Incentives to Create Jobs: Regional Subsidies, National Trade Policy and Foreign Direct Investment

Laurel Adams, Pierre Regibeau, Katharine Rockett

PII: S0047-2727(13)00257-0
Reference: PUBEC 3407
To appear in: Journal of Public Economics

Received date: 10 May 2012
Revised date: 18 December 2013
Accepted date: 27 December 2013


This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Incentives to Create Jobs: Regional Subsidies, National Trade Policy and Foreign Direct Investment

Laurel Adams\textsuperscript{a}, Pierre Regibeau\textsuperscript{b}, Katharine Rockett\textsuperscript{c}

December, 2013

Abstract

A national authority wishes to attract foreign direct investment (FDI) to create local jobs. We analyse the optimal national trade policy when local authorities might offer subsidies to convince a multi-national enterprise (MNE) to invest in their jurisdiction. With centralised decision-making or with allocation of investment to particular localities, the central authority’s optimal policy is to use a high tariff to avoid payment of any subsidy to the MNE. Despite this, some socially undesirable (but locally desirable) FDI cannot be avoided. If local authorities compete to offer subsidies to attract local investment, then the central government’s optimal policy is to try to discourage FDI by choosing a low tariff. Despite this, some socially undesirable – and even locally undesirable -- FDI prevails. We conduct our analysis both assuming an upper bound on tariffs, as would be consistent with trade liberalisation, and allowing tariffs to vary freely. The effect of increasing trade liberalisation depends heavily on the system of granting local subsidies: if the system is centralised, trade liberalisation decreases the range of parameters for which FDI occurs; if the system is decentralised and competitive, it increases this range.

Keywords: foreign direct investment, employment, tariff, tax, decentralisation, local public finance

JEL codes: F16, F23, H25, H71, L52, O25, R38

\textsuperscript{a}US Department of State, Washington, DC; adamsla@state.gov

\textsuperscript{b}Imperial College, London and CRAI, 99 Bishopsgate, London; PRegibeau@crai.com

\textsuperscript{c}Corresponding author: CEPR and University of Essex, Wivenhoe Park, Colchester UK; kerock@essex.ac.uk . Tel: +44 1206 873 559 Fax: +44 1206 872 724.

We would like to thank many individuals and seminars for their contributions, including audiences at ERWIT, Gerzensee, University of Minnesota, the Summer Econometric Meetings, and University of Keele. We would especially like to thank three anonymous referees, the editor of this journal, Michael Riordan and Antoine Bouet for their comments. The paper represents opinions of the authors and not those of their organisations. All mistakes clearly are the authors’.
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات