

Institutional and Political Determinants of Incentive Competition:
Reassessing Causes, Outcomes, Remedies

Ann Markusen and Kate Nesse
Project on Regional and Industrial Economics
Humphrey Institute of Public Affairs
University of Minnesota
301 S. 19th Avenue, Rm 231
Minneapolis, MN 55455
USA
612-625-6351 Fax
markusen@umn.edu
Phone: 612-625-8092
Assistant, Katherine Murphy: 612-626-1074
<http://www.hhh.umn.edu/projects/prie>

August, 2006

Forthcoming in Ann Markusen, ed. *Reining in the Competition for Capital: International Perspectives*, Kalamazoo, MI: W. E. Upjohn Institute for Employment Research.

Incentive competition is on the rise, is costly and generally inefficient, and often not effective even for the winning regions. Yet some regions do very well by attracting large, new facilities that create sustained jobs, bolster the tax base, and have multiplier effects. The nation states of Europe have developed an effective regulatory system that curtails abuse, but the United States, Canada and Australia have grappled with forms of cooperation and regulation less successfully. Incentive competition is spreading to developing countries, especially as responsibility for and fiscal capacity to support economic development has devolved to sub-national levels of government. Local governments also compete for mobile capital, export-oriented as well as retail. Incentive competition for capital is an increasingly important public policy issue, because it consumes considerable resources, alters the spatial distribution of economic activity, and entails large opportunity costs for citizens and businesses.

In this chapter, we argue that incentive competition cannot be adequately approached in a game theoretic, micro-economic fashion. The phenomenon deserves an historical explanation that probes national and global institutional and political changes shaping the rise and character of bidding wars. Our treatment is thus interdisciplinary, incorporating insights from economics, economic history, geography and regional science, political science, political sociology, and urban and regional planning. The chapter is both an original interpretation of the origins and analytics of the "regional market for jobs and tax capacity" and an introduction to and framing of the contributions in the volume.

We first show that incentive competition is proliferating, not just in the US and other OECD countries, but also in large, developing countries with federal power-sharing, such as Brazil, India and China. Many more state and local governments have been thrust into such competition worldwide, and the total amount spent on incentive competition has been rising rapidly. Incentive competition is also waxing among nations, and we explore briefly how the policy and institutional environment differs in these cases.

We then ask why this is the case, offering an institutional and political interpretation of the rise of incentive competition. To economic and geographic causes such as falling transportation and communication costs, vertical disintegration of firms, and a greater spatial division of labor within firms, we stress three additional developments: the rise of site consultants who broker deals between firms and governments; the spread of devolution across the globe, with its delegation of responsibility for economic development to sub-national governments; and the significance of politics and political calculus on the part of participating governments.

We then contrast three different approaches to incentive competition, each with its own economic logic and cast of characters. First, we review the relatively benign view that incentive competition is a healthy way for communities to compete for mobile firms with optimal packages of public services at tax prices and that the outcome is efficient. We review the prisoners' dilemma approach, which views incentive competition in game-analytic terms and concludes that it has at best a zero sum and at worst, a negative efficiency outcome. We offer our own model, what we call the "market for jobs and fiscal capacity" approach, in which information asymmetries not only disadvantage

government competitors for jobs but are created and maintained as rent-producing devices through the intermediation of the site consulting industry. For each of the three competing theories, we identify the conceptualization of the market in which incentives are negotiated, the actors and their assumed behavior, market outcomes, normative underpinnings, and strengths and weaknesses from both analytical and policy points of view.

Our model, with its explicit institutional and political dimensions, favors the retention of local government ability to allocate resources to and regulate economic development activity but advocates reforms that will improve the performance of the market for jobs. This position, in contrast to the "leave it alone, it is good" or the "tax or regulate it away" recommendations of the other approaches, is compatible with most of the findings and recommendations of other authors in this volume.

We then ask what is known about the outcomes of incentive competition, referring to various of the contributions in this volume and others' work. We find it quite mixed. In some cases, incentives can and do create jobs and enhance the tax base in ways that are efficient, equitable and environmentally benign. But micro-economic theoretic approaches limit the assessment of outcomes too narrowly, and the political drama of incentive competition tends to crowd out other economic development paths. We challenge the implicit premise that external investments of plants or facilities are the only route to regional economic development, reviewing the evolution of export base theory. Endogenous entrepreneurial activity, investments in human capital and amenities, and even reshaping local consumption patterns can yield significant long-term job growth. Bidding wars divert decision-makers' attention from a broader portfolio of

economic development tools and options. Incentive packages thus incur large opportunity costs. We argue for a unified economic development budget as a policy innovation for evaluating and improving incentive offers. We support many of the reforms spelled out by the other authors in this volume.

I. Is the Geographic Competition for Capital Increasing?

Many writers and economy watchers contend that the spatial competition for capital is increasing and more intense than ever. In this volume, both Kenneth Thomas and Timothy Bartik make this statement, echoing notable book-length treatments by Barry Bluestone and Bennett Harrison (1982), Nojonen, Graham and Markusen (1993) and more recently Thomas Friedman (2006). Little hard evidence is offered for this view beyond the surge in transnational capital flows and internationally traded commodities, concentrated deindustrialization, and an appeal to our common experience. Thomas' argument is that greater fluidity of capital across regional and national borders increases the number of sites that are possible for any particular investment and thus makes the problem less manageable for competing governments.

Yet worldwide, regional and local communities with responsibility for their own economic development perceive that the competition for mobile capital, linked to the expectation of extra-regional exports, is increasing. Many experience directly the approach by companies expressing interest in sites and asking what can be done to help them, and those that have not been so lucky are interested in becoming candidates. Does a review of national and sub-national government behavior around the world suggest that competition for mobile physical capital has increased? Have governments increased their

involvement in bidding wars, and have the size of packages offered increased? Our answer is a cautious "yes."

In the US, the evidence is fairly strong that incentive competition has increased since the 1960s. "Bidding wars" for specific plants or facilities have become widespread, with incentive packages escalating in total worth. In addition, firms already operating in jurisdictions are now asking for comparable concessions just to remain open and retain jobs. Greg LeRoy (2005) has done a masterful job of documenting hundreds of individual cases of successful and failed incentive competitions in the US over the past twenty years.

Hard evidence of an increase in numbers of governments involved and size of incentives is harder to come by, because of the complexity of modeling and testing for change over time. However, two recent studies suggest that in the US, incentive competition has increased over the past few decades. Using state level data on manufacturing income, capital and labor and their tax-adjusted prices, Chirinko and Wilson (2006) show that investment tax incentives have become increasingly common and increasingly large over the period 1963-2004. Peter Fisher, in this volume, cites data showing that in the 1990s, the average incentive package available to new business investment in 20 US states increased from 10% to 30% of gross business taxes.

The competition for mobile capital in the US is not solely a late 20th century phenomenon. In the 19th and 20th centuries, communities across the US competed for agricultural capital, railroad lines, grain mills, meatpacking plants, and steel mills, as well as farmers and workers (Sbragia, 1996). Fascinating histories have been written about the competition for mobile facilities, public and private, in certain sectors and in entire

regions. For example, Roger Lotchin (1984) reveals how California cities competed for large military bases in the late 19th and early 20th centuries, and Markusen et (1991) show how Colorado Spring out-competed other US cities for the army air bases, the Air Force Academy, and the Space Command from the 1930s to the 1980s. Cobb (1993) reveals how southern states crusaded for industrial development by attempting to lure branch plants in the period from 1936 to 1990. But the character of this competition has changed. In the following section, we address the postwar emergence of an organized US "market" for mobile plants and the jobs and tax base that they bring, the product of institutional innovations that are now spreading to other continents.

Other countries with federal systems have long experienced similar subnational competition for large capital investments, but the stakes have ballooned in recent decades. Australia has a long history of competition for capital among states, lead by its major east coast cities (Berry, 1984). Lagging regions such as South Australia used subsidies to lure major east coast suppliers—in the auto industry, for instance—in the post World War II era (Wanna, 1980). In 2003, following Rupert Murdoch's News Corporation's extraction of \$100 million (Australian dollars) in concessions to build the \$430 million Fox Studios development in Sydney, all but one of Australia's state governments signed an agreement to end investment bidding wars, pledging to exchange information on projects where companies attempt to play one state off against the other (State of Victoria, 2003). Refusing to participate was the fastest growing region, Queensland, believed to be successfully bidding corporate headquarters and facilities away from Victoria and New South Wales with undisclosed deals. In 2006, five states signed a five-year renewal, agreeing to cooperate against multi-national efforts to pit

them against each other, to provide each other with an annual report on attraction activities and to construct a mechanism where concerns about breaches can be raised. Queensland again refused to join, and thus the agreement does not include efforts by states to use tax cuts or other incentives to lure business from interstate rivals (Hughes, 2006).

Regional competition for capital may be waxing in Europe as well. The European states, as Adinda Sinnaeve describes in her chapter here, made an historic decision to rein in the competition for capital among member states and locations within them. In the 1957 Treaty of Rome that formed the European Union, they agree to ban most subsidies to business for plant locations except under certain circumstances. Under-developed regions are permitted to attract businesses with incentives, and certain types of inducements—for job training and R&D, for instance—are permitted. The regulatory system is highly effective, especially at deterring incentives from being offered. Modest reforms are contemplated (Wishlade, 2004), but by and large, the regime is robust.

Nevertheless, as European countries devolve economic development responsibility to lower levels of government, a response to the demand for autonomy on the part of regions (e.g. Spain) and central government fiscal fatigue, the phenomenon of incentive competition may re-emerge. The European Union regulatory scheme does not extend to local governments' use of their own resources or taxing powers to attract new plants or facilities, unless national governments compensate them for such incentives, and court cases are now pressing regions' rights in this regard (Nicolaidis, 2005, 2006). Yet to date, such subnational discretionary powers are quite limited, and the conditions set by the courts on their use quite restrictive.

