

# Explaining Deference

Why And When Do Policymakers Think FDI Needs Tax Incentives?

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# What Explains Incentives, Given They Are Inefficient?

## The Hypocrisy of Amazon's HQ2 Process

ROCKWELL, FLORIDA MAY 16, 2019

Amazon set up its HQ2 bidding war for maximum manipulation of North America's cities—and the company doesn't seem to be following its own selection criteria closely.

## Investment Policy Measures

There are a total of 143 results



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## Potential Explanations



### 1. Competition

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2. Political Pandering

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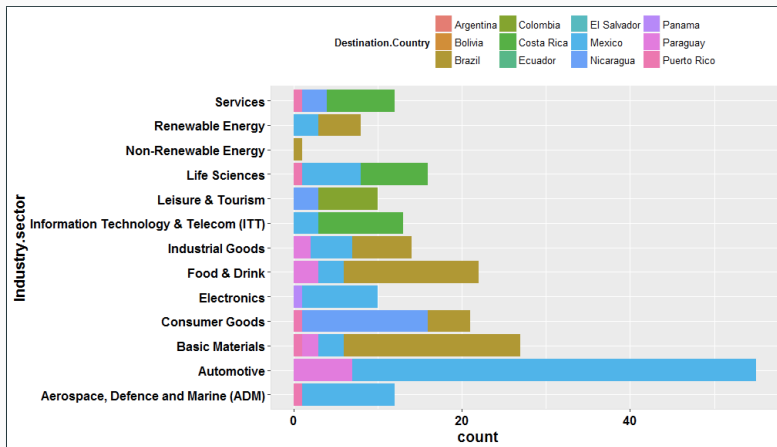
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## Potential Explanations

1. Competition
2. Political Pandering
3. Incentives and Beliefs of Economic Development Bureaucrats

# Variation in Incentive Use Suggests Gov'ts Believe They "Work"



Source: Incentives Monitor 2010 - July 2017

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# Assumptions

1. Governments/agents often offer incentives sincerely
2. Investment Promotion Agencies (IPAs) critical site of incentive policy development and administration
3. Individuals within IPAs will develop beliefs over usefulness of incentives based on a mixture of institutional, material, and ideational factors
4. These individuals' beliefs influence implementation of incentive policies

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# Research Design

1. Initial sample gathered from WAIPA, expanded with snowballing
2. Promised anonymity to encourage honest responses, several follow ups and LinkedIn push
3.  $\chi^2$  tests of independence suggest the sample is balanced, as are comments suggesting that a wide range of IPAs are included in the sample

Descriptive Statistics

Balance Tables

# Research Design

## Conjoint Options

“Now we will ask you to review the below policy packages and determine those that would be most likely to entice investment. For each of the next five scenario, please circle the location that you believe would be more attractive to a potential investor.”

Policy Dimension	Options		
Locational of nearest deep water port	< 5km	> 5 and < 50 km	> 50 km
Government-provided grants for job training?	Yes	No	
IPA Matchmaking Services	IPA provides grants for developing local supplier networks	List of Potential Suppliers	None
IPA Assistance with Permits and Licenses	IPA facilitates meetings with government officials to resolve permitting issues	IPA assists in application processes	None
Tax Incentives	10 year holiday on corporate profits	5 year holiday on corporate profits	None

# Conjoint Example

“Now we will ask you to review the below policy packages and determine those that would be most likely to entice investment. For each of the next five scenario, please circle the location that you believe would be more attractive to a potential investor.”

	Site A	Site B
Locational of nearest deep water port	More than 50 km away	Less than 5 km away
Government-provided grants for job training?	Yes	No
IPA Matchmaking Services	List of Potential Suppliers	None
IPA Assistance with Permits and Licenses	None	IPA facilitates meetings with government officials to resolve permitting issues
Tax Incentives	None	5 year holiday on corporate profits

## Hypothesis 1 (Strategic)

Individuals who work in IPAs that are closely integrated into the government will be more likely to view investment incentives as important for attracting investment.

## Operationalization (Pre-treatment)

How is the head of your IPA chosen?

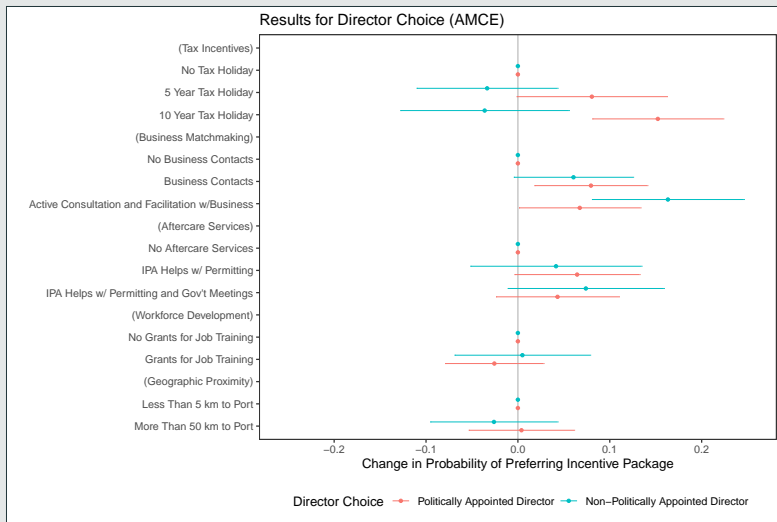
Answers: Political appointment, seniority through the civil service, open candidate search, other

What best characterizes your IPA's relationship with the central government?

Answers: receives specific guidance on strategy/implementation, has independent authority by coordinates with ministries, operates independently and without substantial coordination.

