

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

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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?

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- Business tax incentives are generally considered to be bad economics, but good politics (Jensen and Malesky 2018; Slattery and Zidar 2020).
- Our expectation: \uparrow transparency \rightarrow \uparrow incumbent accountability for abating tax revenue \rightarrow \downarrow incentive spending.

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 - ▶ Noncompliance
 - ▶ 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

Conceptual Framework: Transparency and Accountability

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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.

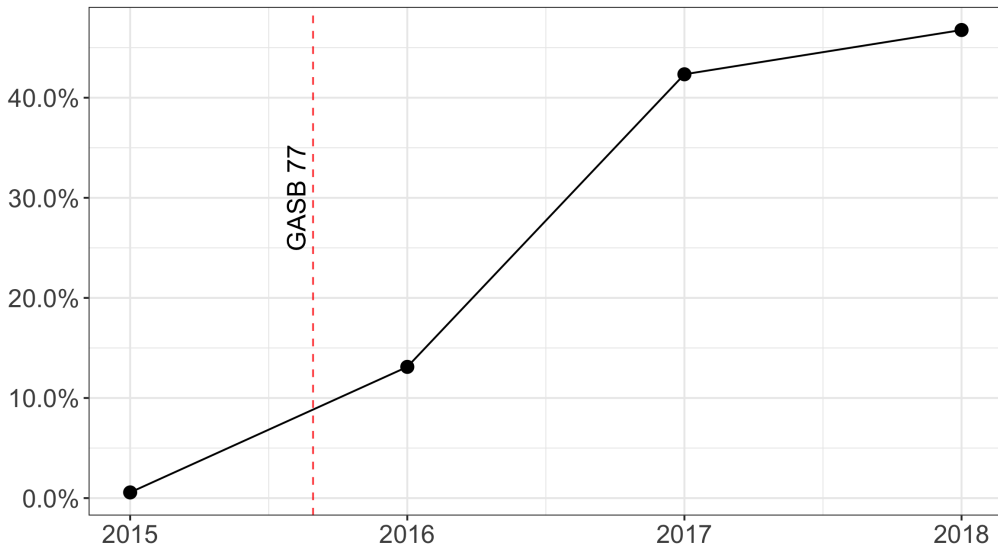
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- In August 2015, GASB issued Statement No. 77 (GASB 77) which required governments to publicly report their tax incentive spending.
- Governments were required to report the \$ amount of taxes abated, descriptions of the incentives, and other non-tax incentives offered as part of a tax incentive deal.

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 - 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.
- ⇒ 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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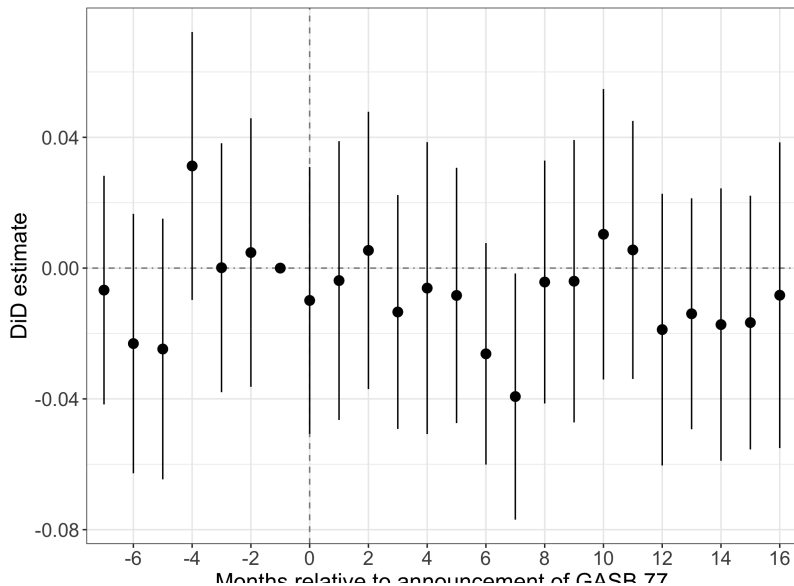
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$$\ln(\text{Incentive})_{ist} = \lambda_s + \gamma_t + \sum_{\tau=-7}^{-2} \gamma_{\tau} D_{st} + \sum_{\phi=0}^{16} \gamma_{\phi} D_{st} + \epsilon_{ist}$$

