Does Transparency Improve Public Policy? Evidence from a Tax Incentive Transparency Initiative

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NBER, January 28, 2022
Motivation

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  - Better public policy (Alt and Lassen 2006; Benito and Bastida 2009).
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⇒ Does more transparency mean better governance?
Setting

- We leverage an exogenous transparency increase in an opaque policy area: local economic development.

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- Our expectation: ↑ transparency → ↑ incumbent accountability for abating tax revenue → ↓ incentive spending.
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  ▶ Within-government information asymmetries
Overview

1. Transparency and Economic Development
2. Conceptual Framework: Transparency and Accountability
3. Research Setting and Design
4. Explaining the Null Results
5. Conclusion and Next Steps
Transparency of Economic Development

- Lack of Transparency among Amazon HQ2 Bids:
  - Many bids exempt from FOIA
  - Lawsuits in Chicago and Pittsburgh over bid disclosure

- States are considering banning non-disclosure agreement (NDAs) for individual deals.
  - New York, Illinois, and Florida have introduced legislation

- Increasing use of program evaluations including cost-benefit analysis.
  - Pew Charitable Trusts documents state incentive evaluations
  - Evaluations increasingly using “but for” assumptions in their evaluations
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However, this strategy relies on citizens’ inability to observe the cost of tax incentives in terms of foregone revenue.

Cost transparency allows citizens to hold politicians accountable for costly incentive deals.

More transparency → less tax incentive spending.
Research Setting: GASB 77

- In the U.S., all state governments file financial reports in accordance with the Generally Accepted Accounting Principles (GAAP).
  - About half of all states also require local governments to follow GAAP rules.

- The Governmental Accounting Standards Board (GASB) updates GAAP reporting standards for state and local governments.
Research Setting: GASB 77

- In August 2015, GASB issued Statement No. 77 (GASB 77) which required governments to publicly report their tax incentive spending.

- Governments were required to report the $ amount of taxes abated, descriptions of the incentives, and other non-tax incentives offered as part of a tax incentive deal.
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⇒ Result: large increase in the transparency of tax incentive spending.
Figure: % of Municipalities Reporting Tax Incentive Spending
Research Design

- We use a diff-in-diff setup to determine whether GASB 77 caused local governments to reduce tax incentive spending.

- We compare:
  1. Monthly tax incentive spending to nontax incentive spending;
  2. Monthly tax incentive spending in GAAP-mandated vs. non GAAP-mandated municipalities.
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\[ \ln(\text{Incentive})_{ist} = \lambda_s + \gamma_t + \sum_{\tau=-7}^{-2} \gamma_{\tau} D_{st} + \sum_{\phi=0}^{16} \gamma_{\phi} D_{st} + \epsilon_{ist} \]
Data and Sample

- Tax and nontax incentive data for 2015 & 2016 from IncentivesFlow.
  - Covers incentive amount, jobs (to be) created, expected capex, new/continuing project, etc.

- Sample consists of all U.S. municipalities with populations greater than 50,000 in 2014 ($N = 747$).
  - 2,750 associated incentive deals over the years 2015 & 2016.
Results—Tax vs. Nontax

![Diagram showing DiD estimates over months relative to the announcement of GASB 77.](image)
Results—GAAP vs. non-GAAP
Why Didn’t GASB 77 Change Incentive Spending?

- No evidence that GASB 77 affected tax incentive spending.
  - We also use Imai, Kim, and Wang (2021)’s nonparametric diff-in-diff estimator to allow for covariate matching.
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- Why not? We investigate two potential reasons:
  1. Noncompliance with GASB 77;
  2. Elected officials didn’t (don’t) know about GASB 77.
Noncompliance

- We collect annual financial reports for each city in the sample for the years 2015-2018.

In 2018, 50% of the cities in our sample did not report tax incentive spending. Two potential reasons:

1. Nothing to report
2. Noncompliance

We estimate a lower bound on noncompliance by counting the cities that gave tax incentives in 2015/2016 but did not report them in 2017/2018.

⇒ Noncompliance rate of 22% in 2017, 20% in 2018.
Noncompliance

- We collect annual financial reports for each city in the sample for the years 2015-2018.

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Lack of Information

- We assumed that policymakers would be informed about GASB 77 and respond accordingly.

- However, elected officials don’t always know what their accountants/auditors are doing.

- Via CivicPulse, we fielded original surveys of both local elected officials ($N = 651$) and lead finance officers ($n = 322$) to learn about policymakers’ knowledge of GASB 77.
Does your community report tax abatements on your CAFR?
Conclusions and Next Steps

- GASB 77 didn’t change incentive spending. This could be explained by poor implementation/low policy salience.

Next steps:
- Pre-registered extension of this paper with updated incentive data to 2020
- A compliance experiment notifying cities of their compliance/non-compliance

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- GASB 77 didn’t change incentive spending. This could be explained by poor implementation/low policy salience.

- But, could also be a sign that transparency alone isn’t always enough to improve public policy.

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PanelMatch - tax vs. nontax (2)
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