Since the early 1990s, the American-style regional competition for capital is proliferating in developing countries, especially within large countries with federal systems of governance such as Brazil, India and China. Nowhere has it been fiercer than among Brazilian states in their competition for twenty-two new assembly plants planned and built by foreign auto companies since 1995. Despite Brazilian laws forbidding the reduction of state taxes to attract business, fiscal competition has been rampant and has resulted in excessively large incentives packages that radically relocated the industry away from Sao Paulo to four neighboring states (Rodriguez-Pose and Arbix, 2001; Varsano et al, 2002). The cost per job created appears to be much higher (on the order of \$54,000 to 340,000 per job) than in the US (Oman, 2000), and incentives have induced 40% more auto-making capacity in Brazil than would otherwise have been built (Farrell et al, 2003). India, where economic development responsibilities and fiscal tools have been devolving to the states, is hosting greater fiscal competition and larger tax incentives packages (Venkatesan, 2000; Schneider, 2004).

In China, recent fiscal reforms give cities and regions greater responsibility for local economic development. Cities can now launch large development projects and retain the resulting income (rents, taxes), and they can customize their investment to the specifications of individual foreign investors. Although they cannot engage in bonding, they can form partnerships with banks and foreign investors, and have done so to finance huge infrastructure projects. Concomitantly, a fierce battle for competitive status has broken out, with cities ranked nationally on their success in attracting capital. Xu and Yeh (2005) describe the proliferation of this competition and its dangers, in that Chinese cities (and banks) face only soft budget constraints; if returns do not materialize, the

nation state is required to bail them out. This creates conditions, they argue, for excessive and inefficient investments. In reality, enormous differences in natural resources, accessibility and physical infrastructure dominate the locational calculus of mobile firms in China (Yeung, 2003).

Incentive competition occurs between nations as well as within them. Smaller countries increasingly believe that they must compete for mobile capital with each other. They have been protagonists in high profile bidding wars, as in the famous shopping expedition of John DeLorean to Puerto Rico, Ireland and Northern Ireland to site his auto plant. The winning total incentive package can add up to as much as 75% of the total investment cost of a project (Guisinger, 1995). In the 1990s, newly independent and democratic Eastern European countries competed for European, Japanese and American plants, often with little assurance that such incentives deals might be effective (Helinska-Hughes and Hughes, 2003). Following the fall of the Berlin wall, Eastern European countries such as Poland and Bulgaria offered special location incentive packages with very mixed results. Critics argue that these countries would have been better off investing in the overall business environment and infrastructure and that their use has eroded the tax base without significantly attracting investment (Sorsa, 2003). As these countries join the EU, they must bring their practices in line with the EU's regulatory framework.

A small but important literature documents and addresses growing incentive competition among Canada, the United States and Mexico both before and after NAFTA (DeMont, 1994; Leyton-Brown, 1979-80; Jenkins, 1987). An increase in the size of subsidies to the auto industry in the US and Canada is documented by Thomas (1997), who attributes it to fiercer competition for auto plants. Several policy researchers have

made the case for a European-type commission in NAFTA to regulate incentive competition among the three countries (Graham and Warner, 1994; Pastor, 2001).

Although we do not address incentive competition between nations in this volume, some policy initiatives at multi-lateral and bi-lateral levels have begun to address it. East Asia is a focal point for strategy and experimentation. A study of Cambodia, Lao PDR, and Vietnam found that incentives are expensive and not very effective (Fletcher, 2002). Another policy analyst concluded that competition among countries in Southeast Asia for inward investment may be unavoidable, but that national incentive offers should be streamlined and designed to limit the drain on budgets and the potential for corruption (Tseng, 2002). Another considers the Asian-Pacific region ripe for an investment code that would put limits on incentive levels, simplify incentive instruments, create greater transparency and evaluate the results of incentives (Guisinger, 1995).

Investment competition between nation-states is distinguished from the sub-national focus of our study in that the former is governed by international organizations such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank. Each of these organizations has an interest in reining in the use of sub-national tax incentives and subsidies to minimize trade distortions. The WTO has opposed export or local content performance requirements in return for incentives and allows other countries to apply countervailing duties against export subsidies, while the IMF and World Bank encourage borrowers to reduce subsidies (Guisinger, 1995). In a carefully reasoned paper, Schweke and Stumberg (1999) anticipate that subnational economic development could become illegal in the new global policy environment. However, a recent WTO World Trade Annual Report focused on the issue of subsidies

acknowledges that some subsidies can benefit society and offset the negative externalities of economic activity and that both national and sub-national governments have legitimate objectives in using them, including for economic development. The WTO remains concerned that such subsidies may be trade-distorting. The report notes that few governments fully meet their notification obligations under the WTO, contributing to a serious lack of information and transparency on the use and effect of subsidies, a situation aggravated by lack of common definitions of subsidy practices (World Trade Organization, 2006).

There will undoubtedly be future tussles over WTO policies toward subsidies at all levels of government. If EU-type reasoning is followed, a case might be made for allowing developing but not developed nations to use incentives, analogous to the permissiveness the EU rules show to under-developed regions in Europe. Currently, the WTO estimates that 21 developed countries spend almost \$250 billion on subsidies of all types, almost 85% of all countries' subsidies. The average ratio of subsidies to GDP is lower in developing countries than developed, though there are large variations within each country group (World Trade Organizations, 2006: 112-114). Developed countries, who have the largest stake in preserving subsidies, appear to have successfully argued within the WTO that many subsidies are not primarily trade-motivated but are designed to build infrastructure, foster new industries, promote research and develop new knowledge, protect the environment, redistribute income and help poor consumers (Ibid., xxii).

To summarize, then, incentive competition is on the rise, as demonstrated in the energies devoted to it by sub-national governments and the size of incentive packages. It

is most common in nations with federal structures that share taxing and economic development powers with state and local governments. Although analogous competition occurs among nation states, it is better regulated and subject to international organizational scrutiny. Technological change has obliterated many former barriers to inter-global location, enabling such competition. But incentive competition is also very much shaped by important institutional and political changes, to which we now turn.

II. Institutional and Political Sources of Incentive Competition

In regional bidding wars, the principal actors are state or local governments, on the one hand, and private sector employers, on the other. Incentive packages are put together by the governmental unit, in response to an expression of interest, and sometimes demands, by the potential employer, who may state that he/she also has other potential sites in mind. Each set of actors operates in an historically evolved institutional context that conditions their options and responses (Markusen, 2003). In this section, we argue that two important institutional changes have altered this environment: the rise of site consultants as a third party in the process, and increasing devolution of economic development responsibilities from central to subnational governments. In addition, the motivations of regional political leaders exacerbate the intensity of bidding wars, with negative social and economic results.

American regional scientists and public finance economists were long puzzled by a seemingly paradoxical phenomenon: despite dozens of surveys of the determinants of firm plant location that placed geographical tax differentials very far down on the list of factors that matter, state and local governments continue to feel that they must offer

incentives and lower tax burdens. Firms surveyed from the 1950s well into the 1980s dismissed the importance of taxes as an interregional siting factor—instead, transportation costs, raw material access, labor costs, land costs, infrastructure, and access to markets dominated their locational calculus. But in the past decade or so, firms are now more likely to claim that taxes matter, and empirical estimates suggest that they do matter in terms of differential job creation (Wasylenko, 1997; Bartik in this volume). Why this shift?

Falling transportation and communications costs are one contributor, as noted in Bartik's contribution to this volume. These ease the friction of distance and make other determinants – land costs, labor costs, and infrastructure more important. Yet these costs have been falling for at least two centuries as sequential transportation breakthroughs (steam ship, railroad, trucking, containerization) and communications breakthroughs (telegraph, telephone, radio and radar) without triggering much incentive competition until recently. Corporate vertical disintegration and greater geographical separation of sequential stages in the production process also have contributed, creating a spatial division of labor in which routine manufacturing or final assembly can be located in far-flung sites for either cost or market access reasons, while management, research and development, advance manufacturing and other functions are placed elsewhere (Fröbel, Heinrichs and Kreye, 1979; Markusen, 1985).

Our view is that these explanations contribute to but are inadequate for fully accounting for the spread of subsidy competition and the size of recent incentive packages. Two recent institutional forces are central to this process. First, an entrepreneurial innovation in the site selection process has altered the institutional

environment: the rise of the site location consultant. Even though firms did not consider tax differentials important, they were in a position to extract concessions or "rents" from regions in the negotiating process. Research on defense industry location over the decades demonstrates that company leaders were often completely oblivious to the potential profit they could make by relocating their facilities elsewhere and selling existing sites, often adjacent to major airports, for tremendous returns—engineers dominated management circles, and to them, real estate was just an unimportant happenstance (Markusen et al, 1991). We hypothesize that this attitude towards local government and its tax/service offerings prevailed for American firms until the emergence of site consultants.

The rise of site consultants as brokers in the location process is a fascinating story. The Fantus Corporation pioneered this line of work in the 1930s and dominated the field until the late 1970s, but which time they had relocated 4000 plants, mostly to low wage, anti-union, low business tax and non-urban sites in the south. Fantus, named after its industrial real estate founder, specialized in comparative analysis of potential sites for companies looking to locate new branch plants or offices, When son-in-law Leonard Yaseen took over the business, he began to charge for the analysis. In the 1950s, when fears of strategic bombing were strong, the US government began promoting the dispersal of military manufacturing plants, amplifying the market for site relocation services. In the same era, Fantus began to help large corporations investigate overseas locations. Yaseen then suggested that companies play one location off against the other, demonstrating that the tax and subsidy savings generated could cover his fee. Working the trade media and corporate networking channels, Fantus became a major opinion-

maker in the market for sites. For instance, Yaseen dismissed New York City as a place to do business, a function of personal animosity despite his location there. In 1975, Fantus authored the first state "business climate" rankings, setting off state bidding wars. Eventually, Fantus was sold to the accounting firm Deloitte & Touche, and other firms entered the site selection business (Cobb, 1993; LeRoy, 2005).

