LABORATORIES OF INEQUALITY: THE POLITICS OF ECONOMIC DEVELOPMENT INCENTIVES AND THE DISTRIBUTION OF RESOURCES IN AMERICA

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ABSTRACT

Joshua M. Jansa: Laboratories of Inequality
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This dissertation addresses critical limitations in the theory of economic competition between the American states. In doing so, it looks at the growing use of economic development incentives (or subsidies) by states. Specifically, extant theory is limited in its ability to predict differences across the states in incentive spending and oversight, and is limited in its assessment of the effect of incentives. Instead of pure competition between neighboring states, incentives are actually the product of a political process in which individual firms and business associations work closely with economic development bureaucrats and state legislators to develop policy. Meanwhile, other organizations struggle to gain access. The consequences of this process are that states increase their use of incentives in order to keep up competition for investment from desired industries. State officials also risk increasing economic inequality with their use of incentives. Despite lawmakers' intention to create broad economic prosperity, economic development policy can merely reinforce existing political and economic advantages because of the policy process in which it is formulated. From the dissertation, scholars and practitioners can learn how to institute a more representative political processes and create more effective policy.

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INTRODUCTION: STATE GOVERNMENTS AND THE POLITICAL ECONOMY OF DISTRIBUTING PUBLIC FUNDS TO PRIVATE FIRMS

In August 2015, Governor Scott Walker (R-WI) signed a bill raising $250 million in new taxes to fund the construction of a basketball arena in downtown Milwaukee. The arena would be the state-of-the-art home for the Milwaukee Bucks, whose leadership had threatened to leave the state for a new arena elsewhere. Walker spearheaded the "Cheaper to Keep Them" campaign to raise state funding for the arena, arguing that the loss of the Bucks would be worse for employment and growth than higher taxes or cuts to other programs.[1] Milwaukee Bucks President Peter Feigin summarized the public interest in the effort, saying, "This is much more than an arena. This is about economic development, and this is about thousands of people living, working, and playing in downtown Milwaukee" (Calamur 2015).

The Wisconsin example is typical across the United States. State governments compete to attract and retain investment from private firms and they use *economic development incentives*, or *subsidies*, to do so. Economic development incentives are fiscal policies that reduce costs to businesses in order to encourage investment and job growth in a particular location. Incentives are awarded to specific firms in a variety of industries and include such cost-reducing measures as property, sales, and income tax credits, tax abatement, cash grants, cost reimbursement, and infrastructure assistance. Economic development incentives have reached such prevalence among the states that the Pew Center on the States called incentives "the leading tool used by states to grow their economies" (Pew Center 2012). Collectively, the states spend billions every

[1] In the same year, Walker led the fight over for a state budget that cut $250 million in funding for the University of Wisconsin system (Strauss 2015).

year in economic development incentives. It is not overstated to say that economic development ranks alongside education as a premier function of state government (see Peterson 1995).

Scholars have found that this critical area of state policy is the product of fierce economic competition among the states. Many have observed that the use of incentives to attract private investment constitutes a "second war between the states" (see Hanson 1993). States are compelled to offer incentives to private firms; not doing so risks losing current or potential investment to other states (Peterson 1995; Berry and Berry 1990; Baybeck, Berry, and Siegel 2011). As a result, states engage in an arms race in hopes of outmatching one another's generosity to capital (Peterson 1995). The goal is to use incentives to both secure investment and signal that the state is a good place for doing business (Milward and Newman 1983; Eisinger 1988).[2] In a recent debate on incentives in the North Carolina legislature, Democratic State Representative Elmer Floyd summarized the interstate competition orientation, saying "If you're going to run with the big dogs, what you got to do?" (Leslie 2015 b). The answer, Republican House Speaker Tim Moore replied, was to offer more incentives (Leslie 2015 b).

Economic competition as an explanation of state-level incentive policy has three main tenets. First, competitive pressure creates the conditions in which states innovate in their use of incentives, and those innovations diffuse across the states (Eisinger 1988; 1995; see also Berry and Berry 1990). Empirically, therefore, a large portion of the states should provide relatively equal benefits to firms as they match each other's efforts. Second, states primarily compete with their geographic neighbors since proximal states are the most likely destination for capital flight (Saiz 2001; see also Baybeck, Berry, and Siegel 2011). Thus, the probability of adopting an

[2] Incentives aren't the only policy that states use to create a business friendly climate. Keeping taxes and wages low through the corporate income tax rate, minimum and prevailing wage, and right to work laws are also used (e.g., Witko and Newmark 2005). These other policies are discussed throughout the dissertation and their effect on the economy is tested in Chapter 3.

incentive program increases as a state's geographic neighbors adopt similar incentive programs. Third, interstate competition is both the cause of and rationale for using incentives. Scholars have found weak evidence that incentives actually create jobs or growth (e.g., Brace 1993; Dewar 2001). Yet, elected officials use them to keep up with competition and signal to the electorate that they are actively attempting to create jobs (e.g., Sharp and Elkins 1991).

Limitations of the Interstate Competition Paradigm

Each of these tenets is limited by the underspecified role of bureaucratic institutions and interest groups in shaping state policy. Specifically, the economic development agencies that are charged with administering incentives and the firms and business associations that benefit from incentives form powerful policy subsystems that shape the funding of incentives, the use of incentives, and the effect of incentives.

First, the extant literature is limited in its ability to predict persistent and disproportionate differences in incentive spending across the states. Indeed, incentive spending is concentrated in a few states and benefits a few, relatively wealthy firms (Hanson 1993; Jansa and Gray forthcoming; see also Witko and Newmark 2005). These findings call into question the applicability of the universal arms race as an explanation. Instead, as policy diffusion expert Karch (2007) argues, it is likely that stakeholders within states shape the content of policy. In economic development, those stakeholders are the economic development agencies and business sector, each of which has a financial stake in incentives. These institutions and interest groups encourage more spending and less oversight in order to remain competitive for investment.

The geographic operationalization of the interstate competition hypothesis also does not reflect the influence of agencies and interest groups. States shape their incentive efforts to reflect input from agencies and firms on how best to attract desired and mobile industries in a globalized

economy. While scholars have recognized this limitation (e.g., Shipan and Volden 2012), no alternative operationalization exists for economic competition as a mechanism of state policy adoptions.

Finally, failure to recognize the crucial role of groups and agencies leads scholars to focus on the wrong economic indicators when evaluating incentives. Incentives are formulated with the close consultation of businesses and agencies that focus incentives on attracting and retaining the firms that bring the most prestige and capital investment. In response to this input, states distribute public resources disproportionately to the wealthiest firms. Although intended to achieve job creation and economic growth, aiding the wealthiest firms can also affect the level of economic inequality in the state.

A New Approach to Economic Development

To address these limitations, it is argued here that incentives are shaped by a policy process in which client groups work closely with state economic development officials and legislators to define economic development goals and develop the tools to meet these goals. Competing groups with countervailing views struggle to gain access. As a result, states dominated by client groups spend more on incentives with less oversight. Consistent with client group dominance, states award more incentives when states that target the same industries award more incentives. As a result, income inequality is exacerbated by concentrating benefits with the wealthiest firms without reciprocal job and wage growth for those in need.

The first chapter examines the process behind the formulation and negotiation of incentives. Borrowing from the capture literature, which finds that policies that take broad funds and concentrate them among a few recipients—like incentives do—are at high risk of being dominated by client groups, I argue that pro-incentive input from client groups is amplified when

institutional barriers prevent competing groups from participation. When policymaking is dominated by client groups, scholars should expect rapid growth in incentive spending but stagnate oversight. To the degree that competing groups are able to build majorities in the traditional legislative process, states will more cautiously increase spending and engage in more oversight. To test this theory, I conduct interview-based case studies of incentive policy in three states—Oregon, Nevada, and North Carolina. I find support for the theory; North Carolina and Oregon had relatively more input from competing groups and worked to restrain failed incentive programs. Nevada, on the other hand, was dominated by client groups and greatly expanded its incentive regime amid little legislative oversight.

The second chapter is an examination of the adoption of large incentive packages by states over a thirty-year period. Building on the findings of Chapter 1, state governments are likely to compete for specific industries in pursuit of a larger development strategy formulated with the help of client groups and economic development agencies. It is hypothesized that states are more likely to award incentive packages based on competition for targeted industries rather than competition between geographic neighbors. A repeated event history analysis is used to analyze the frequency of incentive package adoption and support for the industry-based competition hypothesis is found. States experiencing high levels of competition for targeted industries more frequently award incentive packages, all else equal.

The final chapter is an analysis of the effect of incentives on income inequality. States implement policies that make their markets more amenable to business investment in an effort to create growth. But this also creates conditions for increased income inequality. Specifically, inequality increases because incentives predominately serve to support the bottom line of the wealthiest firms, encouraging them to engage in rent-seeking and creating uncertainty for wage

dependent workers. Support for the hypothesis is found; states with higher incentive spending generate higher inequality for many years into the future.

Key Terms Used Throughout the Dissertation

I use several key terms throughout the dissertation, which are defined below as a guide for the reader. Other terms that are important to particular chapters (such as capture, client politics, industry-targeting, and market conditioning) are defined in the chapter they are discussed.

- *Economic development incentives*: Defined above. Also referred to as subsidies. This term is defined in each chapter as a reminder.
- *Incentive program*: A program implemented by the state legislature that takes public funds and distributes them to qualified businesses for the purpose of creating jobs and economic growth. Programs can be either statutory (defining how firms can qualify and for how much by formula) or discretionary (letting economic development agencies and the governor determine how much to award to which firms).
- *Incentive package*: A specialized set of awards provided to a specific firm in order to reduce its cost of doing business in a particular location. Packages are commonly negotiated and can bundle several different incentives, such as sales, property, or income tax breaks, infrastructure assistance, cash grants or bond funding, or waivers for compliance with particular regulations.
- *Client groups*: Interest groups that have a financial stake in a particular policy. In the realm of economic development incentives, these are individual firms seeking incentives and their industry associations. The firms tend to be large, wealthy firms and in chapter 3 I refer explicitly to these wealthy firms as the primary beneficiaries of incentive spending. Small businesses are not included in this definition because they rarely lobby on their own and, as background interviews show, are not included in strategic economic development planning.
- *Competing groups*: Interest groups with opposing points of view vis-à-vis client groups. In the realm of economic development incentives, competing groups include diverse groups on the left and the right. Such groups are labor unions, tax-payer and libertarian groups, progressive groups, community organizations, and education institutions. Each of these types of groups is either philosophically against the use of incentives by governments, or seeks reforms to address concerns that incentives are too secretive and generous to big businesses to be effective policy tools. These groups seek greater access than they are given.

Contributions to Scholarship and Practice

Taking an interest groups and institutions approach to interstate competition helps move the literature toward a more complete understanding of how and why states compete. Interstate competition is a natural inclination of state governments, but highly encouraged by those with a financial stake in the maintenance and acceleration of incentives—wealthy firms receiving the benefits and the economic development agencies buoyed by incentive funds. State legislators rely on their input when making policy decisions. Thus, response to competition is conditioned on the influence of these institutions and interest groups in each state. By taking this approach, several key questions are answered on the political economy of the American states.

Practically, despite lawmakers' intention to create broad economic prosperity, economic development incentives can merely reinforce existing advantages because of the policy process in which it is formulated; inequality of access can lead to the unequal distribution of resources. States run the risk using public resources to concentrate income with top earners in a time of already high inequality and strained budgets. The key point is this: the representativeness of the incentive policy process matters for the the characteristics and effect of incentives. Economic development practitioners will struggle to secure their goal of economic prosperity for the many without including the many in policy formulation.

CHAPTER 1: INSTITUTIONS, INTEREST GROUPS, AND THE CAPTURE OF STATE ECONOMIC DEVELOPMENT POLICY

Why do states differ in their use and oversight of economic development incentives? Scholars have repeatedly identified interstate competition as the predominant explanation for the adoption of incentive programs and packages (Grady 1987; Jenn and Nourzad 1996; Saiz 2001). Some studies argue that such competition is an inherent motivation of state governments (e.g., Peterson 1995), while others argue that competition is encouraged by firms seeking incentives (e.g., Harrison and Kanter 1978). It is unclear, however, how well either of these versions of the interstate competition hypothesis explains differences among the states in incentive policy (Hanson 1993; Witko and Newmark 2005; Jansa and Gray forthcoming). Such blunt hypotheses obscure the impact of the policy process on incentives and makes it difficult for researchers and practitioners to understand why state-level policy differences exist and whether these differences are governed by interstate competition alone. As policy diffusion scholar Karch (2007) notes, it is likely that differences in policy content exists due to the unique institutional arrangements and political environments in each state.

This paper provides a theory of based on client politics and capture to explain why states respond differently to interstate competition for investment. Specifically, incentives are at risk of capture by client groups when their input is not balanced by competing groups. Client groups—firms seeking incentives and business associations—encourage the use of incentives and take advantage of formal and informal barriers that preclude input from competing groups. Presented with unbalanced input and holding a pro-business mission bias, economic development agencies

decline to verify firm-provided information, fail to analyze the secondary consequences of subsidization, and echo client group arguments for incentives in the legislature. Competing groups, however, can work-around captured agencies by finding support among legislators during the program formulation phase. When this happens, states are slower to expand incentive spending and more likely to review and repeal ineffective programs.

In-depth case studies of three states—Oregon, Nevada, and North Carolina—are used to test the theory. Data is gathered from original interviews and archival research and demonstrates support for the theory. Oregon and North Carolina exhibited slow growth in incentive spending and regular legislative oversight in response to input from ideological interest groups. Nevada, whose lobbying community is dominated by client business groups, rapidly accelerated incentive spending over the time period studied and did not provide much oversight. The results show that response to interstate competition is conditioned on the diversity of interest group input by state-level institutions.

This research holds important implications for scholarly theories of economic development, as well as the practice of economic development. Theoretically, interstate competition is muddled by whether or not it is fueled by firms seeking incentives and its lack of explanatory power for persistent differences across the states. This paper develops a theory of how state institutions and their rules and norms serve to prioritize input from firms seeking incentives, compelling and reinforcing responsiveness to interstate competition. The ability of client groups to leverage competition into greater incentive spending and less oversight depends, though, on how much other groups are barred from participation. By clarifying the causal mechanism, this paper provides practical insights into possible reforms. Public comment periods, professional devil's advocates, and E-bay-like open-bidding processes can be effective ways of

diversifying interest group input and reducing the risk of capture. In this way, practitioners may more effectively pursue the public interest of creating jobs and protecting taxpayers.

Interstate Competition & Economic Development Incentives

Interstate competition is the dominant explanation in the literature for the adoption of incentive programs and packages. According to this perspective, state governments must implement policies designed to attract investment, or risk losing resources to other jurisdictions (Peterson 1995; Berry and Berry 1990; Baybeck, Berry, and Siegel 2011). States, as a result, engage in an arms race, offering new and more generous policies to attract capital (Grady 1987; Peterson 1995) and stagnating on labor-friendly policies (Hansen 2001; Jenkins, Leicht, and Wendt 2006).

Some scholars argue that interstate competition is *inherent*; subsidization is the preferred policy choice for legislators in democratic capitalist (Lindblom 1977) and federal (Peterson 1995) systems. Game theoretic studies have modeled interstate competition as a prisoner's dilemma, where the dominant strategy is to subsidize private industry (Thomas 1997; Rogers and Ellis 2000; Rodrik and van Ypersele 2001). Elected officials also award incentives in pursuit of re-election goals (Sharp and Elkins 1991; Turner 2003) and to satisfy voter demands for economic growth (Lindblom 1977). Firms benefit because mobility and liquidity conveys structural power (Lindblom 1977, 1980).

Scholars have tested inherent competition as a theory of incentives, finding support in the tendency of states to adopt incentive innovations when other states have adopted them (Grady 1987; Eisinger 1995; Jenn and Nourzad 1996; Saiz 2001). States take cues from the perceived economic development successes of other states and mimic their policies (Eisinger 1995). This is true even if the incentive programs show little evidence of stimulating economic growth (Grady

1987). The positive relationship between competition and policy adoption holds when tested alongside alternative hypotheses; scholars find little support for interest group strength (Jenn and Nourzad 1996), government ideology (Saiz 2001), or fiscal stress (Saiz 2001) having independent effects on incentive policy adoptions. These findings have placed inherent competition as the dominate theory in the literature.[3]

Scholars have also argued that interstate competition is *encouraged*, or that firms exercise their power to increase incentive awards (e.g., Wolman and Spitzely 1996). Hirschman (1970) provides the logic that exiting, or threatening exit, can increase the probability that governments adopt favorable policies.[4] Firms, therefore, make threats to locate elsewhere in order to reap more subsidies (Hanson 1993; Coyne and Moberg 2014). Looking historically, Bluestone and Harrison (1982) argue that manufacturers strategically leveraged globalization to extract resources from governments. Similarly, Shermer (2013) finds that business leaders pursued close working relationships with Sun Belt state officials in order to implement low-wage, low-tax, and high-incentive policy regimes. Quantitative studies that find that business groups outnumber other organizations in economic development policymaking (Gray and Lowery 1991) and that their campaign contributions are used to secure more incentives (Jansa and Gray forthcoming). Indeed, Harrison and Kanter (1978) even contend that domination by the business sector is the impetus behind state-level incentives.

Both perspectives on competition, however, fail to explain why persistent differences in incentive policy exist among the states. Though they propose different mechanisms, each

[3] Indeed, a book chapter on the topic in a leading state politics primer notes that globalization and jurisdictional competition are the primary explanations for differences in state economic development policy (Saiz and Clarke 2013).

[4] Hirschman (1970) builds on Tiebout's (1956) famous locational model, which demonstrated that rational actors are likely to locate in the jurisdiction that provides the highest utility.

perspective should predict a steady and relatively equal acceleration of subsidization to the point of equilibrium. Empirically, however, scholars note persistent state-level differences in smokestack chasing (Hanson 1993), pro-business tax and labor policies (Witko and Newmark 2005) and incentive spending (Jansa and Gray forthcoming) that is not predicted by either mechanism. Incentives are surprisingly highly concentrated, with relatively few states accounting for most of the spending and relatively few firms accumulating most of the benefits (Jansa and Gray forthcoming). The South and Rust Belt, in particular, have been at the forefront of economic development innovation (Cobb 1993) and have far outspent other regions (Jansa and Gray forthcoming). The skewed distribution is evidence that states are not responding to interstate pressure alone, however conceptualized.

There are two clear limitations in the literature that need to be addressed. The first is the specification of a causal mechanism that accounts for persistent and large differences across the states in incentive policy. The second is sorting out whether business influence is important to understanding responses to interstate competition or not. The literature on regulatory capture and client politics can be used to address these limitations. In particular, the capture literature finds that the diversity of interest group input in government institutions is a key determinant of the characteristics of policies that provide concentrated benefits to client groups.

Policies that Concentrate Benefits & Their Risk of Capture

Many policies take broad public funds and concentrate them among one or few recipient organizations. These policies, like any policy, attempt to accomplish some public interest. Yet, these policies are at risk of being captured by recipient organizations—or client groups—because the concentrated benefits provide the resources and motivation for client groups to maintain and increase such funding even if it fails to achieve the public interest (Lowi 1972; Wilson 1973).

Economic development incentives are a perfect example of this kind of policy; states award public funds to private firms in order to create jobs and economic growth.

The politics of these policies are typically characterized by client politics, where the client groups have premier access to relevant legislators and bureaucrats and use their access to maintain their benefits (Wilson 1973; see also Lowi 1972). These three political actors work together to formulate policy in an insular and iterative process. Wilson (1973, 1989) finds that, because of the insular process, policy is typically characterized by high responsiveness to client group demands. This responsiveness can rise to the level of capture; A government entity is captured when it is influenced by an interest group or sector of interest groups to the extent that the group(s) effectively directs government decision making.[5] When captured, policy systematically reflects the capturing group's preferences rather than the public interest (Carpenter 2004; 2014).[6]

A fairly consistent finding in the literature, however, is that the risk of capture can be reduced by balancing client group input with input from diverse and competing interest groups (Berry 1984; Gormley 1982; Rourke 1991; Sabatier 1975; Schwarcz 2014).[7] Absent countervailing pressure from competing interest groups, policy that concentrates benefits among

[5] While early scholars of capture focused on the influence of individual firms or industries on regulatory policy made by bureaucracies (Bernstein 1955; Huntington 1952; Stigler 1971), more recent scholarship has examined interest groups' ability to capture bureaucracies and legislatures in distributive policy (Wilson 1989; Posner 2014).

[6] Capture can occur *strictly* or *culturally*. Strict capture occurs when an interest group provides resources, such as bribes, favors, or funding, to government decision makers in exchange for favorable policies (e.g., Huntington 1952). I do not think that this is the manner in which state economic development incentive policy is influenced. Cultural capture, on the other hand, occurs when an interest group, in pursuit of policy goals, engages in focused lobbying and takes advantage of institutional deficiencies to deliberately shape the assumptions and worldviews of government decision makers (Carpenter 2014; Kwak 2014; Johnson and Kwak 2010). This is closer to what is occurring in the American states and will be discussed later in the chapter.

[7] Interest groups can certainly use tactics that increase their influence in the legislature and bureaucracy without rising to the level of capture. For example, a legislature or bureaucracy may provide benefits to an interest group because their preferences happen to align with the public interest (Carpenter 2004).

few recipients is likelier than other policy formulations to be highly influenced by client groups. Indeed, scholars have found that client group influence is compounded by barriers to participation for competing groups (Wilson 1989; Carpenter 2014) and conflicts of interest in agency missions that leads to the prioritization of client group input (Huntington 1952). These factors create and reinforce a shared worldview among bureaucrats, legislators, and client groups (Kwak and Johnson 2010; Kwak 2014).[8]

Applying Capture to Incentives

The above literature helps bring clarity to the question at hand: why do states differ in incentive policy? The answer is that state responsiveness to interstate competition is conditioned on the diversity of interest group input in the policymaking process. *Business encouragement of interstate competition is amplified by pro-business institutional arrangements but tempered by counterarguments provided by competing interest groups.*[9]

On incentives, client groups are individual firms and business associations that actively provide pro-incentive information to legislators and bureaucrats. Competing groups are other organizations in the interest group community, on the left and right, that are either ideologically opposed to incentives or accept incentives but worry about giving away too many public resources. Despite diversity of preferences in the interest group community, not all preferences are given equal weight. Instead, institutional rules or practices can limit the consideration of

[8] Capture is similar to the iron triangle model in terms of the relevant actors—bureaucrats, select legislators, vested interest groups—but the theoretical approaches hold different assumptions about whether the preferences of the government officials are fixed or malleable. The iron triangle model assumes that preferences are fixed and the actors within the iron triangle bargain over policy (and exclude others from the bargaining process). Cultural capture, on the other hand, focuses on how the preferences of the government officials are shaped by their relationship with the vested interest groups.

[9] This assertion supposes the existence of both client and competing groups with distinct preferences on incentive policy. This is a testable assertion, which I evaluate in the discussion of case-study evidence below.

arguments and information provided by competing groups. Additionally, the accomplishment of a policymaking institution's mission can be dependent on serving the client groups. Through both of these mechanisms, client groups and their demands are likely to be weighted heavily compared to competing groups.

At the state-level, there is both an incentive negotiation process carried out by economic development agencies and an incentive package approval and program formulation process led by the legislature. Formal barriers and conflicts of interest exist in the incentive negotiation and package approval process. The program formulation process is open to competing groups, but they still encounter informal barriers. Formal barriers include actual facets of the institutional process that prevent organizations from being at the table, such as speedy approval of secretly negotiated packages and the use of non-disclosure agreements (NDAs) to preclude public exposure of proprietary information. Informal barriers are inherent biases that can be used against groups, such being perceived as not having 1) a financial stake in the content of policy and 2) expertise on incentives.

Amplifying the voice of client groups further is the conflict of interest facing economic development officials. The bureaucratic mission to administer incentives in a manner that creates economic growth can only be accomplished by doing what is necessary to secure business investment. Thus, workers in these agencies tend to be especially reactive to relocation threats and opportunities to secure new investments, even lobbying the legislature for more incentive tools. Charged with negotiating incentive packages, these agencies are able to influence how much is spent on incentives through discretionary funds, or by negotiating packages that lie outside existing statute. Immense spending power resides in agencies that are at risk of capture.

Competing groups, however, may be able to challenge client groups in the traditional legislative process during incentive formulation. With allied lawmakers, competing groups can make important amendments and push for greater oversight of incentive programs. In doing so, competing groups must seize upon examples of incentive failures in order to discredit the status quo, "controversialize" incentives, and create the political conditions for change in the legislature. Yet, even campaigns to constrain incentives through the legislative process may encounter informal barriers such that they are unable to slow spending or increase oversight.

In sum, how well client and competing groups are able to access the institutions charged with negotiating and formulating incentives matters for incentive spending and oversight. Client group preferences for higher-spending and less-oversight are prioritized through mission-biased agencies designed to efficiently gather and process business-provided information. Competing groups are able to slow spending and increase oversight only if they are able to build majorities in the legislature. These hypotheses are stated below. A full diagram of the interaction of interest groups and institutions involved in the process is provided in Appendix A.

- *Hypothesis 1: Incentive spending grows faster in states where competing interest groups struggle to access the incentive negotiation and formulation process.*
- *Hypothesis 2: Incentive oversight is greater in states where competing interest groups are able to build supportive majorities in the formulation process.*

Research Design & Case Selection

To test my hypotheses, I conducted interview-based case studies of incentive packages and programs in Nevada, North Carolina, and Oregon. The time period 2012-2015 is examined for each state. These states were chosen via the most different systems approach to case selection (Przeworski and Teune 1970). Each of the states is active in awarding incentives large and small. The states differ on a number of confounding variables, including party control of legislature and

governorship, unemployment rate, union membership, agency type, geographic neighbors' incentive effort, and whether the large packages have gone to in-state or out-of-state firms. Each of these factors, or variations of them, have been purported to predict incentive effort in past studies (e.g., Saiz 2001). By selecting states that differ substantially on each of these factors, I can effectively control for them and instead examine the systematic similarities in the policy process across the three cases as an explanation for incentive effort. Appendix B provides a summary table of the economic and political conditions of each state since 2012. Below, I provide a brief overview of each case.

Nevada Overview

In January 2012, Republican Governor Brian Sandoval announced plans to establish the Governor's Office of Economic Development (GOED). GOED was charged with attracting and expanding private investment using incentives (Domanick 2015). By mid-2012, GOED had negotiated its first large incentive package: $89 million in property tax breaks to Apple to help pay for a new data center in the Reno-Sparks area. In October 2013, representatives from the Tesla Motors approached GOED with interest in locating a new lithium-ion battery factory in the state. GOED quickly offered a $1.3 billion incentive package and partnered with land developers outside of Reno to begin grading the land for construction (Hidalgo 2014). On September 4th, 2014, Tesla and GOED publicly announced the deal to locate the factory outside Reno, pending legislative approval of the incentive package. On September 11th, the Democratic-controlled legislature voted unanimously to approve the incentive package, eliminating other incentive programs to help pay for the package (Hagar 2014). In January 2015, Nevada subsidized the tech company Switch for their plans to create a fiber-optic cable loop between San Francisco and Los Angeles via Las Vegas and Reno (Roerink 2015).

