

Competition for Amazon’s HQ2.0 shows how keen local governments are to offer incentives to attract firms.



The online mega-retailer, Amazon.com, has recently been shopping around to find a suitable host for its second headquarters. In response, city and local governments across the US have been falling over themselves to offer economic inducements for the company to choose them. But what determines which governments try to attract firms in this way? In new research [Eric Stokan](#) looks at the characteristics of local governments which make use of economic development incentives for firms and those that do not.

Where will Amazon locate its proposed HQ2.0? While we do not know yet, we do know one thing: there is no lack of competition between states and local governments over attracting the online retail giant’s second headquarters. State and local governments are competing to attract the coveted, high-paying jobs that have the potential to transform whatever locality the firm selects. The potential impacts are so great that towns like tiny Stonecrest, Georgia voted to [change its name](#) to Amazon if the retailer moved there. The government of Tucson, Arizona sent a 21-foot cactus as a means to lure the company, which fortunately for the sake of the cactus the [company promptly returned](#). Several mayors used videos with Amazon’s interactive assistant Alexa to convince Jeff Bezos that he would benefit from locating his company within their communities. New Jersey, despite its fiscal woes or maybe in light of them, agreed to [pay](#) \$7 billion in tax breaks to the company to elicit these jobs. John Oliver even [dedicated](#) a 20-minute segment to the topic.

While Amazon is unique in the extent to which it has publicly sought these incentives, its tactics of seeking them is all too common. Louise Storey, in a series of [New York Times articles](#) in 2012, found that states and localities used economic development incentives to attract firms at the tune of more than \$80 billion per year. So, what compels governments to engage in this competition and use these incentives? This has been the subject of much research, including my [own](#).

I find that characteristics beyond the control of the local government often have an impact on the decision to offer local economic development incentives. States, for example, must provide statutory authorization to use policies like tax abatements, tax increment financing, and enterprise zones.

So, one may wonder what factors will lead governments to offer business incentives like these to attract Amazon’s HQ2.0? The following is a list of factors present in the municipality that can influence whether economic development incentives are offered:

- [Nearby competition](#)– When local governments feel that competition for economic development is stronger, they will offer a wider range of economic development incentives.
- [City participation](#)– The city participating in its own economic development fate has a strong, positive impact on the offering of these incentives
- [County participation](#)– The County has a small, but significant role in the offering of tax abatements and enterprise zones in cities.
- [Other actors involved in economic development](#)– My research suggests that public private partnerships (PPPs) have a positive impact in the usage of economic development incentives, while planning consortia have a strong, positive impact on the usage of tax abatements.
- [Population](#)– A larger population leads municipalities to increase their usage of tax increment financing (TIF) districts and enterprise zones. More jobs are often needed in these areas, thus inducements may be greater.



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I also found a number of barriers to development:

- Citizen opposition to these policies can certainly serve as a barrier, and I find that it has a statistically significant negative effect on the usage of tax abatements.
- When the cost of land is high, this often means that development is already significant. As such, it makes the usage of geographically targeted-incentives like enterprise zones less likely.
- When traffic congestion is high, it reflects a solid economic market. This means that policies like tax abatements and TIF are less frequently used.
- When the cost of labor is a barrier, it leads to a significantly positive effect on the usage of each of these policies. Governments need to induce firms when the firm's labor cost will be higher.
- As the distance to a major market increases, as perceived by the local government, the government is more likely to give businesses a break in the form of a tax abatement. This is reflective of a desire to attract those firms, because the government is less competitive.
- Those communities with stricter environmental regulations are less likely to use tax abatements or tax increment financing districts.
- When a community has a higher cost of housing it reflects a hot housing market, which is negatively associated with the usage of tax abatements and tax increment financing. This is reasonable since these areas are likely experiencing development without the need to offer inducements.

The final aspect that is strongly related to the usage of all three policies studied (tax abatements, TIFs, Enterprise zones) was the year in question (1999, 2004, and 2009). As time went on, municipalities were more likely to use each of the three policies. Given that firms are increasingly mobile, often operate across many locations, and that governments are increasingly competing in a global marketplace, it is more likely that more governments will use these kinds of inducements. Competition over firms' locations, perceived and real, is effectively increasing over time and is highly associated with the usage of these incentives.

My research suggests that we need to think carefully about the factors that lead us to use more incentives. This is particularly true since these incentives are not always justified on cost-benefit grounds, and in other [recent work](#) with my colleague Aaron Deslatte, we find that adoption of these traditional financial incentives may come at a cost to commitments to long-term environmental sustainability policies. Thus, more research is needed on understanding the political dimensions of these decisions since we know that the economic justification for their usage is not always warranted.

- *This article is based on the paper '[Accounting for State Authorization in Local Economic Development](#)*

[Policy Usage](#), in *State and Local Government Review*. This article has been made available ungated by Sage until March 2018.

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Eric Stokan is an Assistant Professor of Political Science at Towson University. His research is focused on explaining why local governments use economic development incentives, what impact those incentives have on economic growth, and the role of political competition and fragmentation in economic development. His recent work has been featured in *Urban Affairs Review*, *State and Local Government Review*, and *Economic Development Quarterly*.