Over time the industry has become more fragmented, split between independent consulting firms, large international accounting firms, and law firms, but still quite oligopolistic in character, especially in the large plant location business. Its success has been linked to other developments in corporate governance: the rise of institutional investors and their pressuring of management for higher short term returns, the ascendancy of professional managers, and the growth of real estate as a corporate asset class (Weber, 2000, 2006).

Over time, this site brokering business became institutionalized in ways that enhanced the rate of return for site consultants and their clients. The emergence of a brokering function diminishes competition among suppliers of jobs and tax base by standardizing the way large corporations approach sub-national governments (Thomas, 2000: 31). Site consultants began to hold specialist conferences and create organizations like the World Association of Investment Promotion Agencies (Raines, 2003). Trade magazines such as *Corporate Location* and *Site Selection*, supported by advertising dollars from site location firms, encouraged negotiating firms to choose several states/cities to approach and play off against each other, even if they already had decided on an optimal location. They list deal winners and losers in every issue.

Site consultants began working for the other side, too, marketing their services to cities and regions on the grounds that they have knowledge about firm priorities that government officials do not have. When hired, consultants gain access to knowledge of cities and states' fiscal circumstances and economic development strategies that they can then use in service of their corporate clients (LeRoy, 2005). However, site consultants' loyalties almost always lie with the interests of the job-selling corporation, especially, as is common, when they earn their fees on a commission basis. The higher the tax break and subsidy package extracted, the higher their fees. In real estate sales, where this lopsided relationship is also pervasive, many states have banned such dual agency. Greg LeRoy, in his chapter here, argues that site location consultants have come "to occupy a space where they defy norms about professional ethics and the proper representation of opposing parties," noting that commissions can run up to 30% of the value of acquired subsidies.

Our argument, then, is that a concerted institution-building process has introduced a new set of players, site consultants, into the spatial competition for jobs. As we argue in the next section, their success can be attributed to economic rents that can be extracted from job-hungry governments, especially when information asymmetries can be exploited and even created.

A second institutional change contributes significantly to the ferocity of subsidy competition among subnational governments. Over the past twenty years, national governments have engaged in a process of devolution, abandoning the practice of regional policies aimed at balancing uneven development and relegating responsibility for economic development to subnational governments. More and more countries, large

and small, are creating federal systems of shared powers, following the apparently successful models of the US and Germany, where multi-polar urban systems (Markusen and Gwiasda, 1993) ameliorate primate city-centric rural to urban migration and create competition among subnational governments. In the US, the federal system has long dampened enthusiasm for the type of national regional policies practiced in Europe—the territorially-based Congress (in contrast to a party-based Parliament) acts as an informal resource distribution system instead (Markusen, 1994).

Devolution has complex sources of political support. Many state and local governors and politicians welcome greater control over public and private investments decisions, especially if their regions have suffered from neglect from a former political regime, as in such diverse settings as Cataluna, Wales, Chile, Nicaragua, and South Korea. In some cases, devolution is tied to powerful political movements for greater autonomy, including the assertion of cultural identity. Economists preoccupied with efficiency in location government spending and taxation, a la Tiebout (1956b), argue that public services can be better tailored to regional and local preferences under decentralized structures. Devolution has been favored and strongly incentivized by international organizations such as the IMF and the World Bank as a means of fiscal discipline for national governments in developing countries where regional policy often provided fertile ground for corruption and wasteful spending. National leaders often see devolution as offering relief from expensive (and sometimes inefficient) regional programs and a budget-saving windfall. Concern for uneven development, for the cumulative causation process so elegantly analyzed by Myrdal (1957) and Kaldor (1970), and for the distributional consequences of mobile investment, including the inefficient

under-utilization of local infrastructure in declining regions (Markusen, 1979), is much less often articulated in national economic policymaking in the early 21st century.

However, devolution is neither a simple nor universally successful way of deploying public responsibility for economic development. In the United States, the implicit role model, state governments have had powerful tools for raising revenues and engaging in public infrastructure provision since the Constitution was drafted in 1787. In general, they have in turn delegated revenue-raising and bonding powers to local governments. As a result, subnational governments have considerable but uneven resources to bring to bear on economic development. In many contemporary instances of devolution, central governments give their states and localities economic development responsibility but do not complement them with adequate resources or revenue-raising powers (Llanes, 1998). Furthermore, most sub-national governments have little expertise or experience with economic development, exposing them to greater information asymmetries in bargaining with multi-national corporations and their site consultants. As a result, devolution may quicken incentive competition among states and localities while exacerbating disparities in economic outcomes, as shown by Markusen and Diniz (2005) for Latin America and Schneider (2004) for India, where the wealthiest states usually win such competition.

Politics are also important. Scholars have long contended that economic development practice cannot be understood without an appreciation for political structure and interest group politics. Molotch (1976) made the seminal and durable case that localities develop "growth machines" comprised of groups who own local assets or make their living selling or maintaining them and who do not have options for expanding or

relocating elsewhere. In general, Molotch argued, these groups will develop inordinate influence in local politics and push for policies that induce aggregate population growth. In a survey of European cities, Gordon and Jayet (1991) document the rise of recognizable urban growth machines in Europe, and Cheshire and Gordon (1996) offer a pessimistic view of the ability of territorial agreements to rein in such competition. More recently, Lovering (2003) offers a theory of the regional service class as a group with high stakes in the attraction of outside capital. These political economy theories predict that sub-national governments will over-invest in incentives that help owners of local-specific assets at a net cost to local residents (Bartik, 2006).

A number of policy analysts have offered behavioral explanations for why state and local politicians will espouse and energetically pursue large incentive packages even when they are risky, unnecessary, damaging to the fiscal future of the locality, displacing, or place extraordinary burdens on constituents to fund future services. For one, politicians are motivated by the desire to be re-elected, which relies on name recognition and on contributions from individuals and businesses. These often lead to high profile, large commitments to and ribbon-cutting ceremonies for new plants and facilities, often in the richest, fastest growing areas, even when economic development programs passed by legislatures contain explicit language that favors smaller firms and poorer regions (Dewar, 1998; Luger and Bae, 2005; Wolman and Spitzley, 1996). For another, local officials may want to be seen as proactive in economic development matters and fear that nay-saying will provide fodder for opponents in future elections or saddle the region with a bad reputation among the site consultants who they see as gatekeepers to job-creating investment (Reid and Gatrell, 2003; Wolman, 1988). Brazilian state governments are

subject to similar political distortions, affecting incentive competition and leading to bankruptcy (Rodrigues-Pose and Arbix, 2001).

These institutional features caution against treating the spatial market for jobs as a conventional market. On neither side of this market are the participants operating from simple micro-economic demand and supply positions. Politicians, as demanders of jobs, are motivated by features of the political process as well as the collective welfare of their constituents. Companies, as suppliers of jobs, rely on site consultants to massage the market in their interests and the latter act as surrogates for firm managers. In the following section, we review the various models that others have used to conceptualize subsidy competition and offer a third, institutionally-grounded view.

III. Analytical Approaches to Incentive Competition

Schematically, analyses of and policy implications toward spatial incentive competition can be divided into three camps. One argues that incentive competition is an efficient way of allocating public resources to economic development, because it sets up a competition among units of government for mobile capital. This approach approves of the status quo and is opposed to any attempt to regulate or eliminate such competition. A second camp argues that incentive competition is inefficient, because it distorts the location of productive capacity from what it would have been in the absence of subsidies, and recommends that it be outlawed or taxed away at higher levels of government. A third camp argues that subnational governments should and do have responsibility for economic development but that contemporary excesses are associated with asymmetries in the market for jobs that should be regulated. Next, we lay out the logic of each of

these positions, comparing how each conceptualizes the market for subsidies, how policy posture follows from these, and which economic and political agents are aligned with each.

A. Tiebout-type Models of Spatial Competition for Firms

The "let it be" camp conceives (often implicitly) of the siting process and subsidy bargaining between units of government and firms as taking place in a spatially differentiated market for public services, in which firms seek a set of public services, inputs into their production process, at the lowest possible tax price. Each competing government offers a supply of such services at a tax price. The market is thus structured as a straightforward competition between site and service-offering governments and site-searching firms. Since there are many demanders and suppliers on both sides of the market, the resulting allocation of firm investments will optimize the use of scarce public sector resources and maximize overall local welfare, as firms with different public service needs will be drawn to the specific communities that offer these at the lowest cost.

This model is an analog of the famous Tiebout (1956b) argument in favor of fragmented local governments. In Tiebout's model, households searched across metropolitan local governments for the utility-maximizing mix of public services (schools, public safety, and so on) at the lowest tax price. The Tiebout argument has been used as a post facto rationale for the efficiency of competing local governments in US metropolitan areas, a form of state level devolution that dates back to the late 19th century. Although it has been hotly contested, especially on equity grounds (Markusen,

1974), the theory has proven to be as robust as the proliferation of local jurisdictions. In the US, the National Governors' Association, although it has many times debated the issue, has repeatedly rejected any attempts to curtail subsidy competition (Kayne and Shonka, 1994). Similarly, in Europe, Tiebout-type arguments that tax competition can be welfare-improving have been used to oppose tax harmonization among EU states (Varsano et al, 2002).

The Tiebout-like approach has several virtues. One is its acknowledgement of the linkage between taxes and services received by firms. In various other approaches, and in practice, this link is broken, and the notion that firms' taxes pay for services rendered disappears. The pro-competition approach is also appealing because it offers a way of disciplining public officials whose behavior may otherwise not be in the interests of taxpayers.