North Carolina Overview

From 2012-2015, North Carolina successfully recruited several companies to Charlotte and the Research Triangle, including headquarters for MetLife, HCL Technologies, and bubblewrap manufacturer Sealed Air Corporation (Ohnesorge 2014; Tita 2014). North Carolina failed to secure several large investments, including the Boeing 777x manufacturing facility, Toyota USA headquarters, Mercedes-Benz USA headquarters, Giti Tire factory, Keer Group textile factory, and production facilities for automakers Volvo and Land Rover (Dalesio 2014; Rothacker and Portillo 2014; Dukes 2015 a; Dukes 2015 b). Republican Governor Pat McCrory and the Commerce Department claimed the reason for the failed recruitments was the lack of a discretionary "closing fund" and an underfunded Job Development Investment Grants (JDIG) program (Campbell 2015). The Republican legislature tightened film incentives in 2013 and rejected the governor's expansion plan in 2014. These moves replaced the film tax incentives with a smaller grant program and rejected the creation of a $20 million discretionary fund. The legislature, however, fully funded and expanded JDIG and created a discretionary fund at the end of the 2015 session (Leslie 2015).

Oregon Overview

In October 2012, Democratic Governor John Kitzhaber was approached by Nike with a request for a 30-year extension on a corporate income tax break to help support their "Project Insight".[10] The extension exempted all income made on sales outside of Oregon from the state's corporate income tax, a savings to Nike of $2 billion over the 30-year period (Gaston 2012). After months of negotiation, Kitzhaber called the legislature into a special session on December

[10] Specifically, Nike sought "single-sales tax apportionment" which means that the state's corporate income tax rate would only apply to income made from in-state sales. Single-sales tax apportionment is increasingly an incentive policy used by states to attract investment. For more in-depth information on the use of the single-sales tax factor as an economic development incentive, see the Institute on Taxation and Economic Policy (2012) and Mazerov (2005).

10th, 2012, to get the incentive deal approved. The legislature held hearings on December 13th, and amended and passed the bill December 14th. In 2013, Intel sought the same 30-year guarantee, which they were awarded outright under the Nike law. The next year, Intel also sought to renegotiate their Strategic Investment Program (SIP) subsidy package with Washington County and the City of Hillsboro. SIP is a joint state and local program in which local governments are partially refunded for the deals they negotiate with firms. The localities approved a new agreement worth $2 billion in property tax relief over 30-years (Hammill 2014).

Case Study Methodology

Data was gathered from interviews with individuals involved in incentive policy in each state. Data was also gathered from newspaper accounts of incentive policy in each state over the three-year period. Both types of data are used to evaluate the hypotheses.

For the journalistic evidence, I searched for articles published from 2012-2015 pertaining to economic development incentives in the archives of the leading newspapers and online capitol blotters in each state.[11] These sources are The Oregonian (Portland), OregonLive, the Raleigh News and Observer, the Charlotte Observer, WRAL.com @NCCapitol, the Las Vegas Sun News, and the Reno Gazette-Journal. National news sources such as the Wall Street Journal, New York Times, and Washington Post were consulted when appropriate.

A list of potential interviewees was produced from those individuals quoted or referenced in journalistic accounts of incentives in each state. These individuals were coded into one of the four occupational categories: client group (business) lobbyists, state legislators, economic development officials, and competing group lobbyists. Interview subjects were contacted via

[11] I also used relevant company names (e.g., Nike) as search terms to be able to focus on the big events that happened in each state over the time period.

email with an explanation of the project and a request for an in-person interview. When an in-person interview was not possible, a phone interview was requested. The interviews were semi-structured and designed to extract information on the actual behaviors of subjects on the relevant incentive package or program (see Leech et al 2013; Beckmann and Hall 2013). For example, each subject was asked about his or her role—who they contacted, how often, what arguments were made, and any other tactics used—now and in past specific incentive debates. At the end of the interview, each subject was asked if any other individuals should be interviewed. This created a snowball sample to ensure maximum coverage of the relevant actors. I continued interviews until no new information was learned with each interview.[12]

A total of 33 people were interviewed for the study. By state, 10 individuals were interviewed in Nevada, 9 in North Carolina, and 15 in Oregon. By occupation, I interviewed 5 competing group lobbyists, 5 business lobbyists, 11 legislators, and 12 economic development officials. Economic development officials and legislators were purposely oversampled in order to provide an in-depth understanding of decision-makers and their institutions. 29 of the 33 interviews were conducted in person, 4 by phone. 24 individuals were sampled purposively and 9 were sampled via snowball.

Overall, the response rate on interview requests was 47.9%. By state, the response rate was 56.5% in Oregon, 52.9% in North Carolina, and 34.4% in Nevada. The majority of interviews were conducted from May 2015 to July 2015, with the exception of two conducted in February 2015 and April 2015, respectively. Records of the interviews were made by taking hand written notes on a pre-printed questionnaire sheet. Subjects were informed that they would not be identified by name or specific identifiers, although they would be identified by occupation

[12] At this point, the interview process is deemed "saturated" and it is recommended that interviews cease in order to not exhaust the population being studied of this project or future projects.

and state. A script of interview questions is provided in Appendix C. A summary of the interview sample, including length and date of interview, is provided in Appendix D.

The discussion of the case-study evidence will proceed as follows. First, the evidence will be discussed with regards to some of the important assumptions of the theory. These assumptions are 1) there is diversity in opinions, information, and expertise in the interest group community on incentive policy and 2) there are formal and informal barriers that prevent diverse opinions, information, and expertise from being considered in the incentive package negotiation and approval process. I then turn to testing my hypotheses on the effects of this process on spending and oversight. The evidence provides support for the assumptions and confirms the hypotheses. The confirmation of the hypotheses brings leverage to the question of whether Nevada, North Carolina, and Oregon have captured processes; I conclude with a discussion of this question.

Inside the Incentive Debate

It was evident through interview and journalistic evidence that there is a wide array of preferences in the interest group community. The evidence also demonstrated remarkable consistency in arguments for and against incentives across the three states. As such, I will discuss evidence from all three states together for this section of the analysis. Each subject, regardless of occupation, was asked to provide pros and cons of incentives, as well as to characterize their own position on incentives. Most legislators and nearly all economic development officials and business lobbyists were pro-incentives or advocated for incentives in newspaper accounts of incentive policy debates. Some competing group lobbyists and a few legislators were opposed to the use of incentives outright, while most would like to see major changes in incentive policy but not their elimination. Business lobbyists used several primary

arguments to support the creation, expansion, and maintenance of incentive programs. No evidence was found of business lobbyists actively working against incentives, although many recognized some of the downsides of incentives touted by competing groups.

Generally, pro-incentive arguments highlighted the mutual benefits of incentives for states and businesses. For states, incentives can provide a return on investment with relatively low-risk and cost. There is often no outlay of state funds since incentives usually consist of tax abatements on currently non-existent property or income. When direct payments are made, the state is likely to recoup costs because of increased tax revenue from the incomes of individuals and businesses constructing the property, or individuals and businesses providing services to the subsidized firm and its employees.

Proponents also argue that incentives help the state direct development, rather than leaving the structure of the economy to the whims of the market. Incentives can push investment to needy locations, attract industries that complement existing strengths, pursue investments in clean, sustainable, growing, and employment-intensive industries, and diversify the state economy. One economic development official in North Carolina argued that communities ought to have the power to direct investment as they see fit, even if that means providing public money to private companies. It was also regularly argued that incentives allow states to build a reputation as a good place to do business. This is especially important to get the state on the radar of site-selectors hired by firms to find locations for new operations.

Incentives provide clear financial benefits for businesses; they lower the cost of doing business in a certain location. Incentives can offset the costs of other burdens the state may impose—such as high environmental standards—allowing businesses to remain in the state while the state pursues its policy priorities. Proponents recognized that, ultimately, businesses want

incentives. Therefore, states should offer them in order to compete for investment. While one business lobbyist argued that asking for incentives stems from a fiduciary responsibility to shareholders, many interviewees from each of the four categories recognized that companies understand that states will respond favorably to requests for incentives, and so they actively seek opportunities for more incentives.

Journalistic evidence confirms the interview evidence by demonstrating that proponents, especially client groups, focus on the benefits incentives will bring to the state. Nike estimated 500 new jobs, $150 million in capital construction, and an average wage of $100,000 would be generated over five years by "Project Insight" (Rogoway 2012; Gaston 2012). Tesla estimated 6,500 full-time employees and $5 billion in capital construction through the year 2028 (Hidalgo 2014).[13] On wages, 4,500 jobs would be production associates paid $22.79 per hour, and the average hourly pay would be $26.16 per hour. In North Carolina, MetLife claimed 2,622 new jobs with an average annual wage of $81,891, and $125.5 million in construction costs (Tita 2014). These numbers were echoed by allied lawmakers when discussing the incentives.

When challenged on incentives, proponents were ready with counter-arguments. Business lobbyists argued that awarding incentives to large firms is not special treatment, but a way to generate investment whose windfalls benefit many smaller firms. One business lobbyist stated that he/she argues that incentives are a way to fix existing burdens in the tax structure, making the tax structure amenable to investment. The same business lobbyist argued that saying that

[13] Tesla was much more specific in its job, wage, and capital investment goals than Nike. It even set yearly job creation goals: 300 new jobs by the end of the first year, 2,000 by the third, 4,000 by the fifth, and 6,500 by the eighth.

incentives help corporations skirt "paying their fair share" misses the enormous contributions the private sector makes to the state and local economy.[14]

Business lobbyists also commonly argued that incentives are not giveaways, but instead tools for the state to provide tax certainty. Certainty is critical, business lobbyists argued, for long-term planning and preventing the abandonment of planned investments. While there is no guarantee of 100% certainty, argued one lobbyist, it is certainly sought by businesses from government. This argument seemed to resonate with legislators, as several volunteered that incentives help provide the tax certainty that businesses need.

Anti-incentive arguments focused on three aspects of incentives: 1) incentives are unnecessary, 2) incentives are offered in an undemocratic process, and 3) incentives are detrimental to state governments and taxpayers.

Interviewees from each of the four occupational categories gave voice to the "but for" argument. That is, it is impossible to know whether, but for incentives, the company would have located in the state anyway. In fact, many interviewees from each of the four categories proposed that interested companies would likely locate in the state without incentives. A Nevada legislator who supported the Tesla deal reported that he/she knew Tesla was not going to locate its new factory anywhere else: Reno's dry climate with low-taxes and proximity to California make it the perfect place to produce and transport lithium batteries.

Similarly, no one in government can know the minimum amount of incentives needed to keep investment. According to critics of incentives, states tend to over-bid for investment opportunities because of unknown competitive bids. Even if incentives are a legitimate use of

[14] Business lobbyists also reported that they spend a large portion of their time shoring up support for the low-cost, low-risk of incentives, explaining that tax breaks on income and property that does not yet exist simply means that the state is agreeing to take a smaller share in taxes than it otherwise would in exchange for the company's investment.

public money, overbidding is hurts taxpayers looking to get the most bang for their buck. Several legislators recognized that setting incentive policy is essentially guesswork; a lot of money is allocated to produce unmeasurable effects.

Several competing group lobbyists argued that the negotiation of incentive packages is largely obscured from public scrutiny.[15] According to competing group lobbyists, the lack of public scrutiny can lead to excessive giveaways, including awarding large sums of cash up-front without many strings attached, issuing blank checks, and even waiving a company's tort liability. In other words, awarding incentives on a case-by-cases basis risks inefficient use of state resources. Many competing groups (and some economic development officials) advocated for a broader discussion of reforming the tax structure to attract investment and provide certainty as an alternative approach to incentives.

Many competing groups also argued that they are shut-out of long-term economic planning. Business lobbyists, economic development officials, legislators, and the governor work together to develop comprehensive economic development plans that include which industries to target and how to use state resources to target those industries. Yet, without input from diverse organizations, state governments risk drifting from a public interest oriented plan and toward a plan that predominately reflects industry interests. As one competing group representative put it, states are now incenting "every Tom, Dick, and Harry" instead of large companies bringing high levels of capital investment. Originally, states targeted these so-called "buffaloes" because their sheer size was thought to drive economies. Now, incentives apply to any business that can qualify or negotiate. Furthermore, competing groups, and many legislators, worried that the general lack of transparency in long-term planning and short-term negotiation harms the public's

[15] More specific details on the negotiating process are provided later in the paper.

perception of government. It appears in many instances that big business is "wagging the tail" of the legislature and the legislature responds by providing special treatment.

The crux of anti-incentive arguments, however, rests on the many reasons that incentives can be detrimental for states and taxpayers. Despite measures to reduce risk, there is always some risk of company failure or departure and the state losing part or all of its investment. Incentives also do not direct investment to certain areas of the state as well as they are purported to do. Instead, the data demonstrate that incentives disproportionately subsidize growth in urban areas because most firms want to locate their businesses near their customer and employee base. Thus, large portions of the state do not participate in the jobs and growth that incentives may bring even though they are paying for it through state taxes.

The arguments about the detriments to taxpayers are numerous still. Local government subsidization is largely unregulated, meaning wealthy counties can outbid poor counties for investment. The companies receive these local incentives in addition to state-provided incentives. It was also commonly argued that incentives shuffle jobs rather than create new ones, especially when companies receive incentives to move within the state. The lack of new jobs creates a zero-sum game between states where one state secures jobs but the others lose. There is also an effect on the state budget. Even if a state wins an investment using only tax abatement (i.e. no cash), it reduces the revenue it can collect from the investing firm. The resulting growth can strain public goods such as education, roads, and parks, with little additional revenue to improve and expand services.

The encouragement of rent-seeking was also a commonly offered criticism of incentives. Incentives allow companies to play states off of one another to their financial benefit. Ultimately,

the incentive competition is a race to the bottom. As one business lobbyist commented, response to interstate competition makes states act like "lemmings off the cliff."

The evidence demonstrates consistent arguments for and against incentives. There is a clear divide between the actors with access—economic development officials, legislators, and client group lobbyists—and competing groups. There were clear signals from business lobbyists that incentives were beneficial for their companies and for the state. Competing groups made fewer ideological arguments against incentives than may be expected, and instead focused on how incentives can be negotiated in a more open process that protects the state and taxpayers. Many legislators and, surprisingly, business lobbyists, recognized these process critiques. I turn now to look more closely at the process of negotiating incentives in order to better understand the facets of the process that make it difficult for competing groups to gain access to economic development officials and their agencies, especially when negotiating incentive packages. In contrast, it is relatively easy for businesses to access economic development officials. A number of formal barriers and pro-business mission bias account for the discrepancy in access.

Overview of the Incentive Policy Process

Before looking specifically at the bureaucracy, it is important to establish how they fit into the larger incentive policy process. There are three distinct parts of the incentive policy process that were evident in each of the three states: formulation, negotiation, and approval. Incentive policy is formulated in the legislature. The legislature establishes policy, including the amount of funding, purpose of the funds for each program, and whether the program is discretionary or statutory. If statutory, any firm that qualifies gets a set award. If discretionary, an economic development agency is given power to negotiate the value of incentive awards. In each of the three states, the legislature delegated the administration of statutory and discretionary

incentives to economic development agencies. In negotiating incentives, the agencies gather information from the firms seeking incentives and make a determination of how much to offer. These agencies also provide business services, promote the state as a good location for investment, track incentive awards and job creation, and gather feedback from firms on the state's business climate. The legislature does not formally approve negotiated awards unless the value or scope of the negotiated package outsizes existing programs. This was the case with the Nike and Tesla deals in Oregon and Nevada, respectively. In these cases, the legislature is not privy to negotiations but is asked to approve executive-branch negotiated packages by amending state law. The legislature also has the power to oversee incentive administration generally by asking agencies to provide audits of awards made, revenue generated, and jobs created.

Client Group Dominance in the Bureaucracy

In each of the three states, extreme barriers to participation for competing groups existed in the agencies charged with negotiating incentives. Formal barriers that preclude public scrutiny are compounded by a conflict of interest in the mission of economic development agencies in each of the three states. The result is that firm-provided data is often un-verified, analysis of the secondary consequences of subsidization is often eschewed, and the agencies echo client group arguments for incentives in the legislature. Client group dominance in the bureaucracy, therefore, establishes a basis for influence in the legislature on incentives. To begin, I describe the economic development agency in each state.

In Oregon, incentive responsibilities are granted to the independent agency Business Oregon. Business Oregon staffers provide information to businesses on statutory incentives and negotiate discretionary incentives. A similar delegation exists in Nevada with the Governor's Office of Economic Development (GOED), although it is more closely tied to the governor than

Business Oregon. In North Carolina, the legislature created a system where the non-profit Economic Development Partnership of North Carolina (EDPNC)[16] handles business services and incentive negotiation, with any awards recommended by EDPNC requiring approval by the Department of Commerce.

In order to make awards, these agencies gather information from the firms seeking incentives. This information includes the number of jobs to be created or retained by the company, how many of the jobs will be new (i.e. not imported with the company from another state), what tasks the job holders will perform, the jobs' wages and benefits, what industry the company is in, the level of capital investment (if any), the product to be produced, and possible locations. The agency may also seek proprietary information to verify the financial stability of the company. This data helps the agency understand why the company is seeking incentives.

While a fairly extensive list of information is sought, it is important to note that agencies do not require such basic information as the name of the company. Economic development officials in each of the three states reported making incentive offers without knowing the identity of the firm seeking incentives. In North Carolina, for example, the site-selection firm Jones, Lang, LaSalle approached Commerce Department officials in February 2014 looking for a location and incentives for "Project One." Enough information was provided such that Commerce officials knew they were looking for space and money large enough to attract the headquarters of a major auto manufacturer. The state offered $107 million in incentives and proposed a location in Charlotte to the unknown company. When Toyota announced in April that it was relocating to Texas, Commerce officials figured they had lost the bid (Dalesio 2014).[17]

[16] EDPNC is a non-profit organization jointly funded by taxpayers and corporate donors.
[17] Similarly, in June 2012, KLG Advisors contacted North Carolina for consolidated office space for a major insurance firm. In August, it was disclosed that the firm was MetLife when the CEO made a one-day visit to the proposed locations; the $87 million deal was finalized in March 2013.

A Nevada economic development official explained that if a company has a toxic "culture" it can get shut out of discretionary incentives, but the name of the company is not necessary to get a sense of the culture. It can be ascertained by how the firm approaches the process; companies that demand incentives outright are likely "bad news". The impression this official, and many others, left was that incentive negotiation is an art more than a science. A key facet of their mission that makes awarding incentives an art is that economic development officials are not targeting particular companies, but prestigious and desirable industries. Desirability of an industry is determined by whether it can provide sustainable growth and complements existing competitive advantages. Not knowing the company's name does not, in the eyes of economic development officials across the three states, inhibit the ability to determine whether to subsidize a firm.

Economic development officials recognized that they base their awarding decisions almost exclusively on company-provided data. Sometimes these data are simply estimates and their analysis is done, in the words of one Oregon economic development official, in a "quick and dirty" manner. Analysis is usually done only on primary concerns, such as jobs, location, and spending, related to the immediate investment. Economic development officials rarely reported conducting analyses of secondary consequences of incentivizing investments, such as the strains growth puts on the local transportation and education system. Two Nevada officials recognized that the sheer size of the Tesla investment will have major secondary implications, but this was not considered or analyzed at the time of making the incentive offer.

Overall, officials across the three states maintained that they had enough time and information to make accurate assessments of whether and how much to offer firms seeking incentives. Yet, many did recognize that there is a clear informational asymmetry between the

company and the agency (see also Hoyman 1997). Companies know what agencies have done and can do, but the agencies cannot truly know what cards the company holds. This is especially true for determining whether the threat of locating elsewhere is just a bluff.

Indeed, there are several norms and rules governing the negotiation process that make it difficult for agencies to gather information from sources other than the firm seeking incentives. Non-disclosure agreements (NDAs) are legal documents that prevent all signatories from discussing terms or sharing information with any third parties. In the case of incentives, this means discussion of the firm's proposed investment, company provided data, and potential incentive offers are prohibited from public release. According to economic development officials, NDAs do not affect the ability to gather information from the company, but it does prevent independent analyses and public discussion of negotiations. An economic development official remarked that NDAs can be seen as a component of secretive deal making, but companies have shareholders to protect and the last thing the state wants to do is something that could hurt the company and lose the investment. In fact, one official lauded NDAs because they encourage greater dialogue between the agency and the firm by reassuring the firm that their proprietary information will not be exposed. Firms desire NDAs (and private negotiations generally) because, as one business lobbyist put it, incentive negotiations are a business agreement, not policymaking.

Economic development officials not only are responsive to client group requests in negotiation, but also echo their sentiments to the legislature. Economic development officials reported actively lobbying the legislature on incentive policy. One official noted that their lobbying role was often restricted to an educational role for legislators. That is, the agency's official position was strictly neutral on bills unless ordered to take a position by the governor.

The agencies moved to take positions when the legislature was considering ending or cutting incentive programs, though. Over the time period studied, only Oregon and North Carolina considered cuts to incentives. Nevada did cut some programs, but this was to help pay for the Tesla incentive mega-deal. In these instances, economic development officials in Oregon reported using a number of tactics to ensure survival of programs, including keeping bills for different programs separate, consulting with the governor's office, and providing examples of how incentives helped their ability to recruit and retain businesses.

The lobbying efforts made by agency officials to ensure the survival of incentive programs is a manifestation of their vested interest in the maintenance of incentive policy. Without incentives, economic development as a career-field would be drastically smaller. Indeed, several interviewees from each occupational category recognized that state economic development efforts there has nurtured an "incentives industry" of law firms, accounting firms, site-selectors, and economic development officials in the public and private sector that have a vested interest in the continuation and acceleration of incentives.

The effects of the agency's vested interest in the maintenance of incentives is primarily evidenced by how they rely on information from the business sector. Economic development officials in each of the three states noted that they regularly survey firms and consult with business leaders on the factors that influence their location decisions. The business sector routinely reports to economic development officials that incentives are NOT the most important factor when deciding where to locate (See Appendix E for an example survey). In fact, other factors such as quality of life, regulatory environment, energy and property costs, a talented and trained workforce, and tax and worker's compensation liabilities are considered more important than incentives. Yet, there was still near universal recognition by business lobbyists and

economic development officials that incentives are indispensable. Incentives help to start conversations and close deals, and firms use them to decide between equally good locations. For some industries like film, incentives are critical. If a state does not offer them, a production will not consider the state when choosing a location.

Given the mission to attract and retain investment in the state, economic development officials are receptive to the use of incentives as a tool for accomplishing their mission. Several business lobbyists and economic development officials admitted that firms do not need incentives to remain in business, and if they did that would be a bad investment for the state. Because other factors matter more for location decisions, lobbyists and economic development officials argued that states could drop incentive programs and still remain competitive.

While the mission of economic development agencies spurs officials to seek out information from the business sector, competing groups' input is ignored or discounted. Competing group lobbyists universally reported having little regular access to the governor's office or agencies on economic development issues. Competing groups in Oregon reported that agencies complied with data requests, but they certainly were not invited into any decision making processes. Competing groups in Nevada, on the other hand, reported that agencies were slow or unresponsive to data requests. Across the three states, competing groups craved greater access to economic development agencies, recognizing that business leaders had nearly automatic audience with state officials. As one Nevada economic development official noted, he would take any business' call because it could eventually lead to an investment opportunity for the state.

Competing groups also argued that the negotiation process' lack of transparency provided little time or capacity for scrutiny. This sentiment was recognized by some legislators and

economic development officials as well, although they were less concerned about it. For example, the North Carolina Department of Commerce approved several large incentive packages that eschewed public scrutiny even though they were made in accordance with existing state law. Each of these deals, once announced, exhibited issues with the veracity of the data provided by the company. For the $87.2 million MetLife deal, it was not clear how many of the jobs would be imported with the company from other states. Similarly, Sealed Air Corporation was offered $36 million in grants over 12 years in exchange for the consolidation of 1,300 jobs in Charlotte from closing offices in New Jersey, Wisconsin, Connecticut, and South Carolina (Tita 2014). But, like MetLife, it was unclear how many of the job-holders would relocate with the company. Sealed Air Corporation also claimed the jobs had an average salary of $120,000 per year, but the average was probably affected by high CEO or upper management pay (Tita 2014).

The evidence demonstrates that client groups both benefit from barriers and encourage their creation. Quick analysis of firm-provided data is a process implemented by the bureaucracy in the pursuit of its mission. While some economic development officials reported firms requesting quick responses, it is mostly the officials themselves who sought quick analysis in order to provide good customer service to the firms seeking incentives. NDAs, however, are sought by firms. Though not all companies seek an NDA, the agency obliges if one is requested. Due to these institutional features, competing groups have a difficult time gaining access and influencing the content of incentive packages and programs. This is an especially large hurdle to overcome when the legislature must approve the incentive package. I now turn to the reception of client and competing groups in the legislature during the approval of negotiated packages.

Client Group Advantage in Legislative Approval of Negotiated Packages

When the legislature is charged with approving negotiated incentive packages, competing groups certainly have greater access than during negotiations but it is too late for any real criticism or analysis to be effective. From 2012-2015, two of the states—Oregon and Nevada—negotiated large incentive packages with firms that required legislative approval. Business Oregon officials and Governor Kitzhaber offered a specialized deal to Nike worth $2 billion, later extended to Intel, which was approved by the legislature in late 2012. GOED and Governor Sandoval made a landmark deal with Tesla worth $1.3 billion in September 2014.[18] NDAs were signed in Oregon and Nevada providing months of exclusive access and private negotiation with state officials for the firm. In both cases, select legislators were informed prior to public announcement. Newspapers reported that Nevada was a finalist in the open sweepstakes for Tesla's new battery factory, though no details of the deal were known. In Oregon, the existence and details of the Nike deal were a genuine surprise to the public, competing groups, and most legislators.

Competing groups learned of the details of the large negotiated packages when the firm and governor made a public announcement. This contrasts greatly with the long period of exclusive access the firm had with economic development officials, the governor, and some legislators prior to public announcement. In Oregon, an NDA was signed between Nike and Business Oregon in July 2012 and was active until December when the special session for package approval was called (Gaston 2012). The package was approved four days later. In effect, Nike had over four months of exclusive lobbying with state officials, while competing

[18] Over the time period, North Carolina did not negotiate any incentive packages that required legislative approval, although they tried to lure Volvo, Toyota, and LandRover while having depleted JDIG funds. It is likely that, had those companies chosen North Carolina, the packages would need legislative approval.

groups had four days to lobby the legislature with its concerns. In interviews, one competing group representative reported that lobbying during the Oregon special session was "tokenism"; competing groups were invited to testify at hearings to fill a quota rather than have real input.

