harrison of M.I.T. has pointed out the disadvantage of using strict profitability criteria; the Bank would then just be financing activities which could otherwise be getting financing through conventional capital markets. He points out that this would hold particularly for finance through the sale of revenue bonds, where holders and underwriters of those bonds expect a private market rate of return. The state will want to support unconventional activities, he points out, and therefore should not be seeking private market rates of return.

We concur, but to a limited extent. It may still be advantageous to recycle funds within the state, through the Bank, which require positive rates of return

but which otherwise would flow out of the state. Pension funds, for example, require positive rates of return and should have as criteria for use by the Bank the following provision: the average yield on the bank's portfolio of investments must equal the average yield of the pension funds themselves for the previous three (illustrative) years. This would leave the Bank free, in its pension fund account, to lend at relatively low rates provided that such loans were balanced by higher interest loans which were relatively secure.

With revenue bonds, the Bank would have to return at rates consonant with private market returns. However, direct legislative allocation could be used for a mix of loans at low and market rates of interest, equity and venture capital, and subsidized and unsubsidized mortgage money. While the general criteria should be self-support, the Bank should be able to be flexible in its lending policies, and be able to make use of funds which are earmarked for or desirable for outright subsidy.

The use of state treasury deposits to provide low-interest loans is suggested by Harrison, who sees no reason why the state should return a profit on its deposits, and why it should give them to private banks for their profit, particularly without linking those deposits to beneficial state uses. However, use of these deposits without realizing the interest made from banks is merely a form of subsidy policy, and should be recognized as similar to direct legislative allocation. An alternative here could be use of the interest of treasury deposits as a continual cash flow for the Bank, a policy which would tie the flow of funds from private banks to the development bank concept.

#### D. Organizational Questions

The question of management and decision-making power in public enterprise is traditionally a difficult one. One advantage of the corporate form is that it allows the corporation a degree of autonomy from regular bureaucratic processes of government, thereby allowing relative speed of decision-making. One issue particularly important to Canadian public corporate management is freedom from civil service regulation; they want to be able to fire people who are not performing satisfactorily with relative ease, at least on administrative levels. Originally, the intention of some of those sponsoring Canadian public enterprise was to make public corporations, like the Canadian National Railroad, relatively free of "political" interference, although many of its decisions have political implications.

However, while political control can obviously interfere with sound management practices by attempting to turn an institution like the Bank into a boondoggle rife with favoritism, the dangers of extreme corporate autonomy are great and the advantages of public control may be lost. The best example of these dangers may be Robert Moses' Triborough Bridge and Tunnel Authority, which operated like a personal fiefdom and manipulated and distorted the political process and the development of New York City highway and public works programs. It was no less (and probably more) of a "boondoggle" for being autonomous. In Australia, the Labour Party has been strongly opposed to the autonomy of public corporations (which are extensive on both state and federal levels) on the grounds that an autonomous business operating for profit will tend to act the same if it is public or private.

Thus the basic organizational problem of public enterprise is how to grant enough managerial (or worker) autonomy for broad efficiency purposes, while maintaining clear political direction. At the Bank, the main conflict would seem to be the possibility of use of bank funds for particularistic political purposes on the one hand; versus the possibility that the Bank would function as just another bank, operating in the interests of the business community, on the other.

It is difficult, if not impossible, to create any organizational form which will insure results in the public interest. It is thus important to develop relatively specific mandates, along the lines presented earlier, of what constitutes acceptable public interest behavior. Its Board of Directors should include not only appointees from the Governor's office, but also legislative representatives and representatives of different administrative departments of the state, where relevant. Thus, even if the Bank were to fall under the traditional commerce department (or a newly created Economic Development and Planning Division, with the EDC and Bank as its main agencies), there would be relatively broad participation in decisions. In addition, certain gubernatorial appointees could be slated to include, for example, consumer representatives, or representatives with particular concerns for rural development. Others, such as representatives of the banking industry, could be explicitly excluded. Also, one means of protecting against political favoritism is full public disclosure of operations and accounts. Clearly, this organizational question needs extensive and careful exploration, with reference to previous experiences. (Two useful references: The Government Corporation: Elements of a model charter, by Sidney Goldberg and Harold Seidman, and The Public Corporation, W. Friedmann, ed.)

#### Economic Development Corporation (ECD)

Direct public enterprise can be discussed in two separate but closely related forms: the Economic Development Corporation and the state industrial corporation. The first is the stimulator of new investment and new opportunities for the state, the long-term planner of development, and the direction of the location and opposition of future growth and development. The second is the public enterprise limited to a particular industry, organized like the Canadian Crown Corporation, and directly running or participating in the management of particular industries.