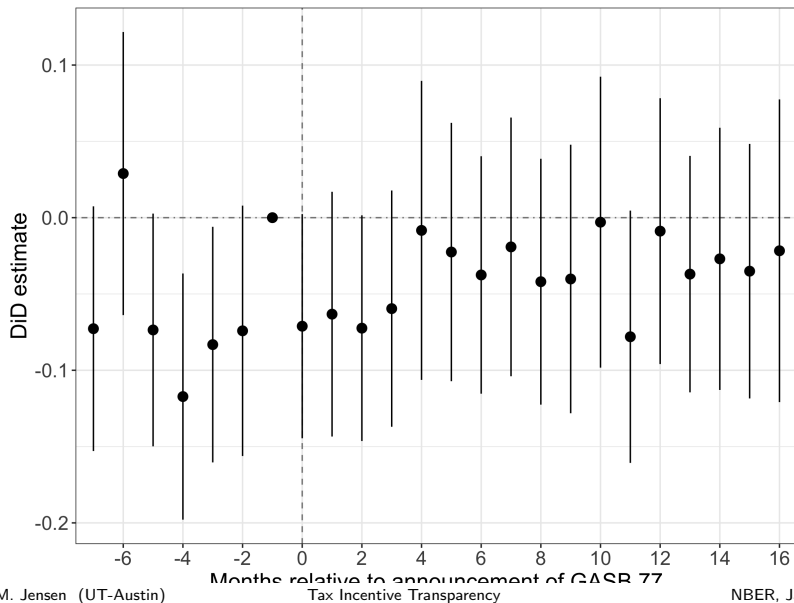
Data and Sample

- 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



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.

