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State Competition in the Market for Firms
(Dissertation)

States compete for firms by offering discretionary subsidies to locate and create jobs in their area. In 2016 alone, U.S. states promised $7.3 billion in subsidies to 36 firms. Arguing that it creates a race to the bottom, some policymakers have proposed a ban on subsidy competition. However, discretionary subsidies can be welfare improving if they induce firms to internalize location-specific externalities. Whether competition is welfare enhancing or a zero-sum game is an empirical question.

In my job market paper, I develop and estimate a structural model of state subsidy competition. In the model, states compete for large firms. A states' value for a firm depends on both direct jobs created by the firm and indirect jobs created by attracting smaller firms, i.e., the location-specific spillover effect. States bid for each firm in an ascending bid (English) auction and firms locate in the state that gives the highest payoff, which is their profit in the state plus the subsidy. To estimate the potential spillover effect, I model the location choice of medium-sized firms. I identify the parameters of the firms' profit function and the conditional distribution of state valuations for firms. I estimate the model using a new data set I created, which includes details on firm-level subsidy deals from 2002-2016.

I provide the first empirical evidence that that subsidy competition allows states to compensate firms for heterogeneous externalities across space. High unemployment states, states that benefit most from property value increases, and states that will experience large indirect job creation, have the highest valuations for firms. In fact, competition increases the number of jobs created through spillovers by 50% over the counterfactual where I eliminate incentive spending. However, I also find evidence that political motivations may enter subsidy offers; governors with re-election concerns value firms 5% more than their term-limited counterparts.

I explore the effect of politics further in the second chapter, where I identify the effect of corporate campaign spending on state subsidy-giving to firms. I exploit variation created by the 2010 Supreme Court *Citizens United v. F.E.C.* case, which allowed corporations to spend on elections in 24 states that previously had spending bans. Using a difference-in-differences strategy, and the incentive spending dataset I created, I find that treatment states are 23 percentage points more likely to give a second subsidy to a firm that is already located in the state. This suggests that firms may use campaign spending to ensure continued financial support.

In the third chapter, I study the proliferation of film tax credits in the U.S.; and the state decision to enact or repeal incentives for the film industry. I am developing a dynamic model of states competing for film production, which considers the increasingly mobile nature of the industry as well as the possibility to create a cluster and attract permanent investment.

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