On the other hand, this approach is highly simplistic. It assumes that the market for public services is transparent and that all parties have access to full information. It ignores the fact that in reality, bargaining takes place as a time-constrained drama between a single firm and (or so communities believe) multiple bidding jurisdictions. It cannot easily cope with the fact that from a community's point of view, firms aren't just public service consumers and taxpayers, but are also suppliers of jobs. Finally, it operates from a single, selective optimality criterion—efficiency. Many citizens and practitioners of economic development care as much about equity, and in some cases, environmental impacts, as they do about efficient resource allocation.

B. Prisoners' Dilemma Approaches

The second position, the "suppress it" view, argues that subsidy competition is inefficient because it wastes resources by luring firms away from sites they would otherwise favor. In addition, some economists also argue that as a result of shortfalls in revenue associated with tax give-aways, public goods such as education, parks, and public infrastructure will be undersupplied (Burstein and Rolnick, 1995; Zodrow and Mieszkowsky, 1986). Burstein and Rolnick make both these arguments in their call for Congress to tax away state and local business-specific tax and subsidies. Others reason that the mix of public services will be skewed by incentive competition to favor business interests at residents' expense—too many business centers and airports but not enough parks or libraries (Keen and Marchand, 1997).

Economists making these arguments conclude that incentive competition is at best a zero-sum proposition, because little or no net new investment is created across regions, but more likely to be negative, because of public goods under-provision. Following such competition to its logical end, one economist notes, could mean that if every government copies the bids of every other government, the firm will end up where it would have gone anyway, no net new investment will be created, and all governments will have reduced taxes so that public spending is suboptimal (Graham, 2003: 69-71).

That is a general equilibrium approach, but theorists working on this problem often conceptualize it as a "prisoners' dilemma," a single event, or game, in which a government (a prisoner) is bidding against other governments (other prisoners) for a single plant or facility. They would all be better off if they offered nothing, or the same package, the logic goes, but since they do not know each others' bids, a "race to the bottom" is likely (Oates, 1972).

The use of the prisoners' dilemma game to characterize spatial competition for capital has a long history (Thomas, 2000). Cooper (1972) first used it to characterize subsidy competition between countries, followed by Guisinger (1985). Quite sophisticated formulations have recently been offered, including Wohlgemuth and Kilkenny's (1998) modeling of state governments' optimal response to a firm's threat to relocate, taking into account both asymmetrical information and the fact that other firms in the state may, if the relocation buy-off succeeds, demand similar tax and subsidy relief.

The prisoners' dilemma model and its predicted outcomes are useful in demonstrating that firms can extract rents in return for their decision to locate new facilities or even to retain current employment. Indeed, the increasing exploitation of such rents may itself have exacerbated the mobility of capital, lowering the cost of relocation for firms. It is also useful in highlighting the information asymmetry that encumbers most bargaining, and it raises the interesting question why governments do not collude by sharing intelligence on bids to avoid rent extraction. It underscores the plausibility of overall welfare loss from incentive competition. It also captures how many governments perceive the situation, although such perceptions may themselves be a product of the popularization of the model by journalists and site consultants.

But there are problems with the prisoners' dilemma framework. It is a highly stylized, simplistic formulation. It is an event-based model, which makes it difficult to evaluate strings of repeat games, especially since the cast of characters may change (Wood, 2003). Rachel Weber, in her chapter here, makes the point that certain jurisdictions may accumulate skill through repeat games that improve their prospects and bargaining power. (Firms that employ site consultants pay them to accumulate such skills

on their behalf). Repeat games may also help competing governments learn the virtues of collaborating, as game theory predicts more generally (Dixit and Skeath, 2004, Chapter 11) and as demonstrated in the European and Australian cases we discuss above. A central theme of Thomas' (2000) seminal book, *Competing for Capital*, is that iteration makes it possible for governments to cooperate to regulate investment competition, Ironically, some national governments (e.g. Australia) have recently adopted competition policies that consider such collaboration potentially "anti-competitive."

The prisoners' dilemma model cannot easily encompass institutional changes in interests, power and actors, including the rise and behavior of site consultants. It does not permit information asymmetries to be constructed. In its more simplistic formulations, it allows bidders only to give or not give firm-specific subsidies. Yet, the model's assumptions can be modified to permit such intermediate positions (Buchholtz, 1998; Thomas, 2000). Harder to build into this model are the other paths governments might follow to attract firms: lowering the overall tax rate, improving infrastructure, investing in schools or research and development, worker retraining and provision of amenities.

Some versions of the prisoners' dilemma model predict that winning governments will actually be worse off (e.g. Graham, 2003). But others show analytically that use of a prisoners' dilemma model does not necessarily produce a "winner's curse" (Thomas, 2000, Appendix). Bartik in this volume argues that the jobs and tax base created can more than cover the costs of incentives if offers are carefully crafted. He also argues that losing bidders may be better off not being saddled with excess debt and shrinking tax revenues. When modelers begin relaxing assumptions, the welfare losses and gains from

incentive competition become less clear, with some winning and some losing (Varsano et al, 2002).

The remedy indicated by the simplistic application of this model – taxing away subsidies and tax breaks nationally – is a relatively conservative notion. It is driven by a focus on inter-regional efficiency rather than the welfare of individual regions. As Bartik notes, some economists making this argument (Burstein and Rolnick, 1995) have no complaint with across-the-board tax reductions for all business, even though these could be highly inefficient from the point of view of the public sector and would create particularly difficult circumstances for economically distressed local areas.

Finally, the prisoners' dilemma model has difficulty comprehending the complexity of the market for investment. In actuality, government decision-makers have multiple constituencies with competing claims, and their motivations are more complex than the model suggests. An ingenious corrective for this deficit is offered by Basinger and Hallerberg (2004), two political scientists who note that the empirical evidence for the race to the bottom is actually quite weak. They argue that political institutions and organizations mitigate the predicted downward spiral. Modifying the prisoners' dilemma model by allowing domestic politics to modify governments' behavior, they argue that governments may be resistant to requests for tax breaks. For instance, ruling parties may have strong commitments to social programs or be ideologically opposed to tax cuts. Both Thomas and LeRoy in this volume make the case that mobilized citizens can make a difference in politicians' willingness to engage in incentive competition or in the type of deals struck.

C. The Market for Jobs and Tax Capacity Approach

A less elegant but more complex view is that regional governments are preoccupied with creating jobs and amplifying tax capacity. While the two approaches reviewed above are rooted in public finance and micro-economics, this view is more attentive to institutional structure and behavior and common among economists, geographers, planners and other researchers working on economic development. The market in which governments face firms seeking sites can thus be considered a market for jobs and tax base, rather than for public services or for capital investments. State and local governments offer incentives in return for promised jobs, revealed in both the rhetoric accompanying announcements of sitings and in efforts to hold firms to their job-creating commitments with clawback provisions or penalties for non-performance, though the later are often weak. In a similar analysis of the "market for economic development," Weber (2002) uses an institutionalist transactions cost framework to conceptualize this process.

Jobs thus generated are socially valuable, in that they lower local unemployment, raise local labor force participation, enable skill acquisition, and have progressive effects on the local income distribution (Courant, 1994; Bartik, 2001, 2004). The jobs created also generate higher incomes for residents, who in turn, spend the additional income on local goods and services that generate yet other jobs and are invested in housing that generates real estate taxes. Jobs and expanded tax capacity are valued by residents, by politicians for their announcement value, as we argued above, and by the local growth machine as well. Competing governments can be characterized as competing for jobs and tax base, and firms looking for sites as supplying them. The firms pursue incentives

as a rent-seeking activity (Wolkoff, 1992; Weber, 2002a). In what follows, we focus on job creation and less on tax capacity, because it applies more generically to international as well as domestic cases and because the institutional setting for incentive competition at the sub-metropolitan level is more particularistic, involving the retail sector and the growing role of planners and local government officials in real estate development (Weber, 2002b).

Evidence for the pivotal role of jobs in such bargains comes from a remarkable study by Gabe and Kraybill (2002) who argue that firms have an incentive to over-announce the numbers of jobs they will create to increase the size of incentives offered. In a study of 366 Ohio establishments expansions between 1993 and 1995, they found that those that received incentives over-announced employment targets but created no new jobs (and actually led to a reduction in the overall number of jobs), while those that did not receive incentives accurately forecast their job expansion and did create new jobs. Gabe and Kraybill, citing Krueger (1974), suggest that the puzzling job decline in establishments winning incentives might be explained by firm reallocation of resources away from internal efficiencies in production and toward rent-seeking.

We view incentive competition as taking place in a spatial "market for jobs" that is an institutional innovation of site consultants who work to maintain information asymmetries that permit rent-taking. As Weber argues in her chapter here and elsewhere (2002a), the power balance in the market for jobs is uneven, in part because local governments "are embedded in space and not footloose like businesses." She notes that businesses are better able to control the flow of information during incentive negotiations and that the size of the incentive package they need "to make a project feasible may be

much smaller than what they would have the public sector believe." Local governments are not privy to actual cost structures and hurdle rates.

Institutional economists have long understood the importance of opportunistic behavior and the role of information asymmetries in facilitating it (Williamson, 1975). Close observers of incentive competition note that government officials rarely possess accurate information regarding an investor's true intentions (Bachelor, 1997; the Thomas and Weber chapters in this volume). Reid and Gatrell (2003: 112-3) argue that companies that least need incentives have the resources to most effectively engage in opportunistic behavior. They cite documented cases where, after large incentives packages had been granted on the presumption of competition, corporate executives admitted that other sites were never seriously considered.

Leroy (2005) details how site consultants encourage candidate communities to think of themselves as in competition with other communities, sometimes creating high profile bidding as in the Chicago/Denver/Dallas competition for Boeing's relocating headquarters but often not revealing the identity of competitors. Governments are counseled to keep their bids top secret, the implied sanction being permanent blackballing by the site brokering consultants. Thus collusion among localities is suppressed, while the site consulting brokerages can be seen as practicing a sort of informal collusion on behalf of firms to maximize the rents that can be extracted. This is why site-seeking firms themselves do not invest in site selection but purchase such services from a supplier sector.