A similar process unfolded in Nevada. The legislature approved the Tesla incentive package one week after public announcement. Although negotiations were secret, it had been public knowledge that Nevada was a finalist for Tesla since February 2014. Thus, competing groups and legislators had time to consider the deal abstractly should Tesla decide to locate in Nevada. Nonetheless, the time from Tesla first approaching GOED officials to the announcement of the package was eleven months. From package announcement to legislative approval was seven days.

Furthermore, according to legislators and competing groups, the Tesla and Nike packages were presented to the legislature as done deals. Some legislators reported that they were pressured by the governor and party leaders to not make changes or ask damaging questions. Other legislators in both states disagreed, saying there was room for some changes, but that the legislature generally agreed with the package and therefore made only a few changes. In all, only two changes were made to the Nevada-Tesla deal as introduced: an amendment requiring Tesla to offer its employees health insurance and procedures for the state to waive the requirement that the company hire 50% of its workforce from Nevada (Elkind 2014). Many legislators and competing groups argued that sheer speed of the Nike and Tesla special sessions made consideration of the costs and benefits more difficult. Some competing groups and allied lawmakers in Oregon sought a 10-month, rather than 30-year, deal during which time the economic effects of extending Nike's single-sales tax factor could be studied and considered for the full extension (Esteve 2012 a; 2012 b; Zheng 2012).

During the limited lobbying time, competing groups spent their time trying to make practical changes to the deals rather than stop them outright. Students in Oregon argued that the Nike deal should require the company pay a living wage and create guaranteed employment slots for graduates of the Oregon university system (Zheng 2012). One progressive lobbyist noted that Oregon was requiring surprisingly little given they were effectively reducing Nike's state tax liability by 90% (Zheng 2012). Labor representatives in Oregon wanted requirements that Nike pay wages above the state median (Zheng 2012). In Nevada, labor unions wanted a guaranteed prevailing wage for construction workers building Tesla's gigafactory (Hagar 2014). Competing groups also questioned the efficacy of incentives. One public interest lobbyist in Oregon made the argument that investments the size Nike promised could be secured by doing nothing; some business is likely to grow and invest as much as Nike or more without legislation specifically benefiting them (Zheng 2012). Southern Nevada-based labor unions and legislators worried that the Tesla deal would kill film jobs in Las Vegas to create manufacturing jobs in Reno. In effect, jobs were simply being transferred from one sector of the economy to another, and from one area of the state to another (Roerink 2014).

To counter these criticisms, economic development officials, the governor, and client group lobbyists made open reference to the possibility of the firm investing elsewhere unless they were incentivized. This was the case whether the firm was from the state (like Nike) or out-of-state (like Tesla). Nike claimed it was being "heavily courted" by other states but wanted to stay in Oregon (Rogoway 2012). However, at the time of passage of the bill, no specific competitor locations were identified; the lurking threat of competitor states was enough for Nike to make this point publicly. Tesla Motors shopped for incentives in Nevada, California, New Mexico, Arizona, and Texas (Wald 2014). While Nevada eventually secured the Tesla factory,

the competition was not over until the subsidy package officially passed the Nevada legislature (Lifsher 2014). CEO Elon Musk repeatedly emphasized the need to "move quickly and get things done" (Hidalgo 2014). California, previously eliminated by Tesla in their declaration of the finalist states in February, appeared back in the game in May when Musk praised a California incentive bill (Hidalgo 2014). The bill failed to pass the California Legislature before their August recess, but Democratic Governor Jerry Brown was rumored to be considering a special session should the Nevada Legislature fail to pass their Tesla incentives bills (Hidalgo 2014).[19] Lobbyists for Nike and Tesla, along with allied lobbyists and state officials, made clear that they would locate elsewhere if the negotiated incentive package was not approved.

Client Group Access and Lobbying in the Legislature

The successful passage of negotiated packages in the legislature is partly due to the advantages that client groups have in the bureaucratic negotiation process, but also from years of lobbying the legislature on incentives generally before the consideration of specific packages. Several interviewed business lobbyists stated that they attempt to "get buy-in" from legislators on general economic development priorities. The lobbyists reported that business associations would host summits for major firms, legislators, economic development officials, and the governor's staff. These summits were used to develop relationships and discuss economic development goals. Business lobbyists in each of the three states noted that these types of events are typical. Journalistic evidence corroborates that incentive programs are often the result of policy formulation between the executive branch and large firms. In Oregon in 1993, Intel worked closely with Democratic Governor Barbara Roberts to develop the Strategic Investment

[19] Similarly, when Switch was seeking incentives for data center expansions, the tech company claimed that 15 states had better tax structures than Nevada for such an investment, including Oregon, Iowa, North Carolina, and Wyoming (Roerink 2015).

Program (SIP), from which Intel has received incentives four times (Hamill 2014).[20] In Nevada, Governor Sandoval, his staff, and business leaders worked together to create GOED, which reorganized the executive branch in order to prioritize economic development (Domanick 2015).

Competing groups and even small businesses were not well represented in long-term strategic planning efforts. An economic development official in North Carolina noted the obvious absence of small businesses and other interest groups from economic development summits and strategy sessions. Instead, the biggest employers and peak associations with the most money and time to spend on lobbying dominated goal-creation and consensus-building efforts. A business lobbyist in Oregon stated that his/her organization would make campaign contributions on bipartisan basis for those who supported their economic development priorities.

A close working relationship with the biggest players in the business sector is also sought out by many legislators. Most of the interviewed legislators across the three states noted that business lobbyists and economic development officials were sought out for information on incentives. These legislators also reported that conversations about incentives with these types were routine. Of the entire interest group community, legislators noted that economic development officials and client group lobbyists were the most active on the issue of incentives.

In meetings with legislators, client group lobbyists began sowing the seeds that there is real risk of losing investment opportunities to states that offer more generous incentives. Lobbyists provided information to lawmakers on what other states were doing and highlighted instances of other states losing investment. One Oregon business lobbyist reported using the example of Boeing moving investment from neighboring Washington to South Carolina in meetings with legislators. Legislators were very responsive to these examples, reported the

[20] The years of SIP-Intel agreements were 1993, 1999, 2005, and 2014.

lobbyist. The purpose of this tactic, the lobbyist said, was to counter "the arrogance of being local", or the fact that people think they live in a special location. Showing examples of home-grown firms relocating demonstrated to legislators that their state is not special and that companies will seek out what is best for their bottom line.

Client group lobbyists, wary of backlash against threat-making, framed the interstate competition argument sympathetically. They recognized that the state had done a lot for the business community already, but that other states are doing better things. Client groups were rightly worried, as divestment threats are not always received warmly by legislators. As one Democratic Oregon legislator noted about the Nike incentive package, Nike "had us over a barrel." He/she explained that, although frustrating, there was (and still is) no way to verify the legitimacy of threats. Thus, attempting to call Nike's bluff had tremendous risk and "we would have really looked foolish" if Nike did indeed invest elsewhere.

While certainly given more access than in the negotiation process, competing groups face informal barriers in the legislature. Competing group input was discounted by many legislators because of the perceived non-expertise of the groups on economic development. Discounting was readily acknowledged by both competing groups and legislators. At least three of the legislators interviewed noted that they ignored or were extremely skeptical of the points raised by competing groups on incentives. Interestingly, this discounting occurred even when the legislator was ideologically aligned with the competing group. One competing group lobbyist from a fiscally conservative organization in North Carolina noted that most of the conservative legislators he/she talked with agreed with the points he/she raised. Then legislators would offer the "but"; the legislators did not like incentives, but must offer incentives to compete. A Nevada business lobbyist recognized the many misgivings associated with incentives, stating "In a

vacuum, incentives are criminal. But we live in reality. It is great to be on moral high horse, but then you don't get Tesla." Advantaged by their perceived credibility, premier access, and the specter of losing investment, another Nevada business lobbyist noted that selling the Tesla package to the legislature was relatively easy and his/her job was to ensure that "nothing got screwed up" in the approval process.

The Effect of the Process on Spending and Oversight

With exclusive access in the bureaucratic negotiation process and advantages in the legislative approval process, client groups were successful in increasing incentive spending in each of the three states over the three-year period. But, there were important differences across the three states in how quickly legislators increased spending and to what degree they exercised oversight of the spending. These differences stem from the ability of competing groups to controversialize incentives during the legislative program formulation process. In North Carolina and Oregon, competing groups were able to leverage incentive program failures to generate support for the elimination of some programs and restraining growth in spending. In Nevada, however, the dominance of client groups in numbers and access led to rapid expansion of incentive programs with little oversight. I will discuss each of the three states separately in this section, beginning with Nevada.

<u>Oversight & Spending in Nevada</u>

From 2012-2015, Nevada focused intently on targeting manufacturers, data and information technology firms, and solar power in order to diversify and grow their gaming-dependent economy. In 2012, Governor Sandoval led the effort to reorganize the executive branch to provide for expanded incentive effort and better relations with firms looking to locate in Nevada. In mid-2012, Nevada and the City of Reno awarded a combined $89 million in

incentives over 10 years to Apple for a new data center (Hidalgo 2012). In 2014, the state made the landmark $1.3 billion deal with Tesla (Wald 2014). In 2015, the state legislature passed a new incentive program to attract unmanned aerial vehicle (UAV) manufacturers. Nevada also made headlines by awarding incentives to cutting-edge companies Switch[21] and SolarCity.[22] Prior to 2012, Nevada had awarded one incentive package worth over $50 million.

In Nevada, client groups are unified in the need to use incentives to diversify the Nevada economy and remake Nevada's image. Commenting on the Apple deal, Mike Kazmierski, the president of Economic Development Authority of Western Nevada said "This helps us get over the hurdle of just being a small town. It turns us into a player, not just for data centers but other sectors as well" (Hidalgo 2012). Interviewed economic development officials and client group lobbyists in Nevada also noted the need to change Nevada's image in order to play for major investments, and move away from the "sin city" image. As site-selector Dennis Donovan was quoted "You gotta pay to play, and Nevada did good enough [getting Apple] without giving away the store" (Hidalgo 2012).

Encouraged by site-selectors, business associations, and firms seeking incentives, Nevada has rapidly expanded its use of incentives. Their input is unchecked by competing groups as they struggle to regularly access the legislature. Numbers-wise, client group lobbyists outnumbered other lobbyists twenty to one, a Nevada legislator estimated. Of competing groups, labor unions have the most access to Nevada legislators, especially Democrats. Yet, they were entirely

[21] The Switch deal included a 2% sales tax reduction and 75% property tax reduction for 15 years. The Switch super-loop project will bring an estimated $1 billion investment to Nevada (Hidalgo 2015).

[22] As evidenced by the name, SolarCity specializes in solar-panel electric generation. Interestingly, SolarCity is another Elon Musk-led company.

excluded during incentive package negotiation and faced informal barriers during approval.[23] Running into such hurdles, one competing group—the Nevada Policy Research Institute (NPRI)—has resorted to challenging the constitutionality of incentives in the courts. NPRI is a libertarian group worried about that incentives distort the market and encourage cronyism. NPRI challenged GOED's subsidization of SolarCity, citing that the Nevada state constitution bans the use of taxpayer money to provide public gifts to private corporations. Article 8, Section 9 of the Nevada Constitution reads "The State shall not donate or loan money, or its credit, subscribe to or be, interested in the Stock of any company, association, or corporation, except corporations formed for educational or charitable purposes." The Nevada courts ruled, however, that this was allowed under Nevada law because the funds for incentives are first given to local authorities and then to private firms. There is no constitutional ban on local authorities providing gifts to private companies. NPRI is again challenging the provision, this time on the grounds that incentives provide an unfair advantage to SolarCity over other companies in the same sector.[24]

During interviews in Nevada, compared to North Carolina and Oregon, there was less recognition of the downsides of incentives among legislators on both sides of the aisle. When asked about oversight, legislators on the committee overseeing incentives acknowledged that they focused more on program creation and expansion than oversight. One economic development official in Nevada recognized a lack of focus on secondary costs of the Apple and Tesla investments at the time of the deals. Indeed, many of the incentives provide property tax breaks to companies, which is particularly costly for Nevada because there is no state corporate

[23] The International Alliance of Theatrical Stage Employees (IATSE) lobbied for the preservation of film tax incentives on the chopping block to help pay for the Tesla deal to no avail (Roerink 2014). Some labor-allied legislators wanted to guarantee prevailing wage for construction workers building the factory but were unable to amend the bill (Roerink 2014).

[24] Similar to Nevada, North Carolina has provisions in its constitution barring public gifts to private corporations, but the courts held that incentives are legal because they provide a public good (i.e., jobs).

or personal income tax. It is clear that Nevada, from 2012-2015, was in the midst of a rapid incentive expansion in order to rebrand and diversify the state. Whether incentives had been used constitutionally, achieved job growth, created secondary issues, or strained the budget were not concerns to nearly every legislator and economic development official interviewed.

Oversight & Spending in North Carolina

In contrast to Nevada, North Carolina's Republican Governor Pat McCrory struggled to get the legislature to expand incentives, succeeding only at the end of the 2015 session. Despite legislative sluggishness, McCrory, the Department of Commerce, and EDPNC were highly active in using existing funding sources to lure companies with incentives. In early 2013, McCrory completed the MetLife deal begun by his predecessor, Democratic Governor Bev Perdue. In his first two-years in office (2013-14) McCrory awarded $300 million in Jobs Development Incentive Grants (JDIG). About 29% of the JDIG funds were awarded to MetLife though the company brought only about 17% of the jobs estimated to be created by JDIG funds (Campbell 2015).

Upon taking office, McCrory requested that the legislature expand North Carolina's economic development tools to include a governor-controlled discretionary incentive fund. Incentive expansion was delayed, however, because it was tied directly to the legislature's efforts to rework the tax code. The Republican-controlled legislature, especially the Senate, prioritized making North Carolina more competitive in its tax rates before increasing targeted incentive programs (Binker 2015 b). In fact, it even voted to eliminate certain incentive programs during the 2013-14 session. In 2013, the North Carolina legislature replaced film tax credits with a grant program, reducing spending from up to $80 million per year to $10 million. The most vocal business association against cutting film subsidies in North Carolina was the Motion Picture

Association of America, which warned of job losses in Asheville and Wilmington to no avail (Binker 2014). In 2014, 28 Republicans (including several legislative leaders) and 26 Democrats voted against the McCrory-backed incentive program expansion. The bill would have created a $20 million Job Catalyst Fund and expanded two other funds. During hearings on the bill, conservative lawmakers worried about favoring certain companies, the inability of the state to recoup losses, and the unequal and inefficient distribution of subsidies geographically (Jarvis and Frank 2014).

The reduction of film incentives and delay in incentive expansion was the result of efforts by conservative groups to controversialize incentives. These groups hold ideological stances against incentives because they can lead to abuse of taxpayer money and encourage rent-seeking by large firms. The John Locke Foundation and the state chapter of Americans for Prosperity lobbied heavily against film incentives. These organizations claimed tax subsidies are "a corrupt government policy" (Leslie 2015 a) and provided information that cited high cost-per-job to the state. Their data was backed by a report by the North Carolina General Assembly Fiscal Research Center that found that film incentives cost $400,000 per job and created fewer than 100 permanent jobs (Curliss 2013). With a newly elected conservative legislature focused on tax-reform and a contingent of liberal lawmakers concerned with corporate welfare, competing groups found a receptive audience. As such, legislators engaged in debate over the relative merits of incentives versus tax structure reform, reviewed the effectiveness of film incentives, and curtailed the program when it appeared to be costly to tax payers.

Nonetheless, the legislature decided to expand incentives in 2015. The bill increased funding for JDIG from $15 million to $20 million per year and added a $15 million optional "booster" for investments of at least $550 million. The bill also expanded the aircraft fuel tax

exemption, the data center energy tax exemption, and re-approved a motor fuel tax break. The bill, however, did not deliver on McCrory's wish for a discretionary closing fund, and even tightened the rules for some grants so that poorer counties could receive more incentive dollars than wealthier counties (Leslie 2015 b). Several Republicans and Democrats worried about the real costs of the bill. Republican Paul Stam argued that costs were likely to balloon to $400 million, while his GOP colleague Larry Pittman did not mince words, calling incentives "an obscenity…stealing from the people to give to your cronies to keep yourself in power. That's what it boils down to" (Leslie 2015 b). These sentiments were echoed by Democrat Carla Cunningham, who said "I support fairness, and I don't see fairness in these incentives. I would like to see us invest in the people of North Carolina by training them" (Leslie 2015 b).

Nonetheless, business leaders and economic development officials were able to convince a majority of legislators to support the bill. In particular, they were able to leverage high-profile recruitment failures to make their case. Over the time period studied, North Carolina courted firms that were also looking at states as diverse as Georgia, Texas, New Jersey, Washington, South Carolina, Missouri, Illinois, California, Louisiana, Mississippi, Alabama, and Kentucky (Ohnesorge 2014; Dalesio 2014; Rothacker and Portillo 2014; Dukes 2015). North Carolina had been in the running to recruit Volvo and LandRover manufacturing facilities, when they were dropped for other southern states. McCrory and many lawmakers blamed the lack of incentives for the failure (Campbell 2015). These looming losses were not salient in the earlier session, providing competing groups more leeway to criticize incentives.

In the face of losses, needing a clear message to firms about incentives was seen as paramount. In McCrory's own words, "I'm going to be very pleased to be able to sell North Carolina with a very clear economic development strategy that I can clearly communicate"

(Binker 2015). This was corroborated in interviews with North Carolina legislators, although the interviews took place prior to bill passage. As one legislator noted, he/she had little doubt that the legislature would end session with an incentives bill on the governor's desk in order to provide needed certainty to business looking to locate in the state.

Oversight & Spending in Oregon

In Oregon, competing groups were able to take advantage of an embarrassing tax credit failure to secure the regular review of incentive programs. The Business Energy Tax Credit program (BETC) was a tax credit implemented by the state of Oregon in 2007 that covered up to 50% of the cost of eligible renewable energy projects, with a limit of $20 million per project. Oregon did not implement overall caps and it left the projects eligible fairly broad. The result was runaway tax credit claims for anything tangentially related to renewable energy, from "wind farms and solar manufacturing plants to transit passes for Nike employees and lighting upgrades at convenience stores." (Sickinger 2014). Its open-endedness also led to it being claimed by out-of-state firms, such as a Texas trucking company that spent an estimated 1% of its driving time in Oregon and claimed $4.5 million in BETC credit (*The Oregonian* 2010). BETC cost Oregon an estimated $857 million over seven-years with progress toward the job growth and energy diversification goals unknown (Sickinger 2014). But BETC could not easily be repealed, as any tax increase—or the elimination of a tax credit—required a supermajority of legislators. Further discrediting BETC was Business Oregon's failure to track the jobs created or retained by the program. The definition of a job was fairly unclear and, according to one legislator interviewed, Business Oregon counted federal penitentiary jobs that paid 75 cents an hour in its BETC job creation totals.

The abuse, runaway costs, and undefined scope related to BETC led Oregon legislators to implement mandatory sunsets for any tax credit (Lehman 2011; Sickinger 2014). Sunsetting allowed for regular program review and eschewed the supermajority rules for raising taxes that would be required if the legislature wanted to eliminate a tax credit. Placing sunsets on tax credits was a policy advocated for by many of the competing groups interviewed. They argued that sunsets helped keep incentive programs focused by requiring regular accounting of their job creation efficacy. Yet, additional pushes for transparency by other organizations have been resisted by Oregon legislators. One issue activist disclosed an email sent by a legislator stating that additional transparency would hurt Oregon's reputation as a business-friendly state.

There is real cost to Oregon reducing property and income tax liability of corporations since Oregon is dependent on these as sources of revenue; the state does not have a sales tax. Over the time period, Oregon instituted huge corporate income tax breaks for its top employers—Nike and Intel. In addition, it significantly reduced the property taxes of Intel through SIP. SIP is a state program administered by local governments. Like the bureaucratic negotiation process, SIP deals are negotiated behind closed doors between local representatives and the firm seeking incentives (Gaston 2013; Hammill 2014). The closed door nature of the Intel SIP renegotiations made public scrutiny nearly impossible. Several interviewed state legislators and competing group lobbyists worried about the adverse effects of SIP agreements on school funding. Indeed, newspapers have noted that pressure is mounting for taxpayers statewide to help fund Hillsboro schools in order to make up for lost property tax revenue from SIP agreements. A state legislator testified on this during the public hearing to approve the Intel SIP agreement, but there was no time to gather and present data. The package was a done deal.

The changes made to incentive programs in each state since 2012 reflect the interest group dynamics in each state. Specifically, states place restrictions on incentives to the degree that competing groups are able to use a discredited status quo to change policy through the traditional legislative process. In Oregon and North Carolina, BETC and film tax credits provided such an opportunity, respectively. Each of the efforts, however, were dependent on having a majority of sympathetic lawmakers in office. In Nevada, competing groups were unable to slow spending or compel oversight in the legislature. Attempts to expand the scope of conflict to the courts in Nevada were unsuccessful. Even in Oregon and North Carolina, incentives continue to be used widely despite higher scrutiny; client groups and their allies in the executive branch successfully pressed for the continuation or expansion of incentive programs through the traditional legislative process.

In incentive negotiation, institutional barriers exist that make access impossible for many groups. Major incentive packages were negotiated by the economic development agencies without input from competing groups. When packages needed approval by the legislature, they were seen as done deals and competing groups were relegated to "token" status. Mission bias pervades executive branch agencies and expertise bias is evident in the legislature. Client groups, as a result, are highly influential in shaping state economic development policy while competing groups are at a structural and instrumental disadvantage. Both hypotheses are supported by the case-study evidence.

A Captured Process?

Borrowing from the literature on the capture and client politics, I find substantial evidence of client group influence of incentive policy. The level of influence determines the degree to which states expand their incentives with or without oversight. But, are the states'

incentive policy captured by client groups? Substantial evidence shows that 1) there is a division in the preferences of client and competing groups on incentives[25], 2) there is an active effort by client groups to influence incentive policy, aided by the institutions of the process itself. By definition, the first two conditions of capture have been met in each of the three states (Carpenter 2014). To conclude capture, scholars argue that a third criteria must be satisfied: that government consistently chooses to support the preferences of client groups over competing groups (Carpenter 2014; Yackee 2004). Nevada showed no evidence of concessions to competing groups from 2012-2015. North Carolina and Oregon were responsive to the input of competing groups in the legislative process. Based on the evidence, each of the three states meet the capture criteria in the bureaucratic negotiation process, but only Nevada when considering the legislative formulation process. There was no relief through the legislature and the courts in Nevada, but there was a responsive legislature in North Carolina and Oregon. Even on votes that competing groups lost, large numbers of legislators dissented and worked to amend the bills in North Carolina and Oregon. There was pro-incentive unanimity in Nevada.

While evident in Nevada, and at risk in North Carolina and Oregon, it is important to note that capture is not a theory that replaces interstate competition. Rather, it helps explain, in a much more precise manner, why states are responsive to competitive pressure, but to different degrees. By taking a capture approach, scholars can better understand why some states appear to be spending as fast as they can to attract any and all companies, while others are more restrained and exercise more oversight over incentives.

[25] Specifically, Carpenter (2014) argues that there needs to be division between the preferences of the public and the interest group. I make the modification that there can be division between competing interest groups. In this formulation, diversity of opinion in the interest group community serve as a proxy for diversity of opinion in the mass public.

Alternatively, scholars have noted that client groups can benefit from government action incidentally. This is what Carpenter calls "protection without capture" (2004). Certainly, firms benefit because states compete. States may decide to subsidize independent of business input, such as for the potential electoral benefits provided to governors and legislators by landing large companies. Several interviewees, including several competing group lobbyists, offered this rationale. This perspective, however, does not account for the numerous hurdles that opposing groups face in the un-elected agencies, nor does it account for the agencies taking an active approach in lobbying for incentives. Capture theory, however, argues that repeated interactions fosters a shared worldview between bureaucrats and client groups. In each of the three states, the relationship between client groups and officials is encouraged because the agency is mission-dependent on client groups. This mission conflict makes it harder for non-business groups to get access and easier for businesses to secure incentives with minimal costs.

Also, many legislators may be naturally inclined to support business goals anyway. As Yackee (2014) notes, the election of a pro-business legislature should not be confused with capture. Several legislators reported that incentives make sense because of the high return on investment and the ability to keep money in the hands of businesses, rather than government. On the other hand, many legislators are a tough sell because they may be ideologically less inclined to support incentives. Threatening exit, framing incentives as beneficial, building relationship with legislators are clear marks that client groups attempt to shape attitudes about incentives. The legislature's relatively small role in approval of incentives also means that there could be capture of agencies without capture of the legislature. Scholars can study these issues more broadly, although with less depth, using surveys of the attitudes and contacts of state legislators and interest groups on incentives. Some larger statistical analyses have already been conducted

using a capture framework, showing that states spend more on incentives when the business sector lobbies and contributes more (Jansa and Gray forthcoming).

As this study is of just three cases, one must be concerned with the generalizability of the findings. The evidence shows that there is remarkable consistency in arguments and client group dominance of the negotiation and legislative approval processes. These lead each of the three states to respond to interstate competition by offering many different, high-value incentives meant to attract complementary industries. The primary difference between the states—the ability of competing groups to access the legislature and build a majority during program formulation—bears strongly on the restraint shown by each state in incentive spending. A quick survey shows that there are number of other states that resemble these three cases. Rhode Island is similar to Nevada in its recent use of large incentive packages and need for diversification. Michigan is similar to North Carolina in its conservative government, cutting back of ineffective small programs, and use of large incentive packages. Illinois is similar to Oregon in its subsidization of firms when there is a threat that the firm might leave or expand elsewhere. In 2016, a similar package approval process unfolded in Mississippi, where a long-negotiated deal with Continental Tire worth $600 million was sped through the legislature. This is a fairly common phenomenon across the states and I am confident that these cases are typical rather than exceptions. Nonetheless, larger analyses must be undertaken to confirm this.

Academic Contributions of the Study

Substantial evidence from interviews and newspaper articles suggests very little disagreement among client groups, economic development officials, and many legislators on incentive policy. Incentives are viewed as a necessary tool in order to compete for investment. Interstate competitive effects are hardly a novel finding, but what this study provides is strong

evidence that the interstate competition orientation is explicitly fostered by client groups through repeated interactions with economic development officials and legislators. Barriers to participation for competing groups amplify the voice of client groups as counter-arguments are obscured and discounted.

Extant studies also have difficulty explaining differences across the states in incentive policy, instead predicting a spiraling arms race. When competing groups are able to break through the barriers to build majorities in the traditional legislative process, they may be able to slow or eliminate incentives and provide for greater oversight. When legislators are unresponsive to competing groups, states are likely to accelerate spending in a fashion consistent with client group input. States offer more incentives with little oversight when the policy process—including from formulation to negotiation—is dominated by client groups.

