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Fooling All the People All the Time? The Domestic Political Effects of Foreign-Funded Development Projects

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Abstract

Fooling All the People All the Time? The Domestic Political Effects of Foreign-Funded Development Projects
By Stefano Jud

This dissertation consists of three papers that investigate why foreign-funded development projects (FFDPs), such as foreign direct investment (FDI) and foreign aid projects, sometimes increase public support for politicians and sometimes create public backlash. The overarching argument in this dissertation is that politicians' financial commitments to FFDPs determine whether they experience public backlash or support. Citizens expect their politicians to champion only high-quality FFDPs. These are projects that are perceived as effective in improving the living standards of a community. When politicians' choices diverge from these expectations, they face backlash.

The first paper offers the theoretical foundation by introducing a political accountability model that describes why there is backlash to FFDPs. This model asserts that FFDP outcomes are important, but not necessary to explain voter backlash. Outcomes help citizens to overcome uncertainty about an FFDP's quality since positive outcomes correlate with higher quality. Thus, to increase politicians' responsiveness to voter preferences in the realm FFDP, the model emphasizes the need for more detailed ex-ante information about incoming FFDPs. The model also generates a set of testable predictions about the behavior of politicians that provide new insights into existing empirical patterns.

In the second paper, I test the micro-foundations of my argument, focusing on the interplay between FDI and investment incentives. Through a survey experiment in the US, I exposed participants to FDI projects with randomly generated project characteristics of varying quality. Findings corroborate the theory: politicians risk losing public support when they offer incentives to low-quality FDI projects. Furthermore, offering competitive incentive packages boosts public approval only among high-quality projects.

The third paper looks at how transparency affects the disbursement of investment incentives by scrutinizing greenfield FDI projects in the US spanning 2010 to 2019. Results indicate a discernible pattern: politicians are more inclined to extend incentives to high-quality projects. This effect of quality is amplified in counties with a daily newspaper presence. Furthermore, counties boasting daily newspapers generally attract higher-quality FDI projects. This underscores transparency's paramount role in ensuring politicians' investment promotion efforts resonate with voters' preferences.

Fooling All the People All the Time? The Domestic Political Effects of Foreign-Funded Development Projects

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Chapter 1

Introduction

1.1 Research Puzzle

One prevalent approach employed by policymakers to stimulate economic growth involves attracting foreign capital to finance development projects. I call these type of projects *foreign-funded development projects* (FFDPs). FFDPs encompass a broad variety of project types. The two main types of FFDPs are foreign aid projects and foreign direct investment (FDI). In 2018, developed countries spent around $166 billion on official development assistance (World Bank, 2020). In the same year, $1,495 billion in FDI inflows were recorded according to the 2020 World Investment Report (UNCTAD, 2020). These projects are generally aimed at promoting economic development either by creating economic opportunities and/or by providing public goods that can stimulate growth. For instance, aid can finance schools and health clinics and FDI projects can generate jobs and improve local productivity (Narula & Driffield, 2012).

The allure of FFDPs for politicians is not solely rooted in their economic value. They also have significant domestic political effects within a recipient country. A comprehensive body of research underscores the propensity of FFDPs to bolster po-

litical support for leaders (Briggs, 2012; Cruz & Schneider, 2017; Jablonski, 2014; T. Knutsen & Kotsadam, 2020; Owen, 2019; Springman, 2021; Yang, 2023). Scholars have posited two primary mechanisms bridging FFDPs with political support. First, FFDPs have distributive consequences. Given that the benefits, such as employment opportunities and prospects for rent-seeking, do not accrue uniformly to all, policymakers often direct these projects towards regions that serve their political interests, targeting key constituencies like co-ethnics, swing voters, or elites (e.g., Briggs, 2014; Bueno de Mesquita & Smith, 2009; Jablonski, 2014; Masaki, 2018; Owen, 2019; Pinto, 2013). Second, FFDPs offer politicians a platform to signal their competency by enabling them to claim responsibility for implementing policies promoting economic growth. (Cruz & Schneider, 2017; Dietrich, Mahmud, & Winters, 2018; Dolan, 2020; Jensen, Malesky, Medina, & Ozdemir, 2014; Springman, 2022). Both of these mechanism should increase a politician's level of support among the electorate.

The presence of FFDPs, however, does not guarantee an increase of support for a politician. Attracting FFDPs can occasionally backfire and create public backlash. Backlash is broadly understood as an expression of dissatisfaction with a politician's performance and can involve the loss of public support in the form of votes and public opinion, protests, formal petitions, and the filing of lawsuits. There is a growing body of empirical evidence suggesting that FFDPs may, under certain circumstances, erode public support for political leaders (Allen, Ferry, & Shammama, 2023; Angulo Amaya, Bertelli, & Woodhouse, 2020; Briggs, 2019; Wang, Pearson, & McCauley, 2022; Watkins, 2022). Anecdotally, there are many examples where politicians came under pressure because of their support for certain FFDPs. For instance, some political commentators contend that the former governor of Wisconsin, Scott Walker, failed in his 2018 re-election bid partly because of the controversial investment incentive deal he offered to Foxconn, a Taiwanese electronics giant. The firm had committed to an investment of $10 billion and the creation of 13,000 jobs

in Southeastern Wisconsin (Chandler, 2018). Another illustrative case is Sri Lanka's Hambantota deep-water port project, co-financed by China, the World Bank, and the Asian Development Bank. Allegations of corruption linked to this project are believed to have played a pivotal role in the failure of former president Mahinda Rajapaksa to secure re-election in 2016 (Shepard, 2016). Surprisingly, even projects deemed successful can sometimes lead to diminished political backing from the electorate (see Baldwin & Winters, 2020; Jud, 2023b; O'Brien-Udry, 2021).

This dissertation seeks to understand the varying reactions to FFDPs: Why do they sometimes instigate backlash while at other times amplify support? Existing research proposes that politicians might "fool" citizens by amassing as many projects as possible. Yet, counterarguments underscore the limitations of this tactic. This study delves into the circumstances determining whether FFDPs will lead to backlash or enhance a politician's backing. Ultimately, the goal is to propose a theory that encapsulates both reactions, filling a void in current literature which typically centers on either backlash or support

1.2 General Argument

In this dissertation, I put forth the idea that citizens are not easily fooled by the presence of incoming FFDPs, primarily because they are conscientious about the utilization of taxpayer funds in attracting these projects. To secure FFDPs, politicians frequently need to commit financial incentives. For instance, to woo foreign investors, governments often pledge investment incentives to investor, which can range from tax breaks to direct cash grants (Jensen & Malesky, 2018). Similarly, when considering foreign aid projects, governments must provide counterpart financing commitments to obtain such aid (Winters & Streitfeld, 2018). Given the substantial nature of these

financial commitments[1], it is important to citizens that politicians endorse FFDPs that align with their preferences. This is why I argue that the response of citizens to an FFDP depends on what type of FFDPs receive these financial commitments.

I expect that citizens want their politicians to only support projects that are of high quality. Here, *quality* denotes the perceived effectiveness of an FFDP in elevating the living standards within a community. It is crucial to understand that FFDPs are not created equal in terms of quality. Take, for instance, the construction of a new international airport. It is fair to assume that airports close to a bustling urban center would yield more tangible benefits compared to placing it in a remote, underdeveloped location. This distinction is not lost on citizens, who draw inferences regarding the quality of a project, and these inferences shape their evaluations of politicians' support of particular FFDPs. Thus, according to my argument, backlash emerges when citizens realize that politicians financially support low-quality instead of high-quality projects. Conversely, when politicians endorse high-quality projects, we should observe an increase in popular support.

The first paper of this dissertation delves more deeply into this argument, embedding it within a comprehensive political accountability model based on Besley (2006). This model is instrumental in elucidating the dilemmas faced by both citizens and politicians in the context of FFDPs. Citizens grapple with the problem of incomplete information about the quality of an FFDP. While people have prior beliefs about an FFDP's quality, *ex ante*, it is not always easy to exactly infer a project's quality as voters may not have access to information that allows them to judge a project's efficacy. A salient takeaway from the model is that the outcomes of FFDPs (i.e., success and failure) offer pivotal context for citizens in gauging a politician's decisions. FFDP outcomes are not solely determinants of public backlash. Instead, they play a significant role because they shed light on the FFDP's quality and help

[1]The value of investment incentives awarded to a single project can amount to billions of dollars in taxpayer money.

citizens to evaluate whether a politician endorsed the "right" FFDP. In other words, after observing a project outcome, people update their prior beliefs about an FFDPs quality due to the correlation between quality and project success. Only when people have strong reasons to believe that their priors are correct, outcomes are unlikely to change people's views on a politician's financial support decision. This, for instance, explains why citizens can withdraw their support from a politician, even if the FFDP appears successful.[2]

This information transmission mechanism associated with revelation of FFDP outcomes enables individuals to refine their beliefs on the quality of an FFDP. This interferes with politicians' strategies to mislead citizens with promises of economic growth from new FFDPs. Additionally, this mechanism can hinder politicians' ability to accrue private gains. Being in elected office offers politicians avenues to exploit FFDPs for personal gain, such as engaging in nepotism, or receiving kickbacks from local businesses to prevent potential competitors.

As a result, the model underscores that politicians motivated by selfish interests face a delicate balancing act. They have to weigh the immediate gains from backing FFDPs (i.e., private rents) against the likelihood that voters discern any misalignment with the broader public interest. In essence, politicians must gauge if immediate gains from rent-seeking overshadow the enduring benefits of maintaining widespread support for prolonged tenure in office. In situations where information about an FFDP's quality is readily available and clear to the public, politicians find it hard to mask their choices, banking on favorable outcomes. Here, the electorate can clearly discern if a political action aligns with their collective welfare. Therefore, it is likely that in highly informed settings, political decisions about financial backing of FFDPs

[2]The model shows that backlash after successful projects is possible either when people have strong priors that a project is of low-quality and they observe a financial commitment. Or when they observe a successful project that lacks the support from the government.

will align more with the public's preferences.[3] The model also discusses that other factors like political accountability levels, prevailing economic conditions, state capability, and corruption rates are posited to shape this equilibrium. As a result, these elements should have a bearing on politicians' decisions when courting FFDPs.

This argument improves on two important limitations in the existing literature. First, it challenges the prevailing assumption underlying the "FFDPs bolster support" arguments that citizens, on average, have favorable view toward the introduction of FFDPs because they anticipate the potential benefits that these projects might bring. For instance, Jensen and Malesky (2018) posit that politicians employ investment incentives as a form of pandering, premised on the belief of voters in the efficacy of such incentives as tools to secure new FDI projects. This assumption inherently suggests a popular desire among voters for politicians to usher in new FDI projects. In a similar vein, Pinto (2013) advocates that leftist governments adopt more FDI-friendly policies since labor is likely to reap the benefits from an influx of FDI. However, this assumption cannot accommodate the fact that voters sometimes oppose FDI projects.

Second, project outcomes - people's dissatisfaction with an outcome to be precise - are the key mechanism proposed by the "FFDP causes backlash" studies. This dissatisfaction with project outcomes can stem from an increase in perceived corruption (De Kadt & Lieberman, 2020; Isaksson & Kotsadam, 2018), delays in construction (Marx, 2018), or realization that a project does not meet expectations set at the announcement (Wang et al., 2022). However, as I outline in paper 1, there is evidence that even successful projects may cause backlash. My argument explains this empirical pattern by highlighting that outcomes are not necessary to explain backlash, but they merely serve as additional information for citizens to understand whether politicians supported a high- or low-quality FFDP.

[3]The importance of transparency in shaping politician's financial support decisions is further underscored in papers 2 and 3.

1.3 Empirical Evidence

Papers 2 and 3 offer empirical validations for the theoretical framework proposed in this dissertation, with an application of the model to FDI and the use of investment incentives. This specific focus stems from prior research by Jensen and collaborators which posits that politicians leverage investment incentives to appeal to voters (Jensen & Malesky, 2018). Essentially, they argue that FDI and investment incentives enhance political support via the signaling mechanism described above. Hence, this domain serves as an exemplary context to probe if the quality of an FDI project can moderate this established correlation.

The first step in this process was to scrutinize a pivotal micro-foundation assumption of the model: Do citizens incorporate an FDI's quality in their assessment of investment incentive decisions by their government? Paper 2 assesses this question by using a survey experiment in the US. This experiment was twofold. Initially, participants engaged in a conjoint analysis, presented with various hypothetical FDI project profiles. Subsequently, they took part in a factorial survey where they encountered a fabricated scenario about a potential FDI investment that received investment incentives from their local government council. I strategically varied both the perceived quality of the investment and the scale of investment incentives provided by the local council in comparison to rival municipalities.

The results of the experiment provide strong support for the argument that project quality moderates the effect of FFDPs on political support. The factorial experiment reveals that offering incentives to low-quality FDI projects markedly diminishes backing for a politician's incentive choice in comparison to handing out incentives to high-quality projects. Furthermore, investment incentives only have a positive effect on a politician's support when they are tied to high-quality FDI projects. Offering sizeable incentives to low-quality project neither boosts nor significantly damages a politician's

popularity compared to offering smaller incentives. What matters to respondents was the fact that a politician made any financial commitments to a low-quality project.

The conjoint experiment sheds further light on key project attributes that define FDI quality for respondents. People tend to favor incentives for projects promising extensive local job creation. This aligns with the notion that voters desire government endorsement of FDI projects directly benefiting their communities. Additionally, a company's reputation and support from local business associations matter; respondents showed more support for incentives granted to reputable companies backed by these associations.

Paper 3 pivots towards explaining politicians' behavior in awarding investment incentive packages. In particular, I investigate whether the quality of an FDI project, coupled with the presence of daily newspapers, influences the likelihood of said FDI project receiving investment incentives from the government. Established political accountability models posit that transparency ought to spur politicians to act in line with their constituents' interests (e.g., Besley, 2006). This premise also applies to the framework of this dissertation.

In the paper, I use two different types of analyses centered on FDI and investment incentive records from the US between 2010 and 2019. The first analysis uses data from all greenfield FDI projects established in the US. I aim to determine if high-quality projects have a higher likelihood of obtaining incentive agreements and to see whether the presence of a daily newspaper in the hosting county influences this tendency. To represent "quality", I introduce a novel metric called the *job labor ratio*, calculated by dividing the number of job commitments from an FDI project by the labor force of the project's resident county. I find that a one standard deviation increase in a project's job labor ratio boosts the probability of the project receiving an incentive deal by 1.6 percentage points. Notably, this relationship strengthens when a county hosts a daily newspaper. High-quality projects in counties with such

newspapers are significantly more likely to secure incentives than those in counties without a daily newspaper publication.

In the second analysis, I aggregated the project-level FDI data to a county cross-section covering all counties that attracted at least one an FDI project between 2010 and 2019. I aimed to evaluate the influence of a daily newspaper on the pool of FDI projects that a county receives. Do counties with higher transparency standards attract a pool of higher quality projects. To estimate quality in the FDI project pool, I measure a county's log median job labor ratio. To strengthen the causal relationship between newspapers and this ratio, I applied entropy and covariate balance propensity score balancing techniques and determined the average treatment effect through g-computation. The data indicates that counties with daily newspapers witness a notable 19.1% increase in the median job labor ratio. And yet, counter-intuitively, but conversant with my theory, these newspapers appear to reduce the overall inflow of FDI projects. This trend suggests that daily newspapers prompt politicians to emphasize FDI quality over volume, reflecting voter tendencies to prioritize investment quality over sheer numbers.

1.4 Main Contributions

Collectively, the trio of papers presented in this dissertation make three primary contributions. First, they offer a more layered understanding of FFDPs' influence on domestic politics. I articulate a comprehensive theory that determines the conditions under which FFDPs either increase or diminish support for political leaders. Prevailing research often suggests a somewhat simplistic view: politicians can fool citizens into perceiving them as competent by merely attracting numerous FFDPs (e.g., Jablonski, 2014; Jensen & Malesky, 2018; T. Knutsen & Kotsadam, 2020; Owen, 2019). My dissertation challenges this narrative, showcasing that the voter per-

spective on FFDPs is multifaceted. When voters perceive that their leaders back undesirable FFDPs, they do not hesitate to voice their displeasure.

Moreover, the papers delve into a crucial question in the literature on FFDPs: how do individuals tie FFDPs to political leaders? Some studies posit that credit-claiming strategies effectively link FFDPs to politicians (Baldwin & Winters, 2023; Cruz & Schneider, 2017; Guiteras & Mobarak, 2016), while others emphasize the origin of FFDPs, noting that citizens' differing attitudes and past interactions with various investors (and donors) can influence their reactions to new FFDPs (Blair & Roessler, 2021; Dietrich et al., 2018; Findley, Harris, Milner, & Nielson, 2017; Findley, Milner, & Nielson, 2017). The current dissertation underscores a novel dimension: the manner in which FFDPs are financed. Previous work has recognized the way a project is financed can influence citizens' demand for political accountability (Baldwin & Winters, 2020; De La Cuesta, Martin, Milner, & Nielson, 2022; Paler, 2013). This work goes one step further and illuminates how the interplay between financial commitments to FFDPs and political accountability is contingent on an FFDP's quality. Merely acknowledging financial commitments is not enough to gauge public response to a new FFDP; the nature of projects that receive funding is pivotal. This accentuates the need to not only focus on governmental narratives around FFDPs but also on the specifics of their financial backing.

Second, this dissertation contributes to the debate on whether globalization erodes political accountability (Hellwig, 2008, 2015; Kosmidis, 2018). As nations have eased capital flows and bolstered international trade, corporations now seamlessly invest and operate in numerous global locations. This enhanced capital mobility grants multinational corporations (MNCs) a bargaining edge over governments. MNCs can now effectively threaten to relocate, thus wielding the power to secure more favorable regulatory conditions and financial incentives from host countries (Culpepper & Reinke, 2014; Swank, 1992). Such dynamics can diminish the effectiveness of political

accountability institutions like elections, as politicians can justify their policy decisions as necessities to retain jobs and woo new investments. The underlying narrative is that globalization limits politicians' room to maneuver, essentially chaining them to certain policy actions.

However, I challenge this conventional belief that globalization inherently curtails political accountability with this dissertation. The evidence I put forth indicates that even amid fierce global competition for capital, citizens remain discerning about the kinds of FFDPs they wish to see in their locality. They hold preferences for specific projects and expect their representatives to channel taxpayer funds accordingly. Consequently, my research offers a brighter perspective on globalization's interplay with political accountability, emphasizing that politicians cannot simply act with unchecked discretion.

Third, this dissertation elevates the discourse on the political economy of investment incentives by spotlighting the determinants influencing the likelihood of an FDI project securing investment incentives. The foundational study by Jensen and Malesky (2018) postulates that politicians possess compelling motivations to disburse as many investment incentives as possible because they can leverage them as tools for voter appeasement. Subsequent studies pivot towards understanding why certain projects benefit from these incentives while others do not. For instance, Bauerle Danzman and Slaski (2022a) observe a propensity among politicians to favor giving capital-intensive FDI projects incentive deals. Moreover, Hou and Li (2023) posit that freshly-appointed local leaders in China tend to exhibit a bias towards state-owned enterprises early in their tenure. Building on this collective body of work, my dissertation underscores the instrumental role of voter preferences in shaping the allocation of investment incentives.

Chapter 2

Why Do Development Projects Create Political Backlash? The Role of Outcomes, Financial Support, and Project Quality

2.1 Introduction

A growing body of research shows that incumbents benefit politically from the inflow of foreign capital in form of foreign direct investment (FDI) and foreign aid (Briggs, 2012; Cruz & Schneider, 2017; Jablonski, 2014; T. Knutsen & Kotsadam, 2020; Owen, 2019; Springman, 2021). These *foreign-funded development projects* (FFDPs) allow politicians to disburse resources to important constituencies, such as co-ethnics, swing voters, and elites (e.g., Briggs, 2014; Bueno de Mesquita & Smith, 2009; Jablonski, 2014; Masaki, 2018; Owen, 2019). FFDPs also serve as signaling opportunities for politicians to show citizens that they are capable of attracting projects that promote economic growth (Cruz & Schneider, 2017; Dietrich et al., 2018; Dolan, 2020; Jensen

et al., 2014; Springman, 2022).

Despite these benefits that FFDPs provide to incumbents, there is evidence that under certain conditions, FFDPs can also have a negative effect on the public support of political leaders (Allen et al., 2023; Angulo Amaya et al., 2020; Briggs, 2019; Wang et al., 2022; Watkins, 2022). Existing work emphasizes the importance of project outcomes for understanding public disapproval with politicians in response to FFDPs. In traditional political accountability models, it is assumed that voters derive a politician's competence and ability (i.e., type) from an outcome they observe (e.g., Ashworth, 2012). The centrality of outcomes has also been echoed in the literature on foreign aid and FDI. The main reasons put forward to explain political backlash to foreign aid and FDI projects are that people are dissatisfied with the implementation of projects. This dissatisfaction can stem from an increase in perceived corruption (De Kadt & Lieberman, 2020; Isaksson & Kotsadam, 2018), delays in construction (Marx, 2018), or realization that a project does not meet expectations set at the announcement (Wang et al., 2022).

If backlash occurs in response to under-performing FFDPs, then why can we observe that even well-performing FFDPs can create political backlash? For instance, in response to the Ebola outbreak in West Africa in 2014, UNICEF started building community care centers (CCC) in Sierra Leone. CCCs are small temporary community health facilities designed to provide basic care to Ebola patients and to raise awareness about the disease in the community. Multiple studies have shown that CCCs were effective in treating patients and reduce the spread of Ebola (Abramowitz, Rogers, Akilu, Lee, & Hipgrave, 2016; Christensen, Dube, Haushofer, Siddiqi, & Voors, 2020; Kucharski et al., 2015). Despite this effectiveness, there is evidence that CCCs decreased the level of support for the incumbent president among people living close to CCCs (Jud, 2023b). Looking at foreign aid targeted at Serbian minorities in Kosovo, O'Brien-Udry (2021) finds that even though these projects were successfully imple-

mented, the ruling party in Kosovo lost support among voters in locations that receive minority-targeted aid. Baldwin and Winters (2020) describe how information about the presence of bypass aid can reduce people's support for incumbent politicians in the context of Uganda.

To explain why even successful FFDPs can cause political backlash from voters, I assign a new role to project outcomes. I argue that voters want politicians that maximize the expected utility of FFDPs. This is the case when politicians financially support FFDPs of high quality. *Quality* refers to a project's the effectiveness in improving the living-standards of a community. Since people have incomplete information about an FFDP's quality, they rely on project outcomes to reveal information about quality because I assume that quality is positively correlated with project success. Thus, I contend that outcomes provide additional context to voters to assess politicians' policy decisions.

I formalize this argument in a political accountability model based on Besley (2006). The model reveals two general equilibria that highlight that FFDP outcomes only explain political backlash under specific conditions. The first equilibrium is a public interest equilibrium where good-type politicians always support high-quality projects and never grant assistance to low-quality projects. The behavior of the bad-type incumbent is to strategically pool with the good-type incumbent right before of elections if the prospect of re-election is sufficiently lucrative. The main insight from this equilibrium is that FFDP outcomes only matter to voters when there is uncertainty about the quality of an FFDP. In this situation, they use FFDP outcomes as a source of information about the incumbent's type since certain outcomes are more likely associated with good-type incumbents. If voters are very certain about the quality of FFDPs, they will only consider the policy decision to provide financial support in their assessment of a politician's type.

In addition to the public interest equilibrium, there is also a "selfish" equilibrium

where the good-type incumbent supports every project independent of the FFDP's quality. This behavior works because bad-type incumbents sometimes make mistakes and do not support projects. Thus, by committing to supporting every FFDP, good-type politicians can separate themselves from bad-type politicians. This equilibrium only exists, however, if the value of holding office is large enough and it is independent of the level of certainty about an FFDP's quality and outcome.

These two equilibria highlight that in contrast to claims from previous studies, outcomes are not necessary to cause political backlash against FFDPs. In fact, simply the absence of financial support decisions could sway voters to withdraw their support from the incumbent. Nonetheless, outcomes are not completely irrelevant. I find that there are two conditions under which outcomes play a role: 1) when voters are uncertain about the quality of a FFDP and 2) when there is a lack of information about the presence of financial support. In the former case, voters need additional information about the quality of a project to evaluate the incumbent's support decision. Outcomes can help to convey this information. In the latter case, outcomes are informative because on average, it is more likely that projects will succeed under the rule of good-type incumbents.

The model further outlines new variables that should affect politicians' propensity to provide financial support to FFDPs. First, I find that financial support is related to factors that affect the success rate of projects. Politicians are more inclined to offer support when FFDPs' success rate increases because it makes it more likely that bad-type politicians are caught for not supporting high-quality projects. This forces bad-type politicians to deviate more frequently from their preferred strategy and pool with good-type politicians. Variables that are associated with the success rate are, for instance, the level of economic development or state capacity. The former improves the general environment of FFDP implementation, whereas the latter increases the effectiveness of financial support. Second, higher levels of corruption should make

it more likely that bad-type politicians will pursue actions that are not in line with voters' preferences. While this reduces voter welfare, it is not bad for all actors. What I find is that corruption greases the wheels for low-quality projects but sands the wheels for high-quality projects.

Furthermore, I derive implications for the attraction FFDPs. In an extension of the base model, I endogenize the investment decision, i.e., FFDPs are no longer exogenously assigned to localities, but their location is decided by utility maximizing donors. This model extension demonstrates that political accountability has a positive effect on the inflow of FFDPs. In particular, it significantly increases the attraction of high-quality FFDPs. This suggests that countries with strong accountability mechanisms are more likely to benefit from incoming FFDPs because they are better suited to attract high-quality FFDPs.

This paper advances the study of domestic politics in the context of foreign aid and FDI. The model's results suggest that FFDP can have differential effects on an incumbent's political standing conditional on their outcome and whether the government provided financial assistance to a project. Empirically, this insight is important because it means that researchers need to carefully investigate what type of FFDPs are in their sample and to what extent the recipient government supported these projects before interpreting the average treatment effect of FFDP on an incumbent's level of support. The model also generates new testable implications about which factors affect variation in financial support for FFDPs. The model, furthermore, connects to questions about sub-national allocation of FFDPs (e.g. Briggs, 2017, 2018; Öhler & Nunnenkamp, 2014) and the effect of democracy on FDI and aid inflow (e.g. Hoeffler & Outram, 2011; Q. Li, Owen, & Mitchell, 2018).

The paper also speaks to broader questions in the field of international and comparative political economy. I show that state capacity and democracy can reinforce each other and lead to better outcomes. While previous work suggests that state

capacity and democracy are more complementary than synergistic (Hanson, 2015; C. H. Knutsen, 2013), I find that at least in the context of FFDPs, higher state capacity should make financial support more effective in promoting the success of projects, which forces bad-type incumbents to support more high-quality projects to secure re-election. Another important question related to the model is the effect of corruption on investment and growth (e.g. Mauro, 1995; Zhu & Shi, 2019). The model predicts that overall corruption hampers growth because it leads to a misallocation of government funds. A more corrupt environment greases the wheels of business for low-quality projects and is a road block for high-quality projects.

I make a modeling contribution by extending the Besley model to account for probabilistic outcomes. Most political accountability models assume that if a politician plays a certain policy action, then voters will observe a particular public good. However, in reality, this is not the case, as there is always uncertainty about whether a given policy action will work as intended. By including a random draw of project outcomes, I am able to account for this uncertainty.

2.2 The Model

To explain why FFDPs can sometimes decrease public approval for politicians, I develop a political accountability model based on the base model by Besley (2006). I first outline the main assumptions behind the model and then describe the sequence of play, the actors' preferences, and the payoff functions.

2.2.1 Main Assumptions

Project Quality Heterogeneity

Existing work on the effect of FFDPs on incumbent support implicitly assumes that FFDPs have constant effects on public approval of politicians (e.g., Jablonski, 2014;

T. Knutsen & Kotsadam, 2020; Owen, 2019). This ignores that there is project-level heterogeneity in the effectiveness of FFDPs. For example, while new airports can boost local economies since they create better connections with global markets, not all airport projects are sound. A good illustration is the completed Mattala Rajapaksa International Airport in Sri Lanka in 2013, which was mostly financed with Chinese loans. The airport located in the Hambantota district in Sri Lanka's South has received the unfortunate title "World's Emptiest International Airpot"[1] The reason for the lack of passengers at the airport is not bad luck but insufficient planning. The plan was to transform Hambantota, which is a rural area consisting of fishing villages, into a major business hub. Despite spending billions of dollars on this vision, Hambantota has failed to become this center for commerce due to the poorly chosen location. This highlights an often neglected feature of FFDP which is that FFDPs vary across a set of characteristics that are correlated with their effectiveness (e.g., Bulman, Kolkma, & Kraay, 2017; Shin, Kim, & Sohn, 2017; Sweis, Sweis, Abu Hammad, & Shboul, 2008).

One of the model's main substantive innovations is to recognize this project-level variation and to model how it affects the political economy of FFDPs. In the model, I assume that FFDPs vary along a dimension called *quality*. Quality refers to project's effectiveness in improving the living-standards in a community.[2] As a concept, quality consists of two components: 1) the net economic benefits that an FFDP will deliver to a community when implemented as planned and 2) the probability that project is successfully implemented. The former incorporates the economic gains and potential negative externalities of an FFDP. The latter describes the ability of the FFDP implementing agents as well as the soundness of the project

[1] `https://www.forbes.com/sites/wadeshepard/2016/05/28/the-story-behind-the-worlds-emptiest-international-airport-sri-lankas-mattala-rajapaksa/?sh=7051a9d97cea` (last accessed July 21, 2022).

[2] The meaning of community here may differ depending on the context. For instance, in ethnically polarized societies, community may just refer to a person's in-group.

planning period. Having the ability to implement a project is a necessary condition for a community to enjoy the benefits of an FFDP. For the purpose of the model, I assume that *quality* is binary.[3] Projects that are highly effective in raising the living-standards of community are *high-quality* projects, and FFDPs that are ineffective in achieving that are *low-quality* projects. The characteristics that affect *quality* are manifold and include factors, such as an FFDP's impact on the environment and the wages it offers.[4].

Financial Support to FFDPs

FFDPs are often times closely connected to the efforts and reputations of politicians because government's offer financial support to an FFDP. Financial support refers to actions that directly facilitate the implementation of FFDPs but are also associated with costs for voters either because the government spends resources from its budget to support an FFDP or since the FFDP requires the government to implement policies that constrain the government's fiscal room to maneuver. One type of financial support action that satisfies this definition are tax incentives and grants to attract FDI (Jensen & Malesky, 2018).[5] These incentives promise grants and tax abatements to companies in return for their investment.

These actions matter to voters because it involves the use of tax payer money. Moreover, financial support by the government can promote an FFDP's implementation, i.e., it can enhance a FFDP's effectiveness. Financial commitments can ease the financial burden of projects. Financial support can also disincentivize obstruction by government agencies and even motivate officials to help investors/donors deal with

[3]In reality, quality may vary across a spectrum but for analytical purposes, I decided to think of it as a dichotomous variable.

[4]There is experimental evidence that discusses in more detail what factors determine the quality of FDI projects from voters' perspective (Jud, 2023a). In the model, I assume that there exists a set of FFDP characteristics that systematically affect quality

[5]Other types of financial support actions that also fall into this category are, for example, the co-financing of projects (see Winters & Streitfeld, 2018) or the direct implementation of FFDPs by the government (see Barma, Levy, & Piombo, 2020).

legal problems. For example, SK Innovation, a Korean car battery manufacturer, is currently investing $2.6 billion in Georgia to build a new factory.[6] This project has been supported by the state of Georgia with approximately $300 million. However, before the factory was even completed, SK Innovation was involved in a legal dispute with LG Energy, another Korean company, over alleged theft of intellectual property. A ruling by the US International Trade Commission ruled in favor of LG Energy, which threatened the entire project. However, in the aftermath of the ruling, we could see an influx of help for SK Innovation from elected officials from Georgia. Georgia's Governor Brian Kemp started to lobby President Biden to overturn the Commission's ruling and U.S. Senator Jon Ossoff from Georgia was involved in the mediation of a settlement between SK Innovation and LG Energy.[7]

Voter Preferences

I assume that voters want that politicians maximize the expected utility of incoming projects. This means that they seek politicians that oppose support to low-quality FFDPs, but that make financial commitments to high-quality FFDPs. This assumption refers to the common complaint by taxpayers that the government wastes their money on unnecessary projects or purchases. For instance, using government resources to support an FDI or aid project that has serious flaws would fall under such a category of unnecessary projects. Consider the previous example of the Hambantota airport. From a voter's perspective, the resources spent on this port would have had a greater impact if they were invested in other projects, such as tax reductions or education programs that directly benefit the people.

Voters, however, face a fundamental problem in assessing whether politicians max-

[6]See https://www.ajc.com/politics/a-green-tech-battery-plant-is-transforming-a-deep-red-part-of-georgia/YSDZBMNNSNHJLBIUYJS4IEYA5U/ (last accessed June 7, 2021).

[7]See https://www.ajc.com/politics/politics-blog/how-bitter-korean-rivals-settled-a-rift-that-threatened-georgia-battery-plant/B7J76F3Q7NGJ5EUXVCMY2P2LOA/ (last accessed June 7, 2021).

imized the expected utility of an FFDP: they have imperfect information about an FFDP's quality. FFDP quality is a latent variable and not directly observable. Voters can make inferences about the quality of a project using project characteristics, but since FFDPs have multiple characteristics related to quality, it is not always feasible for people to make a clear inferences about an FFDP's quality. This is why I assume that voters possess some degree of uncertainty about quality which impedes their assessment of politician's financial support decisions.

Outcomes

I assume that outcomes are dichotomous, meaning that projects either succeed or fail.[8] I consider a project to be successful if the outcome meets the expectation of the median voter. Conversely, a project is a failure if it does not deliver the benefits promised at the announcement of the project as perceived by the median voter. This is clearly a simplification since the success of am FFDP can vary along a continuum. Furthermore, outcomes may be perceived differently across stakeholders depending on the stakeholder's benefits of the project (Davis, 2014). I acknowledge the limitation of this modeling choice. I believe that the dichotomous modeling assumption is still a valid approach in the context of this study. First, it simplifies the interpretation of the model's main findings. Second, models are always an abstraction of reality, and measuring the success of a project is an empirical challenge. The model highlights what would happen if there was a valid and reliable measure of success that people use when evaluating the outcome of a project.