The way that incentive competition is organized and mediated by the site consultant sector reveals the extent to which information asymmetries are created and

maintained as a condition of rent extraction. Gabe and Kraybill (2002: 707) document how the state of Ohio interacts with the site selection industry. Every year, the state submits to *Site Selection* magazine its list of firm attractions or expansions in the state with announced creation of 50 or more jobs. The magazine then uses this data to compare business growth in states across the nation. By creating this competition and a data base that solicits state announced job expansions, the site selection industry has created an incentive for states to list (and thus to subsidize) as many projects as possible to improve the state's ranking relative to other states. Site consultants, especially when acting as dual agents, can horde information that they have on firms' intentions and on the larger field of competition, including the willingness and ability of other communities and states to offer incentives.

The "market for jobs" approach generally accepts the necessity for governments to compete for capital and to use tools at hand in pursuit of jobs and community well-being. The policy implications, then, focus on how to curtail rent-taking, improve transparency in location decisions, understand why some tools are better than other, and help governments understand the complicated current and long-term tradeoffs associated with developing an incentive offer.

Among the virtues of the market for jobs approach is this focus on institutional factors, on the messy, complicated way that subsidy competition unfolds in reality and how an expanded set of actors (including politicians, growth machines and site consultants) behave under such circumstances. It acknowledges the centrality of the desire for jobs as a motivation for competing governments. Yet in doing so, it has the

disadvantage of obscuring the role of taxes as a price for public services and neglects the negative long-term consequences of associated tax erosion.

Most of the authors in this book work from a market for jobs and tax capacity point-of-view, although Bartik's strong defense of state and local governments' legitimate economic development role and rejection of higher level prohibitions shares elements of the Tiebout-based approach. Thomas, using a prisoner's dilemma approach, concludes that subsidy competition has efficiency, equity and environmental drawbacks and should be regulated, but does not believe subsidies are always bad policy. Fisher's chapter summarizes the evidence on long-term corporate tax erosion and is in that sense compatible with the prisoners' dilemma implications. All three call for reforms and make no specific detailed recommendations for reform.

D. Normative Issues

In evaluating the power and usefulness of these three approaches, it is useful to acknowledge differences in underlying normative posture. In general, economists using Tiebout-type or prisoners' dilemma models work from an explicit assumption that economic efficiency is the sole concern of economic analysis and rationale for policy intervention. However, in economic development practice, a strong case is often made by economists and planners for equity and environmental quality norms co-equal with efficiency (Fitzgerald and Leigh, 2002). Much of economic development practice is framed by an over-arching concern for jobs, and not just any jobs, but quality jobs and jobs for the hardest to employ. Bartik, in his chapter, states that more local employment is a social good and points out that if all local governments competed in a smart way, it is

not obvious that their optimal economic development subsidies would impose a net efficiency cost on other jurisdictions.

In this volume, distributional concerns receive careful attention. Bartik, Schweke, Weber and LeRoy all address the creation of quality jobs. Bartik (1993) evaluates incentives for their ability to produce jobs for existing residents rather than newcomers and finds that in the long run, about 80% of new jobs in local economies are reflected in more population rather than higher employment rates. However, Bartik (1991) also finds that spurts of local growth benefit locals at the back of the labor queue and less skilled and Black workers especially. Schweke specifically addresses the targetting of incentives to those regions and individuals most in need of work.

Others – Thomas, for instance – are sensitive to the regressive distributional impact of subsidies that favor owners of capital at the expense of residents of the community and worsen the income distribution. Fisher's chapter gives hard estimates for the degree of regressivity that has accompanied the erosion of state and local business taxes overall. Thomas addresses harmful environmental consequences, as when subsidies induce building in a floodplain or when negative externalities are imposed on neighboring communities.

In his chapter, Fisher cautions against attributing all observed negative fiscal trends in recent years to incentive competition. He offers three other plausible hypotheses. For one, conservative ideological opposition to the size of the public sector per se may be contributing. For those who believe government is too large, the strategy is to "starve the beast," first by cutting taxes and then by claiming fiscal responsibility and the necessity to cut services. For another, there is the durable though minority

"supply side" theory that contends that growth is only possible by lightening the tax burden on business. Third, some conservatives forthrightly attack progressive income taxes, a form of class warfare rationalized by the tenuous idea that cutting capital gains taxes for individuals will stimulate new business activity in the same state. These are important normative and ideological contributors to conflict over subnational taxation. In legislatures and City Councils where the Republican party has dominated (including the national Congress for the last decade), business tax base erosion and tax regressivity have been on the rise.

Inequities are also possible between firms and among regions. Subsidies to particular firms can also be inequitable between owners of capital and their employed workers, when they unfairly subsidize some firms at the expense of their competitors, an argument recently made in important US court cases and pressed by non-recipient firms in their bid for similar concessions. Indeed, important cases are currently working their way through the courts using the Interstate Commerce Clause that prohibits restraints on trade as a rationale for striking down incentive packages targeted at interstate firm moves.

In general, too, richer states and localities walk away with the prizes, as Varsano et al (2002) found in Brazil, Schneider (2004) in India, and Luger and Bae (2004) in North Carolina. Weber in her chapter describes how this happens at the local level in the US: the more assets a place possesses, the more leverage, expertise and decisional independence it will have and the better negotiating position it will establish. In contrast, poorer jurisdictions will have to offer more to succeed and are much more likely to give away the store to lure a plant, often without demanding performance.

IV. Does Incentive Competition Yield Economic Development for Winners?

A paradox in debate over incentive competition is that there is little agreement whether engaging in it results in benefits for bid-winning states and localities. The evidence, most of it on the US case, is mixed. For an initial assessment of the international case, see Guisinger (1996).

Some researchers argue that incentives are too small to matter to firms in their choice of location. Their evidence is based on surveys in which firms respond to questions about which spatially differentiated factors of product matter most to them in siting plant and facilities (Guisinger, 1992; Enrich, 1996; Farrell et al, 2003). Greenstone and Moretti (2003), found that cities winning high profile plants in the US did better than their losing competitors, but as Fisher argues in his paper here, the researchers assumed that the incentives were decisive, rather than bargained for after the fact.

Up through the late 1980s, the consensus was that economic development incentives had at best an ambiguous impact on growth and probably little to no impact at all (Eisinger, 1988; Peters and Fisher, 2004). Since then, a number of empirical studies have shown that tax incentives and other subsidies do make a difference in regional growth rates (Bartik, in this volume; Hines, 1995; Newman and Sullivan, 1988; Phillips and Goss, 1995; Wasylenko, 1997). The evidence appears stronger for job creation than net positive tax effects (Peters and Fisher, 2004). Bartik (1994) argues that it is highly likely that incentives are always revenue negative. The causality is so complex, however, that at least one researcher, reviewing the US case, has concluded that no one really knows what the effectiveness or welfare implications of incentive competition are (Graham, 2003: 71).

Even if governments that engage in successful incentive offers generate more output, jobs and tax revenues subsequently, this does not necessarily constitute economic development. For one thing, it may not be positive for the state or country as a whole, if other jurisdictions lose jobs and tax base as a result. And there are the distributional consequences as well, where tax burdens are shifted to residents and the quality of public services declines. Fisher's chapter shows the long-term erosion in business tax shares of state revenues, from a high of nearly 10% in 1980 to just under 5% by 2002. Peters and Fisher (2002), in a study of state enterprise zones, show that during just eight years in the 1990s, the effective state tax rate on new investment fell by 30%. LeRoy's (2005) book cites many cases of local governments unable to pay for operating expenses and other services following risky underwriting of competed projects, including long-term responsibility for paying off bonds used to build infrastructure that is subsequently unused. Citizens of these jurisdictions are thus now shouldering a higher share of the tax burden for public services (without any clear increase in the share devoted to them) and are going without services they might otherwise have enjoyed.

Furthermore, even for bid-winning localities whose jobs and tax base expand, economic development outcomes might have been more positive had those resources been used differently. Each subsidy and tax expenditure involves opportunity costs for governments and their citizens. Even better jobs and greater tax capacity might have resulted from alternative allocations of economic development resources. To this final question we now turn.

V. Is Attraction of External Export-producing Physical Capital the Only Route to Jobs?

So far, we have not tied incentive competition to an important, hallowed theory in economic development—that regions' overall growth is tied to their ability to export to other regions goods and services that in return permit them to import the goods and services that they cannot competitively produce. The prominence of export base theory as a conception of macro growth at the subnational level has not been seriously questioned in the half century since it was formulated, though at the national level, some national governments have engaged in an alternative import substitution strategy, an approach much discredited in recent years. In our view, incentive competition is embraced by state and local governments because leaders believe that only export-oriented activity will generate net new jobs. (Intra-metropolitan bidding wars for retail jobs simply decides who gets the jobs without altering the total created). In this section we review the history of export base theory, sometimes called economic base theory, and evaluate the evidence on its power to explain aggregate regional growth.

Historically, the world economy has experienced large swings in openness, followed by significant slowdowns and retrenchments. Economic integration is not a unilateral progression over time, nor are exports reliably the leading source of regional economic growth. In the first half of the 19th century, economist Douglas North (1966) elegantly demonstrated that slave-cultivated southern cotton drove the aggregate US capital accumulation and the growth rate. After the Civil War, the US retreated behind high tariff barriers to nurture its own manufacturing economy, growing robustly from an internal elaboration of the division of labor, especially the synergy between increasingly capital-intensive agriculture and producer goods manufacturing (Hobsbawm, 1975). Thus in successive eras, regional and national economic growth has been variously

oriented externally or internally. Shifts from one to the other are linked to developments in technology, especially in transportation and communications, but also to political and institutional changes.