Implications for Practitioners

Even if the findings are limited to these three states, they provide several insights that can serve as models for practitioners across the country. First, economic development agencies should be designed to increase input from competing groups. Interview subjects provided a number of potential reforms. One fundamental reform would be to re-establish economic development agencies with the mission of investing taxpayer funds in order to maximize return on investment. Currently, so much of the economic development apparatus is dominated by selling the state and closing deals with little regard for whether the investment makes sense for the state and locality, especially in consideration of the benefits and drawbacks of reduced revenue but increased growth.

Other reforms were offered short of mission-reorientation. One would be to institute a public comment period for proposed incentive awards, similar to regulations proposed by other

agencies. Most incentive awards would proceed unimpeded, but competing groups and the public more generally would have the ability to voice concerns on controversially large packages or polarizing types of investment. Other reforms include allowing exceptions to NDAs for independent analyses, having a "devil's advocate" position within the economic development agency to argue against proposed incentive awards, and mandating sunsets on all incentive programs. Perhaps the most intriguing proposal was to create an e-Bay style website that allows states to bid openly for investment opportunities. This would help eliminate the information asymmetry that currently exists between states and firms seeking incentives.[26] Each of these proposals aim to increase the diversity of input in economic development agencies and provide opportunities to make incentive programs more effective by directing the process toward a taxpayer and investment protection orientation. The reforms are also likely to be much more politically desirable than 1) the elimination of incentives and 2) federal government intervention to regulate competition between the states.

Many of the interview subjects recognized, like many scholars, that the process through which policy is made shapes the effect the policy will have. Having a policy process dominated by client groups could undermine the efficacy of incentive programs. Policies and their outcomes may be shaped in a manner that benefits the few firms with premier access to the detriment of taxpayers, job seekers, and small businesses. Process should be a paramount concern for economic developers. As these findings demonstrated, the institutions in which economic development officials operate and the interest groups with which they interact shape their ability to pursue the public interest.

[26] In a study of incentive negotiation at the local level, Hoyman (1997) finds that information asymmetry is a key disadvantage facing public officials vis-à-vis site selectors and firm representatives.

CHAPTER 2: INDUSTRY TARGETING AND INCENTIVES IN THE AMERICAN STATES

Economic competition among the American states reached new heights in recent years. In 2014, the states offered $8 billion in targeted subsidies—including tax abatements and cash—to just fourteen companies in order to secure their investments (Good Jobs First 2015). In 2015, thirty-nine states offered tax credits for qualified productions to encourage filming at locations within their borders (National Conference of State Legislatures 2014). Most recently, General Electric announced it was moving its headquarters from Connecticut, its home for 47 years, to Massachusetts in exchange for $145 million in tax breaks and infrastructure assistance (Mann and Kamp 2016).

Many recent examples have shown that states are not just competing with one another on their own volition, but in response to firms encouraging states to respond to what other states are doing to attract particular industries. When, in 2014, the California-based Media Rights Company (MRC) maxed out the allowable tax credits under Maryland law, it threatened to move production of the hit drama House of Cards to Georgia (or another more generous state) unless it received more credits. MRC received an additional $11.5 million in credits from Maryland after Kevin Spacey, portrayer of the treacherous Frank Underwood and the star of the show, lobbied Maryland legislators (Condon 2014; Johnson 2014).

Firms, as key players in the policymaking process, encourage states to emulate the other states that are providing more financial benefits from desired industries. They point to these winning states as models for securing investment in particular industries. Yet, extant scholarship

tends to use geography as the basis of state cue-taking (e.g., Boehmke and Witmer 2004; Shipan and Volden 2008). That is, scholars have argued that states use their neighbors as models in policymaking, emulating them in order to remain competitive for investment. While some studies have begun to look past geography to similarity between states on other dimensions as a predictor of policy adoption (e.g., Grossback, Nicholson-Crotty, and Peterson 2004; Desmarais, Harden, and Boehmke 2015), economic competition as a mechanism of policy adoption is mired in geography. Many studies find support for the hypothesis that localized competition is a strong predictor of a number of state economic policies, including welfare benefits (e.g., Peterson 1995), wages (e.g., Hansen 2001), and economic development policies (e.g., Saiz 2001).

Hypothesizing and operationalizing interstate competition as occurring between geographic neighbors only, however, ignores how state officials rely on the private sector for information on industry-wants and needs and which other states are meeting them. Instead, states respond to industry-based competition. Industry-based competition occurs because economic policy is formulated by state officials with the close consultation of the business sector. Business groups encourage states to engage in industry-based competition because attracting industry targets creates benefits for existing and potential businesses.

To test this theory, I model the adoption of large incentive packages across the fifty states from 1984-2014 as a function of industry-based competition. Using shared industry subsidization data from the Good Jobs First Subsidy Tracker—a database of all subsidy packages worth over $50 million awarded by states to firms—I construct a measure of industry-based economic competition that indicates the unique competitive pressure on each state in a given year. This is tested side-by-side with the traditional neighbor competition measure. I find that industry

competition is a stronger predictor of the repeated adoption of large incentive packages, all else equal. Competition with neighbors does not predict the adoption of large incentive packages.

The Logic of the Interstate Economic Competition Hypothesis

Scholars have long pointed to interstate economic competition to explain the adoption of state economic policies. State governments must implement policies designed to attract investment or risk losing resources to other states (Berry and Berry 1990; Peterson 1995; Baybeck, Berry, and Siegel 2011). This process results in a "race to the top" in policies favorable to capital (Peterson 1995) and a "race to the bottom" in policies favorable to labor (Hansen 2001; Jenkins, Leicht, and Wendt 2006). States use their policies to create a favorable business climate that will attract investment (Bluestone and Harrison 1982; Witko and Newmark 2005).

The economic competition hypothesis is grounded in the idea that mobility confers inherent advantages to capital. Tiebout (1956) demonstrated that rational actors locate in the jurisdiction with policies that grant them the highest utility. Hirschman (1970) builds on Tiebout's model by arguing that exiting (or threatening to exit) increases the likelihood that governments will respond with favorable changes in policy.[27] Firms have the resources to locate in the jurisdiction that provides them the highest utility, whereas the labor force is usually tied to a geographic location because of lack of resources, opportunities to move, or familial ties.[28]

[27] Scholars have also illustrated this logic using the prisoner's dilemma game (Thomas 1997; Rodrik and van Ypersele 2001). Two governments can choose to subsidize a firm or not. The governments get the highest collective payoff if each chooses not to subsidize. However, a higher individual payoff can be achieved if one subsidizes but the other chooses not to. As such, both governments choose to subsidize and end up with a sub-optimal payoff.

[28] There are mixed findings as to whether the race to the bottom on welfare benefits is due to the poor actually moving to the most generous state, or whether there is just the perception that the poor will move and therefore states adjust their policies accordingly. See Schram, Nitz, and Krueger (1998) and Bailey (2005) for a discussion. There is little doubt, however, that firms are able to and do move based on the location that provides the lowest costs of doing business.

Scholars have also argued that states respond to interstate economic competition because of the potential electoral benefits. Lindblom (1977; 1982) explains that elected officials attempt to induce economic growth to satisfy voter demands. To induce growth, elected officials intervene in the market in support of industry goals. Additionally, large investments provide credit-claiming, ribbon-cutting opportunities for governors and legislators (Sharp and Elkins 1991; Dewar 1998; Turner 2003). Credit claiming opportunities are especially hard to forego when the state is economically distressed, as lawmakers need to demonstrate that they are actively trying to help the economy or risk punishment by voters (Sharp and Elkins 1991). The pursuit of credit claiming opportunities by electorally minded officeholders helps explain why subsidies are granted despite their limited efficacy in achieving economic growth goals (e.g., Dewar 1998; Buss 2001).

Operationalization of the Hypothesis

Studies that propose interstate economic competition as an explanation for policy adoption almost uniformly define their hypotheses and measures in terms of geography. In two highly cited studies that test multiple mechanisms of policy diffusion, the authors operationalize economic competition in terms of geography. Shipan and Volden (2008) test four different mechanisms of diffusion—learning, economic competition, imitation, and coercion—and operationalize economic competition as occurring when states respond to adoptions from nearby cities (i.e. cities within a ten-mile radius).[29] Boehmke and Witmer (2004) also attempt to disentangle learning and economic competition. In doing so, they use "the number of [Indian

[29] In fact, the authors use geography to define each of the four mechanisms. For example, the authors argue that learning occurs as the same policy is adopted "by other cities throughout the state." (Shipan and Volden 2008: 842). Similarly, Boehmke and Witmer (2004) differentiate between learning and economic competition by creating different geographically-based measures to represent each theory of diffusion. The "number of neighboring states with [Indian gaming] compacts" is used for learning, very similar to the indicator used for economic competition.

gaming] compacts in neighboring states" as the indicator for economic competition (Boehmke and Witmer 2004: 43). In the context of economic development, Saiz (2001) finds that states are likely to increase their own recruitment efforts as neighbors increase industrial recruitment efforts. This effect overwhelms alternative causes, such as political ideology, economic conditions, and fiscal capacity. Each of the above studies, as many others, have found robust effects for neighbor-based learning and economic competition.

The convention of using geographically proximate adoptions to measure competition-driven policy contagion developed from the sparse data and methods available to early studies on the topic. In his seminal study, Walker (1969) argued that policies would spread according to both geographic proximity and national information networks, but focused his analysis on regional patterns. The focus on geography has been emulated in subsequent studies, especially since Berry and Berry (1990). Berry and Berry (1990) pioneered the use of event history analysis (EHA) to model the time until a state adopted the lottery. They found that as the number of neighbor states adopting the lottery rose, a state's probability of adoption significantly increased. In the context of the lottery, competition between neighbors makes sense; citizens can plausibly jump borders to play the lottery, bringing tax revenue to states with the lottery and a loss of recreational spending in states without the lottery.

Geographic-based economic competition, however, does not fit as well in other policy areas. The rapid globalization of the economy means that states are competing for investment on national and international scales. States set their tax, labor, and economic development policy to be able to compete for global investment opportunities. Empirically, operationalizing competition geographically restricts evaluation to only neighborhood effects when competition is likely broader. Additionally, the number of neighbors, and therefore potential competitors, is

fixed. States such as Alaska and Hawaii have no natural competitors and are often excluded from analyses. Alaska and Hawaii, however, because of their remote locations, could be very responsive to what other states are doing in order to make themselves more attractive to investment.

Studies such as Grossback, Nicholson-Crotty, and Peterson (2004) and Desmarais, Harden, and Boehmke (2015) have begun to move past geography as a construct for diffusion via learning, finding that states borrow policy ideas most often from those they are like ideologically. Economic competition, however, continues to be dominated by geography. Scholars have recognized the limitations of geography-based constructs, saying, "the classic view of policy diffusion as geographic clustering is often overly limiting, sometimes misleading (or even wrong), and increasingly outdated" (Shipan and Volden 2012: 782). Now, the key is to find a replacement theoretical and empirical construct for economic competition in the American states.[30]

Industry-based Interstate Economic Competition

Theories and measures of interstate economic competition need to reflect the reality of 1) the active role of firms in advocating for favorable economic policy and 2) which states are looked to as models and, therefore, emulated.

In formulating and implementing economic policies, state officials work closely with the business sector. State legislators routinely seek input from business. This is because legislators are political experts, not policy experts, although they are interested in good public policy (Fenno

[30] Maggetti and Gilardi (2015) find that several studies of economic competition also use structural equivalence as a basis of competition. Structural equivalence has been more widely used in network studies of diffusion in the international and comparative context. The theory I articulate below is one of structural equivalence (states who target the same industries compete with one another) applied to economic competition among the American states. I also wed this approach to Karch's (2007) influential work on how the political process in each state shapes the adoption of policies.

1973). Legislators are uncertain over what level of policy to implement in order to effectively attract investment.[31] Therefore, legislators turn to who they view as the experts—business leaders in the state. Business representatives are seen as experts because they are perceived as knowing what businesses need to grow. Ultimately, businesses have capital to invest which lawmakers want to uncork in the economy.

By providing information to state officials, business representatives convey the need for policies that increase the attractiveness of the state for private investment. While business representatives generally highlight the benefits and risks of not having certain policies, they also provide specific information on the types of firms the state should be trying to attract. In this way, business leaders, economic development officials, and legislators work together to develop strategic plans that identify specific industries to target. This results in what is called *industry-targeting*, or the process of shaping economic policies in order to attract firms in particular sectors of the economy.

While meant to attract new firms, industry-targeting helps existing firms as well. First, targeting helps establish certainty for existing businesses. If government decision-makers establish a long-term outlook for the state economy, firms within the state can better make short and long-term investment plans. Targeting has the added benefit of selling the state to new investors. If existing business leaders and state officials echo each other on where the economy is headed, this creates certainty and attractiveness for the relocating firm. Targeting can also create spillover effects for existing businesses. If a firm in an industry that is complementary to existing

[31] In background interviews for this project, legislators often noted that setting economic policies (especially incentive policy) is "guesswork". There was no way for them to know the optimal level of policy in order to attract investment but also protect taxpayers. As one lawmaker noted, they are generalists who want to serve the public interest, so "we defer to the experts," the experts being business interests.

firms is recruited, there is the potential to create a multiplier effect (e.g., Hoyman 1997) as the economic benefits of the capital investment and wages of the new firm are also accrued by existing businesses. Finally, targeting helps the development of clusters of related industries. Existing businesses seek clusters because of the efficiency gains it creates by reducing costs of transportation and coordination (e.g., Morgan 2007). Landing a firm in a particular industry also has the benefit of building the state's reputation as a hub for that industry—and thereby changing the reputation of the state for other potential investors.

The economic policy regime in Oregon is a perfect example of this process. Oregon has developed industry-targets with the aid of major domestic firms such as Nike and Intel. In particular, Oregon seeks to maintain and attract companies in their "Silicon Forest" information technology and green energy cluster. In doing so, it has maintained no sales tax, has property tax reduction programs for large investments on equipment and buildings (Strategic Investment Program), and had a generous Business Energy Tax Credit (BETC).

While targets can vary widely, states consciously choose which industries to target. Firms in *traded sectors*, which are industries that produce goods that can be exported to other states and countries, are seen as the most desirable. Distribution warehouses and headquarters for manufacturers are also desirable as a way to lure or maintain manufacturing investment in the future. Some states try to attract companies that may promote a "cool" reputation, keeping with the creative class theory of economic development (e.g., Florida 2014). Some states adopt generally business-friendly economic policies in order to attract just about any firm. In 2013, Governor Rick Perry (R-TX) made a well-publicized tour of multiple, non-contiguous states, touting Texas' pro-business climate in hopes of luring companies to the state. (Fernandez 2013).

Due to the reliance on information from the business community, and the business community highlighting the benefits of industry-targeting, state officials shape policy to mimic the practices of states trying to attract the same industries rather than keeping up with geographic neighbors.[32] As globally mobile businesses look for attractive locations broadly, states compare their policies to and respond to the policies of neighbors and non-neighbors alike.

It is useful to think of states as existing in a complex competition network. There are two types of actors in the network–states and firms. State officials adopt the policies that make them attractive to the firms in the industries they want to attract. Simultaneously, other states adopt policies to attract the industries they want to. States are connected to one another, and thus in competition with one another, via shared attempts to attract the same industries. Unseen, but nonetheless omnipresent, is input from the private sector. Individual firms and industry representatives promote and reinforce the need for favorable policies, specifically tailored to attract industry-targets. Over time, a state's economic policy regime evolves in response to the competition for industry targets.

Following this logic, it can be hypothesized that the probability of adopting an economic policy increases as the state's industry competitors adopt the economic policy, all else equal. By extension, the states should also be responding with the level of resources they dedicate to the policies as well. For this study, I will specifically be looking at the adoption of economic

[32] The process of looking to other states for policy models is itself bolstered by the business community. Businesses and economic development officials routinely convey to legislators the fact that "poaching" states are out there. High-profile cases of companies leaving other states are used to exemplify the need for certainty, strategy, and generous policies. In background interviews, a lobbyist in Oregon said he actively used examples of other states losing investment (such as Washington losing a new Boeing factory to South Carolina) in order to sell policy ideas. Individual firms seeking incentives can seek competitive bids, or even bluff competition, in order to push policies onto the agenda and into law. Economic developers, themselves receiving constant feedback on the need for certain policies from site-selectors and business leaders, also convey the importance of business-friendly policies to lawmakers. Many economic policies, therefore, are promoted to elected officials by those with a vested interest in attracting investment—the business sector and economic development agencies.

development incentive, or subsidy, packages to attract desired industries. Thus, the hypothesis can be formulated as follows.

- *Hypothesis 1: The probability of a state awarding an incentive package increases as the state's industry competitors award more subsidy packages, all else equal.*

Incentive Packages in the American States

In 2012, the Pew Center on the States called economic development incentives the "leading tool" that states use to expand their economies (Pew Center on the States 2012). *Economic development incentives* are fiscal policies that reduce costs to businesses in order to encourage investment and job growth in a particular location. Many firms can qualify for incentives by meeting certain self-reported job creation thresholds via formulas enacted by the legislature. States, however, can also award specialized incentive packages to specific firms, usually when the level of investment is substantially large. An *incentive package* is an agreement between a government(s) and a specific firm that reduces costs for the firm in order to support its investment in a particular location. Incentive packages can consist of cost-reducing provisions such as tax abatements on property, sales, and income and direct payments in the form of infrastructure support, grants, utility support, and low cost loans (Eisinger 1995; Bradshaw and Blakely 1999; Hanley and Douglass 2014).

Incentive packages come in different sizes, but especially large incentive packages attract headlines across the country. For example, in 2014, Nevada awarded Tesla $1.3 billion in property tax abatements and other incentives to build their new lithium ion factory outside of Reno. These sorts of packages are usually negotiated between the executive branch of state government—the governor and economic development agencies—and the company. If the size

of the package falls outside the scope of existing statute, the legislature must approve the package.

What is most interesting about the negotiation process, and most important for this study, is that it is almost entirely obscured from the public. That is, state officials negotiate privately with company representatives. State officials do not see the bids of other states. Even if a state knows that other states are actively bidding to secure the firm's investment, they almost never know how much the other state bid. This is because of the use of non-disclosure agreements (NDAs), the use of site-selectors, and rules preventing states from releasing proprietary information of firms seeking incentives. Together, these provisions can prevent the discussion of project plans among public officials, disguise the identity of the firm seeking incentives, and even exclude the public and other interest groups from accessing the negotiating process. As a result of the blind-bidding process, states put forward the best case they can to land the business and hope for the best. Therefore, the main competition among states does not occur on individual packages but over the long-run. States attempt to position themselves in a manner that increases the likelihood they keep up with states attempting to attract the same industries. The blind-bidding process makes incentive packages an ideal context for testing the theory: Incentives are the chief policy used to attract investment and states must adjust to what their competition does—geographic or industry-based—over time.

For the purposes of this study, I will focus on large incentive packages only. A package is considered large if it has a life-time inflation-adjusted value of over $50 million. Estimates show that these large incentive packages account for roughly 47 percent of all incentive spending in the states (Jansa and Gray forthcoming). That is, from 2006-2013, the dollars awarded to just 170 companies is about the same as incentives going to over 100,000 companies (Jansa and Gray

forthcoming). Data on large incentive packages is the most reliable data on subsidy spending by states,[33] but they are substantively and theoretically important in their own right. These packages represent the locus of competition for industrial recruitment and are one of the chief ways in which states attempt to attract investment. This substantial area of policy in the states has been relatively understudied in political science studies of policy diffusion.

Data on Large Incentive Packages

The data on incentive packages comes from the Good Jobs First Subsidy Tracker database.[34] Good Jobs First has gathered all publicly available data on subsidy spending across the states, including detailed data on incentive packages with a total value of over $50 million going back to 1984.[35] The Good Jobs First data identifies 356 packages worth $50 million or more over the 31 year period. 43 states adopted at least one large incentive package. The database provides information on which state and company agreed to the package, the year the package was awarded, and the total estimated dollar value of the package.

Missing from the data is a systematic industry coding system. I coded the data into 11 unique industries. The industry coding mirrors the U.S. Census Bureau's North American Industry Classification System (NAICS) industry categories as closely as possible while still allowing flexibility based on the purpose of the incentive package (U.S. Census Bureau 2015).

[33] Data on subsidies below the $50 million threshold is dependent on the transparency of programs across the states. Some states report nearly all incentives awarded to businesses no matter their value, while other states regard the information as proprietary and keep it obscured from public view. Large packages are well reported across the states, however, as they are routinely tracked by national and local news outlets and watchdog groups.

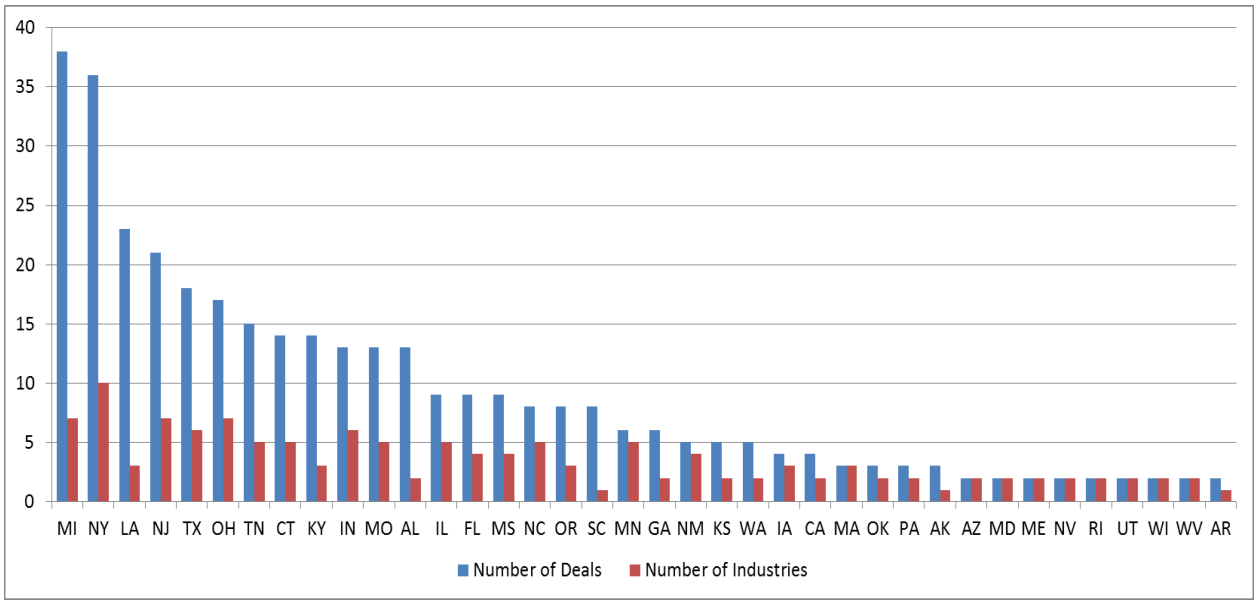
[34] See Jansa and Gray (forthcoming) for a longer discussion of the database than is provided here.

[35] This study also makes the contribution of broadening the scope and detail of data on economic development in the states. Previous studies of competition and economic development policy have been limited to measuring policy in terms of indices (Gray and Lowery 1990; Jenkins, Leicht, and Wendt 2006; Saiz 2001), budget spending (Eisinger 1995; Hanley and Douglass 2014) or case studies of individual incentive deals (Sharp and Elkins 1991).

The 11 industry categories are a function of the type of firm and the type of jobs to be attracted or retained by the incentive package. They are: Arts and Entertainment, Chemical, Energy, and Mining, Business Headquarters, Food Production, Health and Pharmaceuticals, Heavy Manufacturing, High-tech Manufacturing, Information, Research and Development, and Transportation. The NAICS industry classification, by comparison, has 12 major categories: Agriculture, Mining, Utilities, Construction, Manufacturing, Retail, Transportation, Information, Finance and Real Estate, Business Services, Education and Health Care, and Arts and Entertainment. See Appendix F for discussion of the industry definitions. Figures 1 and 2 depict the distribution of incentive packages across states and time, respectively. Figure 1 also shows the number of industries subsidized by each state. Appendix F also includes a figure which shows the distribution of incentive packages across industries.

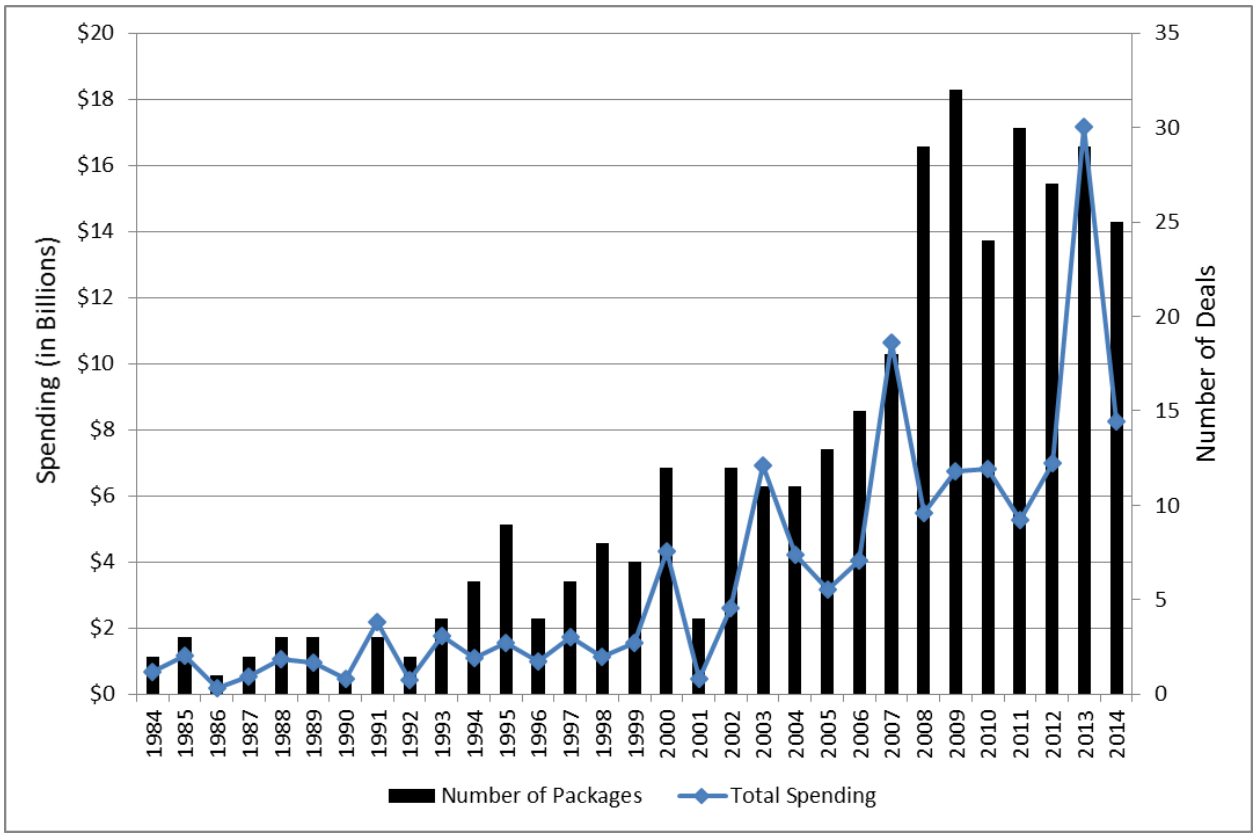
Once coded into industries, an affiliation matrix was constructed for each year of data. The rows of the matrices are states, the columns are industries, and the cell entries are the cumulative number of deals between that state and industry. A measure of the competition each state faces for its unique set of industry-targets can be taken from this matrix. When a state offers an incentive package to a firm in a particular industry, the state is revealing its desire to target that industry. Thus, subsidization is taken as a proxy for industry-targeting since the real set of industry targets is unknown due to the blind-bidding process. This serves as the primary independent variable, which will be used to model the adoption of packages over time in a repeated event history analysis (REHA). I describe the full model below.