2.2.2 Sequence of Play

The model has two periods with one election between the first and second periods. There is one incumbent politician and one representative voter. At the beginning of

[8]Voters may observe multiple outcomes in the course of a project's implementation as FFDPs take time to be implemented.

each period, nature draws three parameters of the model. First, it determines the type of the incumbent politician denoted $\theta \in \{0, 1\}$. If the incumbent of the first period is re-elected, there will be no new draw. The incumbent is a good type ($\theta = 1$) with probability π. θ is private information of the incumbent. Second, it reveals the quality of an incoming FFDP indicated by $\kappa_t \in \{0, 1\}$ to the incumbent. The likelihood that this FFDP is of high quality ($\kappa_t = 1$) is m. Lastly, it draws the private rent r_t that a bad-type politician receives for implementing a policy that does not match the quality of the project. $r_t \in [0, R]$ is drawn from a distribution with CDF $F(r)$ with mean μ. Furthermore, I assume that $R > \delta(W + \mu)$.[9]

Next, the incumbent will decide whether they want to provide financial assistance to the incoming FFDP. This action is denoted by $e_t \in \{0, 1\}$ and visible to voters. After the support decision, nature reveals whether the project succeeds ($s_t = 1$) or fails ($s_t = 0$). The probability of project success is a function of the FFDP's quality as well as the financial support by politicians. This formally defined in equation 2.1 below. High-quality projects have a baseline success probability of p and low-quality projects a probability of q. I assume that $p > q$. In addition, the incumbent's financial support can improve the likelihood of success of high-quality projects by τ_p. Financial support has no effect on the success probability of low-quality projects since I assume that these projects are inherently flawed such that the government's involvement does not help them. For simplicity, p' denotes the probability of success for high-quality projects with financial support.

$$\Pr[s_t = 1 | e_t, \kappa_t] = \kappa_t \cdot p + e_t \kappa_t \tau_p + (1 - \kappa_t) \cdot q \tag{2.1}$$

After realizing the outcome, voters can decide whether they want to re-elect the incumbent ($v = 1$) or vote for the challenger which is a good-type politician with

[9] W is the payoff from holding office and δ is the discount factor. This condition assures that bad-type politicians always have an incentive to implement their preferred policy in the first period.

probability π. Following the election, the second periods starts. The second period of the game is identical with the first period, except that there is no election at the end of the period.

2.2.3 Strategies and Payoffs

The voter's strategy is a function that maps the politician's financial support decision and the outcome of a project to a dichotomous election decision. Similarly, the politician's strategy applies information about their type and the project's type to a binary financial support decision. Formally, the strategy space is:

$$S_V : [0,1] \times [0,1] \to [0,1] \quad S_P : [0,1] \times [0,1] \to [0,1]$$

The payoff function of voters (U_V) consists of the success of a project as well as the action of the incumbent. If the project turns out to be successful, then a voter will receive $\beta \in (0, \infty)$. This captures the net economic benefits of a project to voters, such as economic growth, jobs, and better infrastructure.[10] If the incumbent supports a project, the voters will incur cost $c \in (0, \infty)$ which captures direct and opportunity costs of the financial support decision. The payoffs of round 2 are discounted by factor $\delta \in (0, 1)$.

$$U_V = s_1 \cdot \beta - e_1 \cdot c + \delta(s_2 \cdot \beta - e_2 \cdot c) \tag{2.2}$$

The politician's payoffs are conditional on their type. Both types of politicians are interested in staying in office for two reasons. First, it gives them the benefit W, which captures the value of holding office. Second, they can implement their preferred

[10]This means that main channel through which quality affects the decision calculus of actors is the success probability. Success probability also captures the net economic gains to some extent, as one could argue that there is a correlation between size and implementation. For instance, larger projects may have more resources to properly plan a project.

policies. For the good-type incumbent, this means that they can implement the policies that maximize voters' utility because the voter's utility function is part of the good-type politician's own utility function. As a result, the good-type incumbent should always choose the policy e_t that is best for the voter, i.e., a congruent action $e_t = \kappa_t$. In sum, the good type's payoffs are:

$$U_I(\theta = 1) = W + s_1 \cdot \beta - e_1 \cdot c + \delta(v_1 \cdot W + s_2 \cdot \beta - e_2 \cdot c) \tag{2.3}$$

In contrast, the bad-type incumbents prefers policies that give them the private rent r_t. The bad-type incumbent only receives r_t when playing dissonant actions, i.e., $e_t \neq \kappa_t$. This could be because it is easier to shirk from low-quality projects than from high-quality projects. Unproductive companies have an incentive to pay bribes to secure incentives. The monitoring systems of low-quality projects may also be weaker, which decreases the risk of being caught in rent-seeking for bad-type incumbents. Another explanation is incompetency. Incompetent politicians have to work less with low-quality projects due to poor project management. Similarly, it can be a lack of effort to identify good projects.

$$U_I(\theta = 0) = W + \mathbb{1}[\kappa_1 \neq e_1] \cdot r_1 + v_1\delta(W + \mathbb{1}[\kappa_1 \neq e_1] \cdot r_2) \tag{2.4}$$

2.3 Public Interest Equilibrium

I first consider a strategy profile where the good-type politician always plays congruent actions and the bad-type sometimes decides to defect from its preferred dissonant actions. I term this the public interest equilibrium since it assumes that good-type politicians always pursue actions that maximize voters' welfare. The equilibrium concept used to solve this model is the perfect Bayesian equilibrium (PBE) solution concept. In this section, I present the PBE derived through the process of backward

induction.

2.3.1 Actions in the Absence of Elections

I first consider the second period in the game. Because there is no pressure for re-election, the incumbents will choose the best action given their types. For the bad type, the optimal strategy is to always play a dissonant action. Formally, $e_2^*(\theta = 0) \neq \kappa_2$. Since bad-type politicians do not care about the outcome of the project, they can take the rent r_2 by implementing a dissonant action. This underscores why voters want to filter out bad types at the election stage because otherwise they end up with sub-optimal policy choices in the second period.

For the good-type incumbent, the optimal strategy is to always play congruent actions, i.e., $e_2^*(\theta = 1) = \kappa_2$. For this strategy to hold, $c/\beta \leq \tau_p$. This means that the gains from supporting a high-quality project need to exceed the costs. If this is not the case, incumbents have no incentive to support a high-quality project. Since the provision of financial support to low-quality projects has no additional benefits that could compensate for the costs, it is always better for the incumbent to not support low-quality projects.

Lemma 2.1. *In the second period, the bad type's best strategy is to always play dissonant actions ($e_2^*(\theta = 0) \neq \kappa_2$). The good type's best strategy is to always play congruent actions ($e_2^*(\theta = 1) = \kappa_2$) conditional on the benefits of supporting high-quality projects exceeding the costs.*

2.3.2 Outcomes and Re-election

At the end of the first period, voters can either keep the incumbent or decide to elect the challenger candidate. Voters will re-elect incumbents if the expected utility of keeping them is larger than choosing the opponent. Formally, $EU[v_1 = 1|U_V^{t=1}] \geq$

$EU[v_1 = 0|U_V^{t=1}]$. This condition is satisfied if inequality 2.5 below holds, where $\Pi = \Pr[\theta = 1|U_V^{t=1}]$ denotes the posterior belief about a politician's type:

$$(\Pi - \pi) \cdot (EU[U_V^{t=2}|\theta = 1] - EU[U_V^{t=2}|\theta = 0]) \geq 0 \tag{2.5}$$

Since the voter's expected utility in the second period is larger when electing a good type than a bad type politician[11], voters will only re-elect an incumbent if $\Pi \geq \pi$. This means that after observing the first period outcome and financial support decision, the voter's posterior belief about the probability that an incumbent is a good type needs to be larger than their prior belief. If the posterior belief is smaller than their prior belief, voters are better off by voting for the challenger.

$$\Pi = \frac{\Pr[U_V^{t=1}|\theta = 1] \cdot \pi}{\Pr[U_V^{t=1}|\theta = 1] \cdot \pi + \Pr[U_V^{t=1}|\theta = 0] \cdot (1 - \pi)} \geq \pi$$

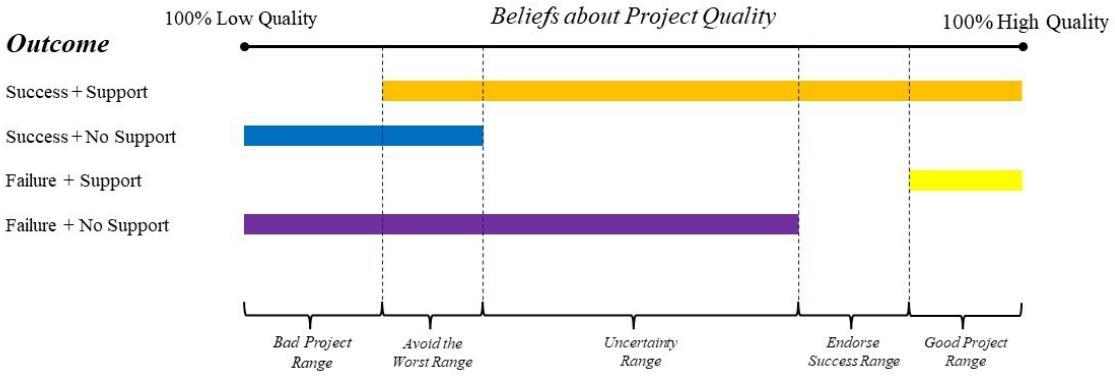
$$\Pr[U_V^{t=1}|\theta = 1] \geq \Pr[U_V^{t=1}|\theta = 0] \tag{2.6}$$

As indicated by inequality 2.6, voters' posterior beliefs will be larger than π when the outcome they observe is more likely to be associated with the good type than with the bad type. Figure 2.1 illustrates that inequality 2.6 is satisfied for different sets of outcomes conditional on the value of m. If m is very low, meaning a project is very likely of low quality (*Bad Project Range*), then voters will re-elect an incumbent if they observe no financial support independent of the outcome. The opposite is true if m is very high (*Good Project Range*). In this case, we should see that incumbents are only re-elected if they support an FFDP. In between these two extreme cases, there are three other ranges where voters are looking not only at actions of financial support but also at the outcome. If there is significant uncertainty about the quality of a project (*Uncertainty Range*), then voters should only vote for the incumbent if they take notice of a failed project without financial support and a successful project

[11] I show in the appendix why $EU[U_V^{t=2}|\theta = 1] \geq EU[U_V^{t=2}|\theta = 0]$.

with financial support. In the case that voters are to some extent certain that a project is of low quality (*Avoid the Worst Range*), there should only be votes for the challenger if a supported project fails. Lastly, in situations where there is some certainty but not too much that a project is of high quality (*Support Success Range*), voters will only reward politicians if they support a successful project.

Figure 2.1: Beliefs about Project Quality and the Role of Outcomes for Re-election



Note: The colored lines represent the range of m for which an incumbent is re-elected for a given outcome. The size of the ranges is only illustrative and does not include the exact bounds as described in the appendix.

The intuition behind this result is that under sufficient uncertainty about an FFDP's quality, voters use outcomes to assess whether incumbents made the right policy decision. Since success is more likely among high-quality projects, voters will associate a successful project with high-quality FFDPs. As a result, they deduce that incumbents that support a successful FFDP are more likely to be a good than a bad type. When the uncertainty disappears, i.e., voters have more precise information about a project's quality, outcomes become less important to assess whether a politician made the right support decision. For instance, in the *Good Project Range*, voters are extremely confident that an FFDP is of high quality. For this reason, the only thing that is important to voters is whether a candidate supported the project. This result is summarized in lemma 2.2.[12]

[12]Mathematical proofs of are provided in the appendix.

Lemma 2.2. *Conditional on the level of m, voters will re-elect politicians after the following outcomes:*

- *Good Project Range: Any project with financial support independent of outcome*
- *Bad Project Range: Any project without financial support independent of outcome*
- *Uncertainty Range: Success with financial support and failure without financial support*
- *Avoid the Worst Range: All outcomes but failure with financial support*
- *Support Success Range: Success with financial support*

2.3.3 Financial Support Decisions by Incumbents

In equilibrium, politicians will choose the policy action that maximizes their utility given the re-election constraints presented in lemma 2.2. For good-type politicians, this is relatively simple. Within each range, we can find a set of parameters that incentivizes the good type incumbent to always support high-quality projects and never support low-quality projects.[13] In contrast to the good-type incumbent, re-election provides enough incentives to bad types to strategically pool with the good type if future payoffs of holding office weighted by the probability of project success are large enough.[14]

$$\Pr[e_1 = 1|\theta = 0, \kappa_1 = 1] = F(\delta(W + \mu)(2p + \tau_p - 1)) \tag{2.7}$$

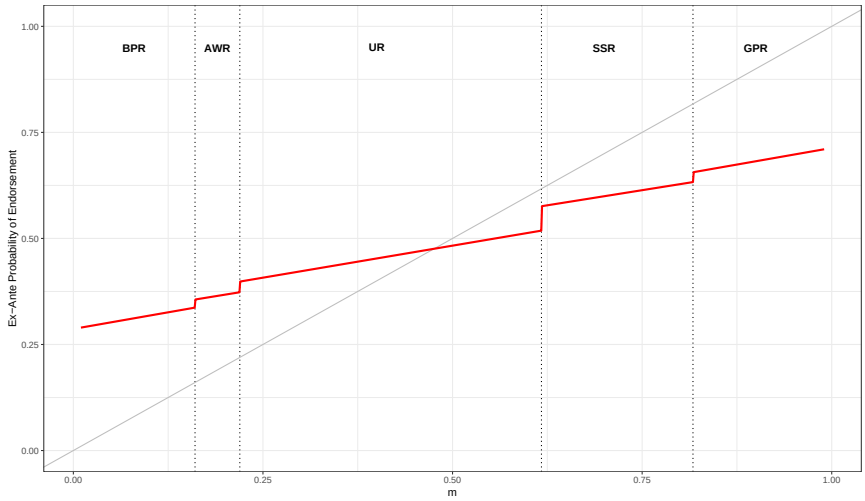
$$\Pr[e_1 = 0|\theta = 0, \kappa_1 = 0] = F(\delta(W + \mu)(1 - 2q)) \tag{2.8}$$

[13]For the bad project and the avoid the worst ranges, the value of holding office has to be sufficiently low. Otherwise, the good politician has no incentive to support high-quality projects. More detail is provided in the appendix.

[14]The degree of pooling by the bad type incumbent varies by the range of m. This is presented in more detail in the appendix.

The bad incumbent's behavior in the *Uncertainty Range* is a good illustration of this pooling behavior. Expressions 2.7 and 2.8 show the probability that a bad-type incumbent will play a congruent action, i.e., pool with the good-type incumbent. Expression 2.7 indicates that financial support to high-quality projects should become more likely as the likelihood of project success (p) increases. Higher success rates of high-quality projects imply that bad-type incumbents are more likely to be caught by voters for supporting the wrong project. Similarly, expression 2.8 highlights that the likelihood of bad-type politicians not supporting low-quality projects is negatively correlated with q. In other words, the higher the chances that a bad project will succeed, the more likely it is that bad-type politicians will support it because increases the chance that voters perceive the bad-type incumbent as a good-type politician who supported a high-quality project.

Figure 2.2: Ex-Ante Probability of Supporting FFDPs Conditional on m



Note: The gray line represents the probability of financial support we should observe if politicians only support high-quality projects. This probability should be equal to m. The red line represents the predicted probability of financial support conditional on the equilibrium condition within each range. The results are based on the following parameter specifications: $\pi = 0.6$, $p = 0.55$, $\tau_p = 0.2$, $q = 0.2$, $W = 1$, $R = 15$, $c = 2$, $\beta = 15$, $\delta = 0.5$, and $F \sim unif(0, 15)$. BPR = Bad Project Range, AWR = Avoid the Worst Range, UR = Uncertainty Range, SSR = Support Success Range, GPR = Good Project Range.

This form pooling applies to all ranges across m. Figure 2.2 shows the *ex-ante*

probability of observing a financial commitment to an FFDP in the first period of a game. While we see that bad-type incumbents are not completely reigned in by electoral accountability institutions, the expected rate of financial support is still closer to the ideal from the voters' perspective than if there were no elections. Consider a situation where there is a 90% chance that a project is of high quality, and we know that the incumbent is a good type with a probability of 0.6. Figure 2.2 indicates that there is 0.682 probability to observe financial support based on these parameters. Ideally, we would observe that 90% of all projects receive support, but 0.682 is still better than the probability in case there was no accountability in place, which would be 0.58.[15] Thus, the model shows that we can maintain a PBE where good incumbents are always committed to represent the public interest, whereas the bad-type politician only occasionally commits to the public interest.[16]

Proposition 2.1. *Assuming that FFDPs are randomly assigned, we can find perfect Bayesian equilibria across all values of m where:*

1. *Bad-type incumbents will always play dissonant actions and good-type incumbents congruent actions in the second period;*

2. *Voters will only re-elect an incumbent if they believe that an outcome is more likely associated with a good-type than a bad type incumbent. The type of outcomes that satisfy this condition vary by m;*

3. *Good-type incumbents will always play congruent actions in the first period;*

[15] This probability was calculated as follows $0.6 \cdot 0.9 + 0.4 \cdot 0.1$.

[16] There is an alternative equilibrium in which the good type pools with bad type, i.e. both play the strategy $e_1 \neq \kappa_1$. In that case, no incumbent would not be re-elected if the outcome would be $\beta - c$ or 0. The logic behind this is that these two outcomes would be associated with dissonant incumbents who sometimes deviate from their main strategy if the payoff is large enough. Thus, while in the main case $\beta - c$ and 0 are associated with a higher likelihood that the incumbent is a good type, this does not apply in this pooling equilibrium. However, as discussed by Besley (2006), we can rule out this equilibrium using Cho and Kreps's (1987) "Intuitive Criterion".

4. *Bad incumbents will sometimes play congruent actions in the first period if the expected utility of re-elections exceeds the first period's private rents.*

2.3.4 Implications

This result is important because it highlights two aspects that are missing in the current literature. First, the backlash to FFDPs is not the mere product of unsatisfactory project outcomes. If we are in the bad or good project range, then the result of the project does not even matter to voters but only the support decision. In these situations, financial support is a strong enough signal for voters to distinguish between bad- and good-type incumbents. Outcomes only matter when there is uncertainty about the quality of a project. In the presence of uncertainty, voters will use the information conveyed through project outcomes to make a more informed decision about the type of politician. This role of uncertainty over project quality has been overlooked in the literature. Yet, this model result suggests that uncertainty needs to be accounted for when analyzing why there is a backlash toward FFDPs.

Second, the presence of project quality heterogeneity elevates the importance of financial support decisions vis-à-vis outcomes. Previous work does not account for this. For example, Marx (2018) has a formal model that finds that project completion will increase support for incumbents because it indicates that the incumbent is competent and has project management skills. In this story, project completion is a function of the incumbent's type and is not dependent on some underlying quality characteristics. Marx's setup allows voters to use outcomes to make inferences about the type of the incumbent. However, I show that if we assume that there are systematic differences across projects that influence the outcome independent of the incumbent's effort, then outcomes become less relevant. In this situation, the main action people are interested in is whether the politician supported the right projects.

2.4 Selfish Equilibrium

In the public interest equilibrium, I assumed that the good-type politician will always act in the interest of voters. This makes it possible for outcomes to help voters differentiate between good and bad types. The model has a second equilibrium where good-type politicians can differentiate themselves from bad-type politicians in the first period by always supporting or not supporting a project. In other words, under certain situations, good-type politicians will selfishly ignore the interests of voters to differentiate themselves from the bad-type incumbent and increase their re-election chances.

In this "selfish" equilibrium, the second period behavior remains the same as in lemma 2.1. The main difference is the first period strategy chosen by the good-type politician. If the good-type politician commits to provide financial support to every FFDP regardless of the project's quality, then outcomes become irrelevant for voters to assess a politician's type.[17] The reason is that if voters do not observe a support decision, they will infer that it must be a bad-type incumbent who sometimes deviates from supporting projects because of private rents. Importantly, this equilibrium is independent of m. Voters' priors about the quality of a project do not affect the re-election and politician's behavior because the only factor that matters is the presence of financial support.

A key question is whether it is in the best interest of the good-type politician to support all projects. For the bad-type incumbent, the equilibrium strategy is identical to the strategy in the *Good Project Range* in the public interest equilibrium. However, the good-type incumbent faces a difficult trade-off. While the incumbent can definitely secure re-election with this strategy, it would also mean supporting

[17] In the appendix, I show that this also applies to the case where the incumbent never supports any project.

low-quality projects that are not welfare enhancing from the voters' perspective.

$$EU[U_V^{t=2}|\theta = 1] - EU[U_V^{t=2}|\theta = 0] \geq \frac{c - \delta W}{\delta(1 - \pi)} \tag{2.9}$$

Inequality 2.9 shows the condition under which a good type supports a low-quality FFDP. The left-hand side depicts the difference in the expected utility of voters in the second period when electing a good-type versus bad-type incumbent. This difference is always positive. The right-hand side of the inequality is a threshold. If the threshold is lower than the difference in second period utility, it is the best response for politicians to also support low-quality projects. What we can see is that for the selfish equilibrium to emerge, either the value of holding office needs to be sufficiently high or the costs of financial support need to be very small. This contrasts the public interest equilibrium, where the value of holding office needs to be relatively small, otherwise, there would be no equilibrium for low values of m.

Proposition 2.2. *If the value of holding office is sufficiently large or the costs of financial support sufficiently small, then there is a Perfect Bayesian Equilibrium where*

1. *Bad-type incumbents will always play dissonant actions and good incumbents congruent actions in the second period;*

2. *Voters will only re-elect an incumbent if they observe financial support to an FFDP;*

3. *Good-type incumbents will supports every project in the first period;*

4. *Bad incumbents will sometimes play congruent actions in the first period if the expected utility of re-elections exceeds the first period's private rents.*

The findings from this equilibrium are similar to the credit claiming and pandering findings (e.g., Cruz & Schneider, 2017; Guiteras & Mobarak, 2016; Jensen & Malesky,

2018) that suggest that politicians should support every project because it helps them to separate themselves from bad-type politicians. The novelty of this result is that in contrast to pandering, where politicians knowingly implement policies that seem popular among voters but are inefficient, politicians support projects against people's interests. Voters only select a politician who supports FFDPs because they assume that it is more likely that a good type is committed to this strategy. This means that the "always support" strategy does not aim to please the crowd. Instead politicians use financial support decisions to showcase their ability to commit to all FFDPs since this allows them differentiate themselves from bad-type politicians.

2.5 Transparency about Financial Support Decisions

The previous two sets of equilibria assume that people can always fully observe the actions of an incumbent. However, financial support decisions may sometimes not be visible to a large portion of people. One reason for this is a lack of transparency from the government or a lack of reporting. Alternatively, it could be simply because voters do not inform themselves properly about the specifics of a deal. They may read a headline in their local newspaper that an FFDP comes to their town but they do not dive into the details.

If we assume that voters only observe outcomes, I find an equilibrium where voters will condition their response on a project's success. The reason why outcomes absent information about financial support decisions are still informative is because good-type politicians maximize the success rate of projects by only supporting high-quality projects. On average, it is more likely that a successful project is associated with a good-type incumbent since they will always support good projects and by that increase the chance that a project will succeed by τ_p. This is not always the case with bad-type incumbents. Thus, in this new equilibrium voters will only re-elect

politicians if they observe success. This re-election mechanism incentivizes a similar first period behavior by the incumbents as in the public interest equilibrium captured in proposition 2.3.

Proposition 2.3. *If voters only observe the outcome of a project, then there is a Perfect Bayesian Equilibrium where*

1. *Bad-type incumbents will always play dissonant actions and good incumbents congruent actions in the second period;*
2. *Voters will only re-elect an incumbent if the project succeeds;*
3. *Good-type incumbents will only play congruent actions in the first period;*
4. *Bad-type incumbents will always support low-quality projects and sometimes support high-quality projects if the expected utility of re-elections exceeds the first period's private rents in the first period .*

This outcome is interesting since it suggests that the conditions under which FFDP outcomes cause backlash are 1) a lack of information about financial support decisions among voters and 2) an implicit assumption that good-type politicians help projects to succeed. These two conditions are never fully specified in the literature. Marx (2018) includes the second condition in his model but does not theorize about the lack of information about financial commitments to FFDPs. From this equilibrium, we can also derive that outcomes may be more relevant in low information environments than in high information environments. While in high information environments, outcomes help to resolve uncertainty about the quality of the project, outcomes are the only information source available to citizens to assess the government's type in low information environments. In this context, outcomes can convey credible information about the type of an incumbent.

2.6 Policy Implications

The model generates testable implications about the behavior of politicians to grant financial support to FFDPs and voter welfare. I explore these dimensions within this section. For the most part, I proceed with the results from proposition 2.1.

2.6.1 Shocks to the Probability of Success

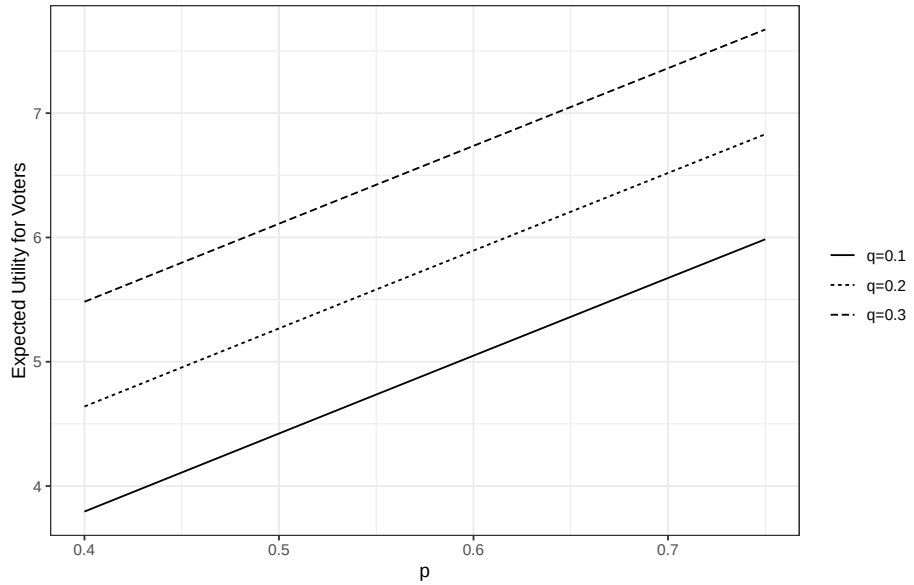
One factor highlighted in the base model that affects the inclination of incumbents to offer financial support is the probability of project success. According to the model, an increase in p and q should make it more likely that we observe financial support decisions. The reason is that an increase in the likelihood of success of FFDPs makes it also more likely that bad-type politicians are caught not supporting a high-quality project and less likely that it is revealed that they supported a low-quality project. In other words, a positive shock to the success rate of projects aggravates the rent-seeking behavior among low-quality projects but also incentivizes welfare-enhancing behavior when dealing with high-quality projects. This dynamic is summarized in proposition 2.4.

Proposition 2.4. *Within a given range as defined in lemma 2.1 (excluding the good and bad project range), as the probability of FFDP success increases (i.e. higher q and p), the likelihood that an incumbent will offer financial support to an FFDP will increase.*

A theoretically interesting implication of proposition 2.4 is that higher chances of project success could be a double-edged sword for voters. While higher chances of project success mean that voters are more likely to enjoy the benefit β, it also means that bad-type politicians will be more inclined to support even more low-quality FFDPs. This raises the question of whether increased shirking among low-quality

project will affect voter welfare. Figure 2.3 displays the expected utility of voters after two periods as p and q increase. What we can see is that increasing success rates are not a concern for voters. The higher success rate of low-quality projects compensates for the losses of increased rent-seeking by bad-type incumbents. At the same time, the net benefits of high-quality projects become larger.

Figure 2.3: Voter Welfare as Success Probability Increases



Note: This result is based on the equilibrium in the uncertainty range. The results are based on the following parameter specifications: $\pi = 0.6$, $m = 0.4$, $\tau_p = 0.2$, $W = 1$, $R = 15$, $c = 2$, $\beta = 15$, $\delta = 0.5$, and $F \sim unif(0, 15)$.

Substantively, these changes in the success rate are interesting since they can help to explain the behavior of politicians in various empirical settings. First, it predicts the response of politicians to changing economic conditions. FFDPs depend on the availability of liquidity, i.e., companies having access to loans and donors having no fiscal constraints. If these conditions suddenly change due to an economic crisis, there is a higher chance that these projects have to be cancelled because of a lack of financing. Second, the probability of success also relates to variation across localities. Some places have better infrastructure and a more educated workforce that makes it easier for a project to thrive. Thus, differences in p and q can be related to varia-

tion between developing and developed countries, for instance. Lastly, these variables can be used to understand the effect of project design on the likelihood of receiving financial support. Consider a case where financial support is attached to accountability measures that make a project more likely to succeed.[18] The availability of these accountability measures should therefore increase the chance that a government will make a financial contribution.

There are existing empirical findings that align with the predictions from the model. Zheng and Warner (2010) find that municipalities are more likely to offer investment incentives when they can include accountability measures. This result can be interpreted as evidence that local governments are more willing to take on the risks associated with tax incentives when they know that the incentive design encourages companies to meet their promised goals. Another established finding that is line with the model is the fact that most foreign aid does not target the poorest but often goes to richer areas within a country (Briggs, 2017, 2018; Öhler & Nunnenkamp, 2014). The model would suggest that the reason for this pattern is that recipients are more likely to financially support projects in richer areas since the likelihood that the project will succeed is higher there. This contrasts with existing explanations that focus on the incentives of donors to place projects there (e.g. Briggs, 2021).

2.6.2 State Capacity and Financial Support

Another important factor in the model is τ_p. The ability to increase the chance of FFDPs to succeed makes it appealing for incumbents to support projects. Similar to p and q, the model predicts that within an outcome range, an increase in τ_p increases the likelihood that a politician supports a project (see proposition 2.5). This is because it exposes bad-type incumbents to greater risk that it is revealed that they did not support a high-quality project. At the same time, it does not encourage more rent-

[18] In the aid literature, there is the argument that aid conditionality can lead to better aid outcomes (e.g. Montinola, 2010).

seeking among low-quality projects since τ_p only applies to high-quality projects. In that sense, a change in τ_p does not represent a double-edged sword as in the case of a general change in the FFDP success rate.

Proposition 2.5. *Within the uncertainty and support success range, an increase in the effect of financial support to FFDP on project success (i.e. higher τ_p), makes it more likely that an incumbent will provide financial support to an FFDP.*

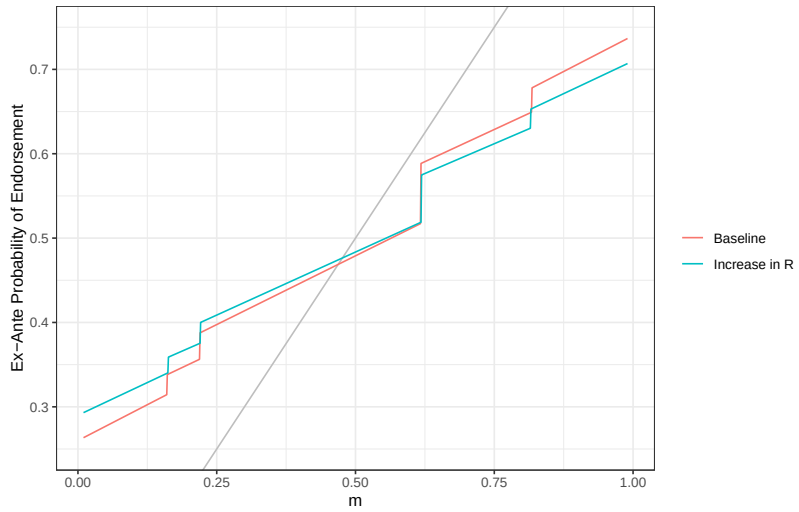
Empirically, the term τ_p most closely maps to the concept of state capacity. Financial support by governments with high state capacity are likely more effective since there is a higher chance that this support will be correctly implemented and not undermined by pathologies, such as corruption. The result in proposition 2.5 therefore suggests that higher state capacity can improve development outcomes since it causes more efficient allocation of state resources to the right development projects. This is interesting because it highlights how accountability mechanisms can reinforce the positive effect of state capacity. By changing the beliefs of people, higher state capacity can incentivize bad-type incumbents to choose an efficient policy. This result speaks to a broader debate about whether democracy and state capacity are synergistic or complements (Hanson, 2015). While the empirical evidence suggests that there is a complementary relationship between state capacity (e.g C. H. Knutsen, 2013), the model highlights that it may be possible that at least at the project-level there is a synergistic relationship between these two variables. The missing component in the current discussion is how people change their beliefs about outcomes when they switch from a low to high state capacity area.

2.6.3 Potential of Rent-Seeking and Financial Support

A third implication of the model is that financial support decisions are related to the potential of private rents denoted by R. The bad-type incumbent's action in the pre-election period is partially driven by his or her earning potential from private rents in

the first and second periods. According to the model, higher rent-seeking potential as expressed by R should lead to more dissonant actions, i.e., more support to low-quality projects and less support to high-quality projects. The intuition behind this result is that as R becomes larger, it becomes more likely that the first round private rents outweigh the expected private rents in the second period. In other words, bad-type politicians earn enough rents from dissonant actions to forgo a higher chance of re-election.

Figure 2.4: Change in Probability of Financial Support as Rent-Seeking Potential Increases



Note: For the increase, R increased by 15. The results are based on the following parameter specifications: $\pi = 0.6$, $p = 0.55$, $\tau_p = 0.2$, $q = 0.2$, $W = 1$, $c = 2$, $\beta = 15$, $R = 5$ (baseline), $\delta = 0.5$, and $F \sim unif(0, R)$. The gray line represents the probability of financial support we should observe if politicians only supported high-quality projects.

The interesting aspect of this finding is that the overall probability of financial support depends on the level of m. As depicted in figure 2.4, an increase in R decreases the probability of financial support for high values of m but increases the probability of financial support if m is small. The reason for this is that dissonant actions among low-quality projects look different than those among high-quality projects. Low-quality projects may be more likely to engage in corruption because they want to seek help from the government. As the level and value of corruption increase, the

more likely it becomes that bad-type incumbents are convinced to take the bribe and support the project. In contrast, among high-quality projects, there is an alternative mechanism where some actors try to prevent the launch of a high-quality project since it could put them out of business. As a result, we should see that bad-type incumbents become less likely to help high-quality projects as the level of rent-seeking increases. This is summarized in proposition 2.6.

Proposition 2.6. *As the range of private rents (R) increases, it becomes more likely to observe financial support in the bad project, avoid the worst, and uncertainty ranges and less likely in the support success and good project ranges.*

The result speaks to the broader debate about the effect of corruption on economic growth. Specifically, the argument helps us to understand how corruption affects the misallocation of government resources, which is seen as one mechanism by which corruption can stifle economic growth. While some theoretical arguments suggest that corruption and bribery can increase the efficiency of resource allocation since it leads to a competitive bidding contest (Beck & Maher, 1986; Leff, 1964), most empirical evidence suggests that corruption undermines the efficient allocation of scarce government resources (e.g. Ferraz, Finan, & Moreira, 2012; Olken, 2007; Weaver, 2021). Proposition 2.6 supports these findings by highlighting that corruption can lead to a higher chance that governments support the wrong projects or are less likely to support promising projects. Overall, I find that an increase in R reduces voter welfare, which is in line with findings documenting a negative effect of corruption on growth (e.g. Mauro, 1995).