##### A. General Purpose of the EDC

The Economic Development Corporation shall be chartered to actively and directly promote the general economic well-being of the people of the state. The EDC will serve as the research, planning, initiation and investment unit of the state's direct participation in the economy.

"Economic well-being" includes the following:

1. The definitions included under the section of the Development Bank, though perhaps 4 may not be relevant here.



2. Achieving the benefits of natural resource development in the state for the people of the state.

3. The generation of direct revenues for the state sector.

4. Relief from high prices which result from monopolistic pricing policies.

5. Transformation from defense-related to peacetime economy, when necessary or desirable.

#### B. Functions of the EDC

The major function of the EDC would be that it serve as state planner and entrepreneur. It should initiate studies which delineate critical areas of need for the state's economy, and make projections of future needs. It should identify critical bottlenecks, and determine where monopolistic prices are being charged. It should provide the technical assistance and research necessary for the programs of the development bank. It should study the various possibilities for public investment, and initiate those investments where desirable. It should spin off, under its direction, the public corporations which will directly manage the enterprises.

The EDC should jointly initiate exploration of public enterprise development with other agencies of the state, both encouraging that type of development and providing direct investment funds, technical assistance, and joint management. For example, the EDC would promote rural land banking and leasing jointly with the Department of Agriculture's rural development program. Or, the EDC might initiate, through the state highway department its own contract construction company. Important here is the ability of the EDC to provide direction and direct incentives to agencies for re-organization along enterprise lines.

The EDC should provide the initial planning, feasibility, and direct investment in new public corporations. In some cases, this may involve purchase of already established companies which either may be failing or may offer the potential for significant expansion by the state. (For example, British Columbia has purchased a large, previously private construction company.) In natural resources, for example, the state may find it advantageous to purchase certain mining companies or small fishing enterprises and consolidate them. Alternatively, where major bottlenecks or lacks in existing productive capacity exist (e.g., recycling), the EDC will want to directly initiate new enterprises and participate in their on-going management.

The EDC may desire to undertake joint state and local (private or public) ventures, with the EDC providing assistance and joint management. The difference here from the role of the Bank involves direct ownership of equity and direct management participation, rather than purely financial intermediary role. Two types of operations stand out here; one, the rehabilitation of failing enterprises which could, with assistance, function successfully; two, participation with municipalities and counties in funding and encouraging economic development projects. Again, the role here is an entrepreneurial one.

Urban land banking and preparation for the purpose of industrial development can play a role in the control of the location of new enterprises, rational land-use planning, and encouragement for new development. We should note that this function is not significant during a recession, both because of long-start-up times and the present lack of shortages in land for industrial purposes. In fact, given the structure of the local tax system, this function may be minor for developmental purposes, though still important for land-use planning purposes.

State ownership of rural land and its leasing to small farmers and rural co-operatives can be an important tool of comprehensive rural development and land reform program. In Saskatchewan, this type of program has had the effect of allowing small farmers to remain on the land, where initial costs of land purchase would otherwise be too high. This would be likely to function best as a joint EDC-Department of Agriculture program, given the vast extension infrastructure which already exists.

#### C. Organization and Decision-making

Similar issues apply to the EDC as to the Bank (or to any quasi-autonomous public body), which is how to make sure it serves the public interest while keeping it free from manipulation for particularistic and narrow political ends. Like the Bank, its directors should represent a mix of public representatives and governmental representatives. Its management and staff will be important; it should include people with a political commitment to public economic development, as well as people with technical skills and experience. Harrison suggests that the Mass. EDC have different desks; like the State Department, which would be responsible for development programs and economic planning in different regions of the state, an idea which has merit for decentralizing some of the broad functions of the corporation.

#### D. Operating Criteria

It is unlikely that the EDC, with its broad variety of tasks, will operate as a self-supporting organization despite its holdings of equity positions in some profitable enterprises. It should, however, be able to delineate those areas which should receive positive rates of return (i.e., direct investments in enterprises), and those where returns are more indirect (e.g., planning and technical assistance functions). It should be evaluated in terms of the economic development it promotes as well as the return it receives.

(Some references: "The Economy of Massachusetts," a report by Prof. Bennett Harrison, prepared for the committee on labor and commerce, Mass. Legislature. Urban Economic Development by Bennett Harrison, Urban Institute, and Land Banking in the Control of Urban Development by Harvey Flechner, Praeger.)

## Direct Public Enterprise

The direct public enterprise is at the same time the most common type of public economic institution and the most controversial. The examples of public enterprise listed earlier in our general discussion demonstrate the extent to which public enterprise is common. The controversy arises when the state sector enters those arenas which are traditionally reserved for the private sector, or which exist alongside of or compete with the private sector.