We currently live in an era that is pre-occupied with trade. Most economists argue that regions must specialize and export more than ever before, because the penetration of inexpensive and often high quality imports is eroding whole segments of local and regional economies (Howes and Markusen, 1993). Ever since Douglas North's (1955) elegant statement of it, indebted to Harold Innis' (1930) staples theory, the export base argument goes more or less as follows. In a trade-integrated world, regions outside of one's own are superior producers of many goods and services locally consumed, and in order to be able to pay for these imports, the region must specialize in certain exportable goods and services. In the mid-20th century world, with its sophisticated globe-transcending transportation systems that reached far into little hamlets everywhere, the power of this theory was manifest. Economists codified the theory into the economic base model, ubiquitously used even today in multiplier analysis.

Nevertheless, from the beginning, the theory had its critics. In his famous debate with North, Charles Tiebout (1956a) pointed out an obvious logical flaw in the theory: the world economy as a whole does not export. In addition, a regional economy's ability to provide for itself increases as its income from exports grows, resulting in import substitution. Tiebout also argued that people have different consumption patterns in different regions, complicating the model's application. But more importantly, Tiebout argued for an endogenous theory. Harkening back to Adam Smith, he posited that an elaborating internal division of labor could spur regional growth without export growth.

His theory was brilliantly applied by Diane Lindstrom (1978) in her famous book on the early Philadelphia region, where she showed that a relatively autarchic region grew robustly from growing synergies between diversified farming and more urban manufacturing industries. Bartik (2003) makes the modern case for non-export-oriented sources of job and tax base growth by noting that cases where a new local-serving activity absorbs underutilized land or labor, or where it increases overall productivity.

Subsequently, practitioners of economic development vigorously debated and experimented with import substitution and export-based strategies for regional and national development, especially in the developing world. Many industrialized countries, among them the US and Japan, nurtured their early industrial economies behind large tariff barriers and succeeded in important substitution on a massive scale. In the 1970s and 1980s, Latin American countries in particular tried to follow this path, but the strategy's apparent failure brought an emphasis on export base strategies back into fashion.

Yet the evidence on the relationship between overall growth and export growth is far from established. In recent decades, economists working in international development have begun to question the lead role of exports in explaining GDP growth for both developing and developed countries. As early as the 1960s, Ball (1962) argued that export expansion could retard domestic development by siphoning off investment. Others have argued that exports may be a consequence rather than a cause of economic growth. In a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality. Jung and Marshall (1985) found that for 37 developing countries, evidence on the period 1950-81

supports the export promotion thesis in only four cases; five countries reduced exports with growth, while four countries experienced export growth with output reduction. Ghartey (1993) concluded that export-driven development appears to explain growth in Taiwan but not Japan or the US. In a five-country study, Sharma et al (1991) found that Japan and Germany experienced export led growth from 1960 to 1987 but in the US and the UK, output growth appears to have induced export growth.

Thus at the national level, there is no clear evidence that exports drive overall growth. There is equally strong evidence that endogenous developments – new product creation first aimed at local markets and process innovations that increase productivity – may drive growth and prompt export expansion. What about regional growth? Why might locally-oriented economic activity drive overall regional growth in an increasingly competitive world?

Several hypotheses have been advanced. For one, an innovation aimed at a local market might turn out to have much broader applicability and become an exported product or service (Cortwright, 2002). Boeing's original seaplanes, designed for Seattle use, are an example. For another, people are also mobile and may choose locations to live and work based on amenities, creating more local-serving activities paid for with asset income or entitlements (like social security) earned elsewhere (Nelson and Beyers, 1998). Many mid-sized American metropolitan areas have grown principally from retiree in-migration, and many larger cities have grown through immigration not tied to specific jobs. Third, secular changes in consumption patterns, linked to demographic characteristics such as aging or labor force participation decisions such as two-parent households, may result in disproportionate demand for local-serving industries.

Markusen and Schrock (2006) found that over the period 1980 to 2000, the local-serving occupations in the thirty largest US metros outpaced job growth in export base occupations by four to one. For a more general treatment of the potential for local-serving economic development strategies to produce growth see Markusen (2006).

The evidence is thus not compelling that exogenous growth, linked to export demand and the attraction of mobile capital, is more powerful than endogenous growth from human capital investments, innovation, an elaborating local division of labor, amenities-led population growth or consumption shifts. Exports do matter, but they are not everything. If this is the case, decisions about firm subsidies should be embedded in a portfolio approach to economic development, in which the short and long-term opportunity costs of particular incentives are weighed against alternative investments that might be superior from a normative point of view for the community involved. LeRoy's chapter includes a call for unified development budgets as one way to implement just such a portfolio approach. Schweke, St. George and Rist (1998) did the original conceptual work on unified development budgets. To date, the best application of the concept is the study published by Mountain Association for Community Economic Development (2005) for the state of Kentucky.

VI. Conclusion and Summary of the Contributions

With the authors in this volume, we conclude that state and local governments should and, in many countries, do have the responsibility for shepherding economic development in their communities. As Weber states, taxes and expenditures are among the few tools they have to pursue good jobs and long term stability for their constituents,

along with certain regulatory strategies. The policy challenge is not to embrace incentive competition or fully suppress it, but to reform it in ways that encourage the benefits to exceed the costs and to achieve normative goals on efficiency, equity and environmental fronts. Even the European Union, as Sinnaeve articulates, distinguishes between good subsidies and bad.

The chapters in this book are rich in policy recommendations aimed at local, state and national governments, respectively, based on careful reasoning and empirical evidence. Political scientist Thomas makes the case for the excesses of contemporary subsidy competition and tells a sordid tale of information asymmetry and political machinations at the local level in a particular subsidy case. Although he favors eliminating incentive competition with a European Union-type regulatory system, he believes this is unrealistic for the US. Sinnaeve acknowledges the downside of the EU system—it requires a heavy administrative burden, struggles with the right balance between rule-making and flexibility, and does not fully suppress illegal aid. Other nations, however, might be well-advised to adopt an EU-type regulatory regime, because it has achieved impressive gains in deterring subsidy offers and eliminating distorted competition.

Bartik reviews the conditions under which incentives are reasonable, advising the use of cost/benefit analysis for governments engaging in negotiations and competitions. He cautions against looking only at jobs and tax revenues, and to include the costs and benefits of public services and the prospects for local versus non-local hiring.

Schweke critiques an existing incentive program in North Carolina, the William S. Lee Act, that was designed to favor poorer counties but hasn't, and proposes two

targeted state tax incentive programs in its place. One would kick in during cyclical downturns, creating jobs by giving firms tax credits for wages of new hired workers, spurring a substitution of labor for capital. The other would target the highest unemployment counties in the state by giving employers wage and benefits subsidies to hire unemployed, local workers. These programs would induce job creation in regions and among workers who most need work, in contrast to the Lee Act, which has subsidized mainly large firms to locate in wealthy suburban areas around the largest cities, bringing many of their workers with them. Schweke's proposals demonstrate the careful tailoring that must be undertaken to ensure that the reforms, rather than prohibitions, will be able to address the inefficiencies and inequities of incentive competition.

Bartik, Weber and Leroy offer detailed reforms to improve the operation of the jobs market. These include transparency, performance requirements, community benefits agreements, pay-as-you-go deals, school board say on TIF and tax abatements (to prevent erosion of public funds for schools), unified development budgets, and multi-jurisdictional tax regime reforms, such as closing corporate reporting loopholes and repealing the single sales factor formulation at the state level. Weber focuses her recommendations on local public officials and how they might improve their bargaining position in deal-making. LeRoy, appreciating the virtues of simple and straightforward remedies, offers fewer, simpler laws and stronger enforcement. His set of eight reforms includes three innovative ideas: disclosure of state-by-state taxes paid to corporate shareholders (which would raise the visibility of exploitation of differentials in state tax

systems), using federal spending as a carrot (and a stick) against job piracy; and defining site location consultants as lobbyists and regulating them accordingly.

Although many state and local government and interest group leaders have been seeking incentive competition reform in the US and elsewhere for some time, there has been a quickening of interest and a coalescing of ideas and organizational energy in the last decade. As the excesses worsen and governments feel greater pressure to spend time and resources in business recruitment, many observers think that the time is ripe for significant reform along the lines of the proposals offered in this book. A great deal of credit goes to Greg Leroy and his organization, Good Jobs First, which has served as an important clearing house for information on subsidy competition and applied research shop for evaluating outcomes of past deals.

As the market for jobs goes global and devolution deepens, the site consulting industry is entering new territory, especially in developing countries. A very great challenge for economists, economic development practitioners and activists working on these issues is to cope with this internationalization of subsidy competition. State and local governments in more developed nations may find themselves pitted not so much against each other but against competitors yet farther afield with whom it is even more difficult to communicate and compare notes. Economic development officials, politicians, and the public in developing countries where incentive competition is spreading need ideas, help and cooperation from experts and organizations that are already successfully regulating such competition, as in the European Union, or who are slowly winning battles in transparency requirements, deal negotiations, court cases, and

broader views of economic development strategy and tools. We hope that this volume contributes substantially to this project.