Nevertheless, my finding is more nuanced since it shows that an increase in corruption can both sand and grease business depending on the quality of a project. There has been a long-standing discussion about whether corruption is necessary and can even help businesses to be more efficient. There is empirical evidence for both dynamics (e.g., Dreher & Gassebner, 2013; Huntington, 1968; Zhu & Shi, 2019). The

model shows that for low-quality projects, higher levels of corruption may be beneficial since they are more likely to receive support from the government, whereas high-quality projects are likely to suffer from high levels of corruption. This also implies that certain types of companies and aid projects are more likely to strive in a corrupt context, which is in line with past research that finds differential effects of corruption across companies. For example, Smarzynska and Shang-Jin (2000) find that high-tech companies are less likely to enter corrupt countries that require joint ventures with domestic companies since they are afraid that their technology will be stolen.

2.7 Endogenous Investment Decision

Thus far, I assumed that the allocation of FFDPs is exogenous. However, donors and investors are strategic actors who try to maximize their utility function when choosing to invest in a given location. Financial support and the type of politicians can play an important role in this decision. For instance, a common argument in favor of investment incentives is that they are necessary to attract FDI projects (e.g. Jensen & Malesky, 2018). Conversely, corruption and other factors that negatively affect political stability can deter investment (e.g. Dietrich, 2013; Smarzynska & Shang-Jin, 2000). This selection dynamic can potentially affect how voters assess outcomes and, as a result, change the behavior of politicians compared to the base model.

2.7.1 Introducing Strategic Donor

In this extension, I introduce a donor D who has to make a decision whether they want to invest or not. Donors in this game can represent multinational companies, international organizations, NGOs, or government aid agencies. All of these actors have to make a decision about where they want to invest their resources. I assume

that actor D chooses locations where they maximize their expected utility. For companies, this is the location with the largest profit potential. In the case of non-profit organizations, this maximization decision would reflect non-monetary factors, such as how many people can benefit from a project.

Analogous to the base model, I assume that there are low-quality and high-quality donors. Projects by low-quality donors have a lower probability of success than projects by high-quality donors. The utility functions of the two types of donors are represented in equations 2.10 and 2.11. Donors' decision to invest in period t is denoted with $d_t \in \{0, 1\}$. If D invests, both types will receive the benefit $\beta_D \in (0, \infty)$ if a project succeeds. While D includes a broad set of actors, all of them implement projects because they provide benefits to them. For example, companies can generate profits, and NGOs can fulfill their mission. Since the implementation of projects is not for free, donors have to pay the cost of $c_D \in (0, \infty)$. In addition to these operation costs, donors also have to pay for the bad politician's private rent r_t if the bad-type politician plays a dissonant action.

$$U_D(\kappa = 1) = d_t(s_t\beta_D - c_D - (1-\theta)(1-e_t)r_t) + (1-d_t)\phi^H \tag{2.10}$$

$$U_D(\kappa = 0) = d_t(s_t\beta_D - c_D - (1-\theta)e_t r_t) + (1-d_t)\phi^L \tag{2.11}$$

If D does not invest, it will receive the benefit of $\phi \in (0, \infty)$. ϕ represents outside options at D's disposal. Investors look at multiple locations when they want to build a new factory. They eventually choose the location that provides the highest net benefits. In other words, they will only invest in location A if the value of the outside option is smaller than the expected utility of their investment in location A. I assume that the main difference between high- and low-quality donors is their outside options. High-quality donors are desirable, and there is therefore a significant demand for their projects. In contrast, not all communities are willing to host low-quality donors. This

means that the outside options' value (ϕ^L) of projects initiated by low-quality donors should be generally smaller than the outside options of high-quality donors (ϕ^H).

The sequence of the game does not change significantly compared to the base model. The key difference is that after the government makes a financial support decision, the donor decides whether they want to invest or not. After this, we move to the voting stage. In each period, a new donor makes that decision. Donors do not know about previous donors and their interactions with politicians. This is to exclude reputation effects. However, donors know about the politician's type before investing.

2.7.2 Equilibrium

This extension of the model provides interesting insights that are in line with the main model's predictions. In the equilibrium, the behavior of donors does not vary between the periods. High-quality donors will only invest in a location if they receive financial support since this increases the chance that the project will succeed. For this to hold, $\phi^H \in (p\beta_D - c_D, p'\beta_D - c_D]$. In other words, the outside options have to be smaller than in the financial support condition but larger than in the no financial support condition. In contrast, low-quality donors are less picky. They will always invest independent of whether they receive financial support. This means that the value of their outside options are lower than even the worst deal, i.e., receiving financial support from a bad-type incumbent. This strategy profile is summarized in equation 2.12

$$d_t^*(e_t, \kappa_t) = \begin{cases} 1 & \text{if } \kappa_2 = 1 \text{ and } e_t = 1 \text{ and } \phi^H \in (p\beta_D - c_D, p'\beta_D - c_D] \\ 1 & \text{if } \kappa_2 = 0 \text{ and } \phi^L \leq q\beta_D - c_D - r_t \\ 0 & \text{Otherwise} \end{cases} \tag{2.12}$$

Given this strategy profile of the donors, incumbents have a similar second period behavior as in the base model. The good type incumbent will always support a project initiated by a high-quality donor, and the bad-type incumbent will only support low-quality projects. This means that the good-type incumbent will attract all donors, whereas the bad type will only bring in low-quality donors. This does not hurt the bad type because its utility function does not define any benefits for completed projects. As in the base model, voters are therefore better off re-electing a good-type incumbent.

The main difference from the base model is that outcomes now incorporate a selection mechanism, which means that voters assess certain outcomes differently than in the base model. This is outlined in table 2.1. Specifically, incorporating strategic donors in the model creates changes in how people view project outcomes without financial support. In this extension, voters will always re-elect an incumbent after observing a project without support. This is because the only projects that come without support are from low-quality donors, and only good types will never support these projects. Furthermore, the absence of a project also carries information about the type of politician. Only bad-type incumbents are not able to attract high-quality donors. Thus, if people observe no projects, they will conclude that it is a bad-type incumbent and will not re-elect the incumbent.

Table 2.1: Outcomes and Re-election under Endogenous Investment Decisions

Outcome	Re-election	Ranges
Success + Support	Yes, depends on m	NSF and ANP
Success + No Support	Always	All
Failure + No Support	Always	All
Failure + Support	Yes, depends on m	ANP
No project	Never	All

Note: NSF stands for *No Supported Failure* range and ANP for *All but no Project* range. If mentioned under Ranges, it means that politicians are re-elected for a specific outcome within this specific range.

While these three outcomes do not change the re-election chances depending on

m, re-election chances of incumbents vary for projects that received financial support. Analogous to the base model, there are outcome ranges conditional on m where voters change their re-election conditions. In the endogenous model, there are three ranges. For low levels of m, voters will not re-elect any politician who supports a project. In the *All but Support* range (ABS), voters attribute financial support to a bad-type politician helping a low-quality donor. The second range is similar to the uncertainty range. Voters only re-elect incumbents in the *No Supported Failure* range (NSF) for supported projects if the project succeeds. Outcomes serve as an instrument to overcome uncertainty. Lastly, the *All but No Project* range (ANP) applies for high values of m. Within this range, voters re-elect the incumbent as long as they observe a project. Having a project is sufficient information to differentiate between good and bad types. This further strengthens the main point of the model that negative outcomes are not necessary to cause political backlash in response to FFDPs.

Within each of these three ranges, the best strategy of the good-type incumbent is to always support high-quality donors and never support low-quality donors. The response of the bad-type incumbent varies similarly to the base model. Elections incentivize the bad-type incumbent to deviate from his or her preferred action if the re-election incentive is large enough. Elections are most effective in inducing discipline within the NSF range, i.e., when there is uncertainty about the quality of a project. In the ABS and ANP range bad incumbents can partially pursue their preferred action. For instance, in the ANP range, the bad-type incumbent always supports a low-quality project because voters re-elect incumbents independent of the outcomes. In sum, this discussion highlights that by introducing a strategic actor that makes an investment decision, I can derive a new equilibrium that consists of the following best responses:

Proposition 2.7. *There is a perfect Bayesian equilibrium where:*

1. *High-quality donors will only invest if they receive an incentive;*

2. *Low-quality donors will invest everywhere independent of a politician's type and financial support;*

3. *Good-type politicians will always play congruent actions in both periods;*

4. *Bad-type politicians will sometimes play congruent actions when the expected utility of re-election is large enough;*

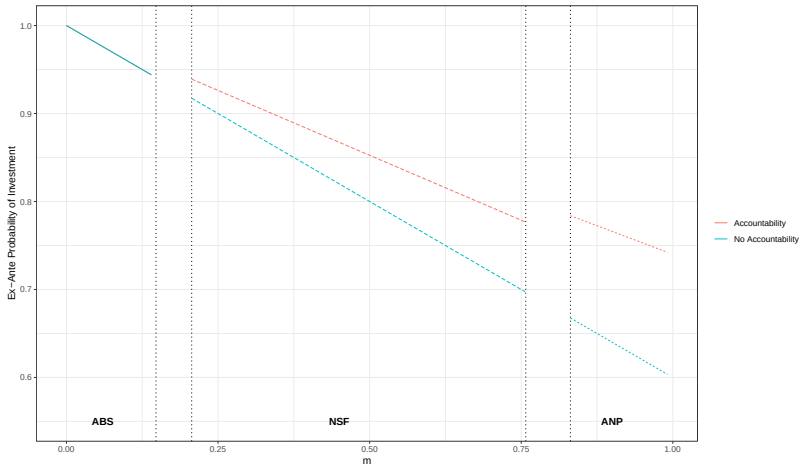
5. *Voters will always re-elect an incumbent if they observe an investment without financial support and never re-elect an incumbent if they observe no project. Re-election after supporting a project depends on the level of m.*

This equilibrium with endogenous investment decisions provides additional insights into how accountability and democracy can potentially affect the inflow of FFDPs. There is a significant debate about whether democracy increases the inflow of FDI (e.g. Q. Li et al., 2018) and whether donor countries spend more aid in democratic countries (e.g. Hoeffler & Outram, 2011). The model highlights that domestic accountability can enhance the inflow of projects because it incentivizes bad-type incumbents to adopt more prudent policies. In addition, figure 2.5 shows that this effect is conditional on FFDP quality. Accountability has no effect if we mostly deal with low-quality projects. The most significant effect is observable in the ANP range, i.e., when there is clear evidence that a donor is of high quality and when very selective. This suggests that the effect of democracy on aid and FDI flow should be conditional on the type of donor, which has been largely unexplored in the literature.

2.8 Conclusion

This paper develops a formal model to explain why FFDPs can cause domestic political backlash for politicians. The model extends the literature by assuming that backlash is not the product of retrospective performance assessment but because

Figure 2.5: Ex Ante Investment Likelihood Conditional on Election Accountability Mechanism



Note: The no accountability line assumes that there is no election in the first period. The results are based on the following parameter specifications: $\pi = 0.6$, $p = 0.55$, $\tau_p = 0.2$, $q = 0.2$, $W = 1$, $c = 2$, $\beta = 15$, $R = 5$ (baseline), $\delta = 0.5$, and $F \sim unif(0, R)$. ABS = All but Support range, NSF = No Supported Failure range, ANP = All but No Project range.

governments spend resources on FFDPs that have little chance to provide tangible benefits to voters. In other words, I conceptualize FFDPs as signaling opportunities for politicians to show voters that they are competent to support the right projects. A major implication of including this signaling mechanism is that even positive outcomes can cause backlash. While most research attributes backlash to weak performance of FFDP projects, the model demonstrates that outcomes are only important when there is uncertainty about the quality of a project or there is a lack of information about governments' financial support to FFDPs. Under some conditions, there is even an equilibrium where outcomes do not matter at all. This finding also holds if we extend the model to incorporate endogenous investment decisions. Furthermore, it helps to derive new insights into the policy implications of economic crisis, state capacity, and corruption for government support of FFDPs. These insights may not only be limited to FFDPs, but can also apply to governments' interacting with domestic firms.

The model highlights two avenues for future research. First, we need to learn more about governments granting financial support to FFDPs. We know very little about

the conditions under which governments make these support decisions. There is some research on investment incentives and co-financing of foreign aid. However, these studies mostly leave aside the role of quality heterogeneity. In addition, empirical studies that want to estimate the political effect of aid and FDI need to explore how a government's financial support affects the relationship as a moderator. Most existing research does not differentiate between projects that receive and those that do not receive government support.

Second, the model highlights the importance of uncertainty for voters. How do people assess project outcomes when this factor is manipulated? Most research on voter preferences about foreign aid and FDI does not incorporate uncertainty but provides relatively clear information about projects. Additionally, there is relatively little knowledge about how people update their beliefs when outside shocks change the likelihood of project success. In sum, more work is needed to empirically assess whether outcomes are viewed differently depending on the level of uncertainty.

Chapter 3

Beyond Pandering: Investment Project Quality, Voter Support, and the Use of Investment Incentives

3.1 Introduction

In today's globalized economy, governments compete against each other to attract new foreign direct investment (FDI) projects to their constituencies.[1] One policy instrument that governments use to win over new foreign companies are firm-specific discretionary investment incentives. These are financial commitments by governments to targeted firms that involve the provision of direct subsidies (e.g., cash grants) or tax breaks (e.g., property tax abatement) in return for their investments. Discretionary investment incentives are common. In the US alone, 39 states have programs that allow governors to make discretionary investment incentive decisions (Jensen, 2018). Slattery and Zidar (2020) estimate that between 2002 and 2017, US states granted $82 billion in firm-specific subsidies.

[1] This also applies to sub-national competition for firms (see Q. Li, 2016).

There are two major rationales to explain the use of discretionary incentives. First, investment incentives can increase the competitiveness of governments as an investment location (see Genschel, 2002; Q. Li, 2016). Attracting new foreign companies can promote job growth and enhance technology transfers, which will improve the productivity of domestic firms.[2] Second, there are political motives. Attracting new businesses has distributive consequences that may favor the supporters of an incumbent politician (Owen, 2019; Pinto, 2013). By distributing investment incentives, politicians can pander to voters and showcase that they promote economic growth (Jensen & Malesky, 2018). Moreover, politicians can use investment incentives for rent-seeking purposes, e.g., reward campaign donors with incentive packages (Gupta & Swenson, 2003).

Given the anticipated economic and political benefits of investment incentives, we would expect that politicians are unlikely to reject a company if it shows interest in investing in the politician's locality. Nevertheless, there are examples where politicians actively refuse to hand out incentives. The mayor of the city of Commerce (GA) stated in an interview with the New York Times that there were multiple companies that were interested in investing in Commerce (T. J. Smith, 2022). The city (and the county), however, did not support these investments with incentives because they were only offering low-paying jobs. The city eventually attracted a multi-billion dollar investment from SK Innovation, a South Korean electric car battery manufacturer, in 2019 with a $300 million incentive deal. Why would a politician not support every possible investment if it provides them with the opportunity to score easy political points and to promote job growth?

In this paper, I explore the micro-foundations behind an overlooked explanation for the selective use of investment incentives: politicians' concerns about backlash

[2]There is weak evidence that investment incentives are effective in promoting job growth (e.g. Jensen, 2017a, 2017b; Scavette, 2023). In fact, they may not even be necessary to attract new companies (Jensen, 2017b).

from voters.[3] We know relatively little about voters' attitudes toward investment incentives. Existing work assumes that voters tend to enable and not discourage the disbursement of investment incentives (Bundrick, Smith, & Yuan, 2021; Dewar, 1998; Jensen & Malesky, 2018; Turner, 2003). One reason for this is that voters associate the provision of investment incentives with an activity that stimulates economic growth (Jensen et al., 2014). Another reason is that politicians can justify the disbursement of investment incentives by stating the presence of external competition for private investment. Thus, voters may believe that investment incentives are simply the price of doing business (see Hellwig, 2015; Kayser, 2007).

These arguments, however, do not recognize that FDI projects are not equally effective in improving the economic situation of a community. Some investors will make long-term investments that produce well-paying jobs in industries of the future. The SK Innovation project, for instance, creates manufacturing jobs in the rapidly growing electric vehicle sector. Other projects are less likely to generate these benefits for voters. This can be because most of the economic benefits may not trickle down to the community, the presence of large negative externalities, such as higher levels of pollution and higher costs of living, or the reputation of an investor as an unreliable business partner. I call this project-level characteristic *quality*, i.e., the effectiveness of an FDI project in improving the living standards of a community as perceived by voters.

I argue that voters will condition their support for investment incentives on FDI project quality. While voters cannot observe a project's true quality, they can make inferences about quality from observable project characteristics. I contend that voters will be more likely to support investment incentives if they are given to high-quality projects than to low-quality projects. The reason is twofold. On the one hand, voters may believe that tax dollars spent on a low-quality project would yield greater returns

[3]There are a multitude of other factors, such budget constraints, project size, and industry, that also affect investment incentive decisions.

for a community if spent on a different economic development activity. On the other hand, when observing low-quality projects, people are more likely to assume that their tax dollars are misappropriated for rents to politicians and corporations. From this preference for high-quality projects, I derive that project quality limits the use of investment incentives as an instrument for politicians to gain political support (Bundrick et al., 2021; Jensen & Malesky, 2018). I expect that investment incentives yield political benefits only when given to high-quality projects and create political backlash when given to low-quality projects.

I test this theory with a survey experiment conducted in the US. The experiment consisted of two parts. First, respondents participated in a conjoint experiment where I exposed them to hypothetical FDI project profiles. Second, respondents completed a factorial survey experiment where respondents read a fictional scenario about a possible FDI investment that receives support from their local government council. I randomly manipulate the quality of the investment as well as whether the local government council provides larger or smaller investment incentives than competing municipalities.

The results render support for the idea that project quality affects people's support for investment incentives. Findings from the factorial experiment demonstrate that giving any type of investment incentive to a low-quality project significantly decreases the level of support for the politician's incentive decision. Furthermore, I observe that outbidding competitors with larger investment incentive packages only increases a politician's support conditional on the investment project being of high quality. Pandering with investment incentives does not work when dealing with low-quality projects. While politicians do not experience the expected backlash, large investment incentives for low-quality projects also do not increase a politician's political support.

The conjoint experiment provides additional evidence about the project attributes that are most salient to respondents. I find that people are more likely to approve

investment incentives if they target projects that create many jobs and hire mostly locals. This speaks to the idea that voters want their government to endorse projects from which their communities are most likely to benefit. Furthermore, I find that respondents care about the reputation of a company as well as the endorsements from local small business associations. Respondents expressed higher levels of support for investment incentives if handed out to well-regarded companies that receive support from local small business associations.

To strengthen the connection of these findings to the behavior of politicians, I first discuss how voters learn about incentives from local news citing evidence from a recent survey by Slattery (2023). I also present anecdotal evidence where investment incentives to low-quality projects backfired. Moreover, I provide descriptive evidence from a large-N analysis that investigates which factors affect the likelihood that greenfield FDI projects in the US receive investment incentives. In the analysis, I combine FDI project-level data for the time period of 2010 to 2019 with Wavteq's *IncentivesFlow*[4] data set. I find evidence that is consistent with the results of the conjoint experiment.

This paper makes several contributions. First, it challenges the idea that external constraints imposed by competition for private capital reduce electoral accountability for poor economic decisions (Hellwig, 2008, 2015). I find that voters are not duped into believing that they need every investment. Second, this is the first study that systematically analyzes and assesses voters' preferences for investment incentives. This helps to further advance research on the political economy of investment incentives. Third, the results suggest that transparency about project characteristics can minimize politicians' benefits of abusing investment incentives for their own political gains (Jensen & Malesky, 2018). This is in line with findings from the pandering literature that suggest that transparency can disincentivize politicians from expand-

[4]Wavteq's data on investment incentives has been used by other academic studies (e.g., Bauerle Danzman & Slaski, 2022b; Jensen, Malesky, & Walsh, 2015).

ing government spending for political motives (see Maskin & Tirole, 2019). Fourth, I contribute to the growing literature on credit claiming that suggests that credit claiming is not always effective but depends on project-specific characteristics (e.g., Gerber, Patashnik, & Tucker, 2022).

3.2 Political Economy of Investment Incentives

3.2.1 Explaining the Use of Investment Incentives

Discretionary investment incentives are a major policy instrument available to governments to support their economic development activities.[5] Slattery and Zidar (2020) estimate that US states and local governments spent $82 billion on discretionary investment incentives between 2002 and 2017, i.e., around $5 billion a year.[6] Discretionary incentives are firm-specific incentives that aim at lowering the cost of entry for firms as well as their tax rate in return for a company's commitment to invest and create jobs in a community. These incentives come in various shapes but are usually a bundle of varying incentive types tied to certain investment and job creation goals. These bundles can include direct cash grants, tax credits, such as property tax reductions, and the provision of insurance for damages to the company's property.

Existing work highlights several reasons why politicians use investment incentives. First, there are economic motives. Politicians must hand out investment incentives because they are in competition with other governments to attract FDI projects. In our globalized economy, companies can choose to invest between different locations. This mobility creates an auctioning dynamic where governments compete for

[5]Alternative investment incentive programs are general reductions in corporate tax rates or the provision of tax credits for companies engaged in specific industries or activities. In this paper, I focus on discretionary incentives as they project dependent and publicly visible, as they also often involve legislation.

[6]In the absence of a central registry of tax incentives, there are varying estimates based on methodologies. For instance, the New York Times estimated that $80 billion was spent on tax incentives in 2012. Bartik (2017) estimated approximately $45 billion in 2015.

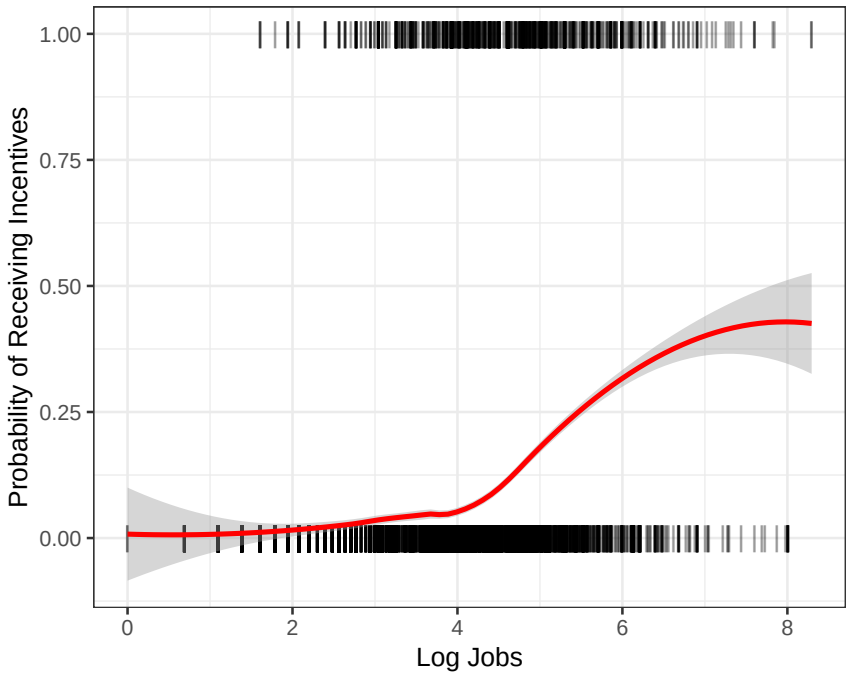
investments through tax policy (see Genschel, 2002; Q. Li, 2016; Slattery, 2020). One strategy to improve a government's competitiveness in this bidding process is to offer targeted investment incentives (Slattery, 2020). While there is a debate over whether investment incentives are effective in promoting economic development (see Bondonio & Greenbaum, 2007; Greenstone & Moretti, 2003; Jensen, 2017a, 2017b; Patrick, 2014), there is an entrenched belief among certain political actors that incentives are necessary to attract new investors (Bauerle Danzman & Slaski, 2022a).

Second, politicians have electoral motives to provide investment incentives (e.g., Jensen, Findley, & Nielson, 2020; Jensen et al., 2015). Attracting new FDI projects has distributive consequences that can benefit the standing of politicians. For instance, Owen (2019) finds that Brazilian mayors from towns that attracted FDI projects performed better than mayors from towns without FDI projects. Pinto (2013) demonstrates that leftist governments are more likely to implement FDI-friendly policies since on average, FDI projects tend to benefit labor. Moreover, the use of incentives is a signaling opportunity (Jensen & Malesky, 2018). Voters generally believe that investment incentives are necessary to attract business and are effective for spurring economic growth. Thus, by handing out investment incentives, politicians demonstrate to voters that they promote economic policies that voters perceive as effective.

Last, incentives can also be weaponized to garner political favors from donors. For instance, politicians with selfish motives can promise investment incentives to companies if they invest and make contributions to their campaign. There are several studies that document a decline in a company's tax rate as campaign contributions and lobbying activity increase (e.g., Gupta & Swenson, 2003; Richter, Samphantharak, & Timmons, 2009). This suggests that the disbursement of investment incentives is also linked to rent-seeking behavior by politicians and corporations.

Overall, existing work suggests that politicians should not be very picky when

Figure 3.1: Log Number of Jobs and Probability of Receiving Incentives



Note: The rug plot represents the distribution of all greenfield FDI projects in the US between 2010 and 2019. FDI project data comes from *fDi* markets platform. Projects on the top of the plot have received incentives and projects on the bottom have received no incentives. I retrieved incentive data from Wavteq's *IncentivesFlow* data set. The red line represents a local linear regression that estimates the probability of receiving an incentive deal conditional on the log number of jobs that a project creates.

granting incentives to investors. There are economic and political rationales that make it very appealing to politicians to generously disburse incentives and to not discriminate across investors. Empirically, however, we observe a different pattern. Politicians are selective with which projects they engage. Bauerle Danzman and Slaski (2022b), for instance, find that investment projects with lower capital mobility are more likely to receive incentives. The selective use of investment incentives is further underscored when we look at the universe of greenfield FDI projects in the US between 2010 and 2019. Figure 3.1 shows the correlation between the log number of jobs that an FDI project creates and the probability of receiving an incentive.[7] The plot highlights that even among the projects that create most jobs, only approximately 40% of projects receive incentives. What explains politicians' selective use of investment incentives?

3.2.2 Constraints on the Use of Investment Incentives

Selectivity in the disbursement of investment incentives suggests that politicians face constraints. Previous work has discussed multiple possible constraints that shape politicians' investment incentive decisions. First, there are strategic and economic constraints. For instance, governments' economic development priorities can influence what type of projects they want to attract and what type of incentives they want to put in place (Jensen et al., 2020). Second, politicians face limitations in terms of their political ability to disburse incentives and claim credit for them. Politicians have limited financial resources to fund incentives and limited time to public promote their involvement in the attraction of new FDI projects. Furthermore, they may face opposition from investment promotion bureaucrats that oppose the use of investment incentives to attract new businesses (Bauerle Danzman & Slaski, 2022a). Third, firms

[7] I retrieved FDI data from the*fDi* market platform and the incentive data from Wavteq's *Incentivesflow* data set. I will provide more detail on the data later in the paper when I assess the external validity of my findings.

vary in their bargaining strength. There are findings that suggest that politicians are more likely to hand out incentives when they have a weak bargaining position vis-à-vis investors. This may be the case when governments have to compensate for a risky investment environment or when a type of FDI project is very appealing to governments (Bauerle Danzman & Slaski, 2022b; Q. Li, 2006).

I argue that an overlooked constraint explaining the selective use of investment incentives is that politicians are concerned about backlash from voters. Anecdotally, investment incentives can become controversial topics that can cause protests from voters. Consider the reactions of residents in Grand Forks (ND) to a new project by the Chinese animal feed company Fufeng. In 2021, Fufeng announced that it will invest $700 million into a new corn mill that would create 200 permanent jobs and 1,000 construction jobs (Bailey, 2023). The Grand Forks' City Council supported the project with investment (Easter, 2022). The project did not receive a warm welcome by Grand Forks' residents (M. Smith, 2022). People have expressed concerns about the environmental impact of mill wastewater. Local farmers believed the incentive package would give the mill an unfair competitive advantage against them (Bailey, 2023). Moreover, people were concerned that the project could be a front for Chinese spy operations (M. Smith, 2022). This strong opposition from voters to the project has led to multiple investigations questioning the viability of the deal. Eventually, the city council was forced to reverse its incentive decision and stop the project from proceeding in February 2023 (Bailey, 2023).

This voter-based explanation requires that we reconsider how voters view investment incentives. Existing work assumes that voters implicitly or explicitly agree with politicians' investment incentive decisions. This is in line with existing work that depicts voters as individuals who overestimate the utility of investment incentives (e.g., Dewar, 1998; Jensen & Malesky, 2018; Turner, 2003). There is the argument that voters generally perceive investment incentives as a desirable policy instrument because

they aim to attract businesses (Jensen et al., 2014). This allows for the emergence of pandering with investment incentives. Another view is that due to international competition for private capital, voters may believe that investment incentives are necessary to attract businesses to their community. As a result, they do not critically challenge the need for investment incentives because they see it as the "price of doing business" (e.g., Hellwig, 2008, 2015; Kayser, 2007).

I propose that voters do not buy every incentive deal but have more nuanced views on incentives. One piece of evidence for this argument comes from public opinion data. When Foxconn, a Taiwanese electronics manufacturer, decided to invest $10 billion in Southeastern Wisconsin to build a new factory complex with 13,000 jobs, the State of Wisconsin promised to give an incentive package worth approximately $4 billion. This deal was, however, not supported by a majority of people in Wisconsin. A poll by Marquette University's Law School found that approximately 46% of Wisconsinites disapproved of the deal, while only 38% approved it (Franklin, 2018). Another piece of evidence is that political challengers want to highlight bad incentive deals of the incumbent. A good example of this was the debate in the 2022 governor election in Michigan. Tudor Dixon, the Republican candidate, criticized the incumbent Democratic governor Gretchen Whitmer for giving a $846 million incentive package to Gotion, a Chinese car battery manufacturer. She claimed, "Your taxpayer dollars should be used to make sure your kids are getting a world-class education, you have a reliable infrastructure, that you have safe cities, but now we're seeing taxpayer dollars go into an adversary, a Chinese corporation" (Mauger & LeBlanc, 2022).

3.3 Project Quality and Voter Support for Investment Incentives

To fill the gap in our understanding of voter preferences toward investment incentives, I develop a simple theory explaining how voters evaluate incentive deals and how this affects the ability of politicians to increase their public support with the use of investment incentives.

3.3.1 Investment Incentive Approval Depends on Project Quality

FDI projects vary along a dimension that I call *project quality*. Quality is the perceived effectiveness of an FDI project in promoting higher living standards in a community by voters.[8] Put simply, quality describes a project's capacity to improve people's lives. Not all FDI projects are equally effective in achieving that. For example, a data center in a rural town is unlikely to provide large-scale economic benefits because it requires specialized skills to maintain and operate data centers that few people in rural areas possess. In contrast, a project that takes over an old car manufacturing plant to build car windshields is more effective in providing economic benefits to a community since this investor can hire the people who previously worked at the car manufacturing plant.

The concept of project quality consists of two general components. The first component is the net economic benefits that a project will provide to the people in a community if a project is perfectly implemented.[9] People will benefit from an FDI

[8]In this concept, I combine the ego-tropic and socio-tropic interests of voters. Past work has shown that voters care about policies' broader effect on the national economy (e.g. Kinder & Kiewiet, 1981). At the same time, an economically striving community will likely also benefit a voter's own pocketbook.

[9]The net economic gain can be negative depending on the negative externalities that a project creates.

project's stimulation of economic activity in a community. This includes the number and type of jobs that a project will create, tax revenue, and network effects, such as the co-location of suppliers. At the same time, people may suffer costs from negative externalities, such as environmental pollution, traffic, immigration, and rising prices that diminish the economic benefits of a project. The higher the net benefits, the more likely it is that a project will be effective in elevating people's living standards.

The second component is a necessary condition for a project to have any economic impact on a community. An investor must be able to successfully implement a proposed project. FDI projects often come with great promise, but there are many instances where they do not deliver (Wang et al., 2022). Consider the Foxconn case in Wisconsin. As of December 2022, Foxconn "only" employs around 1,000 people (Hess, 2022). While 1,000 employees is a significant number of jobs, there is a massive discrepancy between the announcement of 13,000 jobs and what Foxconn was able to deliver.

Project quality depends on the perception of voters.[10] Since there is not one objective assessor that assigns a quality grade to a project, voters must infer the quality from observed project characteristics. These characteristics serve as heuristic short-cuts to make predictions about FDI project quality. Voters may not be able to perfectly assess the costs and benefits of an FDI project, but using project characteristics, they can gauge the net economic gains for their community and the probability that a project is implemented. For example, the number of jobs will give people information on the growth in economic opportunities that an FDI project will generate.

The main source of information for voters to learn about project characteristics are local media outlets. As recorded in a survey by Slattery (2023), a majority

[10]This implies that there could be differences across voters in how they perceive quality. In this study, I focus on average treatment effects, but this does not mean that theory does not allow for heterogeneity between voters.

of US residents state that they learn about incoming investment projects and the associated investment incentive deals from local news. From these sources, voters can derive fundamental information about the investing company and type of the project. In addition, people may learn about the opinion of local political leaders and interest groups.

I argue that project quality affects voters' level of support for investment incentive deals. All else being equal, I expect that voters are more likely to support investment incentives for high-quality than for low-quality FDI projects. Project quality feeds into the expected utility of an investment project. High-quality projects signal to voters that the expected benefits of attracting an FDI project with investment incentives will likely exceed the costs of the incentive deal. In contrast, when voters observe that a low-quality project receives an investment incentive deal, they can make two types of inferences. First, they can perceive it as wasteful government spending because it is likely that the tax dollars invested in incentive deals would have had a greater effect on other types of projects. Second, it can signal that the government misappropriates tax dollars for rents to corporations. In either situation, voters are worse off than if there was no project, as the costs of the incentives likely exceed the benefits.[11] Thus, voters should have more favorable views toward the use of incentives when governments award them to high-quality projects. This expectation is summarized in hypothesis 3.1.[12]

Hypothesis 3.1. *Voters are more likely to approve investment incentives if an investment project is of high quality than of low quality.*

[11] In this explanation, the degree to which incentives are pivotal for attracting new investment does not play into people's calculation as this is difficult to assess for them.

[12] All hypotheses in this paper are pre-registered at OSF under `https://osf.io/yf5r3/`.

