Explaining Deference

Why And When Do Policymakers Think FDI Needs Tax Incentives?

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What Explains Incentives, Given They Are Inefficient?

Potential Explanations

1. Competition
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2. Political Pandering
What Explains Incentives, Given They Are Inefficient?

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
Assumptions

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

<table>
<thead>
<tr>
<th>Policy Dimension</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locational of nearest deep water port</td>
<td>&lt; 5km</td>
</tr>
<tr>
<td>Government-provided grants for job training?</td>
<td>Yes</td>
</tr>
<tr>
<td>IPA Matchmaking Services</td>
<td>IPA provides grants for developing local supplier networks</td>
</tr>
<tr>
<td>IPA Assistance with Permits and Licenses</td>
<td>IPA facilitates meetings with government officials to resolve permitting issues</td>
</tr>
<tr>
<td>Tax Incentives</td>
<td>10 year holiday on corporate profits</td>
</tr>
</tbody>
</table>
“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.”

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

#### 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

Results for Director Choice (AMCE)

(Tax Incentives)
- No Tax Holiday
- 5 Year Tax Holiday
- 10 Year Tax Holiday
(Business Matchmaking)
- No Business Contacts
- Business Contacts
(Aftercare Services)
- No Aftercare Services
(IPA Helps w/ Permitting)
- IPA Helps w/ Permitting and Gov't Meetings
(Workforce Development)
- No Grants for Job Training
- Grants for Job Training
(Geographic Proximity)
- Less Than 5 km to Port
- More Than 50 km to Port

Change in Probability of Preferring Incentive Package

Director Choice
- Politically Appointed Director
- Non-Politically Appointed Director
## Expectations

### 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

Results for Key Performance Indicators (AMCE)

(Tax Incentives)
- No Tax Holiday
- 5 Year Tax Holiday
- 10 Year Tax Holiday
(Business Matchmaking)
- No Business Contacts
- Business Contacts
Aftercare Services
- No Aftercare Services
- IPA Helps w/ Permitting
- IPA Helps w/ Permitting and Gov't Meetings
Workforce Development
- No Grants for Job Training
- Grants for Job Training
(Geographic Proximity)
- Less Than 5 km to Port
- More Than 50 km to Port

Change in Probability of Preferring Incentive Package

Key Performance Indicators
- No Deal–Related KPIs
- Deal–Related KPIs
Expectations

**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?

- No degree
- Undergraduate university degree
- Professional business degree
- PhD
- Other

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

- Career government bureaucrat
- Private sector
- Other IPA
- Other
Results - Hypothesis Three

Business Background Not Associated with Tax Incentives

- More Than 50 km to Port
- Less Than 5 km to Port (Geographic Proximity)
- Grants for Job Training
- No Grants for Job Training (Workforce Development)
- IPA Helps with Permitting
- No Aftercare Services (Aftercare Services)
- Active Consultation and Facilitation with Business
- No Business Contacts
- Business Contacts
- 10 Year Tax Holiday
- 5 Year Tax Holiday
- No Tax Holiday
- No Private Sector Experience (Private Sector Experience)

Change in Probability of Preferring Incentive Package

Private Sector Experience  ➤ No Private Sector Experience ➤ Private Sector Experience
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?
1. Importance of Sampling Technique for Policy Elites: Getting the “Right” Sample
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2. Ways to Reach Policy Elites
   - Meetings and professional networks
   - Importance of anonymity for sensitive questions
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

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent IPA</td>
<td>5</td>
</tr>
<tr>
<td>Hybrid</td>
<td>40</td>
</tr>
<tr>
<td>Integrated</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
</tr>
</tbody>
</table>

#### H1: Director Appointment

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td></td>
</tr>
<tr>
<td>Civil Service</td>
<td></td>
</tr>
<tr>
<td>Open Search</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

#### H2: # Deals KPIs

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>27</td>
<td>55</td>
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</table>

#### H3: Business Background

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>29</td>
<td>63</td>
</tr>
</tbody>
</table>

#### Position

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-management</td>
<td>14</td>
</tr>
<tr>
<td>Middle Manager</td>
<td>30</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
</tr>
</tbody>
</table>

#### Mandate

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>2</td>
</tr>
<tr>
<td>Subnational</td>
<td>8</td>
</tr>
<tr>
<td>National</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>

#### Employees

<table>
<thead>
<tr>
<th>Range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10</td>
<td>2</td>
</tr>
<tr>
<td>10-19</td>
<td>8</td>
</tr>
<tr>
<td>20-29</td>
<td>50</td>
</tr>
<tr>
<td>≥ 30</td>
<td>60</td>
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</table>
### Table 1: Explanatory Variables Balanced by Position

<table>
<thead>
<tr>
<th>Variable</th>
<th>$\chi^2$</th>
<th>df</th>
<th>$p$ value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPA Integration</td>
<td>0.79966</td>
<td>4</td>
<td>0.9385</td>
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<tr>
<td>Director Choice</td>
<td>2.1747</td>
<td>4</td>
<td>0.7037</td>
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<tr>
<td>Deal-based KPIs</td>
<td>2.1769</td>
<td>2</td>
<td>0.3367</td>
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<tr>
<td>MBA</td>
<td>1.9087</td>
<td>2</td>
<td>0.3851</td>
</tr>
<tr>
<td>Business Background</td>
<td>0.81133</td>
<td>2</td>
<td>0.665</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Variable</th>
<th>$\chi^2$</th>
<th>df</th>
<th>$p$ value</th>
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</thead>
<tbody>
<tr>
<td>IPA Integration</td>
<td>2.3401</td>
<td>6</td>
<td>0.8859</td>
</tr>
<tr>
<td>Director Choice</td>
<td>5.6292</td>
<td>6</td>
<td>0.466</td>
</tr>
<tr>
<td>Deal-based KPIs</td>
<td>4.9795</td>
<td>3</td>
<td>0.1733</td>
</tr>
<tr>
<td>MBA</td>
<td>2.1293</td>
<td>3</td>
<td>0.546</td>
</tr>
<tr>
<td>Business Background</td>
<td>1.8563</td>
<td>3</td>
<td>0.6028</td>
</tr>
</tbody>
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