Figure 1: Adoption of Large Incentive Packages by State, 1984-2014



Note: Calculated by author using data from Good Jobs First Subsidy Tracker

Figure 2: Adoption of Large Incentive Packages over time, 1984-2014



Source: Calculated by author using data from Good Jobs First Subsidy Tracker

Modeling the Adoption of Large Incentive Packages

I model the adoption of incentive packages using an event history model for repeated events. The repeated events model, also called an inter-event duration model, was developed by Prentice, Williams, and Peterson (1981) and adapted for political science applications by Box-Steffensmeier and Zorn (2002). Specifically, the model adapts the baseline proportional hazards assumption of the Cox duration model to account for repeated events (Box-Steffensmeier and Zorn 2002). The standard EHA formulation usually used in the literature does not account for repeated events because states drop from the risk-set post-adoption. Thus, modeling repeated events in a standard EHA formulation can lead to biased estimates and wrong inferences by heavily weighting initial events and censoring future events. Since states may repeatedly adopt by making deals with multiple companies over time, the repeated EHA formulation is ideal. The repeated EHA formulation also allows for the calculation of percent changes in the baseline risk of adoption, a key quantity of interest for testing the hypothesis and understanding the substantive effect of competition on incentive package adoption.

Competition Variables

The primary independent variable is the industry competition measures described above. For a given state in a given year, the adoption variable takes the value of the cumulative number of incentive packages awarded by other states in the industries subsidized by the state. See Appendix F for a map showing the distribution of the variable for the year 2014. The cumulative number of packages offered by geographic neighbors is included to test for neighborly competition. There are no observations for this variable for Alaska or Hawaii as they do not have geographic neighbors. The cumulative number of packages offered by neighbors in industries targeted by the state is also include to test for the effect of regional clustering of industry-targets.

Additional Independent Variables

Measures of several economic conditions are also included in the model. These variables include the unemployment rate, per capita income (in thousands of dollars), manufacturing concentration,[36] and the proportion of the private-sector workforce that belongs to a union. The unemployment rate data is from the U.S. Bureau of Labor Statistics (2015). Per capita income and manufacturing concentration data is from the U.S. Bureau of Economic Analysis (2015). Private-sector union membership data is provided by Hirsch and MacPherson (2003), updated through 2014. These variables were included to control for how the economic conditions of the state may affect it propensity to offer large incentive packages. Increased economic distress (such as high unemployment), high dependency on capital-intensive manufacturing, and greater fiscal capacity may increase the likelihood of adoption of a large incentive package.[37] Specifically, unemployment was included as a measure of economic hardship, per capita income as a measure of economic capacity to provide incentives,[38] and manufacturing concentration and union membership as a measure of economic demand for incentives. Each of the variables should be predictors of shorter duration times between incentive packages (i.e. have positive coefficient estimates).

[36] This variable is defined as a state's manufacturing location quotient for a given year, which is a measure of the relative proportion of the U.S. manufacturing sector located within the state. The data come from the U.S. Bureau of Economic Analysis.

[37] Not only can these conditions increase the pressure for sustained job growth and investment, but they also can encourage individual firms to seek new incentive deals as a means of off-setting risks associated with investment in uncertain economic times.

[38] Other financial capacity measures, such as gross state product, were considered but not used because the measurement instrument used by the U.S. government changed in 1997, making a reliable time series impossible for the period studied.

It is also important to control for political conditions because incentives, like any policy, are the product of the legislative process. Incentive packages are awarded either by programs created by the legislature or explicitly approved by the legislature. Therefore, government ideology and party competition are likely important factors that affect a state's propensity to award incentive packages. The left and right-most segments of the political spectrum tend to be hostile toward economic development incentives, often branding them "corporate welfare" or the product of "cronyism", respectively.[39] Despite ideological misgivings, the electoral process presents incentives for politicians to respond positively to industry wants and needs. In electorally competitive states, elected officials may work to secure ribbon-cutting ceremonies as a way to secure victory over the opposing party's candidates. Therefore, governments with more extreme ideology may be less likely to adopt incentive packages, while states with a greater party competition may be more likely to adopt.

Data on government ideology is provided by Berry et al. (1998), who develop a 0 to 100 (0 being most conservative and 100 being most liberal) score for each state government for each year from 1960 to 2014. The scores are based on NOMINATE common space voting and position taking scores averaged across the state house, senate, and governorship. I transformed the data into a distance from the median, or "extremity" measure by subtracting 50 from the ideology score and taking the absolute value of the remainder.[40]

[39] Conservative economic ideology emphasizes maintaining a market free of government intrusion. Subsidies are a form of intrusion that can distort the market by giving public support to favored firms and thus a competitive advantage. Keynesian thought, on the other hand, promotes government intervention in order to reduce the severity and frequency of recessions. Incentives may be used consistently with this goal. Recently, however, incentives have lost favor on the left for being "corporate welfare". Corporations receive support from government with the expectation that what they gain will produce broad based prosperity. However, government investment in corporations has not been reciprocated with higher wages and more jobs.

[40] Shor and McCarty's scores were also used to measure government ideology. The two measures correlate at r = .96 and the same substantive results were obtained with both measures. The Berry et al scores were used because of the longer time frame of availability.

Various indicators of party competition were used, including the Ranney index, a moving average of the Ranney index, and an indicator for divided government. The model results including divided government are included in the paper, although nearly identical results were achieved using the other two measures. The coefficient estimate on government ideology should be negative while the coefficient estimate on party competition should be positive.

Finally, two other controls are included in the model. These include the number of packages awarded by the state in the previous year (recommended by Box-Steffensmeier and Zorn 2002), and the total population of the state. The previous deals counter controls for the possibility that 1) states spread out their packages strategically over time so as to not overburden budgets (a negative effect) and 2) states that have subsidized before are likely to do so again soon (a positive effect). State population is used to control for the fact that more populous states may have more capacity and demand for the use of incentives to attract new jobs.

Model Results

Table 1 presents the results of the inter-event duration model estimation. Model 1 presents the findings if only neighbor competition were considered. Model 2 is the same model, but swaps industry competition for geographic neighbor competition, just as Model 3 swaps in the neighbor-industry measure. Model 4 includes all three measures of competition. The model results confirm the hypothesis proposed above: incentive packages are driven by competition for industry, not competition with neighbors. The only neighbor effect that is found is when neighbors happen to be competing for the same industries.

This is a considerable finding given the extant literature's focus on geographic-based competition. As such, it is important to first and foremost unpack the substantive results of the model. The percent change in the baseline hazard rate for a change in the independent variable

from one standard deviation below the mean to one standard deviation above the mean, holding the other variables in the model constant, is a quantity that demonstrates the centrality of industry competition into perspective. These quantities are calculated using coefficient estimates and standard errors from Model 4 and are depicted in Figure 3.

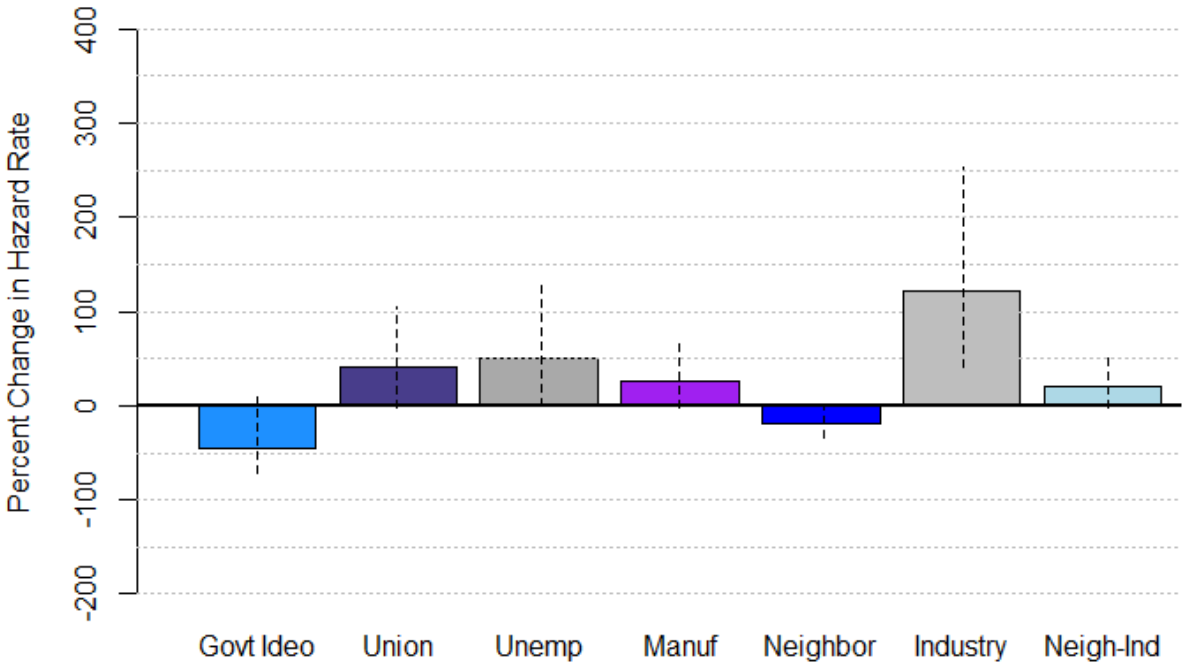
What is immediately clear is that the largest impact on the propensity to adopt incentive packages is within-industry pressure applied by other states. For a one standard deviation change from below the mean to above the mean in industry competition, there is a corresponding 150 percent increase in the hazard rate. In contrast, the same magnitude change in neighbor competition produces a 15 percent smaller risk of adoption. This relationship is not statistically significant and is the opposite of what is usually found in the literature. There is a positive relationship between geographic neighbors competing for the same industries and the propensity to adopt incentive packages. Moving from one standard deviation below to above the mean on that measure leads to a 15 percent increase in the probability of adoption, significant at the $p<.1$ level of significance. This is a much smaller effect than industry competition alone. Thus, there is an independent and positive effect for industry competition among neighbors, but it is dwarfed by the effect of industry competition among all states. Indeed, the effect of industry competition is larger than the estimated effects of all other variables. Similar magnitude changes in the other variables produce much smaller effects: government ideology (-100 percent), percent union (+50 percent), unemployment (+50 percent) and manufacturing (+25 percent).

Table 1: Models of State Adoptions of Large Incentive Packages, 1984-2014

Variable	Model 1	Model 2	Model 3	Model 4
Neighbor Competition	.006	--	--	-.019*
	(.004)			(.009)
Industry Competition	--	.007**	--	.007**
		(.002)		(.002)
Neighbor Industry Competition	--	--	.020*	.027†
			(.008)	(.016)
Unemployment	.069†	.061	.060†	.069*
	(.037)	(.031)	(.036)	(.036)
Union Membership	.002	.023†	.003	.026†
	(.032)	(.013)	(.013)	(.014)
Per Capita Income	.012	.0005	.015	.015
	(.011)	(.001)	(.010)	(.016)
Manufacturing Concentration	.476*	.422*	.485*	.416†
	(.227)	(.214)	(.219)	(.235)
Government Ideology	-.006	-.012†	-.007	-.012†
	(.007)	(.007)	(.007)	(.007)
Divided Government	.067	.038	.010	-.071
	(.187)	(.187)	(.190)	(.184)
State Population	.002*	.002*	.002†	.001
	(.001)	(.001)	(.001)	(.001)
Previous Deals	.003	-.006	.005	.000
	(.057)	(.061)	(.057)	(.064)
N failures	231	234	231	231
N at risk	1,457	1,519	1,457	1,457
AIC	1098.66	1113.62	1122.57	1085.17
BIC	1146.22	1161.55	1170.50	1143.29

Note: Cell entries are coefficient estimates with standard errors in parentheses. Model use robust standard errors clustered by state. ** indicates $p < .01$; * indicates $p < .05$; † indicates $p < .1$. All models estimated in inter-event time (PWP).

Figure 3: Estimated Effect on the Hazard Rate for Incentive Packages



Note: The percent change in hazard rate corresponds to a change from 1 standard deviation below the mean to 1 standard deviation above the mean in the independent variable, holding the other variables in the model constant. The dashed line indicates a 95 percent confidence interval in the estimated effect. Coefficients and standard errors from model 4 are used to calculate the effects for this figure.

To put this in terms of real observed values in the states, take Nebraska and Maryland for example. Over the 31-year period, Nebraska awarded one incentive package to a company in the food production industry. There were eight other incentive packages awarded to companies in the food production industry. Maryland, on the other hand, awarded incentive packages in two different industries. There were a total of 75 deals made by other states in those two industries. Maryland, because of the higher pressure placed on it by competition for its desired industries, is about one and a half times as likely to adopt an incentive package in a given year compared to Nebraska, all else equal. Similarly, Kentucky, with pressure from 169 competitive deals, is about one and half times as likely to adopt an incentive package in a given year compared to Idaho and its 49 competitive deals.

We can further understand the superior predictive power of industry competition by looking at the coefficient estimates themselves. Looking across the models at the competition measures, industry-based competition is a significant predictor of the adoption of incentive packages, all else equal. When included as the main basis of competition (model 1), the effect is estimated to be positive and significant. The same is true when controlling for other types of economic competition in model 4. Increased industry competition produces increased risk of adoption, all else equal.

Weak results were found for traditional geographic neighbor competition's effect on adoption of large incentive packages. In model 1, the geographic neighbor competition coefficient estimate is not distinguishable from zero. In model 4, the estimate is significant, but in the wrong direction. That is, when accounting for industry competition and competition among neighbors for the same industries, as well as the other variables in the model, there is actually a negative marginal impact for neighbor competition on the adoption of incentive packages.

There is a unique effect when neighbors adopt packages in targeted industries. Model 3 shows a positive and significant effect for this type of regionally-clustered industry competition on the probability of adoption. In model 4, where the other types of competition are controlled for, the effect is again positive but only significant at the $p < .1$ level. In past studies, scholars may have been picking up on spatial clustering of similar economic planning when using the neighbor competition measure as a predictor of policy adoptions. The neighbor only formulation, however, was limited because it ignored the true mechanism—states strategically seeking investment from particular industries. The model results support the idea that states respond to competition from any other state pursuing the same industries and to competition

from their neighbors when they pursue the same industries, but reject responsiveness to neighbor adoptions generally.

Turning to the economic predictors, the estimated effect for unemployment is consistently positive across the four models, although it dips back and forth across the accepted thresholds of statistical significance. In the full model (model 4) unemployment is positive and statistically significant at the $p < .05$ level; when the unemployment rate increases, the risk of an incentive package increases, all else equal. Manufacturing concentration is consistently positive across the four models; in models 1-3 at the $p < .05$ level and in model 4 at the $p < .1$ level. Union membership is estimated to be positive, but only marginally significant in two of the models. The effect of per capita income is not significant in any model.

For the political variables, the coefficients on both government ideology extremity and divided government are in the expected direction. The estimated effect for ideology is significant at the $p < .1$ level when modeled with industry competition. This suggests that studies that have relied on neighbor competition in the past may have been washing out the effect of ideology on economic policy adoption. We should expect, given the role of ideology in structuring preferences on government involvement in the economy, that it would play a large role in the adoption of many economic policies across the states, including business incentives.

Finally, state population is consistently positive across the four models, and is significant at the $p < .05$ level in models 1 and 2. The coefficient for previous deals counter is positive in three out of four models, but never distinguishable from zero. From the AIC and BIC model fit statistics, model 4 is the best fitting model.

These results show that states compete with one another for particular industries and the firms in those industries encourage states to be responsive to competition for desired industries.

Although the bidding process is blind, states position themselves to keep up with other states who have won investment in their desired industries by adopting incentive policies that make them competitive for their targets. As more states secure investment from a targeted industry, the probability increases that states will pull out all the stops to award an incentive package and secure investment.

A New Approach to Economic Competition Between the States

This study takes a new methodological and theoretical approach to understanding interstate economic competition and its impact on state policy adoptions. In doing so, the study demonstrates that the frequency of incentive packages is driven by industry-based interstate competition. Instead of the usual conception of competition among geographic neighbors driving policy adoption, states are actually responding to the actions of states with similar desires for the makeup of their economies.

Theoretically, this paper recognizes that the policies that states use to remain competitive for investment are formulated by public officials with the constant feedback of those they are seeking investment from—the private sector. Scholars should expect states to respond in a manner consistent with business inputs, such as competition for targeted industries rather than competition among geographic neighbors. Economic development officials and legislators make economic policy decisions with deference to business leaders. Business leaders are seen as the experts on what it takes to secure investments and, over time, they have shaped state governments into active bidders for investment. It is difficult to correctly model state economic policy adoptions without considering the role of business in spurring and directing interstate competition, and therefore, policy adoptions. Policy is crafted around recruitment plans to the perceived benefit of firms within and outside the state. There is an arms race occurring among

the states to secure investment from the private sector, it just is not happening on a geographic plane.

This study also contributes methodologically to the diffusion of innovations literature. Future studies of diffusion can examine policies with repeated adoptions using specialized duration models similar to the one used in this paper. This methodological framework allows scholars to understand the process behind repeated strategic interactions between state governments over time as they position themselves for desired capital. More importantly, diffusion scholars should pay close attention to their operationalization of competition, specifically making sure it makes sense in the context of the policy studied. State officials act and react in a complex federal network where competition is not always easily defined by shared borders.

This study provides a framework for extension in a number of ways. First, spending can be incorporated into the model to determine whether both the number of packages and their value is driven by industry-based competition. This will help explain not only the more frequent use of incentive packages, but their growing costs in an age of strained budgets. Second, one of the clear limitations of the data is not knowing which states are competing on individual deals and what they bid. A larger project can be undertaken to cull through newspaper accounts of large incentive packages to learn how firms are involved in individual package negotiations. Such an approach, however, will not be an exhaustive study since some states will remain unknown bidders through their lack of transparency. But, such studies will help complement and confirm the findings of long-run industry competition in this paper. Overall, this study attempts to deepen scholarly and practitioner knowledge of how and why states strategically interact with one another in the federal system.

CHAPTER 3: CHASING DISPARITY? INCENTIVES AND INCOME INEQUALITY IN THE AMERICAN STATES

In the United States since 1980, the incomes of earners in the 90th percentile and higher have grown rapidly while median income has stagnated (Piketty and Saez 2003). In fact, the incomes of most households has barely kept up with inflation over this time period. As it has become evident over the past decade that economic prosperity is not being widely shared, public and scholarly attention to income inequality has dramatically increased (e.g., Piketty 2014). Recently, scholars have begun studying inequality at the state-level (e.g., Kelly and Witko 2012), trying to answer an important research question: what effect do state policies have on income inequality, and why?

States are seen as laboratories of democracy; fifty different governments whose experiments with tax, labor, and welfare polices can inform which policies exacerbate inequality and which mitigate it. Income inequality in particular poses challenges to state governments and their budgets that foster experimentation and can inform best practices. Growing disparity limits tax revenue and strains public programs serving a growing population with unequal resources.[41] Legislators in many states have attempted to increase wages and economic opportunity by using *economic development incentives* to attract investment and create jobs for their states' citizens.

[41] According to a Standard & Poor's analysis of income inequality in the states, the strain on budgets is created by stagnant wages, and thus tax revenue, from most of the population. The strain is made worse because the wealthy have the resources to shield their growing incomes from taxation but the majority of citizen's wages have stagnated (Boak 2014).

Economic development incentives are fiscal policies that reduce costs to businesses in order to encourage investment and job growth in a particular location. State officials and business leaders justify incentives as a way to create jobs and stimulate economic growth.[42] This has the end goal of increasing income and prosperity. The efficacy of incentives, however, is questionable as studies have consistently shown that incentives do not significantly increase employment, income, and GDP (e.g., Brace 1993; Buss 2001; Dewar 1998).

The absence of intended outcomes does not mean that there is no effect of incentives on state economies. Subsidization is intended to create jobs and grow the economy *by conditioning the state's market to make it friendlier to businesses,* especially the wealthiest businesses with the most resources to invest. While the intended job creation and income effects may be negligible, incentives make markets friendlier for businesses and their wealthy investors, and thus can increase income disparity in the state. Yet, the relationship between this central area of state policy and income inequality has been rarely tested. When it has, scholars have found mixed results using policy indices only.

In this paper, I aim to test whether state economic development incentives increase income inequality. In doing so, I gather data on the amount spent on incentives across the states for a twenty-three-year period (1984-2006). A time-series cross-sectional error correction model is used to test the hypothesis, and shows that higher levels of incentive spending lead to increases in income inequality. This relationship holds when controlling for other state-level economic policies, conditions, politics, and demographics. Splitting incentive spending into entrepreneurial and locational spending, it is clear that public money spent trying to attract firms (locational) increases income inequality. There is no effect for entrepreneurial spending on inequality.

[42] There are other justifications as well including, but not limited to, keeping up with competition, creating certainty for firms, directing investment to areas of the state in the most need, and to diversify the economy.

Theoretically, this study is critically important because it refocuses the literature on a central focus of subnational governments—economic development. A theory of spending on incentives, not just the policies themselves, is built so that scholars can make sense of how states condition markets to produce higher inequality. Practically, while state officials intend to use public funds to compete for investment, they may be actually exacerbating the gap between rich and poor by distributing public funds to those least in need. Economic developers and legislators can use this study to learn how to amend incentive policy to best achieve economic growth without stoking disparity.

Economic Development Incentives in the American States

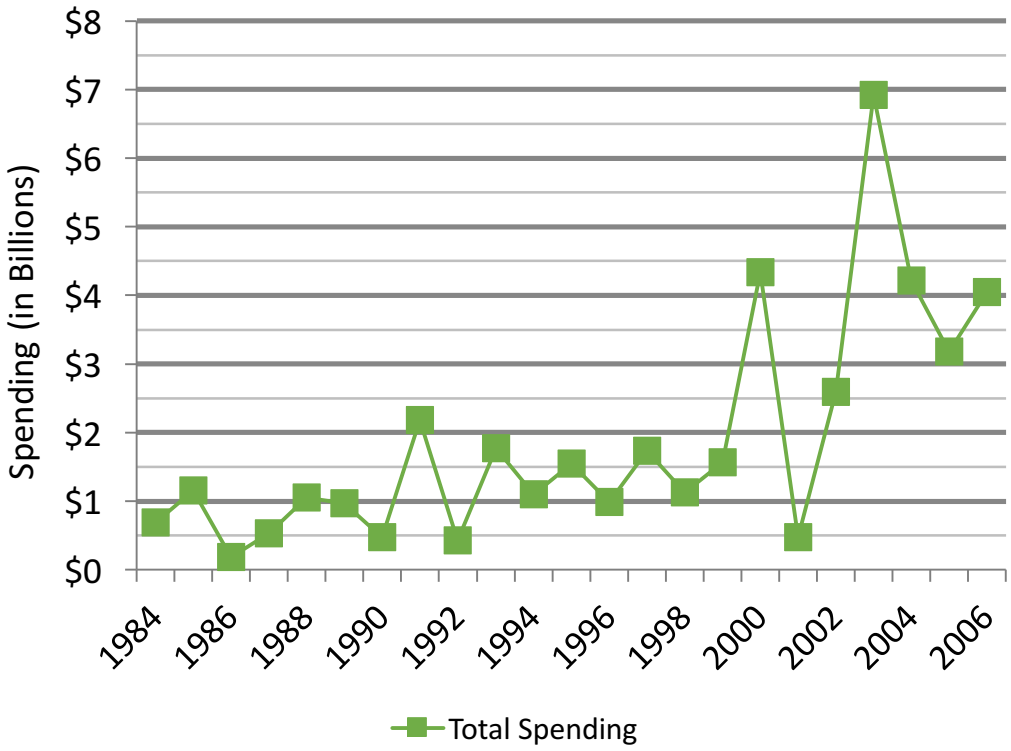
To begin, it is important to understand the dynamics of state-level economic development incentives. Incentives include such cost-reducing tools as property, sales, and income tax credits and rebates, tax abatements, cash grants, cost reimbursements, and infrastructure assistance. Collectively, the states spend billions every year in economic development incentives. Figure 4 shows the growth of incentive spending from 1984-2006, adjusted for inflation.[43] In 1984, the states collectively spent about $200 million on incentives. By 1991, the states eclipsed the $1 billion dollar per year mark. In 2006, the states directly paid or reduced the tax liability of private firms by $7.6 billion. In all, states subsidized corporations to the tune of $45 billion over the twenty-three-year period.

Indeed, economic development incentives are so prevalently used that they have been called "the leading tool used by states to grow their economies" (Pew Center 2012). Often times, incentives are packaged together in order to lure major projects from out-of-state, or maintain major investments in the state, as part of a locational economic development strategy. For

[43] Data for the figure is taken from the Good Jobs First Subsidy Tracker database, which will be discussed in greater detail to follow.

example, in 2016, Mississippi borrowed $260 million through bonds to help pay for Continental Tire's planned $1.4 billion investment in Hinds County. The state also awarded $340 million in income and property tax reductions to Continental Tire. The state looked to end chronic joblessness and extremely high income inequality in the area by subsidizing 2,500 jobs at $40,000 annually at the new Continental tire plant (Pender and Hall 2016).

Figure 4: Increased Incentive Spending in the American States, 1984-2006



Note: Spending data calculated by author using Good Jobs First Subsidy Tracker data.