3.3.2 Political Returns of Investment Incentives

This argument has implications for the effectiveness of investment incentives as a policy instrument to pander to voters. According to Jensen and Malesky (2018), the promise of incentives signals to voters that a politician is committed to policies that promote economic development. Even if politicians are not successful in attracting investments, the act of promising incentives can avoid blame because it demonstrates to voters that politicians used all the instruments at their disposal to convince an investor. Similar to more general game-theoretic models of pandering (Canes-Wrone, Herron, & Shotts, 2001; Maskin & Tirole, 2004), the underlying assumption is that voters have a clear policy preference, i.e., voters believe that investment incentives are an effective tool to promote economic development. The introduction of information about project quality changes the pandering dynamic (Maskin & Tirole, 2019). When learning about quality, voters prefer politicians that differentiate between projects conditional on their quality. In other words, I expect that the signal that the use of investment incentives sends about a politician's ability differs between high- and low-quality FDI projects.

Consider first a scenario where people observe a high-quality investment project. As outlined in the previous section, voters want that these types of projects come to their community. As a result, they are more likely to approve of politicians that offer investment incentives to high-quality projects. By offering investment incentives, politicians demonstrate that they are in line with people's preferences and that they promote projects that voters deem effective in improving their livelihoods. Thus, in line with Jensen and Malesky (2018), I expect that voters evaluate politicians more positively when politicians offer investment incentives to a high-quality project than when they offer no incentives to these projects.

Hypothesis 3.2. *Among high-quality investment projects, voters will have more* ***pos-***

itive *job evaluations of politicians if politicians offer investment incentives to investors than if they do not offer investment incentives.*

In the alternative scenario where citizens are exposed to low-quality investment projects, I contend that voters will punish politicians for giving investment incentives. The reason is that voters will realize that their elected officials endorse policies that are not aligned with their preferences. The act of supporting a low-quality FDI project sends the signal that a politician is not interested in promoting economic development but instead is more interested in helping corporations. Investment incentives in this context should attract more blame rather than diffuse blame. Thus, I hypothesize that politicians will have lower standing among voters if they offer incentives to low-quality investment projects compared to offering no incentives.

Hypothesis 3.3. *Among low-quality investment projects, voters will have more* ***negative*** *job evaluations of politicians if politicians offer investment incentives to investors than if they do not offer investment incentives.*

3.4 Research Design

3.4.1 Set-Up

Since it is difficult to cleanly measure project quality in observational data, I test the three hypotheses in a survey experiment. The survey experiment targets adults living in the US, and I launched it on January 21, 2022, using Lucid Theorem, an online survey platform.[13] The sample includes 1,999 respondents and is relatively representative of the US population.[14] The main difference from the general US population is that the sample is skewed toward people earning less than the median

[13]I pre-registered the survey through OSF on January 18, 2022.

[14]More information on the background characteristics of the respondents is provided in table B.3 in appendix B.4.

income. Only 32.7% earn more than the US median income. In addition, the sample is slightly older than the US mean and more educated.[15] Otherwise, the sample closely resembles the national population on most other variables, such as party ID, gender, and race.

The survey experiment consists of two main tasks. After filling out a series of pre-treatment questions capturing demographics and views on tax incentives, participants were asked to walk through a conjoint experiment that explores which investment attributes matter to voters when assessing the quality of a project as well as their support for an incentive package. After the conjoint experiment, respondents completed a factorial survey experiment that follows the design by Jensen et al. (2014).[16] This second task aims to demonstrate the importance of quality for determining the political utility of investment incentives. Randomization for each experiment is independent from each other. Respondents took on average 9.2 minutes to complete the survey.

3.4.2 Conjoint Experiment

The conjoint task follows the design described by Hainmueller, Hopkins, and Yamamoto (2014). I chose this type of survey design because it accounts for the multidimensional nature of the concept of *quality*, disentangles which project attributes are important to voters, and captures how people learn about investment incentives in the news. Each respondent must complete five tasks. In each task, they see one randomly generated investment project profile. I decided to present respondents with only one profile per task since people usually only see one investment project at a time in reality. In total, this design yields 9,995 respondent-profile observations.

[15] This distribution may lead to the conclusion that the sample consists of a large share of retirees. According to one of the pre-treatment demographics questions, around 20% of the respondents are retired. This is similar to the national average of 19.3% in March 2022 (Z. Li, 2022).

[16] I did not randomize the order of the two experiments, i.e., respondents always first completed the conjoint experiment and then started the extension task.

Each profile consists of ten different attributes. Every attribute contains a set of three project characteristics (levels). After a respondent completes a task, a new profile is generated by randomly picking one level per attribute. The dimensions of this conjoint experiment are well within the limits of what is recommended in the literature (Bansak, Hainmueller, Hopkins, & Yamamoto, 2018, 2021).

The attributes included in the profile consist of two groups. The first group of attributes presents contextual information about the type of investment. Specifically, respondents will learn about the investor's country of origin, the investment's industry, and the type of investment.[17] These three attributes can inform people about a project's quality, but they are rather noisy pieces of information that may correlate with other considerations, such as national security concerns. For this reason, I will not place great emphasis on these three attributes to understand the effect of quality on investment incentive approval.

Instead, I put the main focus on the seven attributes listed in table 3.1. These are basic pieces of information that are available to voters when a new project comes to a community. Some of this information can be read in the news. For instance, the investment size, the number of jobs, the size of the investor company, and the reputation of the investor are likely discussed in local media outlets. Information about wages, community endorsements from local interest groups, and the hiring of locals may be revealed to voters over time as the project is implemented or during town hall meetings where the company presents its vision for a project. These seven attributes directly relate to quality, as they affect the possible economic gains for a community and can inform voters about the credibility of an investor to successfully implement a project.[18]

[17]The exact wording of the different attribute levels is described in table B.1 in appendix B.3.

[18]I provide a more detailed discussion about the definition of each of these attributes and how they relate to quality in appendix B.2. Overall, I could have included more attributes. I chose this set of attributes to 1) reduce complexity and 2) have a set of attributes that is applicable to a wide range of contexts.

Table 3.1: Expectations on the Effect of Quality on Tax Incentive Support

Attributes	**Expectation**
Investment Size	Investment incentives receive higher approval if *investment is larger*
Size of Investor Company	Investment incentives receive higher approval if *investor company is larger*
Reputation of Investor Company	Investment incentives receive higher approval if *investor company has a positive reputation*
Wages	Investment incentives receive higher approval if *investor company pays more than domestic companies*
Expected Number of Jobs	Investment incentives receive higher approval *the more jobs the investment creates*
Community Endorsement	Investment incentives receive higher approval if *investment receives positive community endorsement*
Hiring of Locals	Investment incentives receive higher approval if *investor company hires many locals*

Following each investment project profile, people will answer two outcome questions. First, to understand whether the described attributes are capturing the concept of quality, I ask respondents: "How likely do you think it is that this investment project will improve the living standards for you and your community?". Second, to get at the core question on whether quality moderates the preferences of tax incentives, I ask the following outcome question: "if your local government had decided to give a reduction in property taxes to the investor to attract the investment, would you support the local government council's decision?". The answers to both questions are placed on a five-point Likert scale.[19] Table 3.1 describes how each quality attribute should affect the approval of the investment incentive decision.

3.4.3 Factorial Survey Experiment

The factorial experiment builds on the experiment by Jensen et al. (2014). Respondents receive an information vignette that informs them that their municipality is competing for an investment project with other municipalities.[20] The vignette includes three distinct treatments with two levels. There are eight treatment groups in

[19]To ensure that the quality outcome question does not prime respondents to inflate the importance of quality, I randomized the order among participants, i.e., some respondents will see the quality question first and some the investment incentive question first.

[20]The exact wording of the vignettes is presented in appendix B.3.

total. Each respondent is randomly assigned with equal probability to one of these eight treatments, which means that there are approximately 250 participants per treatment group.

Two of the three treatments are the same as in Jensen et al. (2014). Respondents will learn about whether the investor decides to invest in their municipality or not. In addition, I inform respondents about the size of the incentive package. As in the original experiment, one group will read that the package offered by their local government council is larger than the packages of competing locations, and the other group will learn that the package was smaller.

The third treatment introduces project quality into the experiment. In the original experiment, respondents read that their government competes for a generic manufacturing project. I deviate from this approach by showing people a table with the same project attributes as in the conjoint task.[21] To manipulate quality, I created two bundles of project characteristics that represent a high- and low-quality project. The formation of these bundles was informed by theoretical considerations as well as preliminary results from a pilot conducted on November 21, 2021. The attribute bundle depicting the high-quality project is a factory built by a large and highly innovative German pharmaceutical company that creates many jobs and offers high wages to locals. The factory will only hire locals and is supported by the local small business association. The respondents assigned to the low-quality project condition will see a bundle that describes a warehouse project by a logistics company from China with 1,000 employees. The company has a history of paying bribes to officials. The project will create 40 jobs and offer the same wages as domestic companies. The local small

[21] Figure B.1 shows a screenshot of the actual vignette in the survey.

business association opposes this investment project.[22]

The outcome measure of interest is how respondents evaluate the investment incentive decision by their local government. I ask respondents to rate the tax incentive decision on a scale from 0 to 10, where 0 is a terrible and 10 a great decision. This measure deviates from Jensen et al. (2014), who ask respondents how likely it would be that they change their vote for the governor given the information presented. I opted for a more constrained measure that asks respondents to only evaluate the decision. While it is not identical to a voting decision, policy evaluations can affect vote choice (e.g., Fournier, Blais, Nadeau, Gidengil, & Nevitte, 2003).

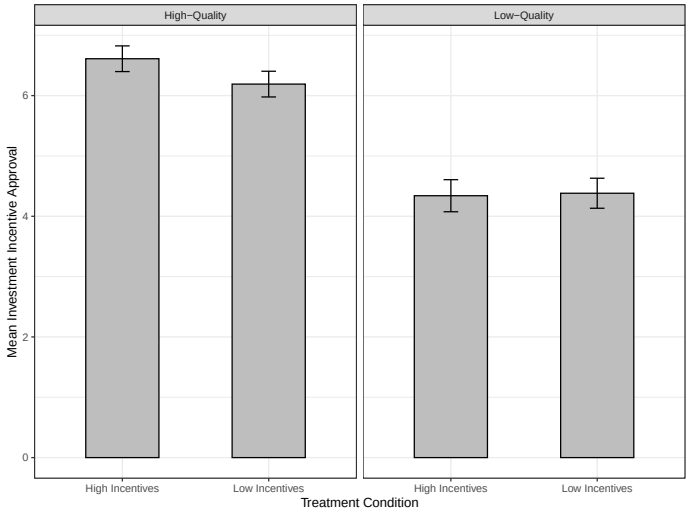
3.5 Results

3.5.1 Effect of Project Quality on Investment Incentive Decision Approval

The first piece of evidence comes from the factorial experiment. Figure 3.2 describes the mean approval of the local government council's incentive decision conditional on the incentive package's size and the project's quality. Descriptively, the results in figure 3.2 suggest support for two out of three hypotheses. First, as predicted in hypothesis 3.1, there is a large significant drop in approval from high- to low-quality projects (6.39 $[6.24, 6.55]$ vs. 4.36 $[4.18, 4.54]$). Second, respondents express higher levels of approval when their local government council offers large investment incentives for high-quality projects than small incentives (6.61 $[6.40, 6.82]$ vs. 6.19 $[5.97, 6.40]$). Third, in contrast to the expectations in hypothesis 3.3, politicians are

[22]There are cases where FDI projects similar to this description received an incentive deal. For example, in 2019, the county in which Memphis (TN) is located approved a $1.7 million incentive package to Cherry Tree International, a small Chinese e-commerce company. Cherry Tree International plans on building a distribution center for $4.4 million and creating 25 jobs in Memphis (Stennett, 2019). The workers in the distribution center will earn the bare minimum of what is required to be eligible for the incentive program, i.e., $13/hour. This is slightly below the average warehouse salary of $14.17 in the Memphis area according to indeed.com.

Figure 3.2: Mean Approval of Investment Incentive Decision by Treatment Group



Note: Figure shows the mean level of approval per treatment condition. The bar plot also includes the 95% confidence interval of each mean.

not punished for offering large investment incentives to low-quality projects (4.34 $[4.07, 4.61]$ vs. 4.38 $[4.13, 4.63]$).[23]

To formally test the three hypotheses, I run an OLS regression that includes two independent variables. An indicator of whether a large investment incentive was offered denoted as *II* and an indicator of whether a respondent received a high-quality project called *Quality*.[24]

$$Y_i = \beta_0 + \beta_1 \text{II}_i + \beta_2 \text{Quality}_i + \beta_3 (\text{II}_i \times \text{Quality}_i) + \delta \mathbf{X}_i + \epsilon_i \tag{3.1}$$

In model 3.1, i denotes an individual respondent, and $\mathbf{X}_i$ denotes a set of pre-treatment covariates. I run three confirmatory hypothesis tests with this model.

[23]The relatively high level of support for such a low-quality project is likely due to two reasons. First, people who did not pay attention expressed significantly higher levels of approval for the low-quality project than people who paid attention (5.49 vs. 3.78). Second, people's pre-existing investment incentive preferences also played a role. Respondents who strongly supported the use of investment incentives more strongly approved of the deal than people who disagreed with the use of incentives (5.13 vs. 3.77).

[24]In this test, I ignore the treatment that captures whether the investment occurs or not. This means that I will pool the participants from this treatment condition.

These tests are formally defined below.[25]

$$H_1: \quad \beta_2 + \beta_3 \overline{\Pi}_i > 0 \tag{3.2}$$

$$H_2: \quad \beta_1 + \beta_3 > 0 \tag{3.3}$$

$$H_3: \quad \beta_1 < 0 \tag{3.4}$$

The results of the regression analysis are displayed in table 3.2 and are in line with the descriptive evidence from figure 3.2. I find that in the main specification including covariates, approval increases by 2.01 $[1.77, 2.25]$ when giving investment incentives to high-quality projects. This coefficient is statistically significant ($p < 0.001$) even after correcting the p-value for multiple comparisons using the Holm correction. In line with hypothesis 3.2, offering large investment incentives increases the approval of the local government council. The average treatment effect (ATE) of large investment incentives among high-quality projects on approval is 0.52 $[0.21, 0.83]$ in the model with covariate adjustment. I do not find any evidence that large investment incentives produce backlash among low-quality projects. The ATE of investment incentives on approval in this subset of projects is -0.06 $[-0.43, 0.30]$ and is statistically indistinguishable from 0.[26] This null result may be due to a floor effect, i.e., people perceived the low-quality project as not worthy of any incentives because it is such a low-quality project. In that case, the effect of quality captures the backlash. A more "desirable" low-quality project may therefore solicit a backlash, as hypothesized in hypothesis 3.3.

I conduct several robustness tests to validate the results.[27] Since a relatively large share of respondents (43%) did not pass both attention check questions, I checked

[25] In the pre-analysis plan, the hypothesis test described in inequality 3.2 is not defined. I added this test after running the experiment since it is a formal test of hypothesis 3.1. I run the exact same model as that defined in the pre-analysis plan. The only difference is the additional hypothesis test, which will be reflected in the p-value correction for multiple hypotheses tests.

[26] Figure B.8 in the appendix presents a graphical depiction of both of these hypothesis tests.

[27] These results are described in appendix B.7.2.

Table 3.2: Treatment Effects of Quality on Approval

	W/O Covariate Adj.	With Covariate Adj.
Intercept	4.38***	5.49***
	(0.13)	(0.32)
Investment Incentives	−0.04	−0.06
	(0.19)	(0.19)
Quality	1.81***	1.72***
	(0.17)	(0.17)
Investment Incentives X Quality	0.46	0.58*
	(0.24)	(0.24)
Control Variables	*X*	✓
R^2	0.13	0.23
Num. obs.	1999	1756

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Note: Table shows robust standard errors. Covariate adjustment includes the following variables: party ID, income, education, age, gender, tax incentive preferences, White dummy, Black dummy, and Hispanic Dummy. The full results are presented in table B.5.

whether the results remained consistent after dropping individuals who did not pass attention check questions.[28] Despite the smaller sample size, the results become even stronger. Additionally, I explored whether context effects matter. For instance, economic conditions can shape how people perceive investment incentives. To test this possibility, I compared the results between people who live in states that receive few and high FDI inflows. The findings suggest that FDI presence does not significantly affect the observed pattern in the main results. In both samples, respondents expressed higher support for investment decisions given to high-quality projects. This provides some reassurance that the findings describe general patterns across different contexts.

Exploratory analysis about whether politicians can claim credit for attracting an investment project and avoid blame if the investor invests in a different location

[28]This high level of inattentiveness is a common phenomenon for online experiments conducted during the COVID-19 pandemic (e.g., Peyton, Huber, & Coppock, 2022). Lucid is not the only platform affected by it (see Arechar & Rand, 2021). The consequence of inattentiveness is that it introduces attenuation bias into the estimates. Thus, I provide a more conservative estimate of the ATE.

strengthens the finding that people perceive investment incentives differently depending on the quality of a project.[29] I find that people tend to be more forgiving of the local government council when it tried to attract a high-quality investment with a large investment incentive package, but the investment did not materialize. Similarly, people gave the local government council more credit when it attracted an investor with large tax incentives. However, when dealing with low-quality projects, investment incentives neither help to avoid blame nor to claim credit.

We can derive two main conclusions from these findings. First, providing any incentives to low-quality FDI projects immediately causes a decrease in approval. With a Cohen's d of 0.7, this is a substantially large effect. This implies that politicians face problems when they engage with low-quality projects independent of the size of the incentive package. Second, pandering to voters with investment incentives only works when dealing with high-quality projects. With a Cohen's d of 0.18, the political upside is, however, relatively small compared to picking the right project. In sum, if politicians believe that they encounter a high-quality project, they should offer the best deal possible.

3.5.2 Which Project Attributes Affect Support?

In the factorial survey experiment, I presented respondents with a bundle of characteristics. This raises the question about the relative salience of each attribute within the bundle. I disentangle the relative effect of each quality attribute on investment incentive approval through the conjoint experiment. To analyze the conjoint experiment, I estimate the marginal means of each attribute level (Leeper, Hobolt, & Tilley, 2020). In contrast to the commonly used average marginal component effect (AMCE), marginal means present the average outcome for each attribute level averaged across all attributes and do not rely on an arbitrarily selected reference level. This makes it

[29]The results are displayed in figure B.9 in the appendix.

easier to interpret the result and less malleable to reference level selection (Leeper et al., 2020).[30]

Figure 3.3 describes the effects of each project attribute on respondents' support for investment incentives.[31] Overall, there are two types of project characteristics that are important to people when considering the approval of investment incentives: a) the effect of a project on the job market and b) cues about the credibility of an investment. Both of these factors relate to the effectiveness of an incoming FDI project in improving people's living standards.

When evaluating their support for investment incentives, people consider the type and number of jobs that a project creates. One of the strongest predictors of support for investment incentives is when a company promises to only hire locals ($\beta = 3.17[3.12, 3.22]$). Support for investment incentives increases by 0.37 compared to projects where locals are only hired for low-paid jobs. This is a 0.29 standard deviation increase in support.[32] A less salient but still significant factor is the number of jobs. There is stronger support for investment incentives when a project generates 500 new jobs ($\beta = 3.09[3.03, 3.14]$) compared to only 200 ($\beta = 2.95[2.89, 3.00]$) or 40 ($\beta = 2.95[2.90, 3.01]$). The standardized effect size of 500 jobs vis-à-vis 200 jobs, however, is relatively small with 0.11. Surprisingly, the wage level at a new project does not strongly affect people's support for investment incentives. Average support for incentives to projects that offer 30% higher wages ($\beta = 3.01[2.96, 3.06]$ is very similar to the support for incentives to projects that offer the same wages as domestic

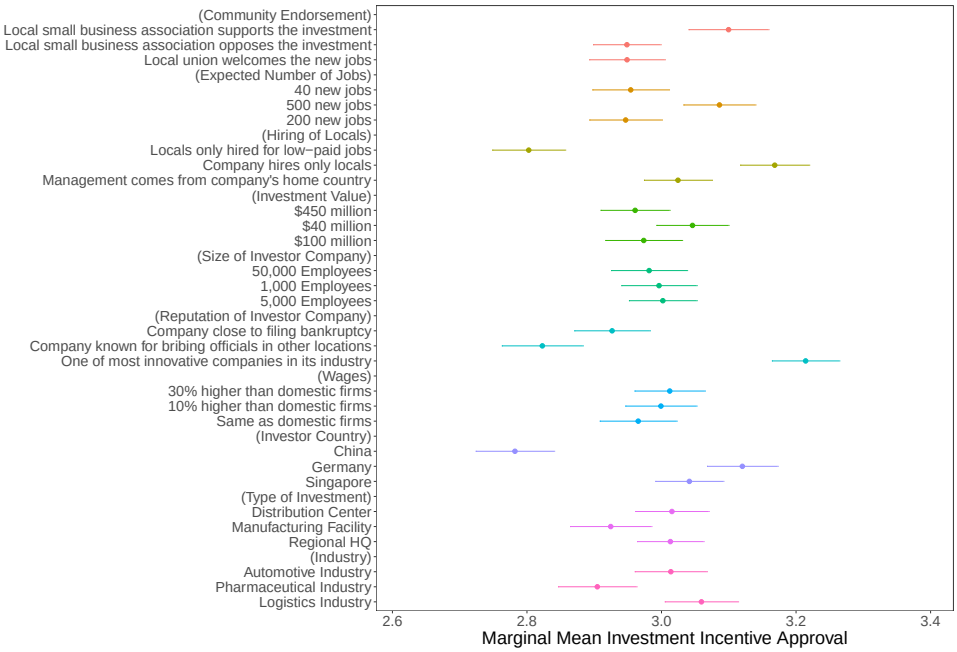
[30] I also calculated the AMCEs (see appendix B.6).

[31] The appendix includes several tests that show that the main assumptions of conjoint experiments are satisfied. There was no significant carry-over effect. Covariate balance across treatment conditions exists. The results also hold if we only focus on people who pass both attention checks (see figure B.7). Similarly, the ordering of the outcome question does not change the main results of the conjoint experiment (see figure B.6).

[32] As further reference to assess the substantive effect of these attributes, I estimated the predicted level support for projects that possess the same attributes as the low- and high-quality project in the factorial survey experiment. The predicted level of support for incentives to the low-quality project is 2.36. When considering a set of attributes similar to the high-quality project, the level of support is 3.57.

companies ($\beta = 2.97[2.91, 3.02]$). This suggests that people care about whether incentive deals promote projects where a large share of the added value trickles down to the community. This is why the type of jobs is significantly more relevant to people than the number of jobs and the wage level.

Figure 3.3: Effect of Project Quality on Investment Incentive Support



Note: The plot shows marginal mean estimates for each attribute. Each estimate is displayed with a 95% confidence interval with robust standard errors clustered by respondent.

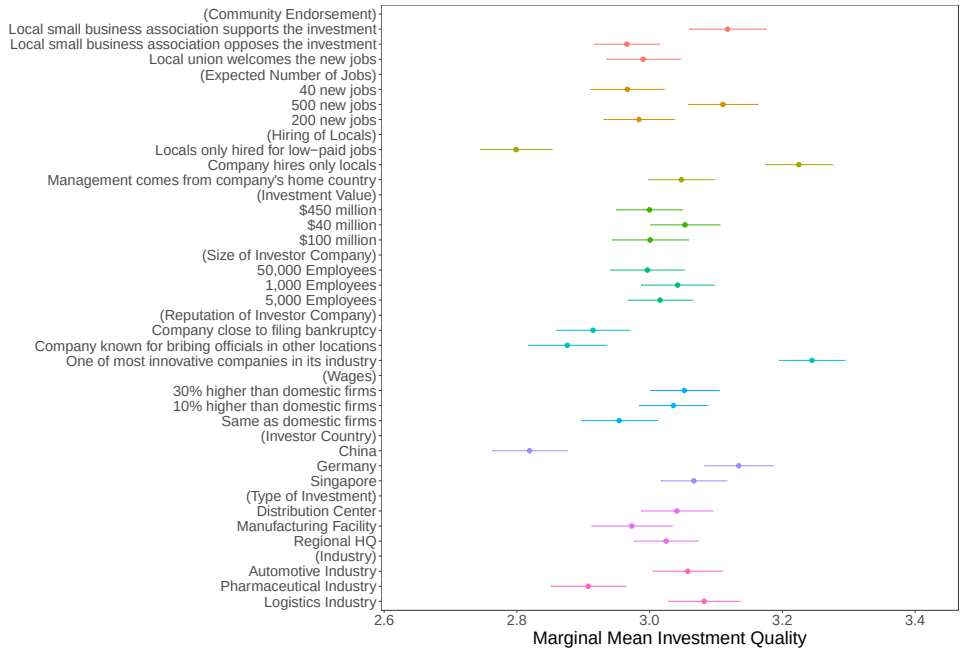
In addition to jobs, people also care about indirect cues that provide information about potential negative externalities and the credibility of an investor. One of these cues is the investor's reputation. Reputation had the largest effect on respondents' support for incentives. Respondents are significantly more likely to support investment incentives if the company is highly innovative ($\beta = 3.21[3.16, 3.26]$) than if it is involved in corruption ($\beta = 2.82[2.76, 2.88]$) or close to bankruptcy ($\beta = 2.93[2.87, 2.98]$). The standardized effect size between projects with innovative and corrupt investors is 0.31. The second cue that matters to respondents are positive endorsements from local small business associations (SBAs). I find a higher

level of support for investment incentives ($\beta = 3.1[3.04, 3.16]$) if a local SBA supports a project than if there is opposition from local SBAs ($\beta = 2.95[2.90, 3.00)$. With 0.12, the effect size is similar to the effect of a larger number of jobs.

Factors such as investment size and company size did not strongly affect the respondents' level of support for incentives. There is no significant difference across the size of investors. Furthermore, respondents tend to weakly prefer smaller investments in terms of dollar value. One potential reason for this is that company size and investment volume do not provide respondents with much information on whether they can directly benefit from an incoming project. For instance, large investment volumes can be the result of capital investments, such as buying machinery, which do not yield direct benefits to locals. Additionally, the effect of large companies can cut both ways. Large companies may be more productive, which means they are more likely to generate high profits for the locality. However, productivity means that most locals will not benefit from the company because they are not qualified.

Among the remaining variables, we find some interesting results as well. It is important to note that these variables may also relate to other explanations in addition to quality, such as nationalism. First, an investor's country of origin plays a central role for respondents. People express strong objections to giving investment incentives to Chinese investments, whereas they are more supportive of investment incentives if given to German or Singaporean companies. This further confirms the unique nature of Chinese FDI across the world and the public's distrust in Chinese companies, as reported in previous studies (e.g., Feng, Kerner, & Sumner, 2021; Zeng & Li, 2019). Second, people are less likely to support incentives to projects that build manufacturing facilities compared to an HQ or distribution center project and less likely to support incentives to companies from the pharmaceutical industry. I speculate that these attitudes may reflect people's concerns about environmental degradation in the case of manufacturing facilities and people's mistrust in drug companies.

Figure 3.4: Determinants of Investment Project Quality



Note: The plot shows marginal mean estimates for each attribute. Each estimate is displayed with a 95% confidence interval with robust standard errors clustered by respondent.

My argument suggests that these investment incentive preferences correlate with people's assessment of a project's quality. I evaluated this part of the argument by using the second outcome question in the conjoint experiment, which asks respondents to rate the likelihood that a given project profile will have a positive impact on their living standards. The results displayed in figure 3.4 show high congruence with the results in figure 3.3. We can see that local SBA endorsements, company reputation, the number of jobs, and hiring practices are strong determinants of project quality. In contrast, there is not too much variation in perceived quality conditional on investment and company size.

3.6 Do Voter Preferences Affect Investment Incentive Disbursements?

These results are important because according to my argument, voter preferences are among the various factors that affect politicians' decisions to offer investment incentives. However, for this to hold, two central conditions need to be satisfied. First, voters need to have access to information that allows them to judge the quality of a project. Second, assuming people have access to information and are able to infer the quality of a project, voters still need to act and hold their politicians accountable. While a thorough investigation of these two assumptions would exceed the scope of this paper, this section provides evidence to bolster the experimental findings' external validity.

3.6.1 Voters' Access to Information

Voters are not informed about every possible incentive deal. Many deals are too small to make it into the local news. In some instances, the government may even want to undermine transparency by using code names to hide the identity of incentive recipient companies (Chesto, 2016).[33] Nevertheless, voters should possess sufficient information about discretionary incentive deals that are locally salient, as these are likely discussed in the local news and may even lead to public town hall meetings. While these public discretionary incentive deals represent a limited number of deals, they still account for a large share of investment incentive spending. According to Slattery (2020), around 20 firms received $6 billion in discretionary incentive deals by states in 2017, representing a third of these states' economic development budget.

Empirically, there is survey evidence that people are not left in the dark about

[33]The practice of using code names is in line with my theory because it shields politicians from scrutiny from voters.

incentive deals but that they possess information about projects that involve discretionary incentive deals to make inferences about quality. Slattery (2023) conducted a survey in the US probing people's knowledge about five different investment projects that received discretionary incentive deals. The first important finding is that people's knowledge about deals depended on their location. Respondents living in the county where the project happens had far superior knowledge about the deal than people in the neighboring county. The second main result is that a large share of people from the county where the project is implemented can identify key characteristics of the project. Around 50% can correctly identify the investor company, and 12% can correctly identify the number of jobs promised by the investor. This suggests that the findings in this study can at least explain the local effects of investment incentives.

3.6.2 Voter Reaction to Support of Low-Quality Projects

How do voters react to incentive deals that they perceive as bad deals? It is rare that voters will observe an incentive deal before the government reaches an agreement with an investor. However, voters can still exercise pressure in the post-deal period that can cause problems for politicians. In the past, we saw examples of two types of voter backlash. First, voters can express their discontent by voting for an incumbent politician. For instance, in the case of Foxconn in Wisconsin, some political pundits argue that the Foxconn deal has been one of the reasons why Scott Walker lost his re-election in 2018 (Chandler, 2018). The Foxconn case may be an outlier because it does not often occur that an incentive deal reaches the salience to be a state-level issue. Yet, we can still observe that deals perceived as low-quality by people can have a local electoral effect. Consider the Republican primary in Georgia in 2022. The challenger David Perdue criticized incumbent Brian Kemp for his incentive deal with Rivian, an electric truck manufacturer (Seitz-Wald, 2022). In 2021, Rivian announced an investment of $5 billion in Rutledge (GA) to build a new electric truck

factory. Despite creating thousands of jobs, the investment has caused significant local protests. Perdue used these protests as an opportunity to highlight Kemp's mismanagement of taxpayer money. Even though Kemp won the primary election in a landslide by 51.9 percentage points, Kemp's margin of victory in the county where Rutledge is located was 7 percentage points smaller than his average margin of victory in rural counties in Georgia. These types of local effects can eventually be important in closer elections.

Second, voters can take actions that slow down the implementation of an investment. In situations where voters encounter a perceived low-quality project, there is often collective action to stop the project through the legal system or protests. For example, in the case of Fufeng in Grand Forks, voters started a petition to demand a city-wide vote and even filed a lawsuit when the City Council rejected the petition (Grand Forks Herald, 2023). These types of actions are costly to politicians. Politicians are forced to spend financial and political resources defending a deal. Local protests can delay projects and eventually dissuade companies from further investing. It could potentially make a location less attractive for future investors. Even if an incentive decision does not negatively affect the electoral performance of a politician, politicians still want to avoid these types of costs.

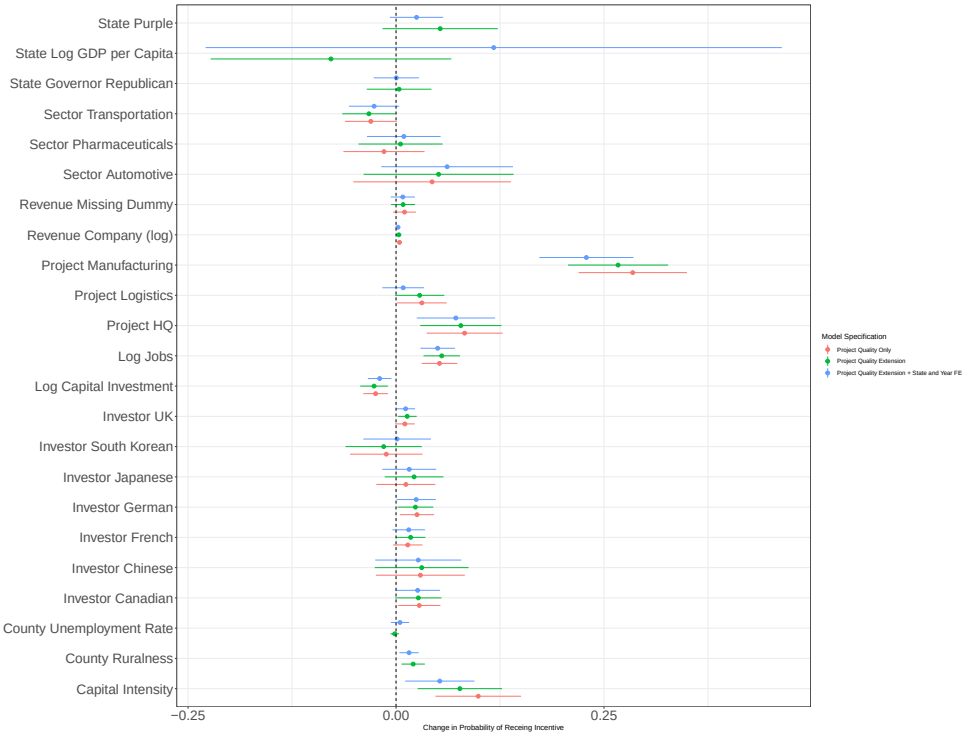
3.6.3 Determinants of Investment Incentive Decisions

If voters can impose costs on politicians, we should observe that their preferences are to some extent reflected in politicians' investment incentive decisions. To test this, I analyze factors that affect the likelihood that an FDI project receives an incentive deal. I use the universe of greenfield FDI projects from 2010 to 2019 in the US as reported by the *fDi Market* platform. I match this data with investment incentive level data from Wavteq's *IncentivesFlow* data set.[34] Wavteq has one of

[34]The matching is done by hand as there are no common identifiers between the two data sets. Bauerle Danzman and Slaski (2022b) use the same approach.

the most comprehensive data sets on incentives across the globe. While the data set is not without its flaws, Wavteq has good coverage of publicly discussed incentive deals. According to my theory, these are the deals most likely influenced by voter preferences. Overall, the data set includes 11,318 projects representing around $408 billion in FDI inflows. A total of 7.8% of these FDI projects have received investment incentive deals based on the IncentivesFlow data set.

Figure 3.5: Determinants of FDI Projects with Incentive Deals



Note: Figure displays 95% confidence intervals of coefficients. The standard errors are clustered at the US state level.