However, if the state seriously wishes to take on the role of employment creation and develop direct economic planning capacity, it will have to be willing to incur opposition from the private sector, as well as cooperate with it in some of its development proposals. The analysis here is that many of our economic problems lie with the logic of private market operation, and it is both inefficient policy and frequently economically disruptive to marginally change that logic. Instead, public enterprise can operate with a different logic, that of public interest mixed with profit criteria, to remedy some of these ills and provide economic benefits to the state. The current proposal for a state energy corporation in California recognizes, at least implicitly, the notion of private sector failure.

There is no logical (and apparently no legal) reason to restrict the state from any type of economic enterprise. Section 5 of the act which creates the British Columbia Development Corp., for example, delineates a broad range of powers for the Corporation, including the right to acquire, manage, and maintain any forms of real productive capacity. It will be important, however, to clearly state the justifications for public investment, particularly since new employment will not always be involved. State utilities ownership, for example, may have as its purposes changing the price structure and generating revenue for the state; it will not necessarily generate new employment directly.

The Crown Corporation in Canada and Canadian provinces can provide a model. It has a degree of financial autonomy, is often designated to run for profit but is aided by legislative allocations, has some autonomy in personnel selections, and is relatively free of the bureaucratic restrictions of the ministry it operates under. However, it is subject to public scrutiny in its accounts, has public representation in its directors, and must justify its activities to public bodies.

The feasibility of various types of new state enterprises will have to be studied in detail by the EDC. Perhaps the most useful discussion here will be to raise some ideas and make distinctions between the types of investment which the state can undertake.

The first type may be the establishment of corporations for immediate employment creation purposes, where at least some of the costs are returned through relatively stable markets (our gold example). The state could immediately initiate industries in depressed areas in products which it presently purchases from outside the state, or products which municipal governments express a willingness to purchase. That is, the state would develop an integrated, employment-generating unit in relationship to state purchasing practices.

Another example utilizing the particular resources of the state would be development of a state Film Corp., patterned perhaps after the National Film Board of Canada, and encouraging independent studios and filmmakers (Pauling Kael would approve). Justification for such a corporation goes beyond employment creation in the film industry; it also would be a way to regain local control of an industry increasingly dominated by conglomerate corporations and decreasingly committed to production in the U. S. While it is unlikely that it would be initially self-supporting, returns from commercial and educational distribution should eventually pay most of the costs.

Low-cost resort development is another area which has potential employment-creating affects and can effect the price level for vacations. State ski dorms and family resorts, bicycle and youth hostels all over the state, coastal resorts, and urban hostels could be close to self-supporting, depending on the prices charged. The state could purchase and renovate older facilities (including urban hotels), build new facilities where desirable and use state lands to minimize costs. Aside from employment effects, such a policy seems particularly desirable in the face of rapidly mounting land prices in desirable tourist areas and the resulting difficulty of finding low-cost vacation facilities other than camping. Such a public tourism corporation could be administered under Parks and Recreation.

Recycling is another area which has significant potential for expansion in the public interest, and should be self-supporting. There is some indication that recycling of glass and metals is profitable, particularly on a large scale; the market for paper, while likely to improve, is less stable. Presently the production of recycling machinery is limited to a few small firms; the state may want to develop joint ventures with them or purchase them and set up an integrated recycling industry, involving production of machinery, recycling of materials and perhaps use of those materials in its production processes. While collection and sorting themselves are estimated to provide only several thousand jobs statewide (ten new jobs for a city of 100,000), a fully developed recycling industry could probably provide significantly more. A State Recycling Corporation would most likely be involved with municipal garbage services in joint operations.

High construction costs presently represent a significant deterrent to the building of public works as well as housing. Much of these high costs involve finance costs and construction companies' profits. The state could transform some of its present operating capacity (particularly highway maintenance), purchase a company, and/or develop new capacity to enter the construction field as a competitive bidder on public construction projects. If this were to result in significant cost reductions in construction, it would have the effect of stimulating employment.

Logging, fishing, and mining are often hard hit by recessions, suffer seasonal unemployment, and are deterred by environmental restrictions. Public development of these resources could respond more directly to environmental restrictions, for example, if it were not as constrained by immediate profit criteria as private companies. In addition, there may be monopolistic constraints in those industries. For example, it has been contended that canneries dictate policies which are unfavorable to fishermen; thus, the state could purchase or develop canning capacity, break those constraints, and promote employment and more rational development of fisheries.

These examples are purely illustrative. Other possible illustrations could include purchase and operation of branch plants which have been closed but could still operate profitably. We have not discussed two of the most obvious possibilities--housing and energy--since those are already under consideration in some concrete form at the state level. Obviously, thorough study of the realistic range of possibilities will have to take place by an agency empowered to carry out policy.

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