As with the Continental Tire case, the companies promising the biggest investment and most jobs tend to receive the most in incentives. Jansa and Gray (forthcoming) find that the top recipients of incentives tend to be the wealthiest, most prestigious firms in the world; from 2006 to 2013, 31 of the 50 corporations that received the most incentives from state governments were Fortune 500 firms. Table 2 shows the top 10 recipients of state economic development incentives for the period 1984-2006 and how much they received. With the exception of the now-defunct

Northwest Airlines and the lesser-known Pyramid Companies, the notable quality of the companies in Table 2 is their notoriety and prestige in their respective industries. Also note that nearly $4 billion separates Intel (the top recipient) from Pyramid Companies (the tenth highest recipient). If the table were extended to the top 100, the 100th company (Sprit Aerosystems) received "only" $96 million in incentives. The distribution of incentives is extremely skewed toward a few, extremely wealthy firms.[44]

Table 2: Top 10 Corporate Recipients of State-level Incentives, 1984-2006

Company	Total
Intel	$4,830,589,354.00
Boeing	$4,356,668,670.00
Nissan	$2,244,342,403.00
Northwest Airlines	$1,437,932,936.00
Advanced Micro Devices	$1,397,154,761.00
General Motors	$1,254,415,768.00
IBM	$895,741,114.00
Ford Motor	$837,854,773.00
Pyramid Companies	$779,456,364.00

Note: Calculated by author using Good Jobs First Subsidy Tracker data

Growing Inequality in the American States

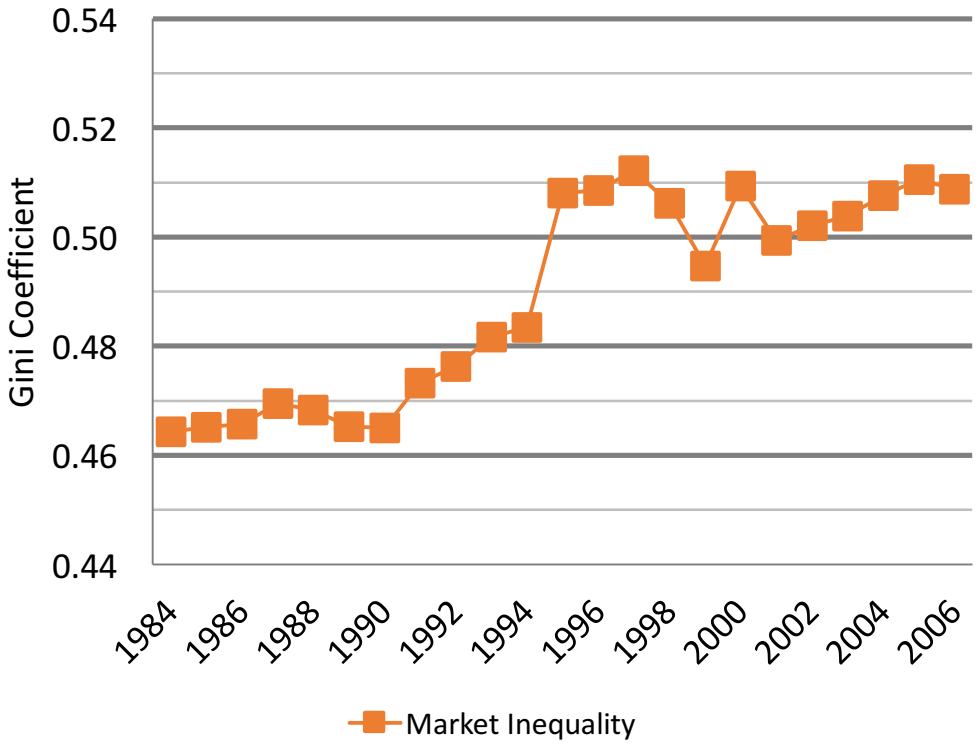
The acceleration of economic development incentives in the American states coincides with increased income inequality. Interestingly, income is increasingly concentrated among wealthy households just as incentive spending is highly concentrated among the wealthiest firms. Figure 5 shows the growth in average market inequality across the states over the time period. *Market inequality* is measured as a Gini coefficient for each state for each year on household income not earned through government programs.[45] In 1984, the average market inequality was

[44] Jansa and Gray (forthcoming) have a more in depth analysis of the skewed distribution. They find that the average incentive award from 2006-2013 was $89,000, but the top recipient (Boeing) received over $10 billion in incentives.

[45] This includes any household-level income from wages, private retirement plans and pensions, interest, dividends, rents, royalties, and other private sources of income.

0.465.[46] Inequality grew steadily in the 1980s and 1990s, steeply increasing in 1994 to a Gini of 0.508. Market inequality continued to grow slightly, with some fluctuations, through 2006.

Figure 5: Increased Inequality in the American States, 1984-2006



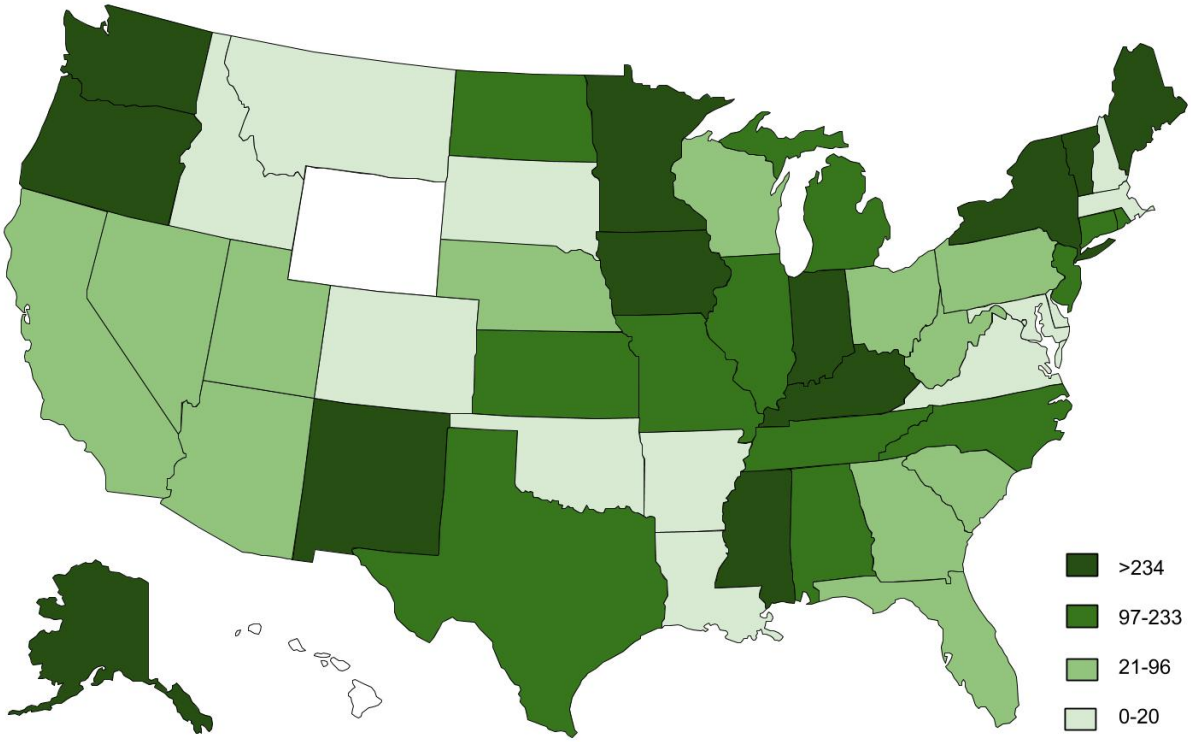
Note: Market inequality data from Kelly and Witko (2012).

Underlying the increase in state-level market inequality is the same problem discussed in the introduction: economic growth is outpacing median income growth. That is, most of the new income is being earned by top earners while most others are not sharing in new prosperity. The Pew Center reported that from 2000-2013 the percentage increase in GDP was much larger than the percentage increase in median income in every single state, widening the gap between rich and poor (Henderson 2015) and straining state budgets (Boak 2014).

[46] The highest possible value is 1, meaning all income is concentrated with one person/household. The lowest is 0 indicating equal income across all individuals/households.

States, however, vary greatly in income inequality. The most equal state over the time period is Alaska 1989, which had a market Gini of 0.385. In contrast, Rhode Island in 1997 had the highest market inequality with a Gini of 0.599. In 2006, the state with the most equal distribution of income was Utah (market Gini = 0.442) and the state with the most unequal distribution was Louisiana (market Gini = 0.583). On spending, the states vary greatly as well. Figure 6 depicts a map of the states colored by per capita incentive spending accumulated from 1984-2006. There are not strongly defined regions in terms of spending, but certain Rust Belt, Southern, and Border states tend to spend more per capita than others. The state with the highest per capita spending over the twenty-three-year period is Alaska (~$1400 per capita), while several states had less than $20 per capita.

Figure 6: Per Capita Incentive Spending by State, 1984-2006



Note: Calculated by the author using the Good Jobs First Subsidy Tracker data

State Redistributive Policy and Income Inequality

Looking at the extant literature on state policy and inequality, it is unclear what role incentives play as scholars have predominately focused on redistributive policy. At both the federal and state-level, scholars have consistently found that governments can affect income disparity through programs that redistribute resources to the neediest citizens (Plotnick and Winters 1985; Pierson 1995; Hacker 2002; Piketty and Saez 2003). Indeed, scholars have found that increased inequality nationally corresponds to the retrenchment of welfare policy (Pierson 1995) and the increased reliance on private firms to provide a social safety net (Hacker 2002; Faricy 2011). Through redistribution, governments intervene to correct extreme inequities produced by the marketplace.

At the state-level, scholars have found mixed evidence on the ability of states to correct inequality through redistributive policies. Barrilleaux and Davis (2003) find small effects of redistributive policies on income inequality, and these policies tend to increase inequality. Studies examining the effect of both state and federal redistributive policies find that state-level effects are dwarfed by the efforts of the federal government (Kelly 2009; Kelly and Witko 2012).

Not only can government redistribute resources, but it can also condition the market to make it more or less equal. Indeed, several prominent studies have focused on *market conditioning,* or the ability of government, through the policies it implements, to shape economic activity in a manner that may produce more or less inequality (Kelly 2005, 2009; Faricy 2011; Kelly and Witko 2012; Hatch and Rigby 2015; Hayes and Medina Vidal 2015). Nationally, growing disparity can also be traced to market conditioning tax credits lobbied for by the business sector (Hacker and Pierson 2010; Mettler 2011; see also Bartels 2008; Gilens 2012; Hayes 2013). These policies (and similar others that favor wealthy individuals) subsidize market

behaviors that are more accessible to the wealthy, such as home ownership (Mettler 2011). Through market conditioning, government policies make the economy more or less equal prior to explicit redistribution of wealth upward or downward.

Perhaps counter-intuitively, redistributive policies can have redistributive effects and market conditioning effects. In fact, it is redistributive policies that scholars have focused on in their studies of market conditioning and inequality at the state-level. Hatch and Rigby (2015) find that taxes on the wealthy, taxes on the poor, and pro-labor market policies (i.e. no right to work law, high minimum wage) decrease inequality. But, the authors also find that spending on the poor increases inequality, possibly due to states conditioning welfare dependency. Hayes and Medina Vidal (2015), on the other hand, find that welfare payments and unemployment compensation reduce inequality.

State Economic Development and Income Inequality

Less attention has been paid to the effect of state economic development policy on income inequality. This is surprising given that state governments focus on developmental policy rather than redistributive policy (Eisinger 1988, 1995; Peterson 1995). Scholars have repeatedly noted that states shape policy to foster a business-friendly climate (Bluestone and Harrison 1982; Witko and Newmark 2005). This is done to compete for investment from wealthy citizens and firms (Berry and Berry 1990; Baybeck, Berry, and Siegel 2011). In competing, states attempt to keep wages and taxes low (Hansen 2001; Jenkins, Leicht, and Wendt 2006) and provide generous benefits to firms in the form of economic development incentives (Grady 1987; Hanson 1993; Saiz 2001; Jansa and Gray forthcoming).

Just two studies have looked explicitly at the relationship between state-level economic development policy and income inequality. Langer (2001) finds that locational economic

development policies—state programs aimed specifically at attracting and retaining firms to the state—increased income inequality in the states, while entrepreneurial economic development policies—state programs aimed at fostering the development of new firms in the state—decreased inequality. Young (2016), however, finds the opposite of Langer (2001); entrepreneurial policies are associated with rising inequality and there is no effect for locational policies.

The mixed results of extant studies indicate that extensions of theory and methodology are needed for scholars to understand how states may be affecting inequality through their use of incentives. On theory, Young and Langer argue that state economic development efforts drain public resources that could otherwise be redistributed, thereby reducing inequality. While this is true, it misses the heart of what economic development policy does: distributes public monies directly to firms. The distribution is made with the expectation that firms will use the money to employ workers at decent wages. In other words, state governments are using economic development policy to condition the marketplace to produce certain outcomes. The market conditioning mechanism may also affect the level of inequality.

Methodologically, both Young (2016) and Langer (2001) use policy indices to measure state locational and entrepreneurial effort. But what is important is not the number of programs but the amount of money states commit to economic development.[47] Mirroring this logic, scholars of income inequality and redistributive policy have measured how much states spend on welfare programs (e.g., Hayes and Medina Vidal 2015). No study has looked at the effect of incentive spending on income inequality.

[47] The indices used by Young (2016), developed by Saiz (2001), do not correlate well with spending. The entrepreneurial spending measure discussed later in the paper correlates with the entrepreneurial policy index 0.31, while locational spending correlates with locational policy index an astoundingly weak -0.02. Indices alone cannot capture state economic development effort.

A Theory of Incentives and Market Conditioning in the American States

States attempt to make their markets amenable to business by implementing policies that encourage investment, including providing monetary benefits to private firms in the form of economic development incentives. As states award incentives, resources are disproportionately distributed to relatively wealthy firms. The result is that incentives both redistribute wealth upward and that shape the state's economy to be beneficial to the bottom line of the wealthiest firms, their investors, and employees. Specifically, incentives have a conditioning effect that creates greater inequality through the subsidization jobs for those who already have them, financing of normal market behavior, and encouragement of rent-seeking. I explain these market conditioning mechanisms below.

Subsidizing Existing Job-Holders

Incentives are meant to give businesses more resources to expand or relocate, and hire workers. In effect, however, the state is paying for the creation of jobs that either 1) already exist elsewhere or 2) benefit those who already have similar jobs elsewhere.

Often, companies receive incentives to relocate from another state. When this happens, existing jobs can be "imported" with the company from their previous location to the state that won the firm's investment. That is, those who currently hold the job move with the firm. When not directly imported, firms may still fill new positions with applicants from a national talent pool, rather than providing jobs for locals in need. For example, if an insurance company receives incentives to relocate from Virginia to North Carolina and it brings its employees with it, North Carolina paid the company to bring its jobs but not to employ its citizens. If those jobs are relatively high paying, North Carolina used public funds to add to its upper class but did not create jobs for the middle or working classes. This slowly but surely increases the gap between

rich and poor, although not through the differential income growth mechanism normally associated with growing inequality.

States sometimes provide that companies must hire a certain number of workers from the local talent pool. Even when this happens, inequality can increase because 1) they are positions for which workers who already have jobs are most likely to qualify or 2) they are such low paying jobs (in retail, for example) that it makes little difference on raising incomes for low earners. In both these cases, public dollars are used to provide more for those who already have lucrative work, rather than those out of work or in need of higher paid work.[48] Additionally, monetary compensation for jobs is awarded to the job-provider, not the job-earner; benefits accrue to the company without real job or income growth in the larger economy. This widens the income gap, especially between those with the requisite skills, qualifications, and connections and those without.

Financing Normal Market Behavior

Incentives pay for what a firm may have done on its own.[49] Firms make decisions to expand and relocate and hire more people because it is profitable. Thus, by providing incentives, the state denies itself tax revenue to help a firm make the investments it would have needed to carry out anyway in order to compete in the marketplace.[50] This lost revenue could have been used to fund education, transportation, and community programs, which help to increase the

[48] The exception to this is the use of incentives for heavy manufacturing plants, which employ low-skill and underemployed workers on the factory floor. Incentives, however, are used for a number of industries, including in the low-paying service sector and high-pay, high-barrier sectors such as finance, insurance, and real estate development.

[49] See Coyne and Moberg (2014) for an excellent discussion of this logic.

[50] As one opponent of incentives in North Carolina noted, firms that need incentives to stay afloat are risky investments that the government should not sink money into, while firms that do not need incentives just should not be invested in because they do not need them to remain competitive and make investments.

earnings potential of citizens by providing skills and the means of making money. This is essentially the argument of Langer (2001) and Young (2016).

More importantly, though, is the concentration of support among the firms that need it the least. The concentration of property, income, and sales tax reductions (among other benefits) with the wealthiest firms isolates them from competition in the marketplace. In this way, public monies benefit the highest ranking employees and investors of the largest, wealthiest firms. The firm's bottom line is supported without reciprocal investment in new, large scale projects that employ the jobless. This again widens the gap between high earners and low earners.

Encouraging Rent-Seeking

Even an ideal scenario, where a company makes huge capital investments and employs thousands of locals, can lead to greater income inequality through rent-seeking. Rent-seeking is the process by which firms use their economic resources to procure benefits without making additional or reciprocal investments. Specifically, firms can make threats to leave, gaining more incentives and creating uncertainty for workers.

By providing resources directly to the firm, the state signals that it is willing to reward investment and seek to prevent the loss of the investment. Incentives thus signal that threats to leave will be rewarded. In response to threat, the state may commit additional resources to maintain investment. This reduces the state's return on investment and further drains resources that can be used on inequality correcting programs.

But, providing these funds also creates an ethos of looming exit that creates uncertainty for workers. Workers may be less likely to collectively demand higher wages and benefits knowing their company can shop for and receive incentives to move elsewhere. If a business does move, and it does not bring its workers with it, workers in the state lose income. If workers

are dependent on an industry that is particularly mobile, such as manufacturing, jobs are less permanent, often moving, and income is volatile from year to year. Those relying on regular wages will thus have a harder time accumulating wages to invest in other ventures such as the stock or bond market. In all, firms may pay lower wages, and have the tacit approval of the state in doing so since the state has invested in the firm and is wary of it leaving. This again widens the gap between rich and poor.

Each of these three mechanisms demonstrate how incentive spending translates into greater income disparity. I do no distinguish between the mechanisms with a formal test, instead focusing on establishing the relationship between incentives and inequality via market conditioning and the logic behind it. Thus, I provide Hypothesis 1 below.

- *Hypothesis 1: The more a state spends on economic development incentives over time, the more unequal the distribution of income in the state, all else equal.*

It is important to note that each of the three mechanisms discussed above is intimately related to a particular type of incentive spending: locational spending. Locational incentive spending is meant to attract and retain wealthy firms to the state. Also referred to as supply-side strategy, this approach is based on the idea that capital investment is often hampered by the high costs—from land, labor, and raw materials—associated with doing business. As such, states provide resources to keep established businesses in the state, or to attract investment from established businesses located outside the state. State use locational to entice firms to locate in a particular location, often luring them from an existing location and using the company's established prestige to develop the reputation of the state (e.g., Milward and Newman 1983). Often, these firms then engage in rent-seeking by asking for additional incentives under the

threat of moving elsewhere.[51] Large sums are distributed to few wealthy firms, both redistributing public resources upward and conditioning the market to make it more favorable for those businesses.

Locational economic development contrasts to entrepreneurial economic development. Entrepreneurial development, also referred to as demand-side strategy, is an approach that provides resources to new firms and technologies in order to grow their economic impact and create jobs. This approach is based on the idea that economic problems stem from environments that are not receptive to new and innovative businesses. In the entrepreneurial approach, resources are provided to increase flexibility, risk-taking, and to lower barriers to innovation and are provided in small sums to small businesses (see also Jansa and Gray forthcoming). Thus, there is likely little effect on income inequality as resources are distributed widely and the market is not significantly altered. Instead, the effect of incentive spending on inequality is likely driven by how much states spend on locational economic development. This hypothesis is stated below.

- *Hypothesis 2: The more a state spends on locational economic development incentives over time, the more unequal the distribution of income in the state, all else equal.*

Data & Methods

To test the hypotheses, I estimate three equations that model state-level income inequality as a function of incentive spending and a number of political, policy, economic, and demographic control variables. The models are time-series cross-sectional error correction models (ECM). An ECM stipulates that change in the dependent variable is predicted by 1) the

[51] Numerous examples of this pop up every year. Most recently, Nabisco decided to leave Chicago for Mexico after receiving millions in tax breaks. Nike and Intel in Oregon have received billions in incentives after making threats to leave for greener pastures. Notoriously, sports teams leverage the exclusivity and public prominence for millions in tax payer funding for stadiums.

lagged value of the dependent variable, 2) simultaneous change in the independent variable(s), and 3) the lagged value of the independent variable(s), also known as a long-run effect of the independent variable(s). The model is standard for time series applications in political science (DeBoef and Keele 2008) and the study of state-level income inequality (Kelly and Witko 2012; Hayes and Medina Vidal 2015; Young 2016). The model is formulated in Equation 1 below.

(1) $\Delta\ Income\ Inequality_{it} = \beta\ Income\ Inequality_{it-1} + \beta\ \Delta Incentive\ Spending_{it} + \beta\ Incentive\ Spending_{it-1} + control\ variables + e$

Inequality is measured in two different ways. The first is *market inequality,* introduced above and depicted in Figure 5. Using the U.S. Census Bureau's Annual Social and Economic Supplement (ASES) data on household income by source,[52] Kelly and Witko (2012) calculate a Gini coefficient for each state for each year that captures how unequal the distribution of income is prior to government redistribution. This measure ranges from 0 to 1 and is ideal for measuring market conditioning.

The second measure of income inequality is *post-transfer inequality*. This measure is a Gini coefficient for each state for each year on all household income, including from public programs such as social security, unemployment, or workers' compensation. This measure is also produced and provided by Kelly and Witko (2012). This measure is used to test what effect incentives have on inequality when taking government redistribution into account, providing a harder test of the hypotheses as well as a robustness check on the models' predictive power with different measures of inequality.

Two key independent variables are used. The first is *incentive spending,* which is measured as the total spent on incentives awarded to corporations. Measurement is taken for

[52] The U.S. Census Bureau, since 2006, has stopped collecting this detailed data. Thus, the Kelly and Witko (2012) measure cannot be updated to the present for the time being.

each state for each year on a per capita basis. Dollar values are also adjusted for inflation to 2006 dollars, the latest year in the dataset. This measure is used to test Hypothesis 1. The second is *locational spending*. Locational spending is the measured as the total spent on "megadeal" incentive packages worth over $50 million.[53] Studies have shown that these large packages are the thrust of state efforts to recruit and retain employers to the state (Milward and Newman 1983; Hanson 1993; Jansa and Gray forthcoming). The purpose of spending on these large packages is to influence the location decisions of large firms, rather than grow businesses. Like incentive spending, locational spending is measured for each state for each year, per capita, and adjusted for inflation. This measure is used to test Hypotheses 2. Each measure is converted to thousands of dollars to be able to display coefficient estimates in Table 3. Please see Appendix H for descriptive statistics on each of the spending measures.

Data on incentive spending is provided by the Good Jobs First Subsidy Tracker (2015). Good Jobs First is a non-profit, non-partisan organization that gathers all publicly available data on incentives across the states. There are over 150,000 observations in the dataset; each observation is a specific award made by a state to a corporation.[54] Incentive awards range in size from a single dollar to over $8 billion. This data was aggregated by state and year to produce the data used for the key independent variables. A number of different incentives are included in the

[53] $50 million is taken as the threshold because the Good Jobs First data designates these as megadeals awarded to big firms to influence their location decisions. The threshold provides a hard test for the theory because we are only looking at the most valuable packages awarded by states, potentially excluding other, smaller locational packages.

[54] Good Jobs First, like any organization or scholar studying incentives, is hamstrung by the fact that states have discretion on reporting incentives. Some states regard incentive awards as proprietary information and do not make the data readily available while others are fairly transparent. Jansa and Gray (forthcoming) argue that potentially missing data (i.e. states underreporting incentive spending publicly) makes any test of the effects or predictors of state incentive spending a scientifically difficult test. The Government Accounting Standards Board (GASB) recently recommended that the fifty states adopt tax incentive full reporting requirements. Hopefully, data will become more transparent going forward for additional tests of these, and related, hypotheses.

dataset, including tax credits and rebates, property tax abatements, grant and low cost loans, enterprise zones, tax increment financing, job training and general cost reimbursements, bonds, cash, and infrastructure assistance, and "megadeals" that are packages of incentives valued at over $50 million.[55] Megadeals are taken basis of the locational spending measure, while all incentives are used for the incentive spending measure.

A number of other policy, politics, economic conditions, and demographic variables are included in the models. A full account of each variable, how it is measured, the source of the data, and associated descriptive statistics is available in Appendix H, Table A4. I provide a brief discussion here. On policy, the models control for the state's corporate income tax rate, minimum wage, prevailing wage, right to work, unemployment compensation per capita, and welfare cash assistance per capita. Each of these policies can 1) impact inequality and 2) are also used to attract corporate investment.[56]

Also included as controls are a number of economic conditions that likely impact state-level inequality. These are unemployment rate, union membership, gross state product (GSP), and the percentage of GSP from manufacturing. Each of these have been shown in previous studies to be important determinants of market and post-transfer inequality (Kelly and Witko 2012). As the unemployment rate, manufacturing, and GSP increase, so too should inequality as larger, developed economies with high joblessness tend to have higher income inequality. Conversely, as union membership goes up and workers bargain for higher wages, income inequality should decrease.

[55] See Jansa and Gray (forthcoming) for a deeper discussion of the types of incentives and their use across the states.

[56] By keeping wages or corporate tax rates low, or making it harder to unionize, states may not have to spend as much on incentives but may still yet be conditioning their markets in a business-friendly manner.

Also included as a control is government ideology. This is measured using Berry et al. (1998) government ideology scores, updated through 2006. Consistent with Kelly and Witko (2012), it is likely that inequality decreases as governments become more liberal. Finally, a number of demographic controls are included. These are a state's total population (in millions), the proportion of the state population that is non-white, and the proportion of the state population that is over 65 years old. These are important controls used in other inequality studies (e.g., Kelly and Witko 2012) because these demographics tend to earn less than white citizens and younger citizens.

The data is clustered by state and spans the years 1984 to 2006. Hawaii and Wyoming are excluded for lack of data on incentive spending; Nebraska is excluded for lack of government ideology scores. Many of the policy variables are "sluggish", not changing much from year to year. Thus, clustering is accounted for by using state random effects. This accounts for the clustered nature of the data without controlling away slow-changing policy effects with fixed effects by state.

Results & Discussion

The model estimation results are presented in Table 3. This table includes three models. Models 1 and 3 use change in market inequality as the dependent variable. Model 2 uses post-transfer inequality. Models 1 and 2 use total incentive spending as the key independent variable. Model 3 uses locational spending only. All models include the control variables discussed above. The results for these variables are included in Appendix I, Table A5 for space considerations. In all, the statistical evidence confirms both hypotheses.

In both Model 1 and Model 2, the long-run coefficient for incentive spending is estimated to be positive and significant. That is, controlling for the other variables in the model, increases

in per capita incentive spending at time t-1 leads to increased inequality at time t. This relationship is true of both market inequality (Model 1) and post-transfer inequality (Model 2). The coefficient estimates for incentive spending in Models 1 and 2 are significant at the p<.05 level.