References

- Bachelor, Lynn. 1997. "Business Participation in Economic Development Programs: Lessons from Six Ohio Cities." *Urban Affairs Review*, Vol. 32, No. 5: 704-22.
- Ball, Roy. 1962. "Capital Imports and Economic Development: Paradox or Orthodoxy?" *Kyklos*, Vol. XV: 610-23.
- Bartik, Timothy J. 1991. *Who Benefits from State and Local Economic Development Policy?* Kalamazoo, MI: W. E. Upjohn Institute for Employment Research Press.
- Bartik, Timothy J. 1993. "Who Benefits from Local Job Growth: Migration or the Original Residents?" *Regional Studies*, Vol. 27, No. 4: 297-312.
- Bartik, Timothy J. 1994. "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" *National Tax Journal*, Vol. 47: 847-862.
- Bartik, Timothy J. 2001. *Jobs for the Poor: Can Labor Demand Policies Help?* New York: Russell Sage.
- Bartik, Timothy J. 2004. "Local Economic Development Policies." In J. Richard Aronson and Eli Schwartz, eds. *Management Politics in Local Government Finance*. 5th edition. Washington, DC: International City/County Management Association: 355-390.
- Bartik, Timothy J. 2006. Private communication.
- Basinger, Scott and Mark Hallerberg. 2004. "Remodeling the Competition for Capital: How Domestic Politics Erases the Race to the Bottom." *American Political Science Review*, Vol. 98, No. 2: 261-76.
- Berry, Michael. 1984. "The Political Economy of Australian Urbanisation." *Progress in Planning*, Vol. 22(Part 1): 1-83.
- Bluestone, Barry and Bennett Harrison. 1982. *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry*. New York: Basic Books.
- Buchholz, David E. 1998. *Competition and Corporate Incentives: Dilemmas in Economic Development*. Unpublished Doctoral Dissertation, Duke University.
- Burstein, Melvin L. and Arthur J. Rolnick. 1995. "Congress Should End the Economic War Among the States." In Federal Reserve Bank of Minneapolis, *Annual Report 1994*, Annual Report 9: 1.
- Cheshire, Paul and Ian R. Gordon. 1996. "Territorial Competition and the Predictability of Collective (In)Action." *International Journal of Urban and Regional Research*, Vol. 20, No. 3: 383-99.

- Chirinko, Robert, and Daniel J. Wilson. 2006. "State Investment Tax Incentives: A Zero-Sum Game?" Paper prepared for the 2006 NTA Annual Meetings, Boston, November.
- Cobb, James C. 1993. *The Selling of the South: The Southern Crusade for Industrial Development 1936-1990* (2nd ed.). Urbana, IL: University of Illinois Press.
- Cooper, Richard N. 1972. "Economic Interdependence in the 1970s." *World Politics*, Vol. 24, No. 2: 159-81.
- Cortright, Joseph. 2002. "The Economic Importance of Being Different: Regional Variations in Tastes, Increasing Returns, and the Dynamics of Development." *Economic Development Quarterly*, Vol. 16: 3-16.
- Courant, Paul N. 1994. "How Would You Know A Good Economic Development Policy If You Tripped Over One? Hint: Don't Just Count Jobs." *National Tax Journal*, Vol. 47, No. 4: 863-881.
- DeMont, John. 1994. "Fast Frank: How New Brunswick's Premier Turned His Province Into Canada's Social Laboratory." Maclean's, 11 April.
- Dewar, Margaret. 1998. "Why State and Local Economic Development Programs Cause So Little Economic Development." *Economic Development Quarterly*, Vol. 12, No. 1: 68-87.
- Dixit, Avinash and Susan Skeath. 2004. *Games of Strategy*. 2nd Edition. New York: WW Norton and Company.
- Eisinger, Peter. 1988. *The Rise of the Entrepreneurial State*. Madison: University of Wisconsin Press.
- Enrich, Peter D. 1996. "Saving the States from Themselves: Commerce Clause Constraints on State Tax Incentives for Business." *Harvard Law Review*, Vol. 110: 377-468.
- Farrell, Diana, Jaana Remes, and Heiner Schulz. 2003. "New Horizons: Multinational Company Investments in Developing Countries." October. <http://www.mckinsey.com/global/firm/search/search.asp>
- Fitzgerald, Joan and Nancey Green Leigh. 2002. *Economic Revitalization: Cases and Strategies for City and Suburb*. Thousand Oaks: Sage Publications.
- Fletcher, Kevin. 2002. "Tax Incentives in Cambodia, Lao PDR, and Vietnam." Prepared for the IMF Conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Lao P.D.R. and Vietnam, Hanoi, Vietnam, April 16-17.
- Friedman, Thomas. 2006. *The World is Flat: A Brief History of the Twenty-First Century*. Expanded edition. New York: Farrar, Straus & Giroux.

- Fröbel, Folker, Jürgen Heinrichs and Otto Kreye. 1979. *The New International Division of Labour: Structural Unemployment in Industrialised Countries and Industrialisation in Developing Countries (Studies in Modern Capitalism)*. Cambridge: Cambridge University Press.
- Gabe, Todd and David Kraybill. 2002. "The Effect of State Economic Development Incentives on Employment Growth of Establishments." *Journal of Regional Science*, Vol. 42: 703-730.
- Ghartey, Edward. 1993. "Causal Relationship between Exports and Economic Growth: Some Empirical Evidence in Taiwan, Japan and the US." *Applied Economics*, Vol. 25: 1145-1152.
- Gordon, Ian and H. Jayet. 1991. "Territorial Policies between Co-operation and Competition." Paper presented to the North American Congress of the Regional Science Association, New Orleans.
- Graham, Edward M., and Mark A.A. Warner. 1994. "Multinationals and Competition Policy in North America." In Lorraine Eden, ed., *Multinationals in North America*. Calgary: University of Calgary Press.
- Graham, Edward. 2003. "Attracting Foreign Direct Investment to the United States: the Joust Between the Federal Government and the States." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 61-78.
- Greenstone, Michael and Enrico Moretti. 2003. "Bidding for Industrial Plants: Does Winning a 'Million Dollar Plant' Increase Welfare?" New York: National Bureau of Economic Research, Working Paper 9844.
- Guisinger, Stephen E. 1985. "A Comparative Study of Country Policies," in Stephen E. Guisinger and Associates, *Investment Incentives and Performance Requirements: Patterns of International Trade, Production, and Investment*. New York: Praeger.
- Guisinger, Stephen E. 1986. "Do Performance Requirements and Investment Incentives Work?" *World Economy*, Vol. 9: 79-96.
- Guisinger, Stephen. 1992. "Rhetoric and Reality in International Business: A Note on the Effectiveness of Incentives." *Transnational Corporations*, Vol. 1: 111-23.
- Guisinger, Stephen. 1995. "Harmonizing Investment Incentives in the APEC Process." *Journal of Northeast Asian Studies*, Vol. 14, No. 4: 38-50.
- Helinska-Hughes, Ewa and Michael Hughes. 2003. "Joining the Competition: Central and Eastern European Challenge to Established FDI Destinations." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 155-172.

- Hines, James R. Jr. 1995. "Altered States: Taxes and the Location of Foreign Direct Investment in the United States." *American Economic Review*, Vol. 86, No. 5: 1076-94.
- Hobsbawm, Eric. 1975. *The Age of Capital: 1848-1875*. Longdon: Weidenfeld & Nicholson.
- Howes, Candace and Ann Markusen. 1993. "Trade, Industry, and Economic Development." In Helzi Noponen, Julie Graham and Ann Markusen, eds. *Trading Industries, Trading Regions*. New York: Guilford Press: 1-44.
- Hughes, Duncan. 2006. "Queensland Snubs States on Poaching Agreement." *The Australian Financial Review*. Wednesday, August 2: 1, 8.
- Innis, Harold. 1930. *The Fur Trade in Canada: An Introduction to Canadian Economic History*. New Haven, CT: Yale University Press.
- Jenkins, Rhys. 1987. *Transnational Corporations and the Latin American Automobile Industry*. Pittsburgh: University of Pittsburgh Press.
- Jung, Woo and Peyton Marshall. 1985. "Exports, Growth and Causality in Developing Countries." *Journal of Development Economics*, Vol. 18: 1-12.
- Kaldor, Nicholas. 1970. "The Case for Regional Policies." *Scottish Journal of Political Economy*, Vol. 17: 337-48.
- Kayne, Jay, and Molly Shonka. 1994. *Rethinking State Development Policies and Programs*. Washington, DC: National Governors' Association, Economic Development and Commerce Policy Studies, Center for Policy Research.
- Keen, Michael and Maurice Marchand. 1997. "Fiscal Competition and the Pattern of Public Spending." *Journal of Public Economics*, Vol. 66: 33-53.
- Krueger, Anne. 1974. "The Political Economy of the Rent-Seeking Society." *American Economic Review*, Vol. 64: 291-303.
- LeRoy, Greg. 2005. *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation*. San Francisco: Berrett-Koehler Publishers.
- Leyton-Brown, David. 1979-80. "The Mug's Game: Automotive Investment Incentives in Canada and the United States." *International Journal*, Winter: 170-84.
- Lindstrom, Diane. 1978. *Economic Development in the Philadelphia Region, 1810-1850*. New York: Columbia University Press.
- Llanes, Marlen. 1998. *Contrasts in Decentralization: Causes and Consequences of Success and Failure in Chile and Nicaragua*. Doctoral Dissertation, Rutgers University.

- Lotchin, Roger W. 1984. *The Martial Metropolis: U.S. Cities in War and Peace*. New York: Praeger.
- Lovering, John. 2003. "MNCs and Wannabes—Inward Investment, Discourses of Regional Development, and the Regional Service Class." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 39-60.
- Luger, Michael and Suho Bae. 2005. "The Effectiveness of State Business Tax Incentives: The Case of North Carolina." *Economic Development Quarterly* Vol. 19, No. 4: 327-345.
- Markusen, Ann. 1974. "The Economics of Social Class and Metropolitan Local Government: A Summary." *National Tax Association, Papers and Proceedings*, May.
- Markusen, Ann. 1979. "Regional Economic Contraction and Intergovernmental Finance: A Theoretical Perspective." *National Tax Association, Papers and Proceedings*, May.
- Markusen, Ann. 1985. *Profit Cycles, Oligopoly and Regional Development*. Cambridge, MA: MIT Press.
- Markusen, Ann, 1994. "American Federalism and Regional Policy." *International Regional Science Review*, Vol. 16, Nos. 1 and 2: 3-15.
- Markusen, Ann. 2003. "An Actor-Centered Approach to Economic Geographic Change." *Annals of the Japan Association of Economic Geographers*, Vol. 49, No. 5: 395-408.
- Markusen, Ann. 2006. "The Rural Cultural Economy: A Consumption Base Model for Development." *Agricultural and Resource Economics Review*, forthcoming.
- Markusen, Ann and Clelio Campolina Diniz. 2005. "Differential Regional Competitiveness: Opportunities and Constraints." In Paolo Giordano, Francesco Lanzafame and Jorg Meyer Stamer, eds., *Asymmetries in Regional Integration and Local Development*. Washington, DC: Inter-American Development Bank: 116-161.
- Markusen, Ann and Vickie Gwiasda. 1993. "Multi-Polarity and the Layering of Functions in World Cities: New York City's Struggle to Stay on Top." *International Journal of Urban and Regional Research*. Vol. 18, No. 2: 167-193.
- Markusen, Ann, Peter Hall, Scott Campbell and Sabina Deitrick. 1991. *The Rise of the Gunbelt: The Military Remapping of Industrial America..* New York: Oxford University Press.