Noncompliance

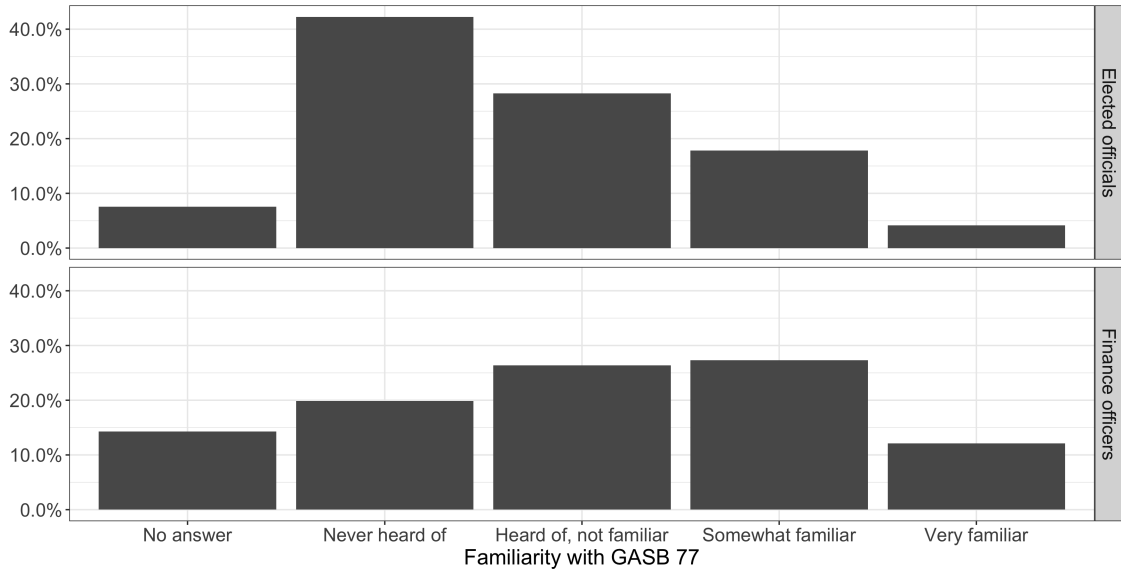
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- In 2018, $>50\%$ of the cities in our sample did not report tax incentive spending. Two potential reasons:
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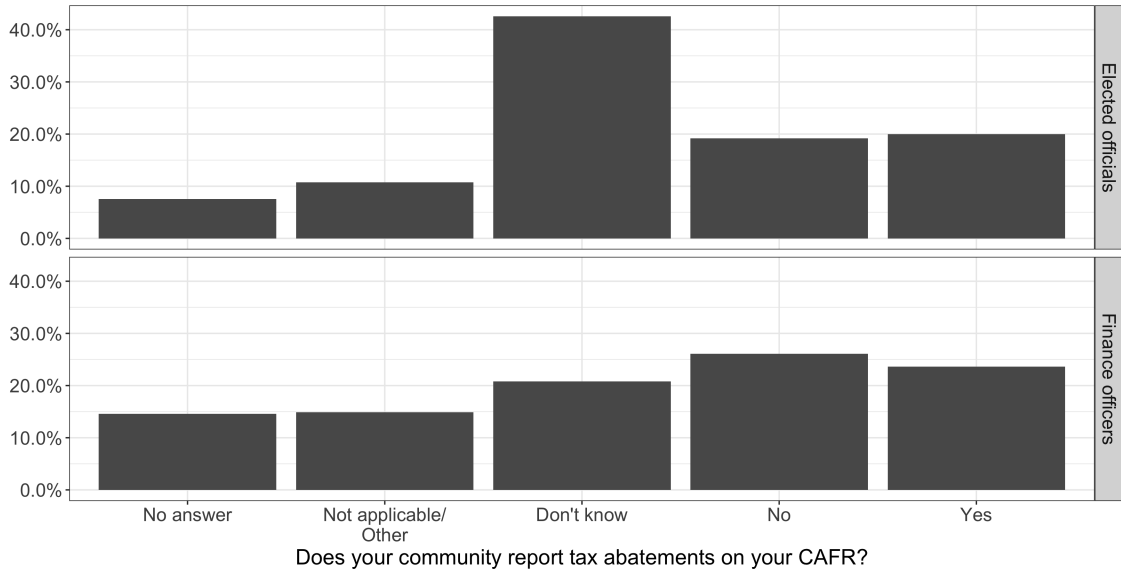
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 - In 2018, >50% of the cities in our sample did not report tax incentive spending. Two potential reasons:
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 2. Noncompliance
 - We estimate a lower bound on noncompliance by counting the cities that gave tax incentives in 2015/2016 but **did not report them** in 2017/2018.
- ⇒ Noncompliance rate of 22% in 2017, 20% in 2018.

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.





Conclusions and Next Steps

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

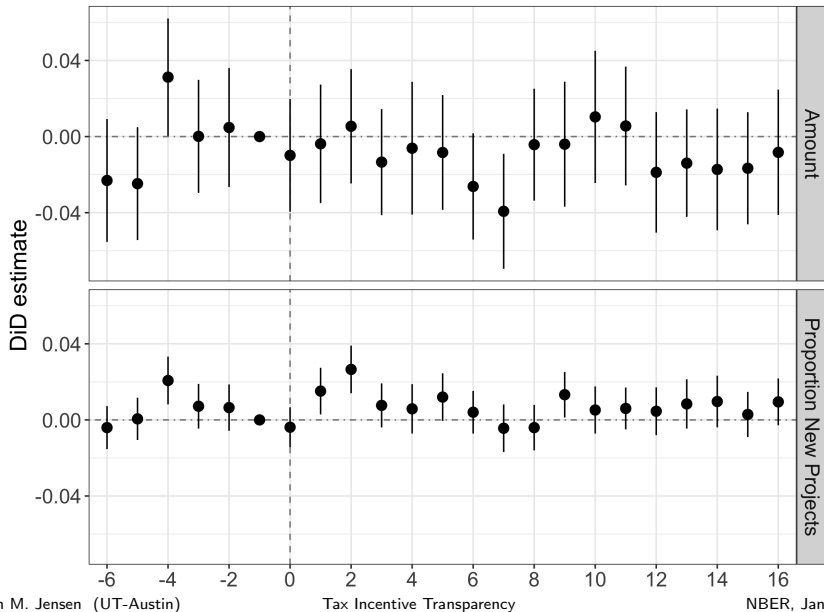
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- But, could also be a sign that transparency alone isn't always enough to improve public policy.
- Next steps:
 - ▶ Pre-registered extension of this paper with updated incentive data to 2020
 - ▶ A compliance experiment notifying cities of their compliance/non-compliance