Table 3: The Effect of Economic Development Incentives on Market Income Inequality, 1984-2006

	Model 1: ΔMarket Inequality (1984-2006)	Model 2: ΔPost-Transfer Inequality (1984-2006)	Model 3: ΔMarket Inequality (1984-2006)
Market Inequality $_{t-1}$	-.2982***	-.3443***	-.2964***
	(.0233)	(.0249)	(.0232)
ΔIncentive Spending	-.0015	-.0012	
	(.0078)	(.0072)	
Incentive Spending $_{t-1}$	.0058*	.0061*	
	(.0029)	(.0027)	
ΔLocational Spending			-.0077
			(.0094)
Locational Spending $_{t-1}$			.0083†
			(.0042)
R^2	0.19	0.20	0.19
N	1,056	1,056	1,056

Note: Table reports OLS coefficient estimates with standard errors in parentheses. Both models estimated with random effects. Control variables are included in each model, but not shown here for space. See Appendix I for these results. ***p < .001; **p < .01; *p < .05; †p < .1.

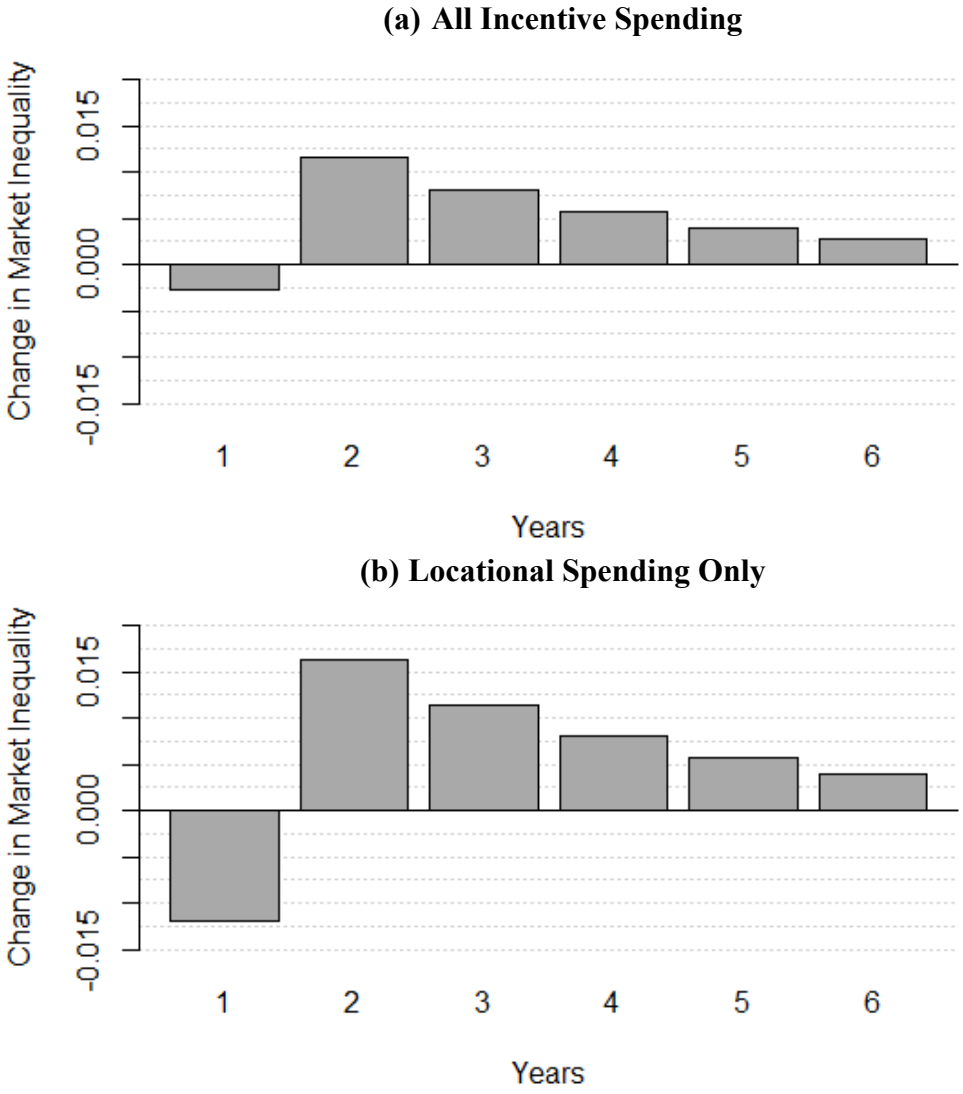
The magnitude of the estimated effect is similar in each model; a one-unit increase in per capita incentive spending should lead to, on average, a .0058 increase in market inequality and a .0061 increase in post-transfer inequality. Recall that a one-unit increase corresponds to $1,000 in per capita spending. Thus, over the course of the entire distribution of the variable, there is, on average, an increase of .011 in a state's market inequality Gini coefficient and a .012 increase in a state's post-transfer inequality Gini coefficient. This is a relatively modest effect, but it does translate to real differences in terms of the share of income among different groups within a

state. The average Gini coefficient across the states for the time period studied is .489. This roughly translates to the top 10% of households earning 38% of the income. The remaining 62% of income would be distributed to the bottom 90% of households. A change in the Gini coefficient of .0058 corresponds to increasing the share of income for top households to 40%. Similarly, decreasing the Gini coefficient decreases the share of income for top earners to 36%. Thus, the difference between states with little to no incentive spending and states with a lot of incentive spending is about 4% more of the economic pie taken by the wealthiest citizens.[57]

The significant result for the long-run coefficient is strong evidence in support of Hypothesis 1. Higher incentive spending is estimated to lead to increased income inequality, robust to how inequality is measured and controlling for other critical variables. The short-run coefficient, however, is not statistically significant, nor is it positive. There is no statistically distinguishable relationship between changes in market and post-transfer inequality and changes in incentive spending in the same year. The lack of findings on short-run coefficients is typical for the study of state-level income inequality for a number of policy indicators (e.g. Kelly and Witko 2012; Hayes and Medina Vidal 2015) because of the complexity of state economies.

[57] In terms of actual income, a state with an average level income at the 90th percentile—$109,961—would see a roughly $4,396 in more income in states with high incentive spending.

Figure 7: Incentive Spending and Its Long-term Effect on Inequality



Note: The distributed effects of all incentive spending (a) and locational spending (b). The effects plotted here were generated by increases in the independent variable equal to the range of the entire variable. Therefore, this is the maximum effect if a state were to move spending from the minimum to the maximum.

While the effect of incentives is modest and deploys over the long-term, it is also very long-lasting. Using a method for calculating the distributed effect of time-series variables developed by Banda and Windett (forthcoming), built on logic by DeBoef and Keele (2008), the inequality increasing effects of incentive spending felt for many years after incentives are

awarded.[58] The distributed effects are depicted in Figure 7. In Year 1, an increase in incentive spending produces a negative, statistically negligible effect on income inequality. In Year 2, as subsidized firms distribute the benefits of incentives to those who are already well off, there is a spike in the Gini coefficient of .011. This effect remains in years to follow, waning slowly. Only six years out does the positive, long-run effect mirror the negative, instantaneous effect in magnitude.

Model 3 tests the effect of locational spending. Model 3 shows that there is a strong effect for locational spending on income inequality. The coefficients are similarly signed as the coefficients on incentive spending in Model 1; a negative initial effect and positive long-run effect. Like total spending, the simultaneous effect is not distinguishable from zero, but the long-run effect is statistically significant at the $p<.1$ level.[59] The size of the coefficients are larger for locational spending; a one-unit ($1000) change in spending is equal to an increase in the market inequality Gini of .0083. Over the span of the variable, this is an increase of .0166 in the market Gini coefficient. This is still a modest effect on inequality, though less so than total incentive spending. Performing the same calculation, top earners would take home 6% more of the income pie, or about $6,500 in real income, in states with high incentive spending versus states with low incentive spending.

Again, these effects are distributed over the long-term. These distributed effects are also depicted in Figure 7. It is important to note that the scale of the Y axes in Figure 7 (a) and

[58] The effect for year 1 is calculated as dif.x*qi, where dif.x is the coefficient on the change in incentive Spending and qi is 1.8456, which is the difference between the maximum and minimum value of the incentive spending variable. The second year is (lag.x-dif.x)*qi+((1-abs(lag.y))*a, where lag.x is the coefficient for lagged incentive spending, lag.y is the coefficient for lagged market inequality and a is the value of the year 1 equation. All years going forward are calculated as (1-abs(lag.y))*b, where b is the value of the previous year equation.

[59] It is likely that it does not achieve the same significance level because of fewer instances of locational spending than locational and entrepreneurial spending combined.

Figure 7 (b) are the same. Thus, locational spending has a larger long-term effect on increasing inequality than incentive spending all together. The total incentive spending effect is dampened by the inclusion of smaller awards for entrepreneurial development purposes. Higher inequality is being driven by states that spend billions of dollars to attract the largest, wealthiest firms. The market is conditioned to create a friendly climate for these companies, and the benefits of incentives are reaped by the well-off rather than lower earners.

A number of control variables were estimated to be statistically significant predictors of change in income inequality. In all three models, simultaneous changes in government ideology, the elderly population, and total population are negatively associated with changes in inequality. That is, as government switches from relatively more conservative to relatively more liberal, as the population gets older, and the population gets bigger, the less unequal the distribution of market incomes becomes. The opposite is true for the non-white population and manufacturing GSP; increases in the non-white population are associate with higher inequality. For the long-run coefficients, unemployment, elderly population, non-white population, GSP, and manufacturing GSP are estimated to lead to increases in inequality that are statistically significant.

Similarly, higher value minimum wages are associated with increased inequality in the long-run. While a counter-intuitive result, it is possible that states that have higher inequality to begin with are likely to raise the minimum wage to raise incomes at the lower end of the scale. As inequality grows over the time period, minimum wage is associated with increases in inequality. Having a prevailing wage law leads to decreases in the level of inequality over the long-run. States that have the prevailing wage are predicted to have Gini coefficients about .0024 points lower than the states without prevailing wage laws, on average. This is a much larger effect in reducing inequality than incentive spending increases inequality. A one-percent increase

in union membership is predicted to lead to a .0005 to .0006 reduction in the Gini coefficient. That means that an increase in union membership from the minimum to the maximum is predicted to lead to a .012 decrease in inequality, an effect on par with per capita total incentive spending.[60]

The coefficient estimates for corporate income tax rate, right to work, and welfare and unemployment spending were not distinguishable from zero in most cases. This is interesting because these policies have been the focus of extant studies of state-level income inequality (e.g., Hayes and Medina Vidal 2015; Hatch and Rigby 2015). When incentives—a central policy focus for states—are considered, these policies seem to matter less.

In all, the model results 1) establish a key relationship between incentive spending and income inequality and 2) establish that locational spending, which predominately benefits the largest, wealthiest corporations, drives this effect. It is important to note, though, that the estimated effect of incentives on increasing inequality is small compared to the effect of the prevailing wage and is on par with the effect of unionization rates. These labor market policies that empower workers to earn more and demand more from their employers have a large market conditioning effect that works against the effect of incentives. At its maximum, incentives are an inequality aggravator, making unequal distributions of income worse by conditioning markets in favor of capital. The exacerbating effect is long-lasting, existing for years after the incentives are awarded. This finding holds when controlling for a number of possible confounders.

[60] The R^2 for the models range between 0.18 and 0.20. While seemingly low given the number of predictors, these model fit statistics are on par with other studies in this line of research (see Kelly and Witko 2012). The models used in similar studies vary in whether they employ fixed or random effects; the random effects used here produces lower R^2 compared to fixed effect models.

Concluding Thoughts

States provide billions each year to firms in an effort to attract investment. But in doing so, they subsidize what firms would do anyway, create insecurity for workers, and dedicate scarce public resources to help those who need the help the least. As a result, income inequality is exacerbated in the long-run for a long time.

This is a critically important finding as legislators and governors may be inadvertently sowing the seeds of increased inequality despite intending to create broad-based economic growth. Locational incentive in particular direct vital public resources away from broad goods and toward payments for relatively wealthy firms, investors, and skilled employees. Genuinely new jobs are often not created; little of the billions go to helping the jobless or those at the bottom of the income scale.

This is a critical area of policy that warrants further study by scholars who are serious about understanding the political roots of income inequality. Scholars have focused on the redistributive and market conditioning effects of redistributive policies. Less attention has been paid to the market conditioning effects of distributive and developmental policies, particularly the economic development efforts of state governments. But given incentives are a central focus of state governments, and states experiment by spending varying amounts on incentives in locational and entrepreneurial efforts, it makes sense that economic development is a cause of difference across the states in income inequality.

Future research should look at what has happened since the Great Recession. From 2007 to 2015, states increased the amount spent on incentives by an incredible amount (see Appendix J, Figure A5). States collectively added, on average, $13 billion subsidies to private corporations *each year* from 2007-2014. Such a study would be an endeavor, but an important one. The Great

Recession provided increased urgency for states to create jobs, and they turned to incentives to do so (Jansa and Gray forthcoming). The recession and resulting recovery has lead to even greater income inequality, as most of the recovery gains have gone to the top 1% of earners. The accelerated use of economic development incentives, which direct public funds toward firms that are already relatively well-off, may be further exacerbating inequality.

In the minds of policymakers, incentives are part of an overall business-friendly agenda to remain competitive for private investment. Take Republican Governor Scott Walker of Wisconsin for example. Walker touted right to work legislation as another tool in the state's economic development repertoire, arguing the capital-friendly incentives and labor policies are critical to attracting investment (Calamur 2015). This formulation of wedding locational incentives and pro-business labor regulations could greatly exacerbate inequality, according to the models presented here. States may consider putting more money into entrepreneurial efforts, as this is estimated to have little effect on inequality. While state legislators intend to condition their markets in a business-friendly manner, how they do so through locational subsidization does not create greater prosperity. Instead, it creates greater disparity.

CONCLUSION: THE FUTURE OF ECONOMIC DEVELOPMENT SCHOLARSHIP AND PRACTICE

A number of answers about the American political economy are provided by delving into the use of economic development incentives at the state-level. Firms and business associations are able to leverage their instrumental power to 1) take advantage of institutional facets and increase incentive spending and keep oversight low, 2) engage in long-term economic planning to orient the states to compete for desired industries, and 3) condition state markets to make them friendlier for business, which has the effect of increasing income inequality. These finding help clarify and sharpen the interstate competition paradigm. Competition between the states is encouraged and shaped by client groups and captured agencies to the benefit of those who are already well-off.

Yet, there are a number of questions that remain. First, it is unclear to what degree a pro-incentive bias exists in agencies and legislatures prior to contact with client groups. As discussed in Chapter 1, an elected legislature that is pro-incentive is not evidence that that legislature is captured by client groups. It is also unclear to what degree the bureaucracy is made up of individuals who are already pro-business and pro-incentive. Mission-bias and barriers for competing groups certainly increase responsiveness to client groups, and such responsiveness manifests itself in a number of practices of the bureaucracy. This is corroborated by quantitative evidence (Jansa and Gray forthcoming), yet the mechanism of influence can still be sharpened. Scholars can use surveys of state legislators and economic development officials to quantify each's positions on incentives and their reliance on input from client groups.

One of the major contributions is the use of spending data to analyze how states compete and the consequences of competition. The tests of Chapter 2 and 3 are based on spending data collected by Good Jobs First. This database is the most comprehensive on subsidy spending at the state-level in existence. Yet, while the large package (over $50 million) data is complete, smaller award data are dependent on the transparency of each state. Data used in extant studies are programmatic, providing the different incentive programs in each state but not the awards. Since many of the awards are made "off-budget" through tax abatement, using state budget data for each program misses much of the spending. Luckily, in 2015, the Government Accounting Standards Board (GASB) suggested new accounting and transparency standards for "off-budget" incentive spending. It is widely expected that state governments will adopt this uniform policy. Such transparency will allow scholars to better understand which firms are benefitting, whether programs are achieving their goals, and political roots of subsidization and inequality. An interesting extension using new data would be to look at spending from the recipient firm's standpoint: how beneficial are these policies to their bottom line?

Which other states serve as competition can be further studied with other data sources, including program data and labor policies like right to work and minimum wage. The broader diffusion literature will be well-served by moving away from geography as a construct for the mechanisms of diffusion. Policy diffusion via learning has moved away from such an operationalization, this dissertation moves economic competition away from geography, but the non-geographic dimensions of diffusion via imitation remain unclear.

Extending inequality measures to the present day is needed to fully understand the role of state governments in shaping inequality. This would help extend the current analysis, but would also provide a service to the state politics scholarly community as a whole. Such an extension

would cover the Great Recession period, when states dramatically increased their use of incentives. By using incentives to combat the Great Recession's effects on employment, states likely conditioned their markets to increase inequality. Part I of the project could develop and extend measures of market inequality to the present day. New measures extended to the present day would itself be a great service to the academic study of state politics and policy. Part II could examine how incentives and other policies have affected inequality, looking for greater effects in the Great Recession compared to the time period studied here. Part III could change the focus from states to firms: how do firms use economic crises to leverage more incentives from government. Scholarship is scant on this important question of American political economy. Inadvertently, subsidization during the Great Recession likely transferred economic and political power to the largest, wealthiest firms.

From the firm's stand-point, political scientists do not have a clear answer on how and why firms use economic crises to their advantage. It could be that increased risk to firms during crises (and the benefits provided to firms through subsidies) make the costs of exercising instrumental power bearable. A study of this question would help scholars understand a critically important question of American political economy. Generally, scholars should continue to focus on state economic development policy, for it is rife with important questions for students, scholars, and policymakers on the distribution of funds in society, the influence of interest groups over that distribution, and how this process shapes the ability of government to create prosperity for its citizens.

Reforming Incentives

I want to be clear that the insular process and unequal effects of incentives do not suggest that incentives should not be used. As one economic development official noted, incentives

allows the community to use its collective resources to direct its economic future. Incentives can encourage investment that is beneficial community-wide, providing for the economic well-being of the citizenry. Community-based economic self-determination is a powerful argument in favor of incentives, even if it means that in practice public funds are used to support private venture.

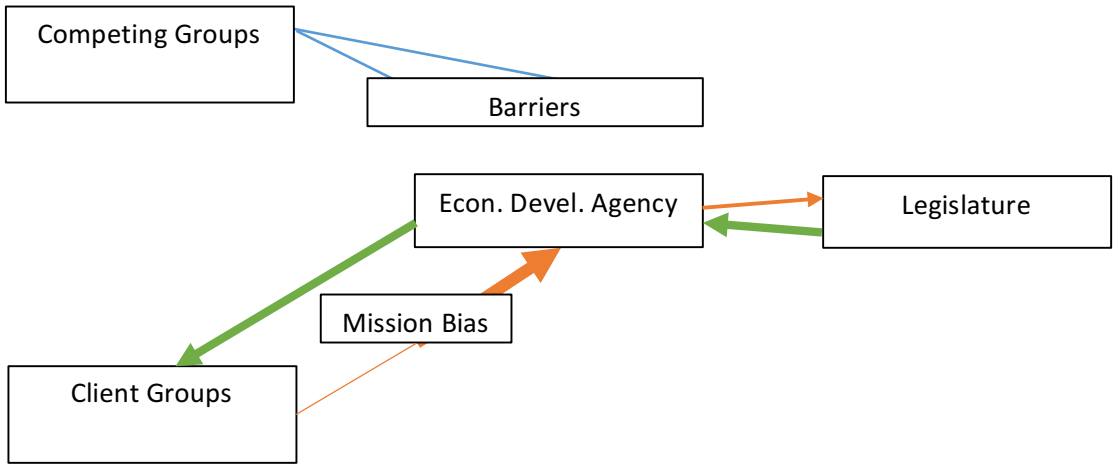
Rather than eliminating incentives, the incentive policy process should be modernized to remedy the outsized influence of firms seeking incentives. To diversify input, states should consider instituting public comment periods on all proposed incentive awards. These would operate similar to proposed regulations at the federal level. Most incentives would proceed unimpeded, but still allow the opportunity for the public to weigh-in on how tax breaks are being distributed. Similarly, the creation of a devil's advocate position in economic development agencies, whose job it is to advocate against negotiated deals, would help give voice to concerns not currently considered. Such reforms have also been proposed to limit the influence of Wall Street firms at the Security and Exchange Commission (e.g., Kwak 2014). Perhaps the most significant change would be to reconstitute economic development agencies to eliminate the conflict of interest inherent in their mission, instead orienting them toward a tax-payer protection role.

Still, states face information asymmetry vis-à-vis firms as they are unable to verify threats or fully estimate the impact of subsidizing projects. Reform proposals like an E-bay bidding system would open the awarding process to public scrutiny and reduce the potency of unverifiable threats. It is also reasonable for states to not grant the privileges afforded by NDAs, given firms are seeking public support. NDAs treat incentive packages as business deals where most of the leverage is on the side of the firm, but incentive packages are not business deals but public policy with huge implications for the distribution of resources in society.

In the end, it may be on the states to coordinate reforms. One politically possible interstate pact is to eliminate competition over extant jobs and capital. New projects can be open to competition among the states, but a firm would not be able use structural and instrumental power to leverage more incentives for an investment they have already made. By working together, the states may be able to allocate ideal amounts of funding to projects big and small without the threat of losing investment. With these reforms, states may be able to fulfill the promise of incentives to create new industries and jobs. Without, states will continue swapping jobs to detriment of the communities and individuals most in need of help.

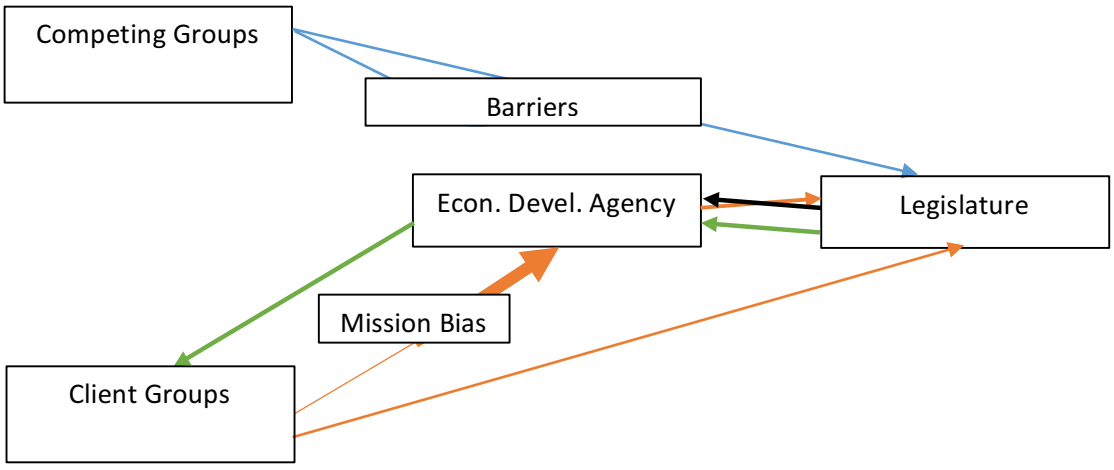
APPENDIX A: PROCESS DIAGRAMS

Figure A1: Interest Group Input in the Incentive Negotiation Process



Note: Blue arrows indicate information provided by competing groups. Orange arrows indicate information provided by client groups. Green indicates the flow of incentive funds. The informational arrows are weighted by the relative importance placed on it by state officials. The money arrows are weighted by the amount of spending.

Figure A2: Interest Group Input in the Incentive Formulation Process



Note: Blue arrows indicate information provided by competing groups. Orange arrows indicate information provided by client groups. Green indicates the flow of incentive funds. Black indicates oversight. The informational arrows are weighted by the relative importance placed on it by state officials. The money arrows are weighted by the amount of spending. Notice that funds are lower and oversight is existent when competing groups are able to access the legislative process.

APPENDIX B: CASE SELECTION & RELEVANT VARIABLES

The power to make inferences in this study comes from the most different systems case-selection method. Many political and economic confounders are controlled for using this method. I find that in North Carolina and Oregon competing groups were able to access the legislature to limit spending and increase oversight. In Nevada, however, client groups dominated the incentive negotiation and formulation process leading to major increases in incentive programs with little oversight. Party control of legislature or governorship does not matter because Oregon and North Carolina were controlled by different parties over the time period (the Democratic and Republican party, respectively). Each of the states was relatively high on unemployment compared to the national average. Nevada and Oregon were highly unionized, but North Carolina was not, but Oregon and Nevada behaved much differently over the three-year period. The same principle holds for type of awarding agency; Oregon and Nevada have independent executive agencies, while North Carolina charged the Department of Commerce and then EDPNC with incentive administration. Furthermore, North Carolina and Nevada focused on attracting out-of-state firms while Oregon focused on in-state firms.

Table A1: State Economic and Political Conditions Since 2012

State	North Carolina	Nevada	Oregon
Legislative Majority	Republican (2012-present)	Democratic (2012-2014) Republican (2015)	Democratic (2012-present)
Governor Party	Democratic (2012) Republican (2013-present)	Republican (2012-present)	Democratic (Kitzhaber 2012-2015; Brown 2015)
Average Unemployment Rate (2012-2014)	7.8%	9.5%	7.9%
Average Private Sector Union Membership (2012-2014)	2.6%	14.6%	15.4%
Type of Awarding Agency	Cabinet Department (2012-2014); Public-Private Partnership (2015)	Independent Agency	Independent Agency
In-State or Out-of-State Firms Receiving Large Incentive Packages	Out-of-State	Out-of-State	In-State

APPENDIX C: INTERVIEW SCRIPTS

Economic Development Official

1. On individual incentive packages, how much room is there for negotiation? Does the firm approach with a wish list that you more or less have to meet? Or do you base all offers on funding formula?
2. What time constraints does your agency operate under to produce an incentives offer?
3. What arguments and supporting information are being provided by firms seeking incentives? What arguments/information do you make in return?
4. How much independence does your agency have in spending decisions (who to award and how much) on industrial recruitment? When would legislative approval be necessary?
5. How and at what point in the process of a potential deal do you have contact with state legislators?
6. How does your organization gather, produce, and analyze information on the impact of potential investments and incentive packages?
7. Are there usually confidentiality issues at play, such as non-disclosure agreements or the firm's use of location consultants? Does this affect your ability to gather and analyze information on the impact of the investment/incentives?
8. How often does your organization have contact with the governor's office? At what point in the process of a potential deal do you have contact with them?
9. In your opinion, what are the pros and cons of incentives?
10. What do you say to those who argue…?
11. What changes, if any, would you like to see to the way the state handles economic development incentives?
12. Is there anything I neglected to ask that you think I should know about this issue? Perhaps developing/upcoming issues regarding incentives?
13. Is there anyone you would recommend I also talk to about this issue?