I implemented a simple linear probability model where I regressed a binary variable on whether a project received incentives on a set of project-specific covariates aligned with the variables from the conjoint, two county-level and three state-level variables.[35] The results are shown in figure 3.5 and display similarities with the conjoint findings. First, the higher the number of new jobs that a project creates, the

[35]Table B.8 defines and describes the sources of the variables used in the analysis. Table B.9 includes summary statistics of all these variables. The full results are displayed in table B.10.

higher the chance of receiving an incentive deal. This is in line with the main result of the conjoint experiment that highlights that respondents were most concerned about jobs. Second, as in the conjoint experiment, larger projects in terms of investment value are not necessarily more likely to land an investment deal. In fact, an increase in investment value significantly reduces the probability of receiving an incentive deal. This is a surprising result given that "mega-projects" are an attractive target for credit claiming. Lastly, we can observe that country of origin is significantly correlated with disbursement of investment incentives. In line with the conjoint experiment, investors from Germany are more likely to receive investment incentives.

There are, however, a few findings that are inconsistent with the conjoint task. The experiment suggests that people are not fond of giving incentives to manufacturing projects. However, manufacturing is significantly correlated with a higher probability of receiving incentives. In fact, a manufacturing project is the strongest predictor of receiving incentives. The result on capital intensity is also interesting. Although it is not part of the experiment, it suggests that the receipt of incentives is not dependent on the value of capital investment but on whether an investor works in a sector that is highly capital intensive.[36] Both of these findings highlight that investment incentive decisions are multi-dimensional and involve not only the preferences of voters, but also economic calculations. Manufacturing projects, for instance, are worthwhile promoting because they can attract investments from suppliers and indirectly create jobs. Nevertheless, this analysis provides suggestive evidence that politicians anticipate what type of projects are perceived as high quality by voters and incorporate this in their investment incentive decision.

[36]This replicates the results by Bauerle Danzman and Slaski (2022b) from Latin America in the context of the US.

3.7 Conclusion

This work represents a first step toward understanding voter preference in the policy arena of investment incentives and its implications for the behavior of politicians in granting investment incentives. In contrast to previous work that assumes that voters encourage the use of investment incentives, I contend that voters have project-specific preferences. They want their politicians only to support projects that are of high quality, i.e., projects that voters perceive to be effective in improving their community's living standards. Using a factorial survey experiment, I show that project quality affects people's approval politicians' investment incentive decisions and limits the ability of politicians to use investment incentives as a policy to score political points with voters. Evidence from a conjoint experiment highlights that voters use information about jobs and indirect cues about an investor's credibility to assess the quality of an FDI project.

This study makes the important point that project quality matters to voters when assessing the support of investment incentives. Yet, there are limitations that future work is encouraged to address. The scope of this paper is restricted to FDI projects. An extension of this study should also consider whether the logic applies to domestic firms. Voters may be more forgiving when handing out incentives to small domestic firms. Another study extension should consider expanding the dimensions of the conjoint experiment to also include non-economic externalities, such as environmental pollution, and to replicate the findings in countries outside of the US. A final consideration for future work is to elaborate the trade-off between quality and the costs of investment incentives. In other words, what are voters "willing to pay" for a project of high vs. low quality?

The findings of this study have several policy implications that demand further scrutiny. First, the study highlights that high-quality FDI projects will yield greater

political utility than others. This means that when analyzing the electoral effect of investment incentives, it is necessary to differentiate between high- and low-quality projects. Second, politicians have strong incentives to campaign for projects and manipulate people's beliefs about an investment's quality. This implication can be tested by analyzing how politicians claim credit for incoming FDI projects. Third, the findings imply that greater political accountability in the form of transparency can improve the allocation of government resources to more effective projects, which will ultimately benefit voters. Finally, the results highlight that the nationality of investors significantly influences support for incentives. It is, however, unclear why people's negative attitudes toward China, for instance, bias their assessment of FDI project quality? Is it because of the potentially inferior quality of Chinese investments, national security concerns, reciprocity, or xenophobia? Answers to these questions will also underscore whether transparency may be counter-productive because it can lead to cases where nationality concerns overshadow the true quality of a project.

Chapter 4

Quality over Quantity: Transparency and the Attraction of FDI Projects

4.1 Introduction

Democratic institutions affect the inflow of foreign direct investment projects (e.g., Choi & Samy, 2008; Jensen, 2003; Q. Li & Resnick, 2003; Staats & Biglaiser, 2012) Most of the research on this topic has primarily centered on how democratic institutions shape the investment climate (see Q. Li et al., 2018). Academics have linked democratic structures to elements that enhance the investment setting, like policy stability (Jensen, 2003). Conversely, they have also associated them with elements that may deter investments, such as heightened consumer protection regulation (Q. Li & Resnick, 2003).

One often-neglected aspect in this discourse is the influence of democratic institutions on governments' investment promotion strategies. There is evidence suggesting that electoral pressures might drive politicians to fervently promote their jurisdictions to foreign investors, often by allocating considerable resources to investment incentives (e.g., Jensen et al., 2020; Jensen & Malesky, 2018; Jensen et al., 2015). Although these

practices may catalyze an influx of new FDI projects, they pose considerable public policy challenges. The literature offers inconsistent findings on whether investment incentives cause enduring job creation and economic growth (Jensen, 2017b; Patrick, 2014; Scavette, 2023). Furthermore, excessive reliance on these incentives could potentially strain the financial well-being of municipalities (McDonald III, Decker, & Johnson, 2020). Slattery (2020) contends that a ban on offering incentives would increase US states' welfare.

One possible solution to mitigate an excess use of investment incentives is an increase in transparency about the costs and details of investment incentive deals (Jensen & Malesky, 2018). However, outside of evidence from survey experiments on voter reactions (Jensen & Malesky, 2018; Jud, 2023a), there is no well-established finding that suggests that politicians change their behavior in regard to the disbursement of investment incentives when exposed to higher levels of transparency (Thrall & Jensen, 2023). In fact, companies actively undermine the effectiveness of transparency provisions (Jensen & Thrall, 2021).

In this paper, I re-examine the interplay between transparency and the utilization of investment incentives, emphasizing two previously overlooked elements. First, prior studies often sideline the pivotal role of local media outlets. Local newspapers, as highlighted by Slattery (2023), serve as significant instruments of transparency, especially in the sphere of investment incentives. Furthermore, their presence wields notable influence on politicians' behavior (Ashworth & Shotts, 2010; Snyder Jr. & Strömberg, 2010). Second, voters exhibit varied inclinations towards FDI, shaped by individual traits (Andrews, Leblang, & Pandya, 2018; Feng et al., 2021; Pandya, 2010) and project-specific factors (Chilton, Milner, & Tingley, 2020; Jamal & Milner, 2022; Jensen & Lindstädt, 2013; Jud, 2023a; X. Li & Zeng, 2017). Contrary to the predominant notion that voters uniformly embrace every prospective FDI project, their responses are multifaceted. As such, politicians concerned about the backlash from

voters should have differential responses to FDI depending on how voters perceive them.

I propose a theory that connects transparency to the inflow of FDI. It starts with the premise that voters prefer that their politicians support FDI projects that are of high quality.[1] *Quality* refers to the perceived effectiveness of FDI projects in improving a community's living standards (see Jud, 2023a). Politicians concerned about the re-election and potential voter backlash incorporate these voter preferences in their decision-making process. This is why I hypothesize that high-quality FDI projects are more likely to receive investment incentives.

Local newspapers amplify the influence of project quality on the allocation of investment incentives. These media outlets possess investigative capabilities that uncover two critical facets of investment incentive deals that are important to voters. First, they shed light on the specifics of these deals, offering voters insights into the nature of the company benefiting from the incentive and the financial magnitude of the package. Second, they cast a spotlight on the efforts of politicians in attracting investments and can potentially uncover any ulterior motives or rent-seeking behaviors. Given these dynamics, I expect that high-quality projects should be more likely to receive incentives when they are located in counties with a daily newspaper than in a newspaper-less county.

The presence of local newspapers is anticipated to influence not just the likelihood of high-quality projects receiving incentive deals, but also the overall composition of projects a county attracts. In counties with local newspapers, politicians are expected to be swayed towards securing higher-quality projects, given the heightened prospects of favorable publicity and electoral rewards. These newspapers can serve as both a spotlight and a watchdog. They highlight successful efforts in bringing in valuable

[1]This is assumption is based on experimental evidence by Jud (2023a). He demonstrates that voters do not universally support the use of incentives but their support depends on the "quality" of a project.

investments, thereby bolstering a politician's reputation. Conversely, they can scrutinize and publicize instances where low-quality investments are made, potentially tarnishing a politician's image. Consequently, the presence of local media should motivate politicians to prioritize the quality of FDI projects over quantity. This means that counties with an active local media landscape should amass a portfolio richer in high-quality projects compared to counties without such media influence.

I empirically examine this theory through two distinct tests, using FDI and investment incentive data from the US spanning 2010 to 2019. Initially, I delve into project-level data encompassing all greenfield FDI projects entering the US. My goal is to discern whether high-quality projects are more inclined to secure incentive deals and to investigate if this propensity is shaped by the existence of a daily newspaper within the host county. In order to quantify "quality", I introduce a novel measure termed the *job labor ratio*. This is computed by dividing the number of jobs pledged by an FDI project by the labor force size of the county where the project is instituted.

The results from this first test provide strong evidence in support my accountability theory. Specifically, a one standard deviation surge in a project's job labor ratio enhances the likelihood of that project obtaining an incentive deal by 1.6 percentage points. Intriguingly, this correlation is accentuated when a daily newspaper is present in the county. High-quality projects situated in counties with a daily newspaper are markedly more favored for incentives compared to their counterparts in counties devoid of a newspaper.

In my second analysis, I consolidate the project-level FDI data to generate a county cross-section, encompassing all counties that procured an FDI project from 2010 to 2019. The objective is to gauge the impact of having a daily newspaper on the log median job labor ratio across the array of FDI projects a county attracts.[2] To enhance the causal link between newspapers and the median job labor ratio, I

[2]A higher median implies that a pool of projects consists of higher quality projects.

employ entropy (Hainmueller, 2012) and covariate balance propensity score (Imai & Ratkovic, 2014) weighting methods and estimate the average treatment effect using g-computation (Snowden, Rose, & Mortimer, 2011). The findings suggest that the presence of daily newspapers in a county significantly increases the median job labor ratio by approximately 19.1%. However, a contrasting pattern emerges regarding the total volume of FDI projects: newspapers curtail the aggregate inflow of FDI projects. This implies that the presence of daily newspapers sways politicians towards prioritizing the quality of FDI over its quantity. Such a shift resonates with the observed voter preferences, emphasizing the qualitative attributes of investment over quantitative metrics.

The results of this study make several important contribution to the study of globalization, corporate power, transparency, and investment incentives. First, it highlights that globalization does not incentivize politicians to engage in a race-to-the-bottom at all costs. Even though politicians can use globalization as a justification for tax cuts or generous incentive deals (Jensen, 2012; Jensen & Malesky, 2018), I observe that politicians are less willing to hand out deals to low-quality projects. The study also underscores the influential role of transparency, especially through local media, in shaping political strategies. Instead of simply courting any FDI projects, politicians, under the scrutiny of transparent mechanisms, seem to value project quality over sheer quantity. Echoing prior research on globalization's impact on corporate taxation (e.g. Basinger & Hallerberg, 2004; Hays, 2003; Plümper, Troeger, & Winner, 2009), the study reaffirms the moderating role of domestic politics in preventing a wholesale race-to-the-bottom.

Second, this study outlines the limits of corporate power. A substantial corpus of existing literature suggests an overwhelming sway of corporations over governmental decision-making. Not only do corporations significantly fund political campaigns, but their potent lobbying capabilities also ensure unparalleled access to policymakers

(e.g., Kalla & Broockman, 2016). Furthermore, due to their ability to freely allocate capital across the globe, corporations have gained significant bargaining power vis-à-vis the government (Detomasi, 2007; Rickard, 2022). However, the findings presented here serve as a counterpoint, emphasizing that sheer corporate might does not guarantee that politicians will roll out incentive deals, especially when such projects are misaligned with voter interests. This resonates with theories positing that corporations wield maximal power when their objectives coincide with those of the electorate (M. A. Smith, 2000).

Third, the insights from this paper add layers of complexity to the understanding of transparency's impact on FDI inflows. Predominantly, academic discourse posits that transparency fosters an upswing in FDI projects (e.g., Drabek & Payne, 2002; Rosendorff & Shin, 2012; Zhao, Kim, & Du, 2003). This perspective hinges on the belief that transparency equips investors with a clearer picture of the policy landscape. Here, I introduce the nuanced perspective that transparency also steers FDI inflows by constraining government's investment promotion efforts. Transparency not only helps investors, but it incentivizes governments to prioritize certain types of FDI projects that appeal to voters. This phenomenon gives rise to empirical trends that diverge from conventional findings.

Fourth, these findings enrich the discourse on the political economy surrounding investment incentives. Recent work tries to explain why there is variation in the use of investment incentives. These studies have looked at factors, such as capital intensity (Bauerle Danzman & Slaski, 2022b), bureaucratic experience (Bauerle Danzman & Slaski, 2022a), and elections (Jensen et al., 2020). Within this spectrum, my study carves a niche, shedding light role of project quality and local newspapers in shaping investment incentive decisions of governments.

4.2 Democracy and Competition for Foreign Direct Investment

The relationship between democracy and its influence on FDI inflows has been a subject of thorough discussion (see Q. Li et al., 2018). Predominantly, the debate has centered on the implications of democratic institutions in shaping the investment environment for FDI. For instance, Jensen (2003) suggests that democracies, given their veto players and electoral dynamics, often curb arbitrary economic policies, fostering a more stable climate for investment in contrast to autocracies. In contrast, Q. Li and Resnick (2003) argue that democratic institutions can suppress the inflow FDI because democracies have stronger anti-trust regulation. Furthermore, the responsiveness of democratic politicians to their electorate might drive them towards protectionist policies.

However, a facet often overlooked in this discourse is the potential for democratic institutions to drive politicians to actively solicit foreign investments using public resources, notably in the form of investment incentives.[3] The pressure for re-election in democracies can induce politicians to make use of such incentives.[4] Recognizing the distributive benefits of FDI that appeal to their support base, politicians may view investment incentives as a strategy to enhance their chances of securing an FDI project (Owen, 2019; Pinto, 2013). Additionally, FDI projects symbolize a commitment to economic development for the electorate (Jensen & Malesky, 2018). In this framework, voters expect politicians to use incentives because they believe that these packages are necessary to attract new investment. As a result, politicians promise incentives to

[3]Investment incentives entail governmental financial promises to investors, contingent upon them bringing new investment projects to the region.

[4]Q. Li and Resnick (2003) would suggest that democracies can restrict this behavior. They argue that in democracies, "critics of FDI have greater access to political participation and hence, are more able to limit the generosity of incentives their governments offer to foreign capital" (p. 185). Recent work highlights that there various forces at play that could also amplify the use of incentive-giving.

pander to voters even though they may have private information that suggests that incentives are not effective.

Empirical investigations further affirm this voter-driven explanation for the use incentives. A survey experiment by Jensen et al. (2014) illustrates that voters display a preference for politicians who leverage incentives to attract investments. Moreover, Slattery (2023) points out that politicians increase their vote share in counties that secure incentive-backed investment projects in contrast to those that do not.[5] Furthermore, there is evidence suggesting that the proximity of impending elections can escalate the propensity of politicians to pledge more incentives (Jensen et al., 2020, 2015).

Furthermore, even when certain investment deals might not resonate positively with voters, politicians often escape serious repercussions by framing such decisions as the "price of doing business" in today's globalized economy (Hellwig, 2008, 2015). A case in point is the case of the Iowa Fertilizer Company. In 2012, Egypt-based Orascom announced an investment of $1.4 billion in Wever, Iowa, for a new fertilizer plant. For this investment, Orascom was granted $240 million in local and state tax breaks (Boshart, 2012). Some Democratic leaders in Iowa voiced concerns, highlighting that beyond the substantial incentive package, Orascom also reaped the benefits of tax-exempt federal bonds, which shaved off a further $300 million from their borrowing expenses. Importantly, Orascom only qualified for these bonds when investing in Iowa and not when investing in any of the other locations it considered. Governor Branstad, justifying the decision, underscored that without this enticing package, Orascom might have looked elsewhere to invest (Reinwald, 2014). With voters often unaware of potential alternative scenarios, it is easy to defend any incentive package by arguing that in the absence of incentives, no company would invest in a given locality.

[5]However, Bundrick et al. (2021) posits a contrasting view, noting no significant electoral advantage linked to incentive offerings in Arkansas.

From a public policy perspective, this competitive bidding process to attract new FDI projects is problematic. The underlying fear is that politicians might be compromising community interests in their zeal to attract employment. This became visible in the bidding process for the location for Samsung's new $17 billion semiconductor factory. In 2021, Samsung announced it will build this factory in Taylor (TX), a small town next to Austin. For this investment, Samsung will receive $954 million in incentives from the state and county government (Sechler, 2021). It is the largest incentive deal in the history of Texas. A significant driver behind this staggering incentive deal was the involvement of multiple contenders, including neighboring Austin, vying for Samsung's attention. Such competitive dynamics, essentially turning investment decisions into bidding wars, raise concerns.[6] Research suggests that the investment incentives can dent the fiscal stability of governments (McDonald III et al., 2020) and do not necessarily promise enduring job growth (e.g., Jensen, 2017b; Patrick, 2014). Further emphasizing the point, Slattery (2020) posits that U.S. states might fare better with a stringent ban on such competitive incentive offers.

A suggested remedy to curtail the excessive use of investment incentives is to bolster transparency (Jensen & Malesky, 2018). Research on fiscal spending indicates that budget transparency can mitigate fiscal deficits (Benito & Bastida, 2009) and temper electoral cycles (Alt & Lassen, 2006). In the context of investment incentives, shedding light on the details of subsidized companies and the magnitude of the incentive deals offers voters crucial insights for more informed cost-benefit evaluations. Survey evidence shows that providing detailed information about the costs of incentives and the type of projects supported with incentives significantly alters the effect of investment incentives on political support (Jensen & Malesky, 2018; Jud, 2023a).

Yet, it remains ambiguous whether transparency influences the behavior of politi-

[6]Another example for this bidding dynamic is the Kansas City Border War where Kansas and Missouri were competing against each other to attract new businesses through the use of investment incentives (Kim, 2023).

cians in regard to investment incentives. Existing studies highlight that there are limits to the effect of transparency. Thrall and Jensen (2023) study the effect of a change in the General Accounting Standards Board's Statement 77 (GASB 77) in August 2015 that amplified reporting mandates for local governments concerning investment incentives. Their findings suggest that the GASB 77 update did not negatively affect the granting of investment incentives. Further, Jensen and Thrall (2021) demonstrate that companies sometimes legally contest public information requests about incentive agreements to elude public scrutiny, thereby inhibiting the flow of information.

Does this imply that transparency fails to incentivize politicians to use investment incentives more judiciously? Drawing such a conclusion might be hasty for a couple of reasons. First, extant literature might not account for the variability in the popularity of different FDI projects among voters (e.g., Jud, 2023a). Second, a pivotal mechanism that allows voter preferences to shape incentive decisions is the presence and activity of local media (Slattery, 2023). As of now, no research has delved into how the prevalence of local media influences politician's propensity to award investment incentives. The ensuing section will elucidate how these dual facets influence politicians' decisions to offer incentive deals to foreign investors.

4.3 FDI Quality, Local Media, and Investment Incentives

FDI projects are not universally popular among voters. Previous work has outlined how voters' background can affect their support for FDI (Andrews et al., 2018; Feng et al., 2021; Pinto, 2013; Raess, 2023). For instance, Pandya (2010) finds that people with higher levels of education are more supportive of FDI inflows because they are more likely to benefit from the jobs created by FDI projects. In addition to

backgrounds, FDI project characteristics also significantly influence people's support for FDI. Factors including the nationality of an investor and a project's economic impact are strongly correlated with how favorable people perceive a given FDI project (Feng et al., 2021; Jensen & Lindstädt, 2013; X. Li & Zeng, 2017; Raess, 2021).

Voters' perception of FDI projects also affects their support for the use of investment incentives. In particular, when assessing the utility of investment incentives, voters have been found to incorporate the *quality* of an FDI project (Jud, 2023a). *Quality* refers to the perceived effectiveness of a project in promoting higher living standards in a community.[7] Voters are more likely to approve of a politician's investment incentive decision if they believe that the deal is awarded to a high-quality FDI project.

These voter preferences for the use of investment incentives matter to politicians. I argue that office-seeking politicians consider voter preferences when making investment incentive decisions because they want to retain their position. Investment incentive decisions can significantly impact their re-election prospects, as voters' assessment of politicians is affected by the use of such incentives (Jensen et al., 2014; Jud, 2023a).[8] Anecdotally, there are instances where investment incentives have influenced the outcome of general elections. Some political pundits claim that the Foxconn deal[9] contributed to the failed re-election bid of former Wisconsin governor Scott Walker in 2018 (Chandler, 2018). Similarly, incumbent politicians can face criticism from challengers for perceived misuse of public funds. For instance, Tudor Dixon, the Republican candidate in the 2022 governor election in Michigan, criticized the incumbent Democratic governor Gretchen Whitmer for giving a $846 million incentive package to Gotion, a Chinese car battery manufacturer. She claimed: "Your

[7]For a more detailed discussion of quality see Jud (2023a).

[8]This argument is based on the finding that an incumbent's performance on a policy issue (e.g., promotion of investment) can affect people's vote choice (Fournier et al., 2003)

[9]In 2017, Foxconn, a Taiwanese electronics manufacturer announced it will invest $10 billion and create 13,000 jobs in Southeastern Wisconsin. Former governor Walker promised around $4 billion in investment incentives for this project.

taxpayer dollars should be used to make sure your kids are getting a world-class education, you have a reliable infrastructure, that you have safe cities, but now we're seeing taxpayer dollars go into an adversary, a Chinese corporation." (Mauger & LeBlanc, 2022).

Second, questionable incentive decisions can mobilize activists and interest groups that can incite public resistance to a project and delay projects. Project delays are politically costly for politicians because voters can make inferences about a politician's ability to get things done (Marx, 2018; Wang et al., 2022) and it can dissuade the inflow of new investment in the future. Consider the Amazon HQ2 deal in New York City. While the majority of people living in the state of New York agreed with the deal, activists in the City were strongly opposed to the deal and pressured New York City politicians to not approve Amazon HQ2 project (Goodman, 2019). Eventually, Amazon cancelled the project since they perceived too much hostility from the local community.

Since these dynamics directly affect a politician's political careers, I expect that politicians try to anticipate the reaction of voters to certain investment incentive deals. These leads them incorporate the factor of project quality into their decision-making calculus. Thus, I hypothesize that the award of investment incentive is connected to a project's quality. As voters do not support incentives to low-quality projects (Jud, 2023a), i.e., projects that are unlikely generate sustainable economic growth in a community, I predict that politicians should be less likely to grant incentives to such projects. In contrast, as voters approve of politicians who try to bring in high-quality projects, I surmise that politicians will focus their attention to promoting these types of projects with investment incentives. The resulting empirical pattern emerging from this behavior is summarized in hypothesis 4.1.

Hypothesis 4.1 (Quality)**.** *As the quality of FDI projects increases, the more likely it becomes that the project will receive investment incentives.*

Local media outlets significantly influence the impact of project quality on the probability of receiving investment incentives. Consistent with previous research indicating that local media coverage can motivate politicians to better represent their constituents (Snyder Jr. & Strömberg, 2010), I anticipate similar effects on the provision of investment incentives. Primarily, local media outlets serve as channels of information dissemination on FDI projects and associated incentive deals. A survey by Slattery (2023) reveals that people generally learn about new investment projects and incentive packages through local newspapers, thus equipping voters with the necessary information to judge an FDI project's quality.

Additionally, local media illuminate the efforts made by politicians to attract FDI projects. The presence of local journalists makes it more difficult for politicians to conceal any lack of effort in courting new investors. A study by Heese, Pérez-Cavazos, and Peter (2022) found increased corporate misconduct in areas impacted by the closure of a local newspaper, underscoring the crucial role local media play in maintaining public accountability. Not only can local media deter inadequate effort, but they can also encourage increased effort when dealing with a high-quality project. Politicians are aware that securing a high-quality FDI project can result in positive local news coverage, which can bolster their political standing. Therefore, local newspapers not only increase the costs of insufficient efforts but also enhance the benefits for politicians willing to go the extra mile.

In summary, the presence of local newspapers, as a form of transparency, can differentially influence the distribution of investment incentives. I posit that politicians are more likely to award incentives to high-quality projects in counties with local newspapers. In these counties, politicians encounter a different incentive structure than in counties without newspapers because 1) a successful deal can generate positive publicity for the politician and 2) failing to secure a promising project could lead to political backlash. Conversely, when it comes to lower-quality projects, local

newspapers may deter politicians from using incentives or making substantial efforts to attract such projects. In these scenarios, local newspapers can expose policy decisions misaligned with voter preferences, potentially reversing the perceived benefits of transparency.

Hypothesis 4.2 (Quality and Transparency)**.** *FDI projects in counties with a local newspaper are more likely to receive investment incentives as their quality increases than FDI projects in counties without a local newspaper.*

Assuming that the presence of newspapers influences politicians' investment promotion efforts, it is reasonable to expect that newspapers would also impact the array of FDI projects a county receives. Specifically, I anticipate a higher proportion of high-quality FDI projects in counties with newspapers compared to those without. As detailed above, politicians under the scrutiny of transparent media are likely to exert greater effort, focusing on attracting projects that resonate with voter preferences. Conversely, politicians without such public accountability might be inclined to pursue projects for reasons unrelated to voter preferences, such as rent-seeking. These divergent efforts are likely to result in distinct portfolios of FDI projects, differentiated by their quality.

Hypothesis 4.3 (FDI Portfolio)**.** *Counties with a local newspaper will have a pool of FDI projects that is of higher quality than counties without a local newspaper.*

It is crucial to recognize that, within this theoretical framework, transparency's impact on the number of FDI projects a county attracts can be ambiguous. According to this perspective, local newspapers might exert either a positive or negative influence on FDI attraction. The effect is positive if newspapers motivate politicians to intensively promote their constituency to foreign investors. Conversely, local newspapers might negatively impact FDI attraction, as politicians become more attuned to their voters' needs and demands.

4.4 Research Design

To test these three hypotheses, I have two different empirical tests. The first test is designed to assess hypotheses 4.1 and 4.2. In this test, I use project-level data on all incoming greenfield FDI projects in the US between 2010 and 2019 match them with project-level incentive data. The second empirical test evaluates hypothesis 4.3 and aggregates the project-level data to the county-level.

4.4.1 FDI Projects Sample

Both analyses necessitate a comprehensive record of FDI projects. The most reliable source for this is the *fDi Markets* platform.[10] Using this platform, I gathered data on all greenfield FDI projects in the US from 2010 to 2019.[11] My focus is on greenfield FDI projects for two main reasons: First, this provides comprehensive access to the universe of projects. This does not exist for domestic US investments. Second, greenfield investments are novel projects, implying that politicians and voters might be uncertain about outcomes. This uncertainty likely heightens the incentive for both groups to gather information about the forthcoming project. In sum, the data set comprises 11,318 greenfield FDI projects in the US during the stipulated time frame. These projects amount to $407.8 billion in new investments, resulting in the creation of 855,906 new jobs. On average, a project creates 76 jobs and channels $36 million into a new venue.

4.4.2 Measuring FDI Quality

FDI quality is a multifaceted concept, allowing for diverse measurement approaches. A primary quality dimension is the number of jobs a project generates (Jud, 2023a).

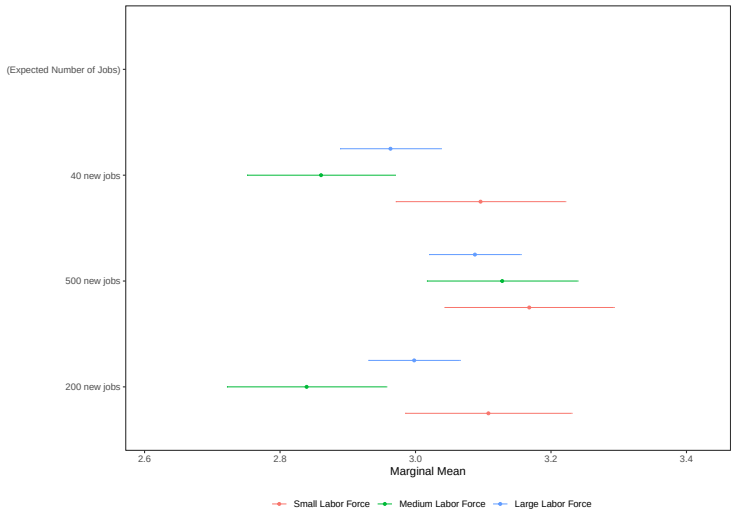
[10]Further details can be found at `https://www.fdimarkets.com/about/`.

[11]A broader time frame wasn't chosen due to the investment incentive data commencing in 2010.

Job creation significantly enhances community living standards by broadening economic opportunities for residents. Furthermore, an influx of jobs boosts municipal tax revenues, which can be funneled into public goods like education. The greater the job count, the stronger the potential downstream ripple effects within a community.

However, communities vary in size, and this difference influences perceptions of a project's quality. For instance, 500 jobs introduced in a 5,000-resident community would resonate differently than the same number in a metropolitan area of a million inhabitants. Experimental data underscores this distinction. Analyzing data from Jud (2023a), I assessed perceptions of an FDI project's quality across different county sizes, based on the number of jobs the project offers. Figure 4.1 illustrates that individuals from smaller counties perceive an FDI project creating 40 or 200 jobs as of significantly higher quality than those from medium-sized counties.[12] This perceptual gap narrows for projects generating 500 jobs, suggesting the absolute job count might not be the optimal measure of quality.

Figure 4.1: FDI Jobs and Quality by County Size



Note: Figure uses experimental data from Jud (2023a). The figure shows the effect of the number of jobs created by an FDI project and voters' perceived quality of this project. In this figure, I split respondents into three groups based on their home county's labor force size.

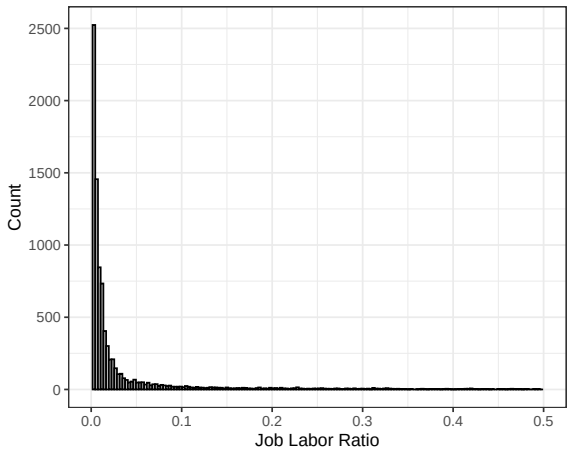
[12]Counties with a labor force below 33,000 are categorized as small, those between 33,000 and 114,000 as medium, and any county larger than 114,000 as large.

To account for this location dependent perception of quality, I introduce a measure of quality called *Job Labor Ratio*. The measure describes the size of a project i relative to the size of the county k in which the project is implemented. For this I compare the number of jobs created by a project to the total size of the labor force in a county in a given year t:

$$\text{Job Labor Ratio}_i = \frac{\text{FDI Jobs}_i \times 100}{\text{Total Labor Force}_{k,t}}$$

Figure 4.2 illustrates the distribution of the job labor ratio for FDI projects between 2010 and 2019. The majority of these projects are relatively small in comparison to the overall labor pool in a given county. The median job labor ratio stands at 0.011. Given a median county labor force of 480,350, this indicates that the typical project introduces approximately 53 jobs. Additionally, there's a notable subset of high-quality projects. The sample's maximum value reaches 14.7, meaning the newly generated jobs account for 14.7% of the total labor force.[13]

Figure 4.2: Distribution of Job Labor Ratio



To validate the measure's association with quality, I juxtaposed it with two other quality predictors: the number of jobs an FDI project generates and its investment

[13]This figure corresponds to the Infosys Technologies R&D facility announced in 2017 in Greene County (IN), which planned for 2,000 jobs in a county with a labor force of 13,605 individuals.

value. The job labor ratio is positively correlated with both, as detailed in appendix C.1. Additionally, I examined the average job labor ratio for FDI projects engaging in comparable activities.[14] Ideally, sectors with the potential to profoundly impact a community's economic trajectory, like manufacturing and mining, should exhibit a higher job labor ratio compared to generalized service sectors. Consistent with this, projects centered on extraction, electricity, and manufacturing have the highest average job labor ratios. Conversely, those emphasizing sales and business service activities tend to have a lower average. These observations bolster the credibility of the job labor ratio as a quality metric.

4.4.3 Measuring Local Newspaper Presence

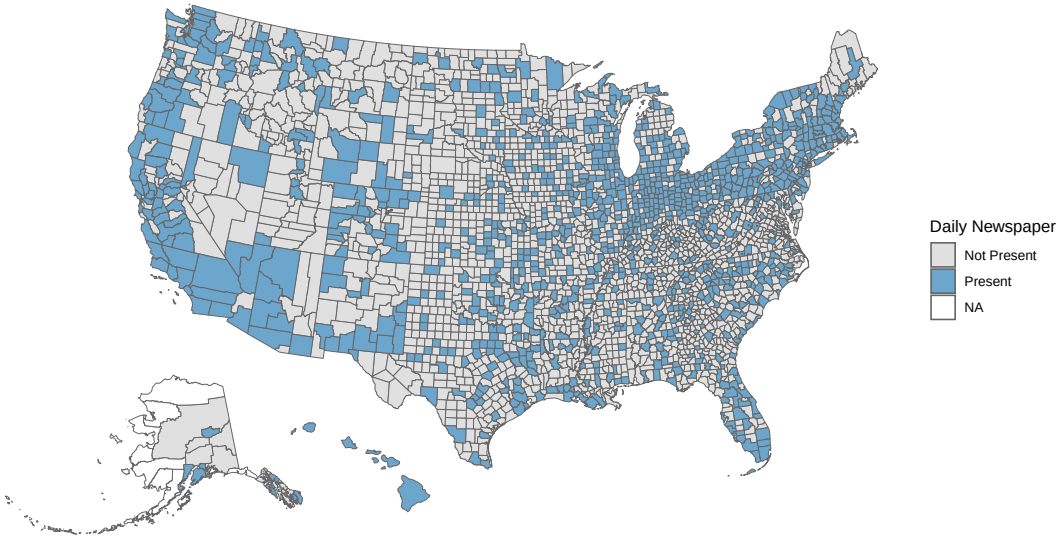
The second central variable for the analysis is the presence of local newspapers, with a particular emphasis on daily local newspapers due to their significant role in investigative research (Heese et al., 2022) and in informing readers about incumbent performance (Djourelova, Durante, & Martin, 2023). I derived this measure from the *Expanding News Desert* data set maintained by the University of North Carolina at Chapel Hill (Abernathy, 2016).[15] This data set provides county-level data on the existence of a daily newspaper in 2016. Figure 4.3 illustrates the geographic distribution of counties with at least one such daily newspaper.