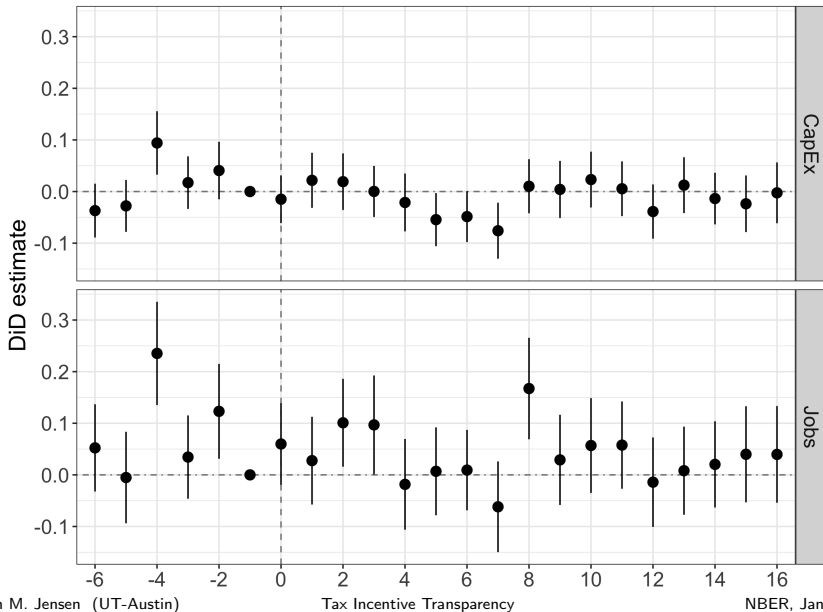
`cthrall@utexas.edu`

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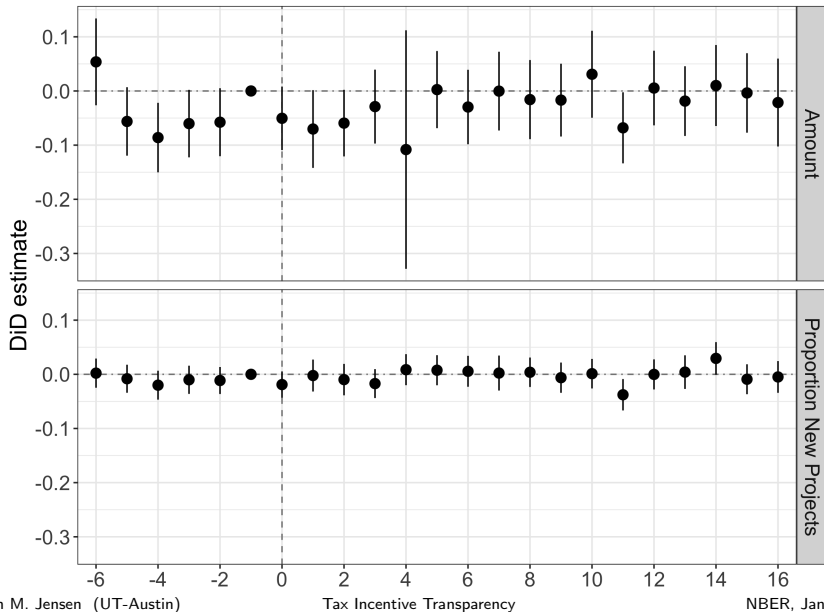
PanelMatch - tax vs. nontax (1)



PanelMatch - tax vs. nontax (2)



PanelMatch - GAAP vs. non-GAAP (1)



PanelMatch - GAAP vs. non-GAAP (2)