# Results - Hypothesis One

## Politically Appointed Directors Associated with Tax Incentives



## Hypothesis 2 (Material)

Individuals in IPAs that use key performance indicators (KPIs) that emphasize new deals will be more likely to view investment incentives as important for attracting investment

## Operationalization (Pre-treatment)

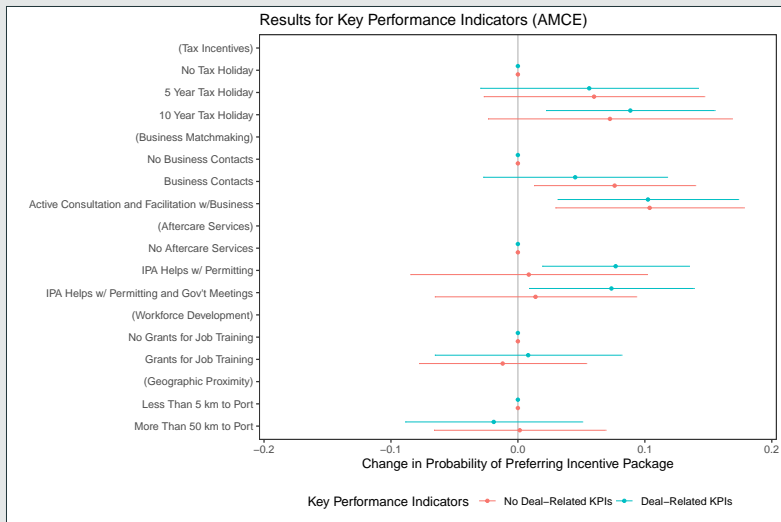
On what basis is your performance (for the purpose of raises and promotion) primarily evaluated?

Answers: New investment attracted, Number of investor/potential interactions, My performance is not systematically evaluated, I do not receive raises or bonuses



# Results - Hypothesis Two

## Deal-related KPIs Associated with Tax Incentives



## Hypothesis 3 (Ideational)

Individuals with previous professional experience in the private sector will be less likely to view investment incentives as essential for attracting investment

## Operationalization (Pre-treatment)

Which of the follow describe your educational background?

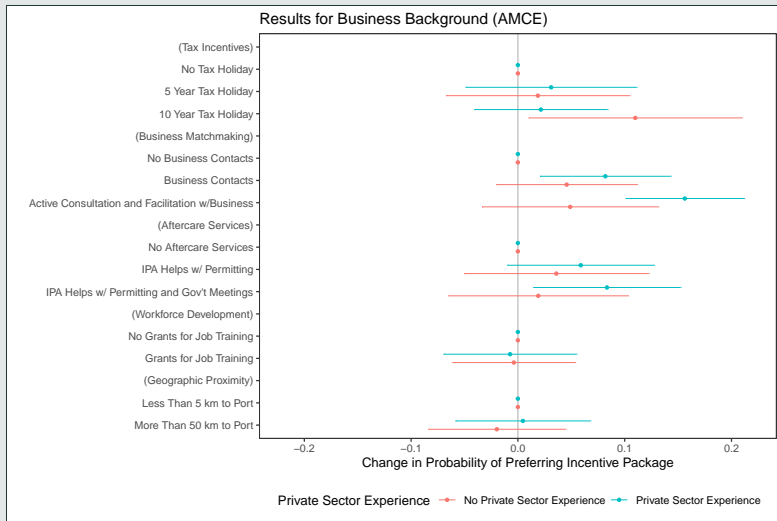
Answers: No degree, undergraduate university degree, professional business degree, PhD, other

What best describes your professional background before arriving at your current IPA?

Answers: Career government bureaucrat, private sector, other IPA, other

# Results - Hypothesis Three

## Business Background Not Associated with Tax Incentives



1. Narrowly - helps explain why pro-incentive sentiments persist, so that policymakers can design and administer IPAs in ways that will reduce this bias

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2. Broadly - helps answer why governments and their agents feel compelled to accommodate business
  - What drives beliefs over mobility?
  - How do those beliefs influence policy?

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1. Importance of Sampling Technique for Policy Elites: Getting the “Right” Sample
2. Ways to Reach Policy Elites
  - Meetings and professional networks
  - Importance of anonymity for sensitive questions
3. Limit number of sub-components while aiming for realism: challenges of power for small sample sizes



# Descriptive Statistics

H1: IPA/Gov't Relationship		H1: Director Appointment	
Independent IPA	5	Political	
Hybrid	40	Civil Service	
Integrated	17	Open Search	
Total	62	Total	

H2: # Deals KPIs		H3: Business Background		H3:MBA
Yes	28	Yes	34	Yes
No	27	No	29	No
Total	55	Total	63	Total

Position		Mandate		Employees
Non-management	14	Local	2	< 10
Middle Manager	30	Subnational	8	10-19
Senior Manager	17	National	50	20-29
				≥ 30
Total	61	Total	60	Total

**Table 1:** Explanatory Variables Balanced by Position

Variable	$\chi^2$	df	p value
IPA Integration	0.79966	4	0.9385
Director Choice	2.1747	4	0.7037
Deal-based KPIs	2.1769	2	0.3367
MBA	1.9087	2	0.3851
Business Background	0.81133	2	0.665

**Table 2:** Explanatory Variables Balanced by IPA Size

Variable	$\chi^2$	df	p value
IPA Integration	2.3401	6	0.8859
Director Choice	5.6292	6	0.466
Deal-based KPIs	4.9795	3	0.1733
MBA	2.1293	3	0.546
Business Background	1.8563	3	0.6028