To mitigate data loss from the data set's limited time frame, I assume that counties with a daily newspaper in 2016 also had one in 2010. However, this assumption is not without flaws. Given the newspaper closures between 2010 and 2016 (Abernathy, 2016), it might lead to measurement errors. Still, I adopted this assumption because the potential bias stemming from measurement error is unlikely to be in my favor since measurement errors lead to attenuation bias. This assumption would only pose

[14]This data is showcased in appendix C.1

[15]More details on the data methodology are available under the following link `https://www.usnewsdeserts.com/methodology/` (last accessed August 6, 2023).

Figure 4.3: Counties with a Daily Newspaper



a concern if higher quality FDI projects were linked with a decreased likelihood of newspaper closures. In this case, it would be unclear whether the observed effect is due to the presence of the newspaper or whether it is due to FDI projects keeping newspapers financially aflot. To address this problem, I utilized newspaper closure data from the same source (Abernathy, 2016). In appendix C.2, I demonstrate that there is no correlation between the number of FDI projects (or the number weighted by quality) and daily newspaper closures.

4.4.4 Project-Level Analysis

Hypotheses 4.1 and 4.2 operate at the project level. Thus, the unit of analysis for testing these hypotheses is the individual FDI project. The primary dependent variable is a binary indicator denoting whether an FDI project was granted incentives. To generate this variable, I consulted the *IncentiveFlow* data set from Wavteq, which

stands out as the most exhaustive global data set on investment incentives currently available. I connected the incentive packages from the IncentiveFlow data set with the FDI projects from the fDi markets using fuzzy matching methods and manual coding.[16] Between 2010 and 2019, there were 1,785 incentive package deals, of which I successfully matched 888. This represents a significant advancement over prior matching attempts in this domain. For context, Bauerle Danzman and Slaski (2022b), using the same data sets for FDI projects in Latin America, managed to match only about 25% of all incentives recorded in the IncentiveFlow data set. Overall, 7.8% of all greenfield FDI projects from 2010 to 2019 secured an investment incentive deal. The monetary value of these deals fluctuated between $60,000 and $3.482 billion, with the median value standing at $825,000. The median incentive package equates to roughly $8,333 per job or 4.9% of the invested amount. Grants are the most prevalent incentive instrument in this data set, featured in 533 deals. Additionally, 465 deals utilized tax instruments, while a mere 52 incorporated loans.

In addition to the core variables outlined above, I incorporate controls specific to the project, location, and company in the analysis.[17] For project controls, I consider the number of jobs and the investment value of a project. Larger projects are typically more likely to receive incentives than their smaller counterparts since it gives politicians more publicity. Regarding company-specific variables, I factor in the log transformed company revenue and the capital intensity of a company's sector, as delineated by Bauerle Danzman and Slaski (2022b). Larger companies, due to their enhanced bargaining clout (Slattery & Zidar, 2020), are better positioned to negotiate incentives. Bauerle Danzman and Slaski (2022b) demonstrate that capital intensity augments the probability of securing incentives. The location-specific con-

[16]Fuzzy matching posed challenges as incentives were often logged several months or even years after announcing a new FDI project, necessitating extensive manual matching.

[17]These controls closely align with the main specification detailed in Bauerle Danzman and Slaski (2022b).

trols encompass a state's GDP per capita, the political party of the state's governor[18], the electoral competitiveness of a state, the degree of rurality of a project's location, and the unemployment rate of the county. Each of these parameters could influence the propensity to distribute incentives. For example, counties experiencing elevated unemployment levels might be more eager to entice new investments through the generous use of incentive deals.[19]

To test the two hypotheses, I run two main linear probability models in the project-level analysis. The models are described below.

$$\text{II}_i = \beta_1 \text{JLR}_i + \delta \mathbf{X}_i' + \alpha_h + \gamma_t + \lambda_s + \zeta_a + \epsilon_i \tag{4.1}$$

$$\text{II}_i = \beta_1 \text{JLR}_i + \beta_2 \text{Newspaper}_i + \beta_3 \text{JLR}_i \times \text{Newspaper}_i + \delta \mathbf{X}_i' + \alpha_h + \gamma_t + \lambda_s + \zeta_a + \epsilon_i \tag{4.2}$$

Model 1 estimates whether the job location ratio (denoted as JLR) of project i is correlated with a project's reception of investment incentives (denoted as II). According to hypothesis 1, I expect that β_1 in model 1 is positive and statistically significant. In model 2, I interact the JLR variable with the newspaper indicator to test hypothesis 2. Based on hypothesis 2, I predict that β_3 in model 2 should be positive. Both models include a matrix of control variables $\mathbf{X}$. Moreover, I include investor home country (α_h), year (γ_t), state (λ_s), and sector (ζ_a) fixed effects in both models.

4.4.5 County-Level Analysis

To validate hypothesis 4.3, I undertake a separate analysis. Here, I consolidate the project-level data set to the county-level, focusing on a cross-section of US counties as of 2019. Specifically, this data set includes only those counties that attracted at least one FDI project between 2010 and 2019. There is a total of 1,057 counties that

[18]This is a binary indicator coded as 1 if the governor is a Republican.

[19]The descriptive statistics of the variables are presented in table C.2 in the appendix.

satisfy this condition.[20] My emphasis on counties with FDI projects is twofold. First, hypothesis 4.3 posits disparities in the distribution of FDI project quality. Naturally, this implies the necessity for the county to have hosted at least one such project. Secondly, a county's lack of any FDI projects could indicate that it possesses certain characteristics rendering it unattractive for investment. These inherent attributes might be so deterrent for potential investors that even the most lucrative incentive packages fail to sway them. By excluding counties without FDI projects, the sample inherently includes a more homogeneous and comparable set of counties.

The dependent variable in this analysis is the log transformed median job labor ratio for all FDI projects a county attracted between 2010 and 2019.[21] Using the median is beneficial as it provides a robust measure of central tendency less susceptible to outliers than the mean. A higher median job labor ratio for a county indicates that it has attracted a collection of higher-quality FDI projects. Another benefit of this measure is its independence from artificial thresholds, which would otherwise classify FDI projects into high- and low-quality categories arbitrarily.

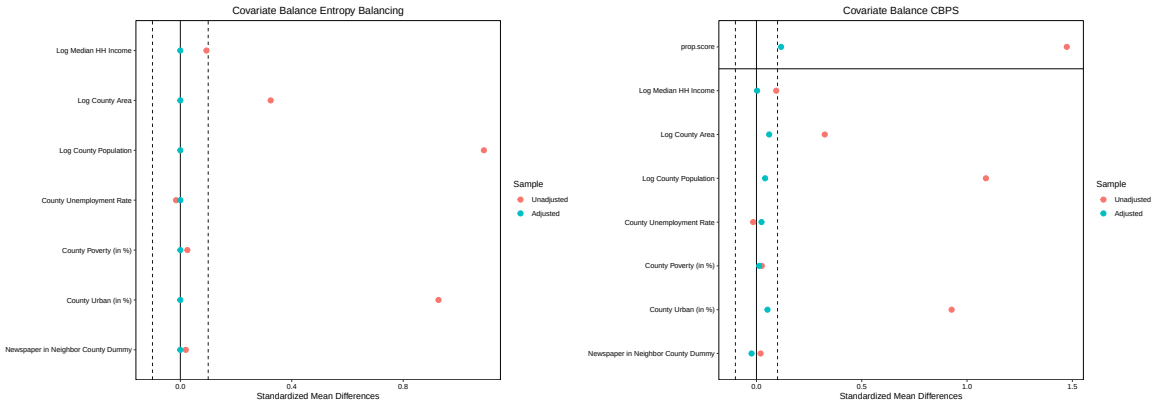
The treatment variable is the presence of a daily newspaper. However, one issue with this variable is its non-random assignment. As shown in figure 4.4, counties with daily newspapers significantly differ in terms of their population size, geographic area, and urbanization level - each of these factors make a county a more desirable location for investment. This complicates the estimation of the effect of daily newspapers on the quality of the pool of attracted FDI projects.

To address this issue, I employ a combination of a weighting approach and g-computation. Specifically, I use two weighting techniques: entropy balancing (Hainmueller, 2012) and covariate balancing propensity score (CBPS) (Imai & Ratkovic, 2014). These methods create covariate balance in observational studies and reduce

[20] I provide a geographic representation of the counties included in the analysis in figure C.3 in the appendix.

[21] The descriptive statistics of the variables used in this analysis is provided in table C.3 in the appendix.

Figure 4.4: Covariate Balance Before and After Weighting



(a) Entropy Balancing (b) CBPS Balancing

dependence on identifying the correct model specification (Ho, Imai, King, & Stuart, 2007). To calculate the weights, I use county-level covariates from 2010. These variables include the county's median household income, geographic area, population, unemployment rate, poverty level, degree of urbanization, and an indicator of whether the county borders another county with a daily newspaper. The data for these covariates comes from the US Census Bureau. Figure 4.4 demonstrates that both weighting approaches effectively minimize the differences between counties that have daily newspapers (treated) and those that do not (untreated).

I employ these weights to compute the average treatment effect of daily newspapers on FDI project quality via g-computation (see Snowden et al., 2011). The initial step in g-computation involves estimating an outcome model. Specifically, I run a weighted least square regression, wherein the dependent variable is regressed against the treatment, a set of covariates[22], state-specific fixed effects, as well as interactions between the treatment, covariates, and the state-specific indicators. Subsequently, I utilize the results from this outcome model to calculate the anticipated outcomes under two scenarios: one where every observation is treated and another where every observation is a control. The difference-in-means between these predicted outcomes

[22]These covariates are identical to those utilized in generating the regression weights.

for treatment and control scenarios provides an estimate of the average treatment effect.

4.5 Does FDI Quality Affect the Award of Investment Incentives

I begin by addressing the results from the project-level analysis. These results are presented in table 4.1. There is compelling evidence supporting both hypotheses 4.1 and 4.2. Panel A showcases the findings for the additive model described in equation 4.1. A robust positive correlation, which is statistically significant, is evident between the job labor ratio with the probability of receiving incentives across all stipulated specifications. Specifically, a one standard deviation increase in the job labor ratio increases the probability of a project obtaining an incentive deal by 0.016. To put this into perspective, the baseline likelihood of an FDI project being granted an incentive deal stands at 0.078.

Panel B describes the results of the interactive model 2. The results indicate a notable positive and statistically significant interaction between the presence of newspapers and the job labor ratio. This suggests that the influence of the job labor ratio on FDI projects is more pronounced in counties housing a newspaper, compared to those devoid of them. To provide a clearer picture, the predicted probabilities from Model Specification 4 in Panel B are illustrated in figure 4.5. Here, it is evident that the job labor ratio notably increases the likelihood of securing incentives solely for projects situated in counties with newspapers. While there is a positive correlation between the job labor ratio and the awarding of investment incentives in newspaper-less counties, this estimate is not distinguishably different from zero.

I executed several robustness checks to affirm the results. First, I reran the models using a log transformed job labor ratio variable to reduce the skewed distribution of

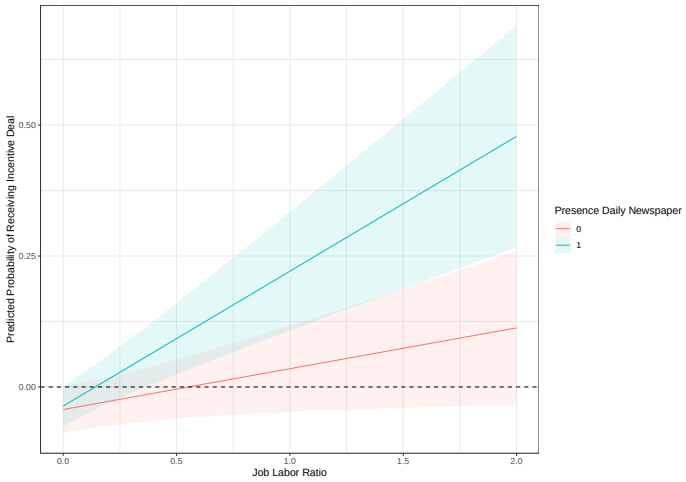
Table 4.1: FDI Quality and Transparency Increase Probability of Investment Incentives

	Received Investment Incentive			
	(1)	(2)	(3)	(4)
Panel A: Additive Model				
Job Labor Ratio	0.032***	0.032***	0.031***	0.027***
	(0.011)	(0.011)	(0.010)	(0.007)
Investor Home Country FE	Yes	Yes	Yes	Yes
Year FE	No	Yes	Yes	Yes
Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Covariates	Yes	Yes	Yes	Yes
Observations	10,733	10,733	10,733	10,733
R^2	0.156	0.157	0.200	0.256
Panel B: Interaction Model				
Job Labor Ratio	0.126***	0.125***	0.105***	0.078**
	(0.038)	(0.038)	(0.036)	(0.036)
Daily Newspaper	−0.020*	−0.020*	−0.018*	0.007
	(0.011)	(0.011)	(0.009)	(0.011)
Interaction	0.267***	0.266***	0.233***	0.179***
	(0.055)	(0.055)	(0.054)	(0.053)
Investor Home Country FE	Yes	Yes	Yes	Yes
Year FE	No	Yes	Yes	Yes
Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Covariates	Yes	Yes	Yes	Yes
Observations	10,650	10,650	10,650	10,650
R^2	0.164	0.165	0.202	0.252

*p<0.1; **p<0.05; ***p<0.01

Note: Parentheses display cluster robust standard errors clustered at the county-level. The covariates included in the analysis are capital intensity, log company revenue, missing revenue dummy, log investment value, log number of jobs, log GDP per capita, dummy for republican governor, dummy for swing state, ruralness of project location, county unemployment rate. Capital intensity is only included in models without sector fixed effects. The number of observations between Panel A and Panel B is different because I excluded observations with a job labor ratio bigger than 2 to assure overlap between treated and untreated observations (see Hainmueller et al., 2019). Full results are displayed in table C.4 and C.5.

Figure 4.5: Predicted Probability of Receiving Incentives



Note: Predicted probabilities are based on results of model 4 in Panel B of table 4.1. Figure shows estimate with 95% confidence interval. Confidence interval is based on cluster robust standard clustered at the county-level.

the variable. Second, I employed different thresholds to omit outliers in the job labor ratio variable for the interactive model. In my principal analysis, observations having a job labor ratio exceeding 2 were set aside to ensure overlap between treated and untreated units. This overlap is a critical prerequisite when estimating interaction effects (Hainmueller et al., 2019). Lastly, I also employed logit models, given the binary nature of the dependent variable. Across all these robustness checks, the findings consistently echo the primary results.[23]

Beyond the econometric validity of these results, there is the concern that the outcomes could be a mere product of the data-generating process. It is possible that Wavteq possesses more detailed information on incentive deals for projects situated in counties with newspapers. This could potentially explain the observed interaction effect. However, I consider this scenario improbable for a couple of reasons. First, Wavteq's data sourcing is not limited to local media outlets. They also draw from corporate press releases and industry publications.[24] This suggests a broad spectrum

[23]Results of these robustness tests are displayed in appendix C.5.

[24]For a comprehensive understanding, visit `https://newproducts.fdiintelligence.com/products/tracking-incentives-for-investments/` (accessed on August 7, 2023).

of sources at Wavteq's disposal, largely unrelated to local journalism.

Second, if the presence of local media genuinely influenced the data-generating process, the most pronounced impact would likely be on mid-tier projects. Projects boasting significant job labor ratios stand out as they are pivotal for a county. This would draw attention from multiple sources even outside the county. On the other hand, medium-sized FDI ventures might not secure major headlines, making Wavteq potentially more dependent on local media for information regarding their incentive deals. This would suggest that the interaction between daily newspapers and the job labor ratio forms an inverse U-shaped curve. I explored this by integrating a squared job labor ratio variable into the primary model specification, but found no evidence supporting an inverse U-shaped relationship.[25]

4.6 Daily Newspapers and FDI Quality

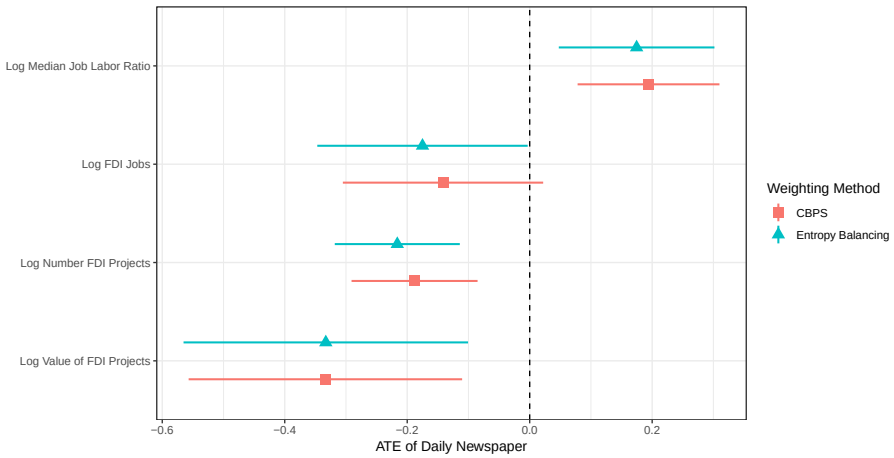
The preceding section demonstrates a link between the quality of FDI, the presence of newspapers, and investment promotion efforts measured by the disbursement of investment incentives. Now, I shift the focus to a county-level examination, aiming to underscore the implications of these factors on the pool of FDI projects in a given county. Consistent with hypothesis 4.3, I anticipate that the presence of newspapers encourages politicians to exert greater efforts in attracting high-quality projects to their jurisdiction.

Figure 4.6 presents evidence in line with hypothesis 4.2. Across both weighting methods, I find that the presence of daily newspapers has a significant and positive average treatment effects on a county's median job labor ratio for FDI projects. Given that the dependent variable is log-transformed, these estimates can be interpreted in terms of percentage change. Based on the entropy balancing outcome, this suggests that the median job location ratio in counties with a daily newspaper is approximately

[25]Result is presented in figure C.4 in appendix C.5.

19.1% higher than in those without one. If we consider two hypothetical counties each with a labor force of 116,000 individuals—a figure derived from the sample's mean county labor force—this rise equates to an additional 71 jobs created by the median job labor ratio FDI project in a county that houses a newspaper. On average, an FDI project in the sample generates 75 jobs. Consequently, the existence of a newspaper can boost job inflow equivalent to the volume of one extra FDI project, focusing solely on the median FDI project.

Figure 4.6: Average Treatment Effect of Daily Newspaper on FDI Project Inflow



Note: Figure shows average treatment effect estimate with 95% confidence intervals. The confidence intervals are based on robust standard errors.

While daily newspapers enhance the quality of the median FDI project, they do not necessarily correspond to an uptick in the volume of FDI projects. Across three FDI metrics - total jobs, investment value, and project count - evidence suggests that counties with a daily newspaper attract fewer FDI initiatives. This outcome is noteworthy, as it challenges the conventional wisdom that transparency can amplify investment activities (see, for example, Hollyer, Rosendorff, & Vreeland, 2018). However, consistent with the thesis of this paper, such a result underscores the rigorous standards to which politicians in counties with newspapers are held. Rather than merely boosting the number of new FDI projects, politicians, when under heightened

scrutiny, appear to prioritize quality over quantity in their investment endeavors.

4.7 Conclusion

In light of the presented findings, the role of transparency, especially the presence of local newspapers, offers a hopeful narrative for influencing politicians' decisions in granting investment incentives to FDI projects. Notably, while the mere presence of newspapers does not necessarily curtail the volume of investment incentives, it critically alters the direction of their allocation. The watchdog function of local newspapers establishes an information environment that spurs politicians to diligently court foreign investors promising high-quality projects. By informing voters about imminent projects and spotlighting politicians' endeavors in this realm, local newspapers accentuate the likelihood of electoral repercussions: politicians face potential backlash for endorsing low-quality ventures with incentives, but stand to gain positive publicity for championing high-quality FDI projects. This behavioral trend is underscored in the composition of FDI projects a county attracts. Counties with a daily newspaper tend to possess higher quality pool of FDI projects in contrast to those counties without such media oversight. Cumulatively, the evidence underscores the possibility that transparency can induce politicians to prioritize quality of quantity.

These results have broader implications for the role of political accountability in a globalized economy. There are several arguments that suggest that globalization provides a cover for politicians to deflect blame for questionable economic performance and incentive deals (Hellwig, 2015; Jensen et al., 2014). Politicians could claim that any incentive deal is the price of doing business to attract new investment projects. However, the findings in this paper demonstrate that there are limits to this argument. Politicians are concerned about the public reactions to incentive deals to companies that offer low-quality projects.

This paper opens up a series of new research questions. First, the paper implies that politicians who give incentives to low-quality projects should deal with some form of political backlash. New work can explore this avenue to investigate why politicians would give incentive deals to FDI projects that are not viewed as desirable from the perspective of voters. There are several potential explanations including rent-seeking, a district's electoral competitiveness, and the level of economic development that researchers can explore.

Second, this study postulates a correlation between public sentiment and the decision-making process regarding incentives. Yet, further exploration is requisite to fortify this inferred relationship. Central to this study is the presumption that the electorate acquires information about incentive deals predominantly from daily newspapers. This, however, does not definitively imply a direct causation, where public sentiment dictates political conduct. An alternative interpretation could suggest that in areas with prevalent newspapers, elite signaling by potent interest groups is markedly more effective in eliciting public dissent. Thus, a pressing challenge for ensuing studies is to discern these mechanisms, teasing apart whether the influence of transparency on incentives stems from a a bottom-up or top-down process.

Third, the findings carry implications for a diverse array of public policy outcomes. One potential consequence is that counties with daily newspapers may enjoy higher-quality job opportunities and more consistent economic growth, given their propensity to attract projects that resonate more positively with community needs. Additionally, counties with a daily newspaper might encounter fewer fiscal challenges when awarding investment incentives, as they tend to attract more beneficial projects. Empirical support for these potential outcomes would further underscore the pivotal role of transparency in mitigating the the negative consequences associated with the excessive use of investment incentives.

Chapter 5

Conclusion

This dissertation introduces a new theoretical model complemented by empirical findings on why some FFDPs bolster a politician's support, while other FFDPs turn into potential political pitfalls. Central to my argument is the idea that political backlash occurs when voters discern that low-quality FFDPs receive governmental financial backing. Through a game-theoretic model, I delineate the implications of this theory for politicians' financial commitment choices and the significance of FFDP outcomes in precipitating voter disapproval. I back my theoretical claims with two empirical studies. First, a survey experiment underscores the nuanced voter reactions to investment incentives based on the inherent quality of FDI projects. This result reinforces the micro-foundations of my theory. The second empirical test is an observational study, scrutinizing politicians' tendencies when dispensing investment incentives for FDI projects. Consistent with my overarching thesis, the findings reveal a preference for high-quality FDI projects as recipients of investment incentives. This relationship is amplified by the presence of local newspapers.

A key policy implications arising from this dissertation is the pivotal role of transparency about FFDPs for optimizing the allocation and efficacy of governmental resources. According to my findings, informed citizens, privy to the nuances of projects

introduced in their communities, are more likely to exert influence on their elected representatives, particularly if the projects are misaligned with their preferences. This implication can be evaluated in more detail using randomized control trials. For example, it possible to orchestrate an information campaign in municipalities with an incoming FFDP. This might encompass distributing informational flyers or organizing town hall meetings to inform the community about the impending FFDP. I expect that individuals exposed to an informational intervention that includes more details about the incoming FFDP would exhibit a heightened propensity to either endorse or voice reservations about the FFDP. Such experiments can strengthen the connection between citizens' reactions and politicians' financial endorsements of FFDPs. Over an extended period, this could further illuminate potential ramifications on electoral outcomes.

Another policy takeaway is the potential for politicians to manage the narrative around upcoming FFDP projects. If leaders can effectively communicate to their electorate that an FFDP is of superior quality, they might reduce potential backlash and optimize political gains. The manner in which politicians present FFDPs to their electorate remains an under-explored area warranting deeper investigation. Gaining insights into how politicians position FFDPs and the efficacy of such framing can provide a clearer picture of the enduring influence of project quality.

There are also important limitations of this dissertation that future empirical research should address. First, there is a need for bolstering the external validity of the results. All of the empirical findings in this study come from the issue area of investment incentives and FDI in the context of the USA. One approach to deal with this issue is to broaden the geographical reach of empirical studies beyond the confines of the US. While the US serves as an exemplary context to test my theory, the argument also extends to foreign aid projects and should be applicable to FDI projects in other democracies. An alternative empirical tactic would involve gauging the impact of

foreign aid and FDI projects on an incumbent's political support, factoring in both quality and financial commitments. Such an analytical perspective is missing and could shed light on the conflicting findings prevalent in existing literature.

Second, another possible explanation for my observations could be that the driving force are not voters but rather well-organized interest groups. Consider, for example, unions striving to prevent a company, which does not uphold workers' rights, from receiving incentives for its investment project. Or a small business association might fear that an incoming multinational corporation could drive up prices and make hiring more challenging for local businesses. Such entities possess the capabilities to shape public discourse in a community and rally voters around their view point. This raises the question: Is political accountability in the context of FFDP a grassroots process spearheaded by voters, or is it more of an elite-driven process of guidance and influence?

My research posits that the process is predominantly driven by voters. This assertion is supported by anecdotal evidence. Numerous local protests linked to investment projects, such as those related to Rivian in Rutledge (GA) and Fufeng in Grand Rapids (ND), were spurred by grassroots movements. However, this does not negate the potential influence of interest groups in shaping decisions. Especially in the initial stages, these groups, due to their unique access to policymakers, can express concerns about a specific investment. Thus, any investment incentive deal brought to the public's attention likely has the tacit endorsement of these interest groups. The role of interest group influence raises an array of compelling questions that touch upon central themes in the study of the interplay between money and politics. As such, I strongly advocate for further exploration into lobbying and interest group influence, especially within the realm of investment incentives.

Appendix A

Why Do Development Projects Create Political Backlash? The Role of Outcomes, Financial Support, and Project Quality

A.1 Proof Lemma 1

The best strategy for good type politicians in the second period is to only support high-quality projects:

$$\begin{aligned} EU[e_2 = 1|\kappa_2 = 1, \theta = 1] &\geq EU[e_2 = 0|\kappa_2 = 1, \theta = 1] \\ W + p'(\beta - c) + (1 - p')c &\geq W + p\beta \\ \tau_p &\geq \frac{c}{\beta} \end{aligned} \tag{A.1}$$

$$\begin{aligned} EU[e_2 = 1|\kappa_2 = 0, \theta = 1] &\leq EU[e_2 = 0|\kappa_2 = 0, \theta = 1] \\ W + q(\beta - c) - (1 - q)c &\leq W + q\beta \\ -c &\leq 0 \end{aligned} \tag{A.2}$$

The best strategy for bad type politicians in the second period is to only support low-quality projects:

$$\begin{aligned} EU[e_2 = 1|\kappa_2 = 1, \theta = 0] &\leq EU[e_2 = 0|\kappa_2 = 1, \theta = 0] \\ W &\leq W + r_2 \\ 0 &\leq r_2 \end{aligned} \tag{A.3}$$

$$\begin{aligned} EU[e_2 = 1|\kappa_2 = 0, \theta = 0] &\geq EU[e_2 = 0|\kappa_2 = 0, \theta = 0] \\ W + r_2 &\geq W \\ r_2 &\geq 0 \end{aligned} \tag{A.4}$$

A.2 Proof Lemma 2

To prove the best response of voters based on what they observe, I first show that voters will always be better off with good-type politicians. This is because of $(m-1) < 0$ which means that the right hand side of inequality A.5 is always negative and the left-hand side always positive as by the result of inequality A.1.

$$\begin{aligned} EU[U_V^{t=2}|\theta = 1] &\geq EU[U_V^{t=2}|\theta = 0] \\ \delta[m(p'\beta - c) + (1-m)q\beta] &\geq \delta[mp\beta + (1-m)(q\beta - c)] \\ m(\tau_p\beta - c) &\geq c(m-1) \end{aligned} \tag{A.5}$$

This means that voters should only re-elect politicians where $\Pi > \pi$. To define the posterior beliefs, I introduce two new parameters to capture the probability that a bad-type politician plays $e_1 = 1$ after observing κ_1. I denote λ_1 as the probability of $e_1 = 1$ after $\kappa_1 = 1$ (i.e., $\lambda_1 = \Pr[e_1 == 1|\kappa_1 = 1, \theta_1 = 0]$) and λ_0 as the probability of $e_1 = 1$ after $\kappa_1 = 0$ (i.e., $\lambda_0 = \Pr[e_1|\kappa_1 = 0, \theta_1 = 0]$). With this, we can define the posterior beliefs.

Table A.1: Posterior Beliefs after Outcome $U_V^{t=1}$

$U_V^{t=1}$	$\Pr[U_V^{t=1}\|\theta = 1]$	$\Pr[U_V^{t=1}\|\theta = 0]$
$\beta - c$	mp'	$m\lambda_1 p' + (1-m)\lambda_0 q$
β	$(1-m)q$	$m(1-\lambda_1)p + (1-m)(1-\lambda_0)q$
$-c$	$m(1-p')$	$m\lambda_1(1-p') + (1-m)\lambda_0(1-q)$
0	$(1-m)(1-q)$	$m(1-\lambda_1)(1-p) + (1-m)(1-\lambda_0)(1-q)$

Voters will re-elect a politician when $\Pr[U_V^{t=1}|\theta = 1] \geq \Pr[U_V^{t=1}|\theta = 0]$. This varies by m. Table A.2 describes the threshold for m, when an incumbent is re-elected for

a given first period outcome. For example, voters will re-elect an incumbent for the outcome $\beta - c$ when $m \geq \frac{q\lambda_0}{p'(1-\lambda_1)+q\lambda_0}$.

Table A.2: Constraints on m

$U_V^{t=1}$	Condition	Bound Name
$\beta - c$	$m \geq \frac{q\lambda_0}{p'(1-\lambda_1)+q\lambda_0}$	m_{L1}
β	$m \leq \frac{q\lambda_0}{p(1-\lambda_1)+q\lambda_0}$	m_{L0}
$-c$	$m \geq \frac{(1-q)\lambda_0}{(1-p')(1-\lambda_1)+(1-q)\lambda_0}$	m_{H1}
0	$m \leq \frac{(1-q)\lambda_0}{(1-p)(1-\lambda_1)+(1-q)\lambda_0}$	m_{H0}

These thresholds have a clear order. I show below that the thresholds in table A.2 satisfy the following conditions: $m_{L1} < m_{L0}$ and $m_{H1} > m_{H0}$.

$$
\begin{aligned}
m_{L1} &\leq m_{L0} \\
\frac{q\lambda_0}{p'(1-\lambda_1)+q\lambda_0} &\leq \frac{q\lambda_0}{p(1-\lambda_1)+q\lambda_0} \\
p(1-\lambda_1)+q\lambda_0 &\leq p'(1-\lambda_1)+q\lambda_0 \\
0 &\leq \tau_p
\end{aligned}
$$

$$
\begin{aligned}
m_{H1} &\geq m_{H0} \\
\frac{(1-q)\lambda_0}{(1-p')(1-\lambda_1)+(1-q)\lambda_0} &\geq \frac{(1-q)\lambda_0}{(1-p)(1-\lambda_1)+(1-q)\lambda_0} \\
(1-p)(1-\lambda_1)+(1-q)\lambda_0 &\geq (1-p')(1-\lambda_1)+(1-q)\lambda_0 \\
\tau_p &\geq 0
\end{aligned}
$$

This highlights that voters will re-elect politicians after observing various outcomes depending on the value of m. We can split this into five different ranges:

1. Good Project Range = $[m_{H1}, 1]$: Re-elect if outcomes $\in \{-c, \beta - c\}$

2. Support Success Range = $[m_{H0}, m_{H1}]$: Re-elect if outcomes $\in \{\beta - c\}$

3. Uncertainty Range = $[m_{L0}, m_{H0}]$: Re-elect if outcomes $\in \{0, \beta - c\}$

4. Avoid the Worst Range = $[m_{L1}, m_{L0}]$: Re-elect if outcomes $\in \{0, \beta, \beta - c\}$

5. Bad Project Range = $[0, m_{L1}]$: Re-elect if outcomes $\in \{0, \beta\}$

A.3 Proof Proposition 1

In this section, I will show what the best response of the bad-type politician within each given range is and under what conditions the good-type politician will always play $e_1 = k_1$.

A.3.1 Good Project Range

Let's define λ_0 and λ_1 in the good project range. This can be rewritten the following way.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\ W + \delta(W + \mu) &\geq W + r_1 \\ \delta(W + \mu) &\geq r_1 \\ \lambda_1 &= F(\delta(W + \mu)) \end{aligned}$$

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\ W + r_1 + \delta(W + \mu) &\geq W \\ r_1 &\geq 0 \\ \lambda_0 &= 1 \end{aligned}$$

Next step is to check whether good-type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$. Please note that $EU_{\theta=1}^{t=2} = EU[U_V^{t=2}|\theta = 1]$ and

$EU^{t=2}_{\theta=0} = EU[U^{t=2}_V|\theta = 0]$.

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\
W - c + p'\beta + \delta(W + EU^{t=2}_{\theta=1}) &\geq W + p\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0}) \\
(1-\pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) &\geq \frac{c - \tau_p\beta - \delta W}{\delta} \\
EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0} &\geq \frac{c - \tau_p\beta - \delta W}{\delta(1-\pi)}
\end{aligned} \tag{A.6}
$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\
W - c + q\beta + \delta(W + EU^{t=2}_{\theta=1}) &\leq W + q\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0}) \\
(1-\pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) &\leq \frac{c - \delta W}{\delta} \\
EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0} &\leq \frac{c - \delta W}{\delta(1-\pi)}
\end{aligned} \tag{A.7}
$$

The expression in inequality A.6 always holds because by Lemma 1 $\tau_p\beta > c$. However for inequality A.7 to be satisfied, it is necessary that either the costs of the project are large enough or the value of holding office W is sufficiently small such that the right-hand side of the inequality is negative.

A.3.2 Support Success Range

Let's define λ_0 and λ_1 in the endorse success range. This can be rewritten the following way.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\ W + p'\delta(W + \mu) &\geq W + r_1 \\ p'\delta(W + \mu) &\geq r_1 \\ \lambda_1 &= F(p'\delta(W + \mu)) \end{aligned}$$

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\ W + r_1 + q\delta(W + \mu) &\geq W \\ r_1 &\geq -q\delta(W + \mu) \\ \lambda_0 &= 1 \end{aligned}$$

Next step is to check whether good type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\ W - c + p'\beta + p'\delta(W + EU_{\theta=1}^{t=2}) + & \\ (1 - p')\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\geq W + p\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) \\ \tau_p\beta - c + p'\delta(W + (1 - \pi)(EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2}) &\geq 0 \end{aligned} \tag{A.8}$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 1] \leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1]$$

$$W - c + q\beta + q\delta(W + EU^{t=2}_{\theta=1}) +$$

$$(1-q)\delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0}) \leq W + q\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0})$$

$$(1-\pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) \leq \frac{c - \delta qW}{\delta q}$$

$$EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0} \leq \frac{c - \delta qW}{\delta q(1-\pi)} \tag{A.9}$$

The expression in inequality A.8 always holds because the left-hand side expression is always positive. Furthermore, inequalityA.9 is satisfied if $\delta qW < c$.