- Markusen, Ann and Greg Schrock. 2006. "The Distinctive City: Divergent Patterns in American Urban Growth, Hierarchy and Specialization." *Urban Studies*, Vol. 43, No. 8: 1301-1323.
- Molotch, Harvey. 1976. "The City as a Growth Machine." *The American Journal of Sociology*, Vol. 82, No. 2: 309-332. <http://nw-ar.com/face/molotch.html>
- Mountain Association for Community Economic Development. 2005. *Accounting for Impact: Economic Development Spending in Kentucky*. Berea, KY: MACED, www.maced.org.
- Myrdal, Gunnar. 1957. *Economic Theory and Underdeveloped Regions*. London: Duckworth.
- Nelson, Peter B., and William B. Beyers. 1998. "Using Economic Base Models to Explain New Trends in Rural Income." *Growth and Change* 29 (summer): 295-318.
- Newman, Robert J. and Dennis H. Sullivan. 1988. "Econometric Analysis of Business Tax Impacts on Industrial Location: What Do We Know and How Do We Know It?" *Journal of Urban Economics*, Vol. 23: 215-34.
- Nicholaides, Phedon. 2005. "State Aid and Taxation by Sub-National Authorities." *European State Aid Law Quarterly*, No. 3: 21-30.
- Nicholaides, Phedon. 2006. "The Boundaries of Tax Autonomy." *European State Aid Law Quarterly*, No. 1: 99-101.
- Noponen, Helzi, Julie Graham and Ann Markusen, eds. 1993. *Trading Industries, Trading Regions*. New York: Guilford Press.
- North, Douglass. 1955. "Location Theory and Regional Economic Growth." *Journal of Political Economy*, Vol. 63, No. 3: 243-58.
- North, Douglass. 1966. *Economic Growth of the United States, 1790 to 1860*. New York: Norton.
- Oates, Wallace. 1972. *Fiscal Federalism*. New York: Harcourt Brace Jovanovich.
- Oman, Charles P. 2000. *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI*. Paris: Organization for Economic Co-operation and Development.
- Pastor, Robert A. 2001. *Toward a North American Community: Lessons from the Old World for the New*. Washington: Institute for International Economics.
- Peters, Alan and Peter Fisher. 2002. *State Enterprise Zone Programs: Have They Worked?* Kalamazoo, MI: W. E. Upjohn Institute for Employment Research.

- Peters, Alan and Peter Fisher. 2004. "The Failures of Economic Development Incentives." *Journal of the American Planning Association*. Vol. 70, No. 1: 27-37.
- Phillips, Joseph and Ernest Goss. 1995. "The Effects of State and Local Taxes on Economic Development: A Meta-Analysis." *Southern Economic Journal*, Vol. 62: 197-316.
- Raines, Philip. 2003. "Flows and Territories: the New Geography of Competition for Mobile Investment in Europe." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 119-136.
- Reid, Neil and Jay D. Gatrell. 2003. "Uncertainty, Incentives, and the Preservation of an Industrial Icon: The Case of Toledo Jeep. " In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 99-118.
- Rodriguez-Pose, Andres and Glauco Arbix. 2001. "Strategies of Waste: Bidding Wars in the Brazilian Automotive Sector." *International Journal of Urban and Regional Research*, Vol. 25, No. 1: 134-154.
- Sbragia, Alberta. 1996. *Debt Wish: Entrepreneurial Cities, US Federalism, and Economic Development*. Pittsburgh: University of Pittsburgh Press.
- Schneider, Aaron. 2004. "Accountability and Capacity in Developing Country Federalism: Empowered States, Competitive Federalism." *Forum for Development Studies*, Vol. 31, No. 1: 33-56.
- Schweke, William and Robert Stumberg. 1999. "Could Economic Development Become Illegal in the New Global Policy Environment?" Working paper. New York: The Corporation for Enterprise Development, July.
- Schweke, William, Jim St. George, and Carl Rist. 1998. "Creating a 'Unified Development Budget' for North Carolina." Presentation at NEA Roundtable Discussion on Educational Finance and State Structural Deficits, October 19-20. Available from Corporation for Enterprise Development, www.cfed.org.
- Sharma, Subhash, Mary Norris and Daniel Wai-Wah-Cheung. 1991. "Exports and Economic Growth in Industrialized Countries." *Applied Economics*, Vol. 23: 697-708.
- Sorsa, Piritta. 2003. "Special Investment Incentives May Come at a High Cost to the Economy." *Capital*, No. 9: 8-14.
- State of Victoria, Australia. 2003. "States Agree to End Investment Bidding Wars." Media Release, September 5.
http://www.dpc.vic.gov.au/domino/Web_Notes/newmedia.nsf/955cbeae7df9460dca

[256c8c00152d2b/fb21eee7f27c4044ca256d9a0080fb0b!OpenDocument](#), retrieved August 8, 2006.

- Thomas, Kenneth P. 1997. *Capital Beyond Borders: States and Firms in the Auto Industry, 1960-1994*. Basingstoke: Macmillan.
- Thomas, Kenneth. 2000. *Competing for Capital*. Washington, DC: Georgetown University Press.
- Tiebout, Charles. 1956a. "Exports and Regional Economic Growth." *Journal of Political Economy*, Vol. 64, No.2: 160-169.
- Tiebout, Charles. 1956b. "A Pure Theory of Local Expenditures." *Journal of Political Economy*, Vol. 64, No. 5: 416-24.
- Tseng, Wanda. 2002. "FDI Conference – Concluding Remarks, August 17." Written as a result of the IMF Conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Lao P.D.R. and Vietnam, Hanoi, Vietnam, April 16-17. <http://www.imf.org/external/pubs/ft/seminar/2002/fdi/eng/>
- Varsano, Ricardo, Sergio Guimaraes Ferreira, and Jose Roberto Afonso. 2002. "Fiscal Competition: A Bird's Eye View." Texto Para Discussao No 887. Rio de Janeiro, Brazil: Instituto de Pesquisa Economica Aplicada. ISSN 1415-4765.
- Venkatesan, R. 2000. *Study on Policy Competition among States in India for Attracting Direct Investment*. New Delhi, India: National Council of Applied Economic Research.
- Wanna, John. 1980. "The Economic Development of South Australia: a Marxist Analysis." *Journal of Australian Political Economy*. Vol. 9: 2-24.
- Wasylenko, Michael. 1997. "Taxation and Economic Development: The State of the Economic Literature." *New England Economic Review*. March/April: 37-52.
- Weber, Rachel. 2000. "Why Economic Development Incentives Don't Create Jobs: A Legal Analysis of Corporate Incentive Structures. *The Urban Lawyer*. Vol. 32, No. 1: 97-119.
- Weber, Rachel. 2002a. "Do Better Contracts Make Better Economic Development Incentives? *Journal of the American Planning Association*. Vol. 68, No. 1: 43-55.
- Weber, Rachel. 2002b. "Extracting Value from the City: Neoliberalism and Urban Redevelopment." *Antipode*. Vol. 34, No. 3: 519-40.
- Weber, Rachel. 2006. Personal communication.
- Williamson, Oliver. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications A Study in the Economics of Internal Organization*. New York: The Free Press.

- Wishlade, Fiona. 2004. "The Beginning of the End, or Just Another New Chapter? Recent Developments in EU Competition Policy Control of Regional State Aid." *European Policy Research Papers*, No. 54, European Policies Research Centre, University of Strathclyde, Glasgow.
- Wohlgemuth, Darin and Maureen Kilkenny. 1998. "Firm Relocation Threats and Copy Cat Costs." *International Regional Science Review*, Vol. 21, No. 2: 139-162.
- Wolkoff, Michael. 1992. "Is Economic Decision Making Rational?" *Urban Affairs Quarterly*, Vol. 27: 340-355.
- Wolman, Harold. 1988. "Local Economic Development Policy: What Explains the Divergence between Policy Analysis and Political Behavior?" *Journal of Urban Affairs*, Vol. 10, No. 1: 19-28.
- Wolman, Harold, and David Spitzley. 1996. "The Politics of Local Economic Development." *Economic Development Quarterly*, Vol. 10, No. 2: 115-150.
- Wood, Andrew. 2003. "The Politics of Orchestrating Inward Investment: Institutions, Policy and Practice in the Industrial Midwest." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 79-98.
- World Trade Organization. 2006. *World Trade Report 2006: Exploring the Links Between Subsidies, Trade and the WTO*.
http://www.wto.org/english/news_e/pres06_e/pr447_e.htm Retrieved August 8, 2006
- Xu, Jiang and Anthony Yeh. 2005. "City Repositioning and Competitiveness Building in Regional Development: New Development Strategies in Guangzhou, China." *International Journal of Urban and Regional Research*, Vol. 29, No. 2: 283-308.
- Yeung, Godfrey. 2003. "Scrambling for FDI: The Experience of Guangdong Province in Southern China." In Nicholas Phelps and Philip Raines, eds. *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*. Cheltenham, UK: Edward Elgar: 193-212.
- Zodrow, George. R. and Peter Mieszkowski. 1986. "Pigou, Tiebout, Property Taxation, and the Underprovision of Local Public Goods." *Journal of Urban Economics*, Vol. 19: 356-370.