State Legislator

1. How far in advance of [the special session or public announcement] did you become aware of the negotiated incentive package? Were you being contacted by the firm/firm reps or the executive branch prior to [the special session or public announcement]?
2. How much room was there for negotiation among you and your legislative colleagues? Was the bill more or less defined by the negotiations between the governor and the firm? How reflective is the package of funding formulas pre-set by the legislature?
3. In general, what oversight does the legislature have over incentive awarding practices? Do non-disclosure agreements hinder oversight?
4. What information on the issue of incentives did/do you seek when making policy decision? From where do you obtain this information?
5. Generally, how many contacts do you have with representatives from firms or business associations on the issue? How does this compare to representatives from other organizations such as tax-payer, consumer advocates, or labor unions? Did this differ in the special session?
6. What are the pros and cons of incentives? Of all the arguments made, which are particularly compelling to you?
7. What do you say to those who argue…?

8. What changes, if any, would you like to see to the way the state handles economic development incentives?
9. Is there anything I neglected to ask that you think I should know about this issue?
10. Is there anyone you would recommend I also talk to about this issue?

Business Lobbyist (includes lobbyists for individual firms and business associations)

1. What arguments do you make to government decision makers on the issue of incentives? Are these the typical arguments just tailored for the specific case? Do they vary by branch of government or level of government?
2. What information on your firm's potential investment do you provide to support your arguments? What information on the firm's need for incentives to complete an investment do you provide?
3. How does the "interstate competition" environment shape the arguments you make? What time constraints are you under to secure a commitment from the state?
4. On individual incentive packages, how much room is there for negotiation? Does your firm approach with a wish list that the government more or less has to meet? To what degree is the scope of the deal bound by funding formula?
5. Are non-disclosure agreements typical for firms seeking incentives?
6. Approximately how many contacts did you have with legislators regarding this subsidy package prior to [the special session or public announcement]?
7. How important are incentives to the state's business climate? Roughly what percentage of time do you spend lobbying the legislature on regulations? How about tax policy, including incentives or reductions in your tax rate? How about workforce development, infrastructure, or other general state economic issues that may affect multiple firms?
8. What is your sense of the pros and cons of incentives? What do you say to those who argue that incentives…?
9. What changes, if any, would you like to see to the way the state handles economic development incentives?
10. Is there anything I neglected to ask that you think I should know about this issue? Perhaps developing/upcoming issues regarding incentives?
11. Is there anyone you would recommend I also talk to about this issue?

Competing Group Lobbyists (includes lobbyists from progressive, libertarian, tax-payer, community, and labor organizations)

1. What arguments did/do you make to decision makers on the issue of incentives? What information do you provide to support these arguments?
2. How does the "interstate competition" environment shape the arguments you are able to make? Does the need for the state to move quickly or potentially lose an investment opportunity shape the access you are granted to decision makers?
3. Do/did you hear information on potential incentive packages prior to press coverage/public announcement? Do confidentiality issues limit the amount of information on potential packages?
4. On the issue of incentives, are you generally seeking greater access to legislators or do they seek you out for information? At what points in the legislative process are you sought out?

5. What is your access to the governor's office on the issue and what information do you provide? How about economic development officials in the executive branch, especially those who help negotiate individual incentive packages?
6. What is your sense of the pros and cons of incentives?
a. What do you say to those who argue that incentives are…?
7. What reforms would you like to see to the way the state handles economic development incentives?
8. Is there anything I neglected to ask that you think I should know about this issue? Perhaps developing/upcoming issues regarding incentives?
9. Is there anyone you would recommend I also talk to about this issue?

APPENDIX D: INTERVIEW SUBJECT TABLE

Table A2: Summary of Interview Subjects

ID Number	Subject	State	Date	Medium	Length (minutes)	Sample
1	EDV	North Carolina	2/23/2015	In Person	60	Purposive
2	COM	North Carolina	4/3/2015	In Person	60	Purposive
3	BUS	Nevada	5/26/2015	In Person	45	Purposive
4	BUS	Nevada	5/26/2015	In Person	35	Purposive
5	LEG	Nevada	5/26/2015	In Person	15	Referral
6	LEG	Nevada	5/26/2015	In Person	30	Purposive
7	LEG	Nevada	5/27/2015	In Person	25	Purposive
8	EDV	Nevada	5/27/2015	In Person	55	Purposive
9	EDV	Nevada	5/27/2015	In Person	65	Referral
10	EDV	Nevada	5/27/2015	In Person	30	Referral
11	COM	Nevada	5/28/2015	In Person	70	Purposive
12	EDV	Oregon	6/1/2015	In Person	35	Purposive
13	COM	Oregon	6/1/2015	In Person	30	Purposive
14	LEG	Oregon	6/1/2015	In Person	50	Purposive
15	LEG	Oregon	6/1/2015	In Person	50	Referral
16	BUS	Oregon	6/2/2015	In Person	40	Referral
17	BUS	Oregon	6/2/2015	In Person	45	Purposive
18	LEG	Oregon	6/2/2015	In Person	20	Purposive
19	LEG	Oregon	6/2/2015	In Person	40	Purposive
20	COM	Oregon	6/3/2015	In Person	30	Purposive
21	EDV	Oregon	6/3/2015	In Person	65	Purposive
22	LEG	Oregon	6/3/2015	In Person	15	Purposive
23	BUS	Oregon	6/4/2015	In Person	35	Purposive
24	EDV	Oregon	6/9/2015	Phone	40	Referral
25	EDV	Oregon	6/9/2015	Phone	25	Referral
26	LEG	Oregon	6/2/2015	In Person	15	Referral
27	EDV	North Carolina	6/23/2015	In Person	40	Purposive
28	EDV	North Carolina	7/1/2015	In Person	50	Referral
29	COM	North Carolina	7/2/2015	In Person	45	Purposive
30	LEG	North Carolina	7/14/2015	Phone	20	Purposive
31	EDV	North Carolina	7/14/2015	In Person	30	Purposive
32	LEG	North Carolina	7/16/2015	In Person	45	Purposive
33	EDV	Nevada	5/15/2015	Phone	15	Purposive

Subject Key: COM = Competing Group Lobbyist; BUS = Business Lobbyist; EDV = Economic Development Official; LEG = State Legislator

APPENDIX E: TOP TEN LOCATION FACTORS FOR BUSINESSES

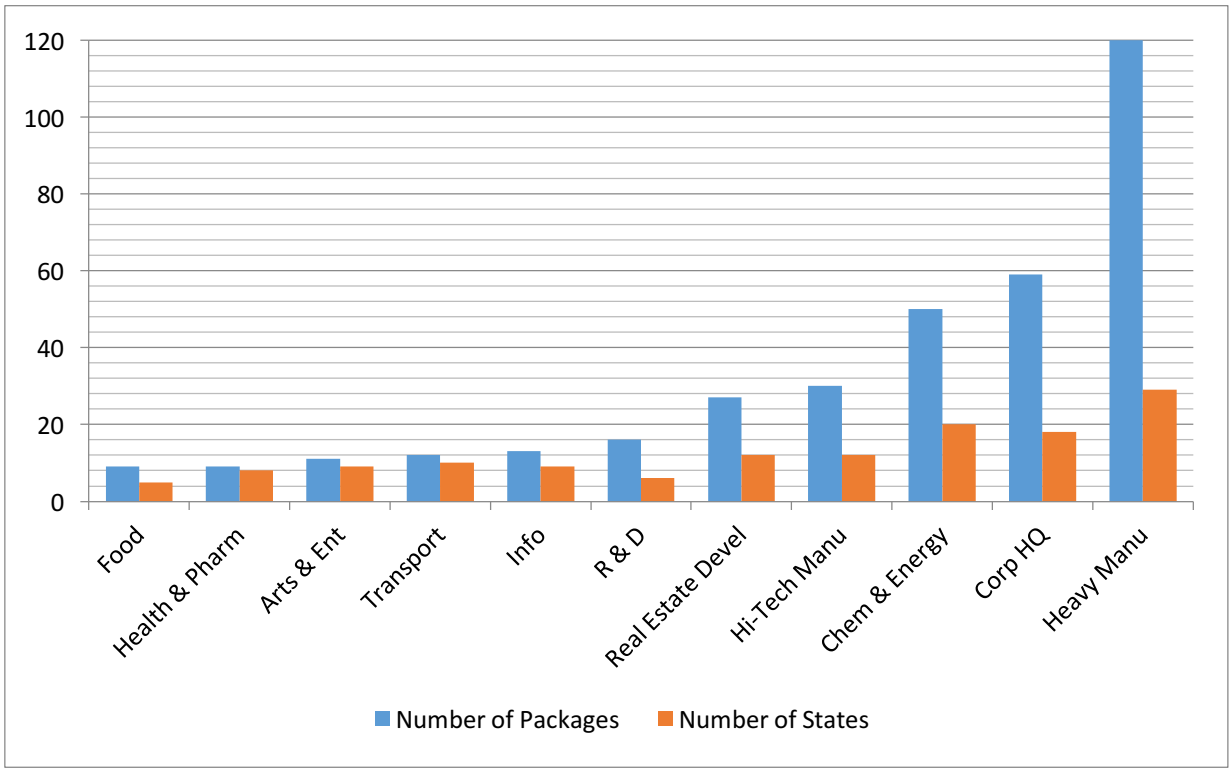
Table A3: Top Business Location Factors

2013 Rank	Factor
1	Skilled Labor
2	Highway Accessibility
3	Labor Costs
4	Construction Costs
5	Telecommunications Availability
6	Building availability
7	Corporate Income Tax Rate
8	State and Local Incentives
9	Low Unionization
10	Energy Costs

Note: Sourced from *Area Development* Annual Corporate Survey, 2013. Incentives ranked as high as 4th in previous years of the survey, as low as 13th.

APPENDIX F: INDUSTRY DEFINITIONS AND INCENTIVE PACKAGES

Figure A3: Number of Incentive Packages & States by Industry, 1984-2014



Note: Calculated by author using data from Good Jobs First Subsidy Tracker

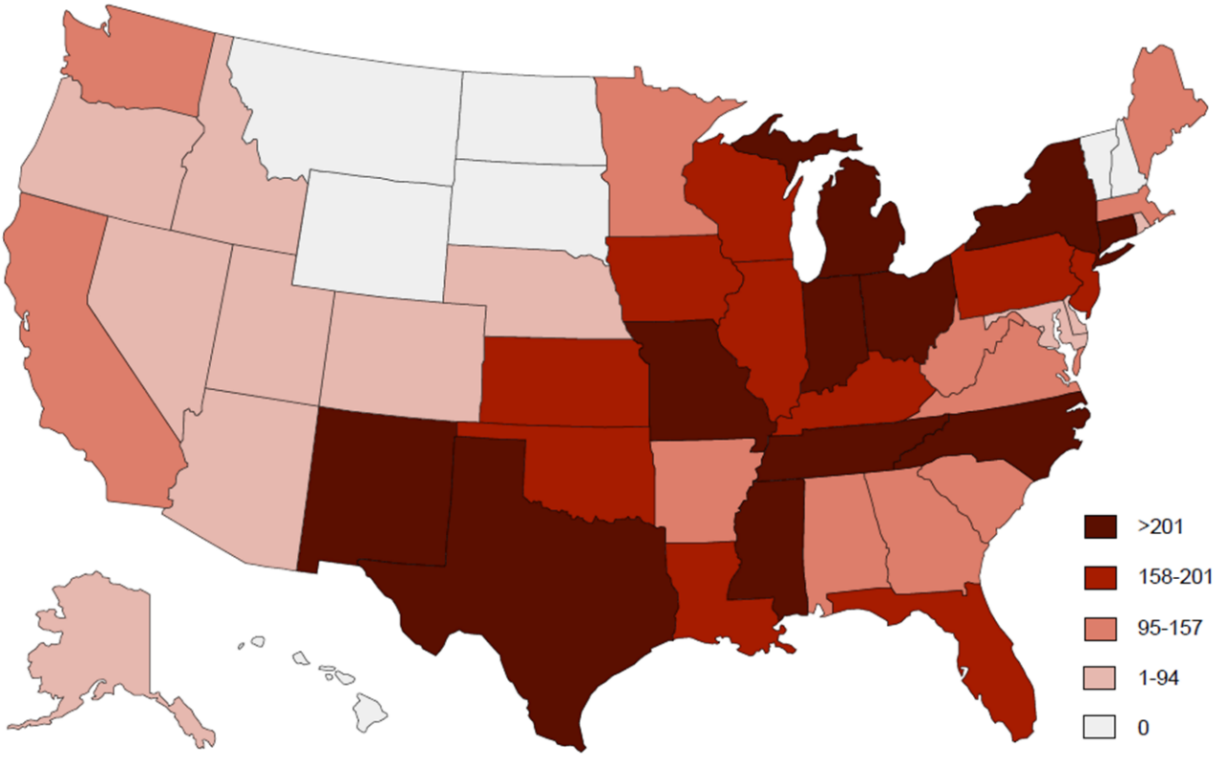
From 1984 to 2014, there were 120 deals made with heavy manufacturing companies. Incentive packages to heavy manufacturers encourage the establishment or expansion of production and/or assembly plants of large and complex goods. The next most subsidized industry was corporate headquarters, with 59 deals since 1988. While not an industry in the traditional sense, the use of incentives to retain or attract the headquarters of top retail, finance, and insurance firms was a clear cleavage in the data. With 50 deals since 1990, Chemical, Energy, and Mining was the third most subsidized industry in the data set. Chemical and fossil fuel production and refinement, utilities, clean coal and renewable energy, and natural resource mining companies make up this industry category; each of the companies is involved in some aspect of using or improving natural and man-made resources. High-tech manufacturing, the fourth most subsidized industry with 30 deals, is comprised of companies that received incentives to establish, expand, or retain production and assembly plants for computers, computer parts, or batteries. These plants are distinguishable from heavy manufacturing in that they employ fewer workers and may require more technical knowledge as many of their employees are on-site engineers rather than assembly workers. Two related industry categories are Real Estate Development and Arts and Entertainment. There were 27 Real Estate Development deals and 11 Arts and Entertainment deals. Companies receiving subsidies in real estate development were generally charged with a task to manage the construction of commercial or housing projects that would generate future revenue and potentially attract tourists (such as Minnesota awarding incentives to Triple Five to offset costs of managing the renovation of Mall of America). Likewise, the purpose of arts and entertainment deals is to expand or retain

companies that export entertainment, such as NBC and ESPN, or improve the attraction of the state as an entertainment destination, such as through the subsidization of a new casino-hotel.

The remaining industry categories are defined by the type of companies that comprise them. The Food Production deals subsidized companies engaged in establishing or expanding food production facilities. The 9 Health and Pharmaceutical deals supported hospitals and pharmaceutical research and production. The 12 Transportation packages attracted airline hubs and distribution centers. The 13 Information packages subsidized data farms, call centers, and technical headquarters for various companies. Finally, the 16 Research and Development deals helped support companies establishing or expanding facilities for scientific, technological, and medical research. There is clear overlap with the NAICS categories, however NAICS industries such as Agriculture were largely absent from the incentives data. Companies that would fall into the separate NAICS categories of Construction and Real Estate were combined into the Real Estate Development category because of the purpose of the incentive package. Finance and Business Service firms were often seeking new locations for their headquarters (as did many retail firms), making this a natural industry classification in the data if not in the NAICS.

APPENDIX G: VARIATION ACROSS THE STATES BY INDUSTRY-BASED COMPETITION

Figure A4: Industry-based Competition Measure, 2014



Note: Map shows the number of deals offered by other states in industries subsidized by the state. For example, states competing with Illinois offered between 158-201 deals in the industries subsidized by Illinois. The year of data depicted is 2014.

APPENDIX H: DESCRIPTIVE STATISTICS FOR INEQUALITY ANALYSIS

Table A4: Variable Definitions and Descriptive Statistics

Variable	Definition	Source	Mean	Std. Dev.	Min	Max
Market Inequality	Gini coefficient excluding income from public programs	Kelly and Witko (2012)	.4891	.0360	.3857	.5992
Post-Transfer Inequality	Gini coefficient including income from public programs	Kelly and Witko (2012)	.4222	.0311	.3443	.5107
Incentive Spending	Total spent on subsidies to corporations by state governments. Measured in thousands of dollars per capita. Inflation-adjusted to 2006 dollars.	Calculated using Good Jobs First data	.0888	.2351	.0000	1.845
Locational Spending	Total spent on subsidy packages worth over $50 million. Measured in thousands of dollars per capita. Inflation-adjusted to 2006 dollars.	Calculated using Good Jobs First data	.0632	.1578	.0000	1.543
Entrepreneurial Spending	Total spent on subsidy packages worth under $50 million. Measured in thousands of dollars per capita. Inflation-adjusted to 2006 dollars.	Calculated using Good Jobs First data	.0256	.1033	.0000	.8547
Corporate Tax Rate	Top marginal tax rate applied to corporate income	Book of the States	7.043	3.688	0.000	10.000
Minimum Wage	Dollar value of the state's minimum wage	U.S. Dept. of Labor	4.387	1.071	1.400	7.500
Right to Work	1 if the state has a right to work law, 0 if not	NCSL	.3903	.4881	.0000	1.000
Prevailing Wage	1 if the state requires employers to pay the prevailing wage, 0 if not	U.S. Dept. of Labor	.4764	.4997	.0000	1.000
Welfare Cash Assistance	Per capita direct payments to individuals through public welfare programs. Measured in thousands of dollars per capita.	Hayes and Medina Vidal (2015)	.0553	.4329	.0000	.2945

Unemployment Compensation	Per capita direct payments to individuals through unemployment programs. Measured in thousands of dollars.	Hayes and Medina Vidal (2015)	.0893	.0601	.0082	.4677
Government Ideology	NOMINATE score averaged across state legislative chambers and governor and scaled from 0 to 1.	Berry et al (1998), updated through 2006	.5346	.2110	.0651	.8968
Manufacturing GSP	Proportion of the gross state product from the manufacturing sector	U.S. Bureau of Economic Analysis	.1835	.7909	.2103	.3893
GSP	Gross state product in trillions of dollars	U.S. Bureau of Economic Analysis	.1497	.1964	.0062	1.728
Unemployment Rate	Percentage of the population that is unemployed	U.S. Bureau of Labor Statistics	5.492	1.701	2.300	14.80
Union Membership	Percentage of the population that belongs to a labor union, public or private	Hirsch and MacPherson (2003), updated through 2006	13.55	5.995	2.300	32.20
Non-white population	Proportion of the population that is a race or ethnicity other than White-Non-Hispanic	U.S. Census Bureau	.2000	.1236	.0161	.5615
Elderly population	Proportion of the population that is above 65 years old	U.S. Census Bureau	.1249	.0203	.0299	.1855
Total population	Population of the state in millions of people	U.S. Census Bureau	5.472	5.823	.5137	36.00

Note: Each variable is measured for each year and each state. Hawaii and Wyoming excluded for lack of incentive spending data.

APPENDIX I: RESULTS FOR CONTROL VARIABLES IN INEQUALITY ANALYSIS

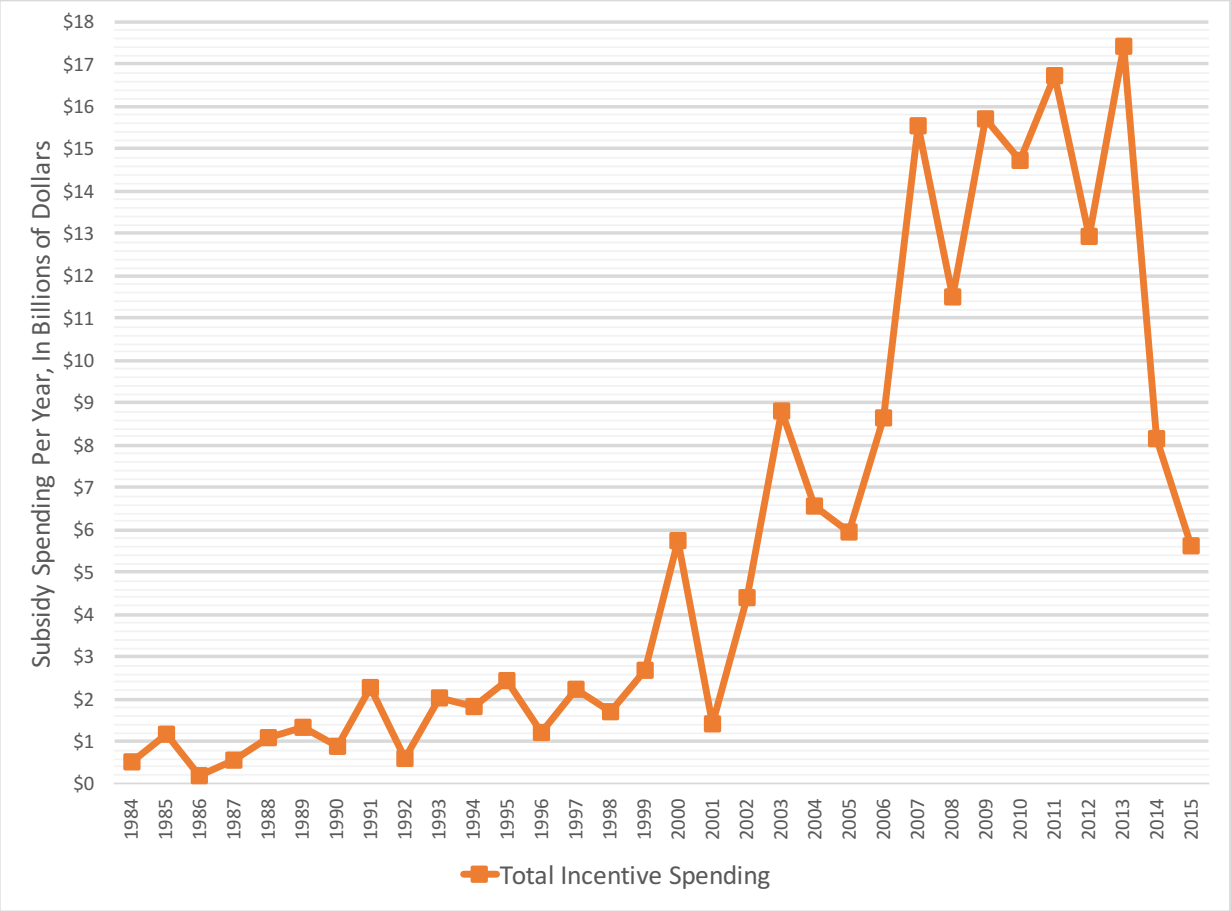
Table A5: Results for Control Variables Used in Models Presented in Table 3

	Model 1: ΔMarket Inequality (1984-2006)	Model 2: ΔPost-Transfer Inequality (1984-2006)	Model 3: ΔMarket Inequality (1984-2006)	Model 4: ΔMarket Inequality (1984-2006)
ΔCorp Inc.Tax Rate	.0000	-.0001	.0000	-.0000
	(.0002)	(.0002)	(.0002)	(.0002)
Corp Inc. Tax Rate $_{t-1}$	.0001	-.0000	.0000	.0000
	(.0001)	(.0001)	(.0001)	(.0002)
ΔWelfare Cash Assist.	-.0695	-.0531	-.0673	-.0650
	(.0403)†	(.0371)	(.0402)	(.0403)
Welfare Cash Assist. $_{t-1}$	-.0097	-.0060	-.0095	-.0032
	(.0160)	(.0147)	(.0160)	(.0156)
ΔUnemployment Comp.	.0047	.0010	.0052	.0034
	(.0211)	(.0193)	(.0211)	(.0211)
Unemployment Comp. $_{t-1}$	.0208	.0365	.0218	.0198
	(.0139)	(.0126)**	(.0139)	(.0139)
ΔMin. Wage	.0028	.0020	.0030	.0028
	(.0019)	(.0018)	(.0019)	(.0019)
Min. Wage $_{t-1}$	.0018	.0021	.0018	.0019
	(.0008)*	(.0007)**	(.0008)*	(.0008)*
ΔPrev. Wage	-.0009	-.0031	-.0008	-.0012
	(.0076)	(.0071)	(.0076)	(.0076)
Prev. Wage $_{t-1}$	-.0024	-.0024	-.0023	-.0023
	(.0013)†	(.0012)*	(.0012)†	(.0012)†
ΔRight to Work	.0033	.0033	.0034	.0034
	(.0076)	(.0069)	(.0076)	(.0076)
Right to Work $_{t-1}$	-.0001	-.0006	-.0001	-.0001
	(.0016)	(.0014)	(.0016)	(.0016)
ΔGovt Ideology	-.0149	-.0168	-.0151	-.0150
	(.0055)**	(.0050)***	(.0055)**	(.0054)**
Govt Ideology $_{t-1}$	.0039	.0015	.0038	.0036
	(.0029)	(.0026)	(.0028)	(.0028)
ΔUnemployment Rate	.0012	-.0001	.0013	.0012
	(.0009)	(.0008)	(.0009)	(.0009)
Unemployment Rate $_{t-1}$	.0027	.0008	.0027	.0027
	(.0005)***	(.0004)*	(.0005)***	(.0005)***
ΔUnion Membership	-.0002	-.0004	-.0002	-.0002
	(.0005)	(.0004)	(.0005)	(.0005)
Union Membership $_{t-1}$	-.0006	-.0005	-.0006	-.0005
	(.0001)***	(.0001)***	(.0002)***	(.0001)***

ΔManufacturing GSP	.0813 (.0387)*	.0472 (.0356)	.0836 (.0386)*	.0806 (.0385)*
Manufacturing GSP $_{t-1}$	.0221 (.0087)*	.0137 (.0079)†	.0216 (.0086)*	.0216 (.0087)*
ΔGSP	-.0091 (.0674)	-.0057 (.0621)	-.0072 (.0675)	-.0141 (.0673)
GSP $_{t-1}$	.0172 (.0101)†	.0207 (.0093)*	.0167 (.0101)†	.0165 (.0101)
ΔNon-white Population	.5579 (.2500)*	.6525 (.2296)**	.5398 (.2495)*	.5268 (.2484)*
Non-white Population $_{t-1}$	.0198 (.0072)**	.0285 (.0067)***	.0188 (.0073)**	.0228 (.0071)***
ΔElder Population	-1.611 (.6318)**	-1.759 (.5731)**	-1.602 (.6313)**	-1.579 (.6319)*
Elder Population $_{t-1}$	.2614 (.0372)***	.1547 (.0309)***	.2539 (.0364)***	.2628 (.0378)***
ΔTotal Population	-.0261 (.0093)**	-.0315 (.0086)***	-.0253 (.0093)**	-.0255 (.0093)**
Total Population $_{t-1}$	-.0001 (.0003)	-.0000 (.0003)	-.0001 (.0003)	-.0001 (.0003)
R^2	0.19	0.20	0.18	0.19
N	1,056	1,056	1,056	1,056

APPENDIX J: INCREASED INCENTIVE SPENDING DURING GREAT RECESSION

Figure A5: Total Incentive Spending by State Governments, 1984-2015



Note: Calculated by the author using Good Jobs First Subsidy Tracker database. All spending totals are adjusted for inflation to 2015 dollars

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