A.3.3 Uncertainty Range

Let's define λ_0 and λ_1 in the uncertainty range. This can be rewritten the following way.

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0]$$

$$W + p'\delta(W + \mu) \geq W + r_1 + (1-p)\delta(W + \mu)$$

$$(2p + \tau_p - 1)\delta(W + \mu) \geq r_1$$

$$\lambda_1 = F((2p + \tau_p - 1)\delta(W + \mu))$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0]$$

$$W + r_1 + q\delta(W + \mu) \geq W + (1-q)\delta(W + \mu)$$

$$r_1 \geq (1-2q)\delta(W + \mu)$$

$$\lambda_0 = 1 - F((1-2q)\delta(W + \mu))$$

Next step is to check whether good type politicians always have the incentive to play

a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$W - c + p'[\beta + \delta(W + EU_{\theta=1}^{t=2})] + (1-p')[\delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2})] \geq$$
$$W + p[\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2}] + (1-p)[\delta(W + EU_{\theta=1}^{t=2})]$$

$$\frac{c - \tau_p\beta - \delta W(2p + \tau_p - 1)}{\delta} \leq EU_{\theta=1}^{t=2}(2p + \tau_p - 1)(1-\pi) - EU_{\theta=0}^{t=2}(2p + \tau_p - 1)(1-\pi)$$
$$\frac{c - \tau_p\beta - \delta W(2p + \tau_p - 1)}{\delta(2p + \tau_p - 1)(1-\pi)} \leq EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2} \tag{A.10}$$

$$W - c + q[\beta + \delta(W + EU_{\theta=1}^{t=2})] + (1-q)[\delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2})] \leq$$
$$W + q[\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2}] + (1-q)[\delta(W + EU_{\theta=1}^{t=2})]$$

$$\frac{-c - \delta W(1-2q)}{\delta} \leq EU_{\theta=1}^{t=2}(1-2q)(1-\pi) - EU_{\theta=0}^{t=2}(1-2q)(1-\pi)$$
$$\frac{-c - \delta W(1-2q)}{\delta(1-2q)(1-\pi)} \leq EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2} \tag{A.11}$$

The expressions in inequalities A.11 and A.10 always hold because the left-hand side fractions are always negative while $EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2} > 0$.

A.3.4 Avoid the Worst Range

Let's define λ_0 and λ_1 in the avoid the worst range. This can be rewritten the following way.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\ W + p'\delta(W + \mu) &\geq W + r_1 + \delta(W + \mu) \\ \delta(W + \mu)(p' - 1) &\geq r_1 \\ \lambda_1 &= 0 \end{aligned}$$

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\ W + r_1 + q\delta(W + \mu) &\geq W\delta(W + \mu) \\ r_1 &\geq \delta(W + \mu)(1 - q) \\ \lambda_0 &= 1 - F(\delta(W + \mu)(1 - q)) \end{aligned}$$

Next step is to check whether good type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\ W - c + p'\beta + p'\delta(W + EU_{\theta=1}^{t=2}) + & \\ (1 - p')\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\geq W + p\beta + \delta(W + EU_{\theta=1}^{t=2}) \\ (1 - p')(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2} - W - EU_{\theta=1}^{t=2}) &\geq \frac{c - \tau_p\beta}{\delta} \\ EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2} &\geq \frac{c - \tau_p\beta + \delta(1 - p')W}{\delta(1 - \pi)(1 - p')} \end{aligned} \tag{A.12}$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\
W - c + q\beta + q\delta(W + EU^{t=2}_{\theta=1}) + & \\
(1-q)\delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0}) &\leq W + q\beta + \delta(W + EU^{t=2}_{\theta=1}) \\
(1-\pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) &\leq \frac{c - \delta q W}{\delta q} \\
EU^{t=2}_{\theta=0} - EU^{t=2}_{\theta=1} &\leq \frac{c + \delta(1-q)W}{\delta(1-\pi)(1-q)} \qquad \text{(A.13)}
\end{aligned}
$$

The expression in inequality A.13 always holds because the left-hand side expression is always negative. Furthermore, inequalityA.12 is satisfied if $\delta(1 - p')W < |c - \tau_p\beta|$.

A.3.5 Bad Project Range

Let's define λ_0 and λ_1 in the bad project range. This can be rewritten the following way.

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\
W &\geq W + r_1 + \delta(W + \mu) \\
-\delta(W + \mu) &\geq r_1 \\
\lambda_1 &= 0
\end{aligned}
$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\
W + r_1 &\geq W + \delta(W + \mu) \\
r_1 &\geq \delta(W + \mu) \\
\lambda_0 &= 1 - F(\delta(W + \mu))
\end{aligned}
$$

Next step is to check whether good type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\ W - c + p'\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2}) &\geq W + p\beta + \delta(W + EU_{\theta=1}^{t=2}) \\ (1-\pi)(EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2}) &\geq \frac{c - \tau_p\beta + \delta W}{\delta} \\ EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2} &\geq \frac{c - \tau_p\beta + \delta W}{\delta(1-\pi)} \end{aligned} \tag{A.14}$$

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\ W - c + q\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1-\pi)EU_{\theta=0}^{t=2}) &\leq W + q\beta + \delta(W + EU_{\theta=1}^{t=2}) \\ (1-\pi)(EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2}) &\leq \frac{c + \delta W}{\delta} \\ EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2} &\leq \frac{c + \delta W}{\delta(1-\pi)} \end{aligned} \tag{A.15}$$

The expression in inequality A.15 always holds because the left-hand side expression is always negative. Furthermore, inequalityA.14 is satisfied if $\delta W < |c - \tau_p\beta|$.

A.4 Proof Proposition 2

In this proposition, the equilibrium behavior for the good-type politician is to always support any project in the first period. The second period equilibrium stays the same. But we need adjust people's posterior beliefs Π when observing a given outcome. These beliefs are displayed in table A.3. What becomes visible is that voters should re-elect politicians only when they observe $\{\beta - c, -c\}$ as it is more likely that this outcome occurs when an incumbent is a good type.

Table A.3: Proposition 2 Posterior Beliefs after Outcome $U_V^{t=1}$

$U_V^{t=1}$	$\Pr[U_V^{t=1}\|\theta = 1]$	$\Pr[U_V^{t=1}\|\theta = 0]$
$\beta - c$	$mp' + (1-m)q$	$m\lambda_1 p' + (1-m)q$
β	0	$m(1-\lambda_1)p$
$-c$	$m(1-p') + (1-m)(1-q)$	$m\lambda_1(1-p') + (1-m)(1-q)$
0	0	$m(1-\lambda_1)(1-p)$

Based on this voting behavior we can derive the behavior of politicians. Let's consider the bad-type politician first.

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0]$$

$$W + \delta(W + \mu) \geq W + r_1$$

$$\delta(W + \mu) \geq r_1$$

$$\lambda_1 = F(\delta(W + \mu))$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\
W + r_1 + \delta(W + \mu) &\geq W \\
r_1 &\geq -\delta(W + \mu) \\
\lambda_0 &= 1
\end{aligned}
$$

Overall, the bad-type politicians will support a given project with the following probability:

$$
\Pr[e_1 = 1|\theta = 0] = m \cdot F(\delta(W + \mu)) + (1 - m) \tag{A.16}
$$

I now consider whether there is an equilibrium where the good type politician plays $e_1 = 1$ independent of project quality.

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\
W - c + p'\beta + \delta(W + EU^{t=2}_{\theta=1}) &\geq W + p\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1 - \pi)EU^{t=2}_{\theta=0}) \\
(1 - \pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) &\geq \frac{c - \tau_p\beta - \delta W}{\delta} \\
EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0} &\geq \frac{c - \tau_p\beta - \delta W}{\delta(1 - \pi)}
\end{aligned} \tag{A.17}
$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\
W - c + q\beta + \delta(W + EU^{t=2}_{\theta=1}) &\geq W + q\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1 - \pi)EU^{t=2}_{\theta=0}) \\
(1 - \pi)(EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0}) &\geq \frac{c - \delta W}{\delta} \\
EU^{t=2}_{\theta=1} - EU^{t=2}_{\theta=0} &\geq \frac{c - \delta W}{\delta(1 - \pi)}
\end{aligned} \tag{A.18}
$$

Because $\tau_p\beta > c$, we know that inequality A.17 is satisfied for any value of the parameters. This means that good type politicians will always support any high-

quality projects. To assure that good type politicians keep supporting low-quality projects, $\delta W > c$. In other words, the value of holding office needs to be sufficiently large enough.

A.5 Proof Proposition 3

Assume voters cannot observe the financial support decision but they only observe the success of a project. The posterior beliefs for this situation are depicted in table A.4,

Table A.4: Proposition 3 Posterior Beliefs after Outcome $U_V^{t=1}$

$U_V^{t=1}$	$\Pr[U_V^{t=1}\|\theta=1]$	$\Pr[U_V^{t=1}\|\theta=0]$
$s_1=1$	$mp'+(1-m)q$	$m\lambda_1 p'+mp(1-\lambda_1)+(1-m)q$
$s_1=0$	$m(1-p')+(1-m)(1-q)$	$m\lambda_1(1-p')+m(1-p)(1-\lambda_1)+(1-m)(1-q)$

We can see that $\Pr[U_V^{t=1}|\theta=1,s_1=1] > \Pr[U_V^{t=1}|\theta=0,s_1=1]$ and $\Pr[U_V^{t=1}|\theta=0,s_1=0] > \Pr[U_V^{t=1}|\theta=1,s_1=0]$. This means voters will only re-elect a politician if they observe $s_1=1$. This mathematically proven below.

$$\Pr[U_V^{t=1}|\theta=1,s_1=1] \geq \Pr[U_V^{t=1}|\theta=0,s_1=1]$$
$$mp'+(1-m)q \geq m\lambda_1 p'+mp(1-\lambda_1)+(1-m)q$$
$$mp'(1-\lambda_1) \geq mp(1-\lambda_1)$$
$$\tau_p \geq 0$$
$$\Pr[U_V^{t=1}|\theta=0,s_1=0] \geq \Pr[U_V^{t=1}|\theta=1,s_1=0]$$
$$m\lambda_1(1-p')+m(1-p)(1-\lambda_1)+(1-m)(1-q) \geq m(1-p')+(1-m)(1-q)$$
$$m(1-p)(1-\lambda_1) \geq m(1-p')(1-\lambda_1)$$
$$0 \geq -\tau_p$$

Based on this voting behavior we can derive the behavior of politicians. Let's

consider the bad-type politician first.

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\ W + p'\delta(W + \mu) &\geq W + r_1 + p\delta(W + \mu) \\ \tau_p\delta(W + \mu) &\geq r_1 \\ \lambda_1 &= F(\tau_p\delta(W + \mu)) \end{aligned}$$

$$\begin{aligned} EU[e_1 = 1|\kappa_1 = 0, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0] \\ W + r_1 + q\delta(W + \mu) &\geq W + q\delta(W + \mu) \\ r_1 &\geq 0 \\ \lambda_0 &= 1 \end{aligned}$$

Overall, the bad-type politicians will support a given project with the following probability when voters only observe outcomes:

$$\Pr[e_1 = 1|\theta = 0] = m \cdot F(\tau_p\delta(W + \mu)) + (1 - m) \tag{A.19}$$

Now we can check whether good-type politicians always have the incentive to play a

congruent strategy, i.e. $e_1^* = \kappa_1$.

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\
W - c + p'\beta + p\delta(W + EU_{\theta=1}^{t=2}) + & \\
(1 - p')\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\geq W + p\beta + p\delta(W + EU_{\theta=1}^{t=2}) + \\
& \quad (1 - p)\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) \\
\tau_p\delta(W + EU_{\theta=1}^{t=2} - \pi EU_{\theta=1}^{t=2} - (1 - \pi)EU_{\theta=0}^{t=2}) &\geq c - \tau_p\beta \\
W + (1 - \pi)(EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2}) &\geq \frac{c - \tau_p\beta}{\delta\tau_p} \qquad \text{(A.20)}
\end{aligned}
$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\
W - c + q\beta + q\delta(W + EU_{\theta=1}^{t=2}) + & \\
(1 - q)\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\leq W + q\beta + q\delta(W + EU_{\theta=1}^{t=2}) + \\
& \quad (1 - q)\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) \\
-c &\leq 0 \qquad \text{(A.21)}
\end{aligned}
$$

Because $\tau_p\beta > c$, we know that inequality A.20 is satisfied for any value of the parameters. This means that good-type politicians will always support any high-quality projects. Inequality A.21 is also always satisfied which means that good-type politicians will never support low-quality projects.

A.6 Proof Proposition 4

For this proof, we can only focus on the support behavior of bad-type politicians because financial support decisions by good-type politicians in the equilibrium of proposition 1 do not depend on p and q. Furthermore, project success has also no effect on financial support in the good and bad project range as the probability to support a project among bad-type politicians does not depend on p and q either. Equation A.22 describes for the probability of financial support in the bad project range and equality A.23 represents the probability of endorsing in the good project range.

$$\Pr[e_1 = 1|\theta = 0] = (1 - m)(1 - F(\delta(W + \mu))) \tag{A.22}$$

$$\Pr[e_1 = 1|\theta = 0] = mF(\delta(W + \mu)) + (1 - m) \tag{A.23}$$

In the *avoid the worst range*, the likelihood of support by the bad-type politician is defined in equation A.24. It shows that q is positively correlated with the likelihood of an endorsement. In other words, as q increases, we see an increase in financial support by bad-type politicians which will affect the overall level of observed financial support decisions.

$$\Pr[e_1 = 1|\theta = 0] = (1 - m)(1 - F(\delta(W + \mu)(1 - q))) \tag{A.24}$$

The same dynamic is visible in the *support success range*. In equation A.25 p is positively correlated with the likelihood of financial support.

$$\Pr[e_1 = 1|\theta = 0] = mF(\delta(W + \mu)p') + (1 - m) \tag{A.25}$$

In the *uncertainty range*, the behavior of the bad-type politician is affected by both p

and q. Again, both of these parameters are positively correlated with the likelihood of financial support as illustrated in equation A.26. This means that as both parameters increase, we will see more FFDPs that receive financial support.

$$\Pr[e_1 = 1|\theta = 0] = mF(\delta(W + \mu)(2p + \tau_p - 1)) + (1 - m)(1 - F(\delta(W + \mu)(1 - 2q))) \tag{A.26}$$

A.7 Proof Proposition 5

Similar as in proposition 4, the effect of τ_p on the behavior of bad-type politicians determines whether the overall probability of financial support changes. Since τ_p only exists in the uncertainty and support success ranges, we can look at how τ_p is correlated with the bad type's inclination to support projects in equations A.26 and A.25. In both cases, a larger τ_p makes it more likely that a bad-type politician will support a high-quality project since there is higher chance that this politician gets caught not supporting a high-quality project.

A.8 Proof Proposition 6

For my comparative statistics, I assume that $F(x) \sim Uniform(0, R)$. Furthermore, we can rewrite μ as $R/2$. Thus,

$$F(\delta(W + \mu)) = \frac{\delta(W + R/2)}{R}$$

This means that the partial derivative of $F(\delta(W + \mu))$ is:

$$\frac{\partial F}{\partial R} = -\frac{\delta W}{R^2} \tag{A.27}$$

According to equation A.27, the value of $F(\delta(W + \mu))$ decreases as R increases. This explains why more FFDPs receive support in the bad project, avoid the worst, and uncertainty ranges as R increases. In each of these three ranges most weight in the support function of the bad-type politician is on $1-F(\delta(W+\mu))$ or a variant weighted by p or q. This means that a negative partial derivative increase the probability of observing support for FFDP. In the support success and good project ranges, it is the opposite. This explains why in these ranges, we observe a decrease in the support of FFDPs.

A.9 Proof Proposition 7

Let's first consider the investment decision of D in period 2. In period 2, D has the payoffs displayed in table A.5 for investing in a location given a set of parameters.

Table A.5: Donor Utility when Investing in $t = 2$

	$\kappa = 1$	$\kappa = 0$
$e_t = 1$	$p'\beta - c_D$	$q\beta - c_D$
$e_t = 0$	$p\beta - c_D$	$q\beta - c_D$

$\theta = 1$

	$\kappa = 1$	$\kappa = 0$
$e_t = 1$	$p'\beta - c_D$	$q\beta - c_D - r_2$
$e_t = 0$	$p\beta - c_D - r_2$	$q\beta - c_D$

$\theta = 0$

For $\phi^H \in (p\beta_D - c_D, p'\beta_D - c_D]$, the good-type investor will only invest if the company gets financial support. At the same time, by setting, $\phi^L \leq q\beta_D - c_D - r_t$, it is assured that a bad-type investor invests for any level of support.

Based on this donor behavior in the second period, we can derive the second period behavior by politicians. Consider the situation when $\theta = 1$. We can see that $e_2^*(\theta = 1) = \kappa_2$ when $p' \geq \frac{c}{\beta}$:

$$E[e_2 = 1|\theta = 1, \kappa = 1] \geq [e_2 = 0|\theta = 1, \kappa = 1]$$

$$W + p'\beta - c \geq W$$

$$p' \geq \frac{c}{\beta}$$

$$E[e_2 = 1|\theta = 1, \kappa = 0] \leq [e_2 = 0|\theta = 1, \kappa = 0]$$

$$W + q\beta - c \leq W + q\beta$$

$$-c \leq 0$$

For bad-type politicians the best response in the second period is $e_2^*(\theta = 0) = 1 - \kappa_2$:

$$E[e_2 = 1|\theta = 1, \kappa = 1] \leq [e_2 = 0|\theta = 1, \kappa = 1]$$

$$W \leq W + r_2$$

$$0 \leq r_2$$

$$E[e_2 = 1|\theta = 1, \kappa = 0] \geq [e_2 = 0|\theta = 1, \kappa = 0]$$

$$W + r_2 \geq W$$

$$r_2 \geq 0$$

Assuming good-type politicians always play $e_1 = \kappa_1$ while bad type politicians some times vary their support decision, we can derive the following posterior beliefs of voters after observing a given outcome. Please note that in the endogenous model, there is also an outcome where people observe no project denoted by $\emptyset$. The posterior beliefs are displayed in table A.6.

Table A.6: Posterior Beliefs Endogenous Model after Outcome $U_V^{t=1}$

$U_V^{t=1}$	$\Pr[U_V^{t=1}\|\theta = 1]$	$\Pr[U_V^{t=1}\|\theta = 0]$
$\beta - c$	mp'	$m\lambda_1 p' + (1-m)\lambda_0 q$
β	$(1-m)q$	$(1-m)(1-\lambda_0)q$
0	$m(1-q)$	$(1-m)(1-\lambda_0)(1-q)$
$-c$	$(1-m)(1-p')$	$m\lambda_1(1-p') + (1-m)\lambda_0(1-q)$
$\emptyset$	0	$m(1-\lambda_1)$

If voters observe $U_V^{t=1} \in \{\beta, 0\}$, then they will always re-elect the politicians as it

is more likely associated with good-type politicians.

$$(1-m)q \geq (1-m)(1-\lambda_0)q$$
$$1 \geq (1-\lambda_0)$$
$$(1-m)(1-q) \geq (1-m)(1-\lambda_0)(1-q)$$
$$1 \geq (1-\lambda_0)$$

When $U_V^{t=1} \in \{\emptyset\}$, voters will not re-elect a politician because $m(1-\lambda_1) > 0$. When $U_V^{t=1} \in \{\beta - c, 0\}$, the response of voters is conditional on m

$$mp' \geq m\lambda_1 p' + (1-m)\lambda_0 q$$
$$m \geq \frac{\lambda_0 q}{p'(1-\lambda_1) + \lambda_0 q} = m_L$$
$$(1-m)(1-p') \geq m\lambda_1(1-p') + (1-m)\lambda_0(1-q)$$
$$m \geq \frac{\lambda_0(1-q)}{(1-p')(1-\lambda_1) + \lambda_0(1-q)} = m_H$$

This gives us three different ranges conditional on m:

1. All but Support Range (ABS) $\in [0, m_L)$: Re-election for When $U_V^{t=1} \in \{\beta, 0\}$

2. No Supported Failure Range (NSF) $\in [m_L, m_H)$: Re-election for When $U_V^{t=1} \in \{\beta, 0, \beta - c\}$

3. All but no Project Range (ANP) $\in [m_H, 1]$: Re-election for When $U_V^{t=1} \in \{\beta, 0, \beta - c, -c\}$

Since the donor moves after politicians, their behavior does not change compared to period 2. Yet, the behavior of the bad-type politician is affected by the different re-election incentives.

A.9.1 All but Endorsement Range

I first define λ_1 and λ_0 below:

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0]$$
$$W \geq W + r_1$$
$$0 \geq r_1$$
$$\lambda_1 = 0$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0]$$
$$W + r_1 \geq W + \delta(W + \mu)$$
$$r_1 \geq 0$$
$$\lambda_0 = 1 - F(\delta(W + \mu))$$

Overall, the bad-type politicians will support a given project with the following probability in the ABS range:

$$\Pr[e_1 = 1|\theta = 0] = (1 - m)(1 - F(\delta(W + \mu))) \tag{A.28}$$

Now we can check whether good-type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 1] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1]$$
$$W - c + p'\beta + \delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) \geq W + \delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2})$$
$$p'\beta \geq c \tag{A.29}$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 1] \leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1]$$
$$W - c + q\beta + \delta(\pi EU^{t=2}_{\theta=1} + (1-\pi)EU^{t=2}_{\theta=0}) \leq W + q\beta + \delta(W + EU^{t=2}_{\theta=1})$$
$$EU^{t=2}_{\theta=0} - EU^{t=2}_{\theta=1} \leq \frac{\delta W + c}{\delta(1-\pi)} \tag{A.30}$$

Inequality A.29 is always satisfied by definition of period 2. Inequality A.30 always holds because the left-hand side is always negative.

A.9.2 No Supported Failure Range

I first define λ_1 and λ_0 below:

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0]$$
$$W + p'\delta(W + \mu) \geq W + r_t$$
$$p'\delta(W + \mu) \geq r_1$$
$$\lambda_1 = F(p'\delta(W + \mu))$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0]$$
$$W + r_1 + q\delta(W + \mu) \geq W + \delta(W + \mu)$$
$$r_1 \geq \delta(W + \mu)(1 - q)$$
$$\lambda_0 = 1 - F((1 - q)\delta(W + \mu))$$

Overall, the bad-type politicians will support a given project with the following probability in the NSF range:

$$\Pr[e_1 = 1|\theta = 0] = mF(p'\delta(W + \mu)) + (1 - m)(1 - F((1 - q)\delta(W + \mu))) \tag{A.31}$$

Now we can check whether good-type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 1] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1] \\
W - c + p'\beta + p'\delta(W + EU_{\theta=1}^{t=2}) + & \\
(1 - p')\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\geq W + \delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) \\
p'\beta - c + p'\delta(W + (1 - \pi)(EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2})) &\geq 0
\end{aligned} \tag{A.32}
$$

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 0, \theta = 1] &\leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1] \\
W - c + q\beta + q\delta(W + EU_{\theta=1}^{t=2}) + & \\
(1 - q)\delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2}) &\leq W + q\beta + \delta(W + EU_{\theta=1}^{t=2}) \\
EU_{\theta=0}^{t=2} - EU_{\theta=1}^{t=2} &\leq \frac{\delta(1 - q)W + c}{\delta(1 - \pi)(1 - q)}
\end{aligned} \tag{A.33}
$$

Inequalities A.32 is always satisfied because $p'\beta > c$ which means that left-hand side is always positive. Inequality A.33 is always satisfied because the left-hand side is always negative.

A.9.3 All but no Project Range

I first define λ_1 and λ_0 below:

$$
\begin{aligned}
EU[e_1 = 1|\kappa_1 = 1, \theta = 0] &\geq EU[e_1 = 0|\kappa_1 = 1, \theta = 0] \\
W + \delta(W + \mu) &\geq W + r_t \\
\delta(W + \mu) &\geq r_1 \\
\lambda_1 &= F(\delta(W + \mu))
\end{aligned}
$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 0] \geq EU[e_1 = 0|\kappa_1 = 0, \theta = 0]$$
$$W + r_1 + \delta(W + \mu) \geq W + \delta(W + \mu)$$
$$r_1 \geq 0$$
$$\lambda_0 = 1$$

Overall, the bad-type politicians will support a given project with the following probability in the ANP range:

$$\Pr[e_1 = 1|\theta = 0] = mF(\delta(W + \mu)) + (1 - m) \tag{A.34}$$

Now we can check whether good-type politicians always have the incentive to play a congruent strategy, i.e. $e_1^* = \kappa_1$.

$$EU[e_1 = 1|\kappa_1 = 1, \theta = 1] \geq EU[e_1 = 0|\kappa_1 = 1, \theta = 1]$$
$$W - c + p'\beta + \delta(W + EU_{\theta=1}^{t=2}) \geq W + \delta(\pi EU_{\theta=1}^{t=2} + (1 - \pi)EU_{\theta=0}^{t=2})$$
$$p'\beta - c + \delta(W + (1 - \pi)(EU_{\theta=1}^{t=2} - EU_{\theta=0}^{t=2})) \geq 0 \tag{A.35}$$

$$EU[e_1 = 1|\kappa_1 = 0, \theta = 1] \leq EU[e_1 = 0|\kappa_1 = 0, \theta = 1]$$
$$W - c + q\beta + \delta(W + EU_{\theta=1}^{t=2}) \leq W + q\beta + \delta(W + EU_{\theta=1}^{t=2})$$
$$-c \leq 0 \tag{A.36}$$

Inequality A.35 always hold because the left-hand side is always positive and A.36 holds because $-c < 0$.

Appendix B

Beyond Pandering: Investment Project Quality, Voter Support, and the Use of Investment Incentives

B.1 Conjoint Task: Vignettes and Outcome Questions

Introduction:

We are now going to show you five hypothetical profiles of foreign investment projects that could happen in your community. After each profile, we are going to ask you a few follow-up questions about them. So, please read these profiles carefully.

Profiles: (Repeated 5 times)

Please carefully review the options detailed below, then answer the questions (see table B.1 below).

Table B.1: Description of Attributes

Investment Characteristics	
Investor Country	• Germany • China • Singapore
Investment Value	• $40 million • $100 million • $450 million
Industry	• Logistics Industry • Pharmaceutical Industry • Automotive Industry
Type of Investment	• Warehouse • Regional Headquarters • Manufacturing Facility (Not shown for Logistics Industry)
Size of Investor Company	• 50,000 employees • 5,000 employees • 1,000 employees
Reputation of Investor Company	• One of most innovative companies in its industry • Company close to filing bankruptcy • Company known for bribing officials in other locations
Wages	• Same as domestic firms • 10% higher than domestic firms • 30% higher than domestic firms
Expected Number of Jobs	• 40 new jobs • 200 new jobs • 500 new jobs
Community Endorsement	• Local union welcomes the new jobs • Local small business association opposes the investment • Local small business association supports the investment
Hiring of Locals	• Company only hires locals • Management comes from company's home country • Locals only hired for low-paid jobs

Outcome Questions:

1. How likely do you think it is that this investment project will improve the living standards for you and your community?

   (a) Very unlikely

   (b) Somewhat unlikely

   (c) Neither unlikely nor likely

   (d) Somewhat likely

   (e) Very likely

2. If your local government council had decided to give a reduction in property taxes to attract this investment, would you support the local government council's decision?

   (a) Strongly oppose

   (b) Somewhat oppose

   (c) Neither oppose nor support

   (d) Somewhat support

   (e) Strongly support

B.2 Conjoint Attributes and Quality

In this section, I define the seven attributes and describe in more detail how they are theoretically connected to quality.

1. *Investment Size*: Defines the amount of dollars invested in a location. Larger projects should be of higher quality because they produce more economic benefits in a community. The construction of the project will create more local jobs, larger projects tend to hire more people, and larger facilities pay more property taxes.

2. *Size of Investor*: Defines the size of the investor using its total number of employees. According to firm-level theory of trade, large multinationals are seen as the most productive companies.(e.g., Helpman, 2014) This means that investment projects by larger firms are more likely to survive in the long-run. Moreover, these large investors have many resources to hire the best project managers which means that it is more likely that an investment project is successfully implemented. Both of these characteristics imply that larger firms propose higher quality buildings.

3. *Reputation of Investor*: This includes information about the company's public perception. For example, is a company known for being very innovative or for more negative issues, such as corruption? People may use this type of information as a heuristic short-cut to assess the quality and future behavior of a company. A company with a positive reputation is more likely to be a good corporate citizen and engage in behavior that does not create significant negative externalities. In contrast, a company with a negative reputation may signal that it is willing to take short cuts at the expense of residents.

4. *Wages*: Indicates whether the company pays better wages than domestic com-

panies and, if so, by how much. Wages are a direct indicator of whether a project will be effective in improving people's lives. Higher wages mean that people can afford more and that the government can generate more tax revenue to invest in the provision of public goods.

5. *Expected Number of Jobs*: Defines how many new jobs are expected. The number of jobs is a key metric that most politicians emphasize. I expect that higher quality projects are correlated with more jobs because it means that more people in the community can get jobs. The main mechanism through which FDI projects are effective in improving people's livelihoods is the creation of new jobs. Jobs will generate income for families and also tax revenue for the government. Thus, FDI projects that create a higher number of jobs will score higher on the benefit dimension of quality than projects that create only a small number of jobs.

6. *Community Endorsements*: Describes whether local labor unions or small business associations (SBAs) support the FDI project. The inclusion of these attributes is based on the idea that people use cues from elites to make inferences about a certain policy or project. Specifically, these endorsements can give voters a sense of whether a project will produce net benefits to a community. Cues from labor unions and SBAs are important to voters because they provide credible information about the potential effect of an FDI project on two central actors in a community.

7. *Hiring of Locals*: Defines for what type of jobs local workers are hired. A necessary condition for a project to have any effect on the livelihoods of people is that people have access to that pay well. If an investor reserves all its manager position to people from its country of origin, the effect of a project will be attenuated. This is why I expect that FDI projects are or of higher quality

when they hire a higher share of locals.

B.3 Replication Task: Vignettes and Outcome Questions

Exact wording Vignette:

Consider now a situation in which your municipality competes with a number of other of municipalities from other states for the investment described below. As part of the offer to attract the investor, your local government council has decided to include a tax incentive package that is [**larger** | **smaller**] than the packages of the other municipalities.

Table B.2: Profiles in Experiment

	Attributes
Investor Country	Germany
Investment Value	$100 million
Industry	Pharmaceutical Industry
Type of Investment	Manufacturing Facility
Size of Investor Company	50,000 employees
Reputation of Investor Company	One of the most innovative companies in the industry
Expected Number of Jobs	200 new jobs
Wages	30% more than domestic firms
Hiring of Locals	Only locals are hired
Community Endorsement	Local small business association supports the project

High Quality Profile

	Attributes
Investor Country	China
Investment Value	$40 million
Industry	Logistics Industry
Type of Investment	Warehouse
Size of Investor Company	1,000 employees
Reputation of Investor Company	Known to bribe officials in other locations
Expected Number of Jobs	40 new jobs
Wages	Same as domestic firms
Hiring of Locals	Locals only hired for low-paid jobs
Community Endorsement	Local small business association opposes the project

Low Quality Profile

Imagine the investor [**decides** | **decides not**] to invest in your municipality, how do you rate your local government's tax incentive package to the investor on a scale from

0 to 10 where 0 is terrible and 10 is excellent? (scalar below)

Figure B.1: Example Vignette of Factorial Experiment

Consider now a situation in which your municipality competes with a number of other of municipalities from other states for the investment described below. As part of the offer to attract the investor, your local government council has decided to include a tax incentive package **that is larger than the packages of the other municipalities**.

	Investment Profile
Investor Country	Germany
Investment Size	$100 million
Industry	Pharmaceutical Industry
Type of Investment	Manufacturing Facility
Size of Investor Company	50,000 employees
Reputation of Investor Company	One of the most innovative companies in the industry
Wages	30% Higher than Domestic Firms
Expected Number of Jobs	200 new jobs
Community Endorsement	Local small business association supports the investment
Hiring of Locals	Only locals are hired

Imagine the investor **decides to invest** in your municipality, how do you rate your local government's tax incentive package to the investor on a scale from 0 to 10 where 0 is terrible and 10 is excellent?

0 1 2 3 4 5 6 7 8 9 10

B.4 Demographics Respondents Summary

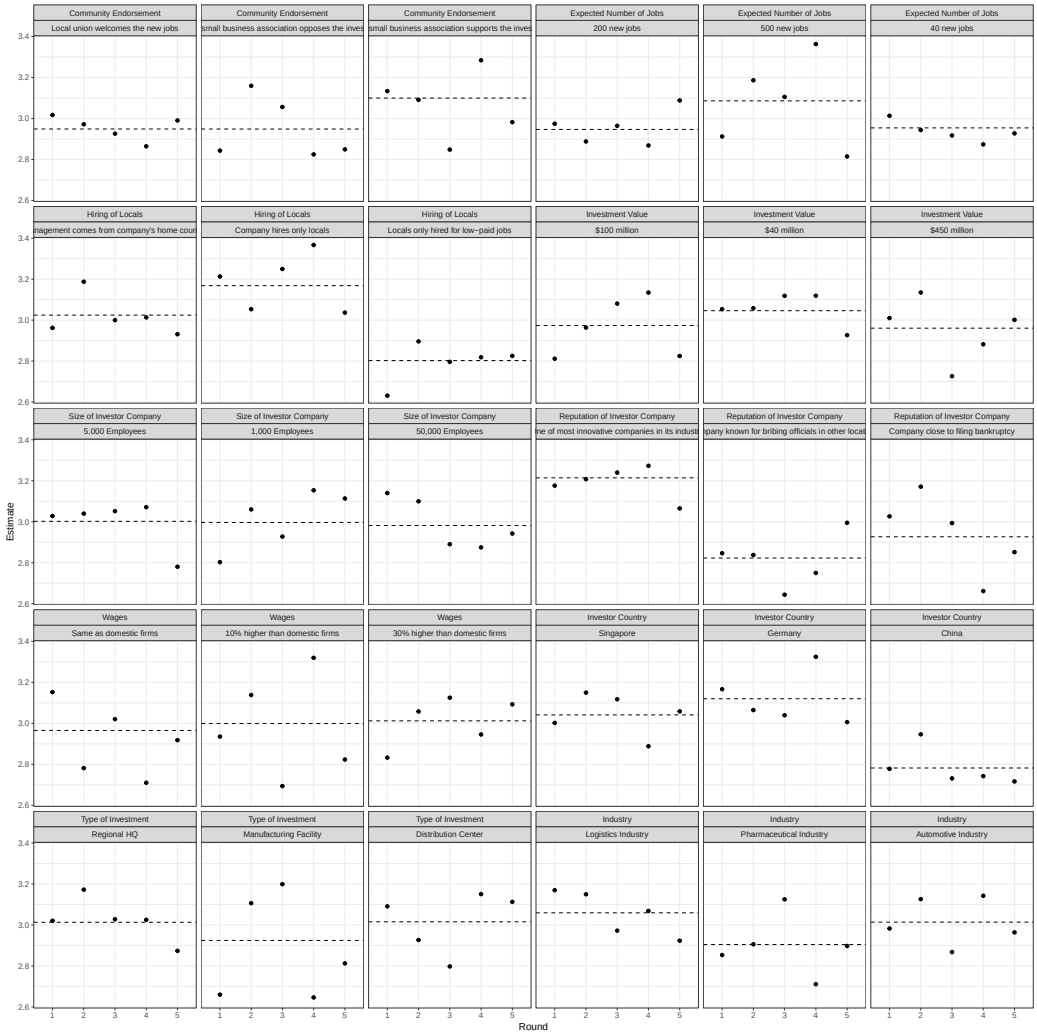
Table B.3: Survey Demographics

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
Party ID	1,962	−0.233	1.968	−3.000	−2.000	1.000	3.000
Income Category	1,948	8.531	6.667	1.000	3.000	13.000	24.000
Above Median Income	1,948	0.327	0.469	0.000	0.000	1.000	1.000
Age	1,999	45.379	16.819	18	31	59	94
Male	1,996	0.481	0.500	0.000	0.000	1.000	1.000
At least College Degree	1,990	0.487	0.500	0.000	0.000	1.000	1.000
FDI Employment In County	1,460	0.048	0.022	0.007	0.033	0.056	0.215
TI Preferences	1,868	0.223	1.161	−2.000	−1.000	1.000	2.000
White	1,960	0.731	0.443	0.000	0.000	1.000	1.000
Black	1,960	0.118	0.323	0.000	0.000	0.000	1.000
Hispanic	1,968	0.121	0.327	0.000	0.000	0.000	1.000
Asian	1,960	0.060	0.238	0.000	0.000	0.000	1.000

B.5 Validate Assumptions of Experiments

B.5.1 Conjoint Experiment Assumptions

Figure B.2: Checking Carry-Over Assumption



Note: Graph shows marginal means estimates for each attribute level across all five rounds. The dashed line represents the pooled marginal means estimate for each attribute level.

Figure B.3: Balance Test Conjoint Task

B.5.2 Factorial Survey Experiment Assumptions

Table B.4: Omnibus Balance Test for Replication Task

	Bad w/o II	Bad with II	Good w/o II	Good with II
Intercept	0.19***	0.14**	0.38***	0.29***
	(0.05)	(0.05)	(0.05)	(0.05)
Party	−0.00	0.01	−0.00	−0.00
	(0.01)	(0.01)	(0.01)	(0.01)
Income	−0.00	−0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Education	−0.00	0.02*	−0.02	−0.00
	(0.01)	(0.01)	(0.01)	(0.01)
Age	0.00	−0.00	−0.00	−0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Male	0.01	0.03	−0.03	−0.01
	(0.02)	(0.02)	(0.02)	(0.02)
TI Pref.	0.00	−0.00	0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)
White	0.00	0.05	−0.05	−0.00
	(0.03)	(0.03)	(0.03)	(0.03)
Black	−0.01	0.05	−0.03	−0.02
	(0.04)	(0.04)	(0.04)	(0.04)
Hispanic	−0.02	0.04	−0.03	0.01
	(0.04)	(0.04)	(0.04)	(0.04)
p-Value Omnibus F-Test	0.87	0.33	0.45	0.97
R^2	0.00	0.01	0.00	0.00
Num. obs.	1756	1756	1756	1756

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

B.6 Results Conjoint Experiment

B.6.1 AMCE Results

Figure B.4: AMCE Results Support for Tax Incentives

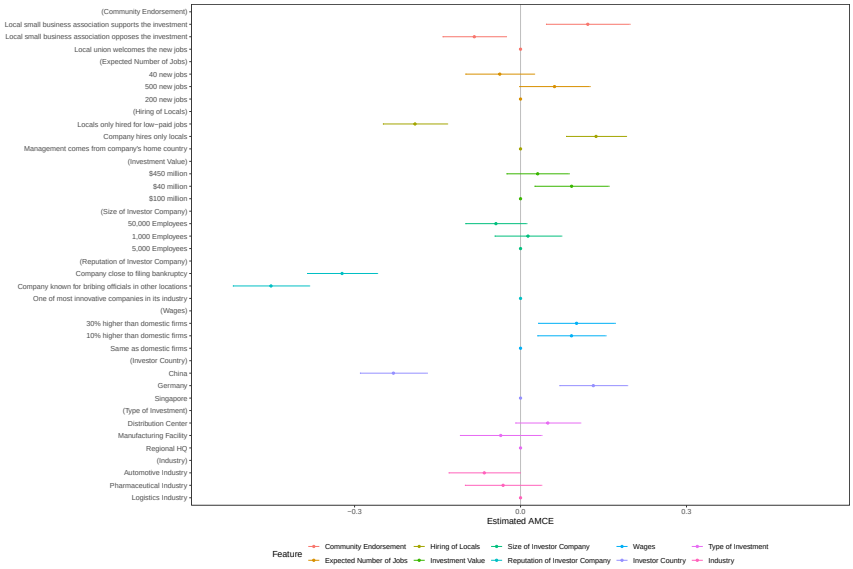
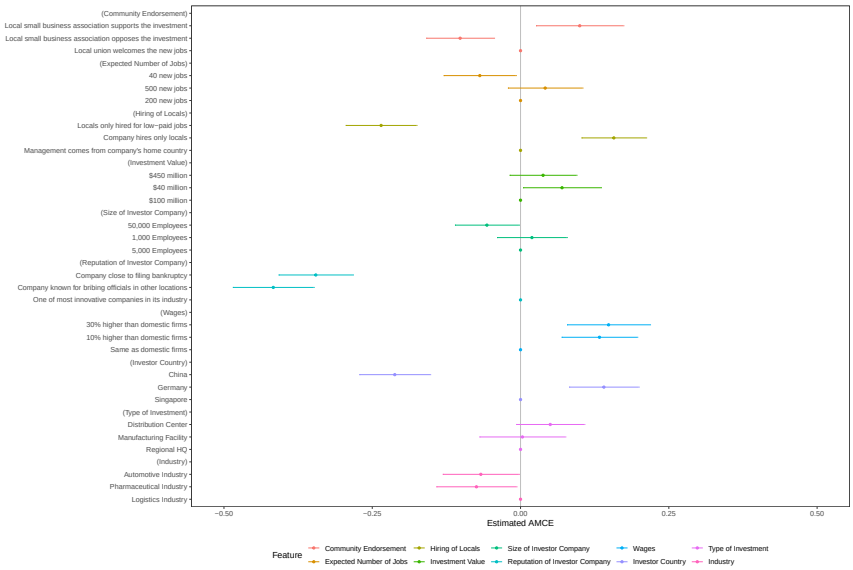


Figure B.5: AMCE Results Quality of Invest



B.6.2 Robustness Test

Figure B.6: Robustness of Result Conditional on Outcome Question Order

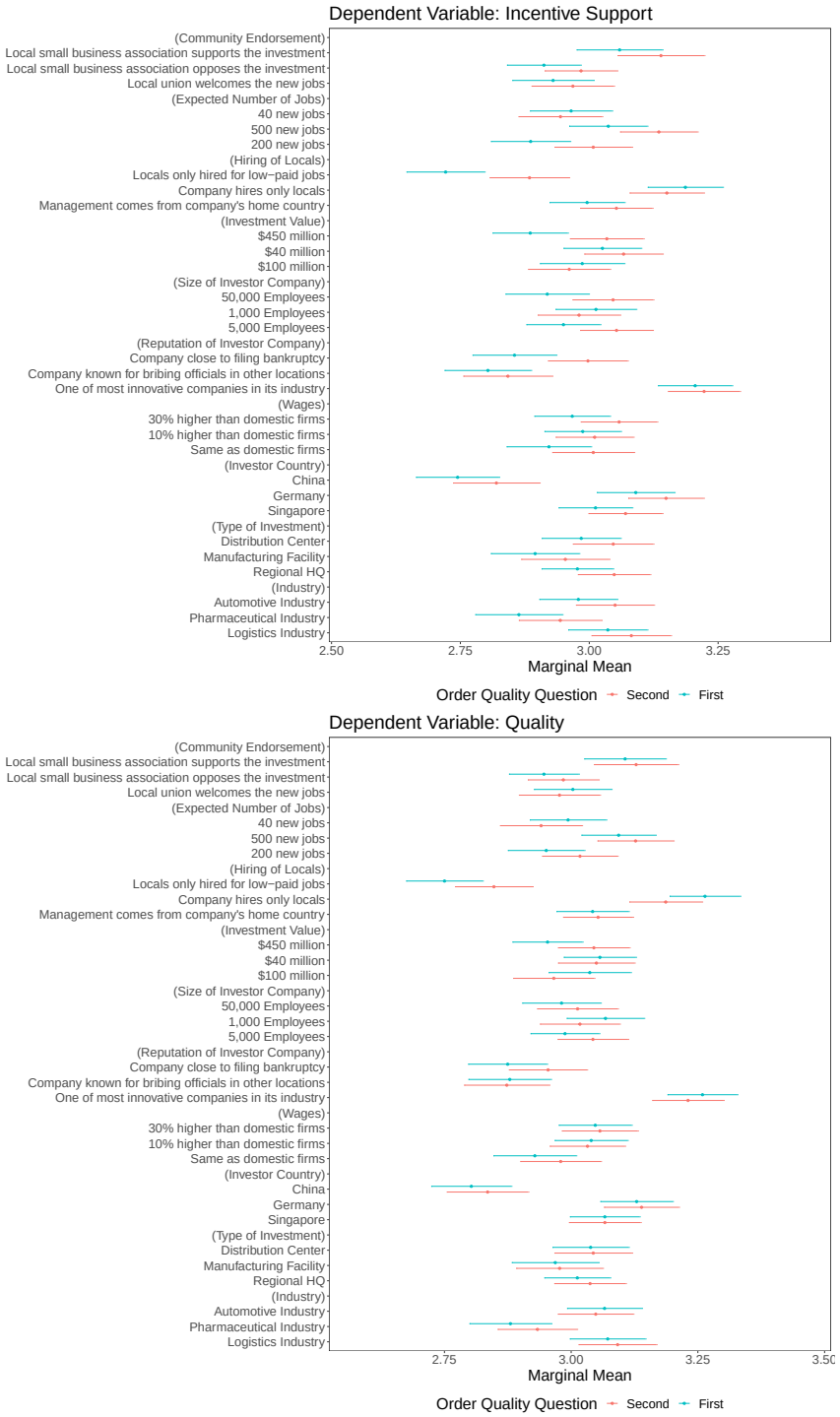
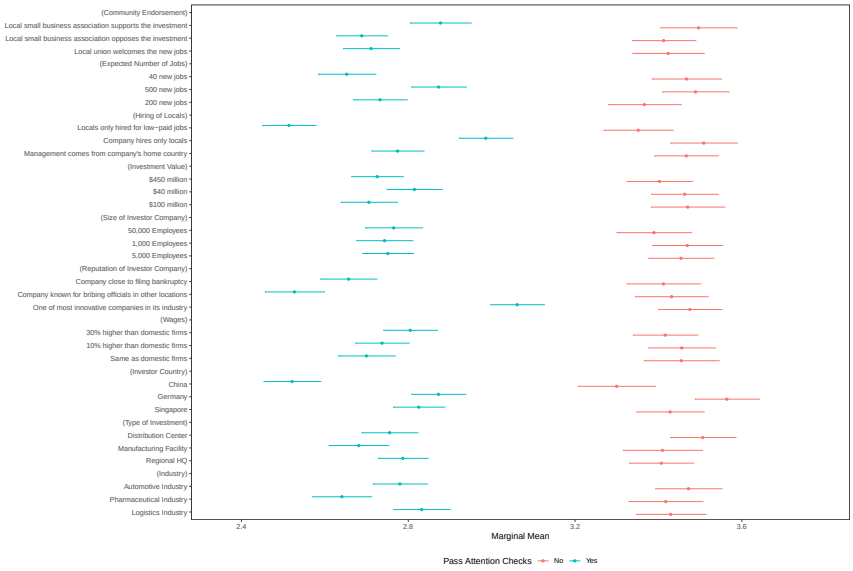


Figure B.7: Results Conditional on Attention Check



B.7 Results Factorial Survey Experiment

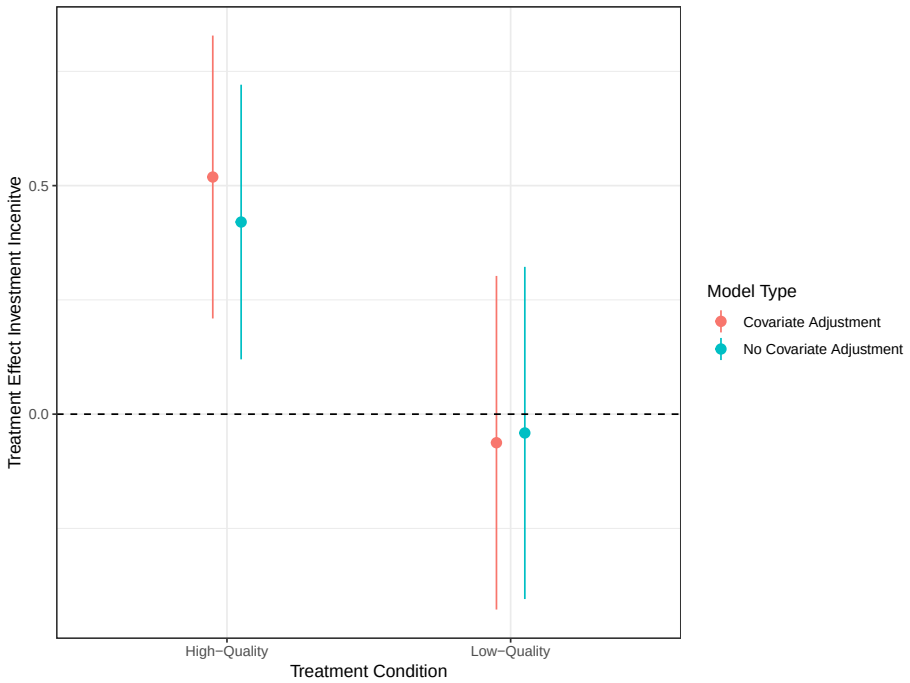
B.7.1 Main Results

Table B.5: Regression Results for Replication Task (Full)

	W/O Covariate Adj.	With Covariate Adj.
Intercept	4.38***	5.49***
	(0.13)	(0.32)
II	−0.04	−0.06
	(0.19)	(0.19)
Quality	1.81***	1.72***
	(0.17)	(0.17)
II X Quality	0.46	0.58*
	(0.24)	(0.24)
Party		−0.06
		(0.03)
Income		0.02*
		(0.01)
Education		−0.05
		(0.06)
Age		−0.03***
		(0.00)
Male		0.17
		(0.12)
II Preferences		0.53***
		(0.06)
White		−0.07
		(0.19)
Black		0.06
		(0.25)
Hispanic		0.09
		(0.22)
R^2	0.13	0.23
Num. obs.	1999	1756

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Figure B.8: Graphical Display Hypotheses 2 and 3



Note: Figure displays the treatment effect of offering larger tax incentives than the competition conditional on the type of investment. The coefficient is displayed with a 95% confidence interval. Covariate adjustment includes the following variables: party ID, income, education, age, gender, tax incentive preferences, White dummy, Black dummy, and Hispanic Dummy

Table B.6: Average Approval of Tax Incentive Decision By Treatment Group

	Received	Not Received
Large Inc.	7.04	6.14
Small Inc.	6.73	5.68

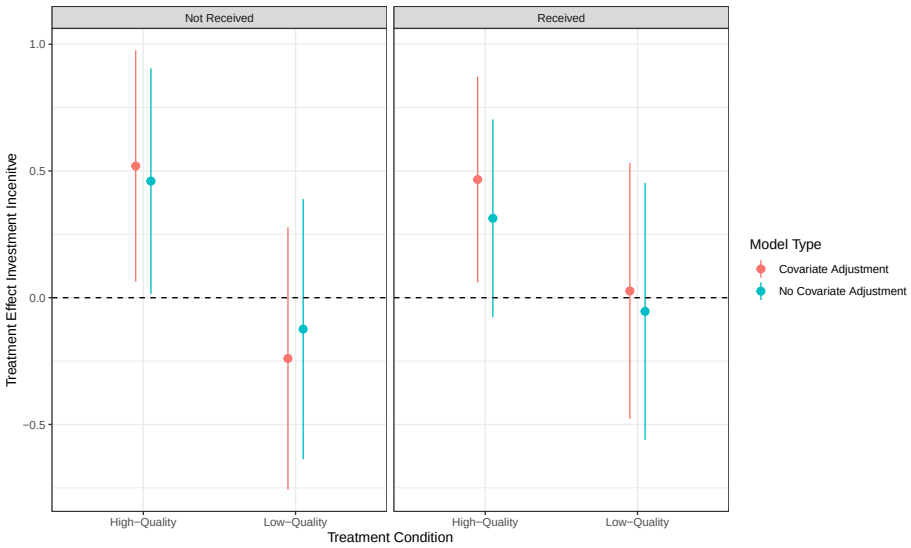
High Quality FDI

	Received	Not Received
Large Inc.	3.92	4.73
Small Inc.	3.97	4.85

Low Quality FDI

Note: Results show mean approval of tax incentive package given by the local government council to a foreign company. Higher values mean higher levels of approval for the decision.

Figure B.9: Exploring the Mechanism of Investment Incentive Benefits



Note: Figure displays the treatment effect of offering larger tax incentives than the competition conditional on the type and implementation of investment. The coefficient is displayed with 95% confidence interval. Covariate adjustment includes following variables: party ID, income, education, age, gender, tax incentive preferences, White dummy, Black dummy, and Hispanic Dummy.

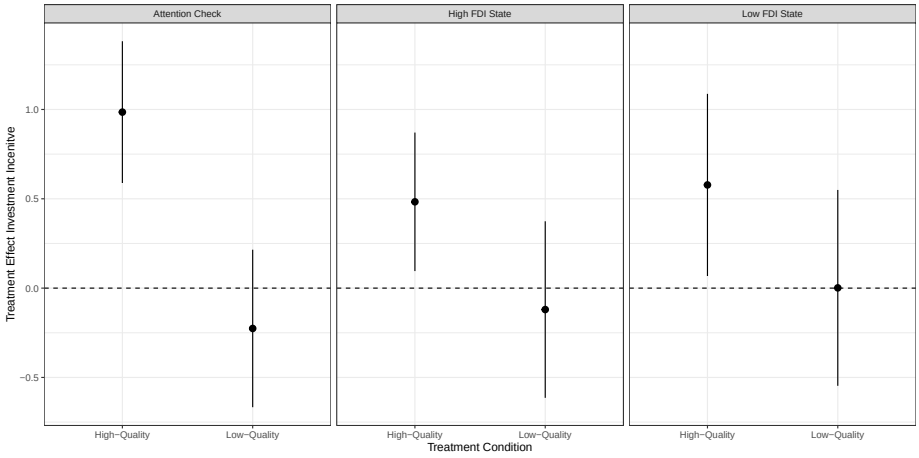
B.7.2 Robustness Tests

Table B.7: Robustness Tests of Factorial Experiment

	Attention	High FDI States	Low FDI States
Intercept	4.64***	5.37***	5.71***
	(0.40)	(0.45)	(0.47)
II	−0.23	−0.12	0.00
	(0.22)	(0.25)	(0.28)
Quality	1.90***	1.74***	1.67***
	(0.21)	(0.23)	(0.26)
II X Quality	1.21***	0.60	0.58
	(0.30)	(0.32)	(0.38)
Party	−0.09*	−0.07	−0.04
	(0.04)	(0.04)	(0.05)
Income	0.02	0.03	0.01
	(0.01)	(0.01)	(0.02)
Education	−0.04	−0.02	−0.10
	(0.07)	(0.07)	(0.09)
Age	−0.02***	−0.02***	−0.03***
	(0.00)	(0.01)	(0.01)
Male	0.11	0.10	0.29
	(0.15)	(0.16)	(0.19)
II Preferences	0.49***	0.55***	0.49***
	(0.08)	(0.08)	(0.09)
White	0.21	−0.22	0.08
	(0.24)	(0.29)	(0.25)
Black	0.12	0.09	−0.01
	(0.34)	(0.35)	(0.36)
Hispanic	0.07	−0.20	0.38
	(0.30)	(0.33)	(0.29)
R^2	0.26	0.23	0.22
Num. obs.	1130	1011	745

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Figure B.10: Effect of Investment Incentives across Different Sub-Groups



Note: Figure displays the treatment effect of offering larger tax incentives than the competition conditional on the quality of investment. The left panel only includes a subset of respondents that passed both attention checks. The sample used to run the models in the central panel includes respondents in states that receive FDI above the median state. Data for this variable comes from the US Bureau of Labor Statistics (`https://www.bls.gov/fdi/tables/`). The right panel focuses on respondents that live in states with below median inflow of FDI. The coefficient is displayed with 95% confidence interval. All models include covariate adjustments. The adjustment includes the following variables: party ID, income, education, age, gender, tax incentive preferences, White dummy, Black dummy, and Hispanic Dummy.

B.8 Results FDI and Incentives

Table B.8: Definition Variables Analysis Figure 5

Variable	Definition	Type	Source
Received Incentives	Did an FDI project receive investment incentive deal?	Binary	Wavteq's IncentivesFlow
Number of Jobs	Jobs created by FDI project	Cont.	fDi Markets
Value of Capital Investment	Total investment value in million USD	Cont.	fDi Markets
Capital Intensity	Ratio of capital inputs over the total cost of production	Cont.	Bauerle Danzman and Slaski (2022b)
Revenue Missing Dummy	No company revenue listed	Binary	fDi Markets
Revenue Company (log)	Log of company's total revenue	Cont.	fDi Markets
Project Manufacturing	Investment into manufacturing activity	Binary	fDi Markets
Project HQ	Investment into HQ activity	Binary	fDi Markets
Project Logistics	Investment into logistics activity	Binary	fDi Markets
Investor German	Investor's home country is Germany	Binary	fDi Markets
Investor Japanese	Investor's home country is Japan	Binary	fDi Markets
Investor UK	Investor's home country is the UK	Binary	fDi Markets
Investor South Korean	Investor's home country is South Korea	Binary	fDi Markets
Investor French	Investor's home country is France	Binary	fDi Markets
Investor Canadian	Investor's home country is Canada	Binary	fDi Markets
Investor Chinese	Investor's home country is China	Binary	fDi Markets
Sector Automotive	Investment in the automotive sector	Binary	fDi Markets
Sector Pharmaceuticals	Investment in the pharmaceuticals sector	Binary	fDi Markets
Sector Transportation	Investment in the transportation sector	Binary	fDi Markets
State Log GDP per Capita	State's logged GDP per capita	Cont.	U.S. Bureau of Economic Analysis
County Ruralness	Degree of urbanization and adjacency to a metro area	Ordinal	USDA, Economic Research Service
County Unemployment Rate	Unemployment rate in a county (in %)	Cont.	U.S. Department of Labor
State Governor Republican	Is state's governor a republican?	Binary	Kaplan (2021)
State Purple	Margin of victory in previous presidential election less than 5	Binary	MIT Election Lab

Table B.9: Descriptive Statistics of Variables Used in Figure 5

Statistic	N	Mean	St. Dev.	Min	Max
Received Incentives	11,318	0.078	0.269	0	1
Number of Jobs	11,318	75.623	157.600	0	4,000
Value of Capital Investment	11,318	36.035	252.052	0	18,500
Capital Intensity	11,318	0.656	0.165	0.430	0.970
Revenue Missing Dummy	11,318	0.357	0.479	0	1
Revenue Company (log)	11,318	4.115	4.113	0.000	12.886
Project Manufacturing	11,318	0.141	0.348	0	1
Project HQ	11,318	0.104	0.305	0	1
Project Logistics	11,318	0.051	0.221	0	1
Investor German	11,318	0.100	0.300	0	1
Investor Japanese	11,318	0.064	0.245	0	1
Investor UK	11,318	0.185	0.388	0	1
Investor South Korean	11,318	0.018	0.132	0	1
Investor French	11,318	0.063	0.243	0	1
Investor Canadian	11,318	0.098	0.297	0	1
Investor Chinese	11,318	0.045	0.206	0	1
Sector Automotive	11,318	0.010	0.099	0	1
Sector Pharmaceuticals	11,318	0.017	0.128	0	1
Sector Transportation	11,318	0.031	0.174	0	1
State Log GDP per Capita	11,318	10.760	0.105	10.449	11.103
County Ruralness	10,733	1.415	1.132	1.000	9.000
County Unemployment Rate	10,733	5.916	2.534	1.200	27.700
State Governor Republican	11,318	0.473	0.499	0	1
State Purple	11,318	0.153	0.360	0	1

Table B.10: Determinants of Investment Incentives to FDI Projects

	Model 1	Model 2	Model 3
(Intercept)	−0.2042***	0.6243	
	(0.0359)	(0.7269)	
Log Jobs	0.0522***	0.0550***	0.0501***
	(0.0101)	(0.0104)	(0.0098)
Log Capital Investment	−0.0245**	−0.0264**	−0.0197**
	(0.0070)	(0.0079)	(0.0067)
Capital Intensity	0.0988**	0.0767**	0.0526*
	(0.0228)	(0.0224)	(0.0184)
Revenue Missing Dummy	0.0102	0.0085	0.0081
	(0.0060)	(0.0063)	(0.0063)
Revenue Company (log)	0.0042**	0.0034*	0.0024
	(0.0010)	(0.0012)	(0.0011)
Project Manufacturing	0.2845***	0.2669***	0.2288***
	(0.0313)	(0.0290)	(0.0271)
Project HQ	0.0825**	0.0779**	0.0719**
	(0.0211)	(0.0226)	(0.0218)
Project Logistics	0.0311*	0.0284	0.0086
	(0.0140)	(0.0139)	(0.0118)
Investor German	0.0252*	0.0233*	0.0243*
	(0.0096)	(0.0100)	(0.0110)
Investor Japanese	0.0118	0.0217	0.0158
	(0.0164)	(0.0164)	(0.0150)
Investor UK	0.0106	0.0134*	0.0116*
	(0.0051)	(0.0049)	(0.0049)
Investor South Korean	−0.0118	−0.0149	0.0013
	(0.0198)	(0.0210)	(0.0186)
Investor French	0.0141	0.0175	0.0153
	(0.0078)	(0.0079)	(0.0087)
Investor Canadian	0.0279*	0.0268	0.0260
	(0.0118)	(0.0129)	(0.0124)
Investor Chinese	0.0293	0.0308	0.0267
	(0.0231)	(0.0248)	(0.0228)
Sector Automotive	0.0433	0.0512	0.0614
	(0.0387)	(0.0378)	(0.0332)
Sector Pharmaceuticals	−0.0145	0.0054	0.0093
	(0.0214)	(0.0219)	(0.0192)
Sector Transportation	−0.0304	−0.0326*	−0.0264
	(0.0143)	(0.0148)	(0.0139)
State Log GDP per Capita		−0.0782	0.1174
		(0.0663)	(0.1576)
County Ruralness		0.0206**	0.0156*
		(0.0068)	(0.0055)
County Unemployment Rate		−0.0016	0.0048
		(0.0023)	(0.0043)
State Governor Republican		0.0036	0.0003
		(0.0179)	(0.0123)
State Purple		0.0531	0.0247
		(0.0290)	(0.0138)
State + Year FE	No	No	Yes
R^2	0.2039	0.2256	0.2751
Num. obs.	11318	10733	10733
N Clusters	50	50	50

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

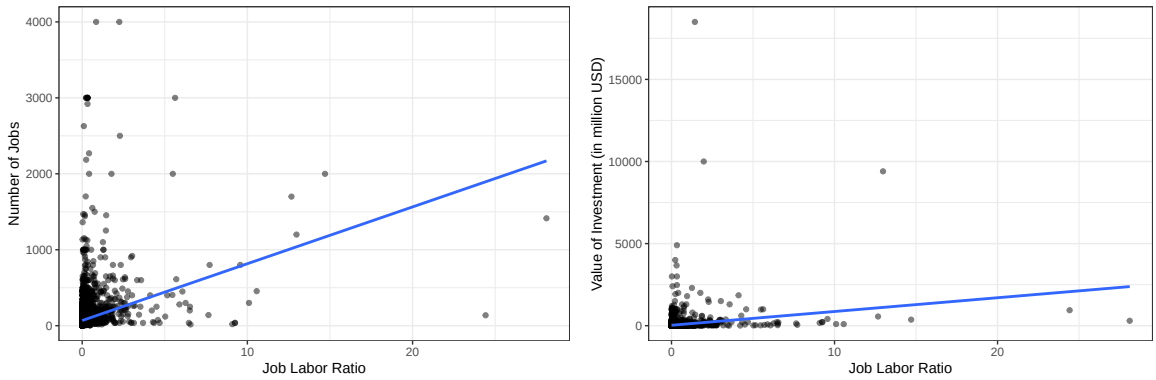
Note: Standard errors represent cluster robust standard errors clustered at the US state-level.

Appendix C

Quality over Quantity: Transparency and the Attraction FDI Projects

C.1 Job Labor Ratio Correlates

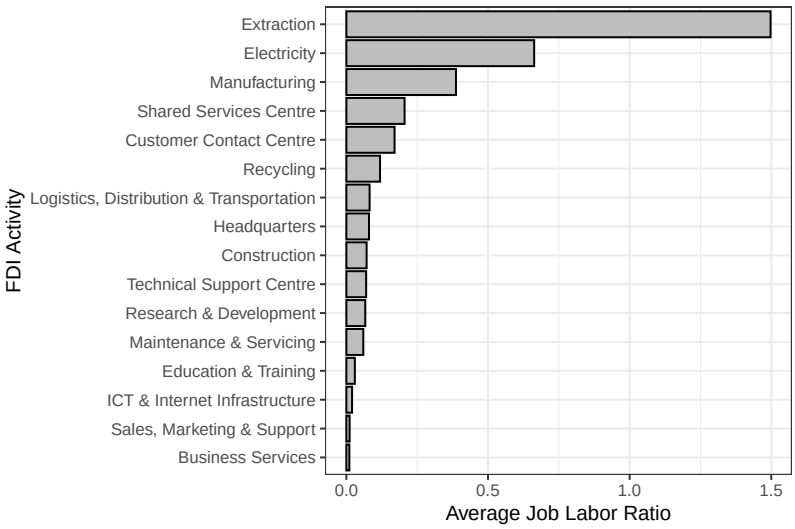
Figure C.1: Job Labor Ratio Correlation with Jobs and Investment Value



(a) Number of Jobs

(b) Value of Investment

Figure C.2: Mean Job Labor Ratio by FDI Project Activity



C.2 Are FDI projects correlated with Newspaper Closure?

The unit of analysis for this test is the county-year. I look at all the counties that received an FDI project between 2010 and 2019. The dependent variable is a dummy whether a newspaper was closed in a given year. The independent variables are the log-transformed number of FDI projects in a given year and the log-transformed sum of these FDI project's job labor ratio. The table displays cluster robust standard errors which are clustered at the county-level.

Table C.1: FDI and Newspaper Closure

	Closed		Closed OR Merged	
	(1)	(2)	(3)	(4)
Log Number FDI Projects	0.001		0.001	
	(0.001)		(0.001)	
Log Sum Job Location Ratio		0.00001		0.0003
		(0.0003)		(0.0004)
State FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes
Observations	10,570	10,570	10,570	10,570
R^2	0.101	0.101	0.112	0.112

*p<0.1; **p<0.05; ***p<0.01

C.3 Descriptive Statistics

Table C.2: Descriptive Statistics Project-Level Analysis

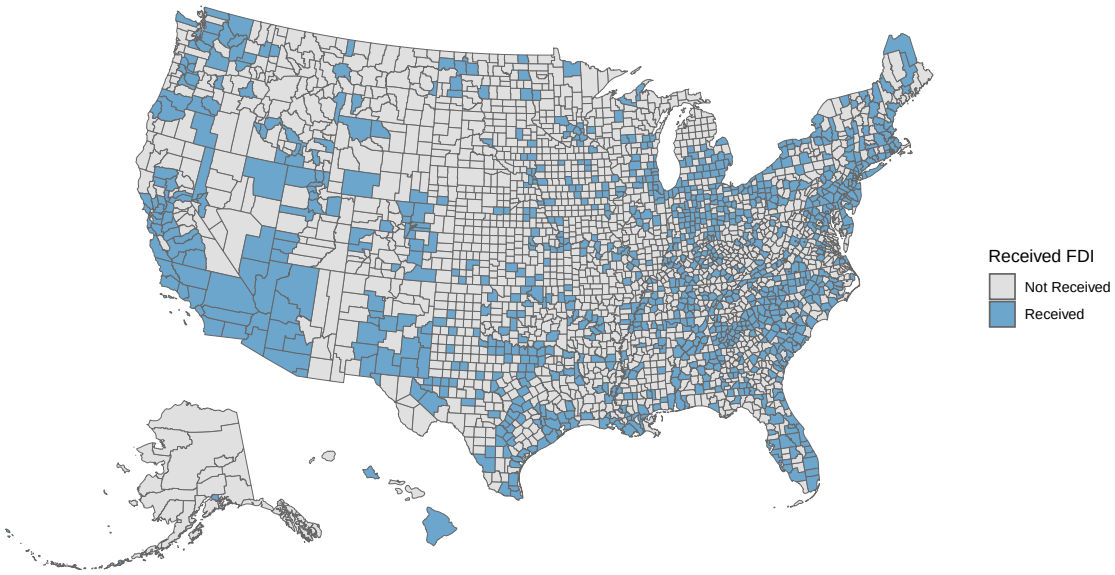
Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
Received Incentives	11,318	0.078	0.269	0	0	0	1
Job Labor Ratio	10,733	0.094	0.599	0.000	0.002	0.022	28.106
Daily Newspaper Presence	10,732	0.748	0.434	0.000	0.000	1.000	1.000
Capital Intensity	11,318	0.656	0.165	0.430	0.490	0.800	0.970
Log Company Revenue	11,318	4.115	4.113	0.000	0.000	7.978	12.886
Missing Revenue Dummy	11,318	0.357	0.479	0	0	1	1
Investment Value (in million)	11,318	36.035	252.052	0	5.7	18.0	18,500
Number of Jobs	11,318	75.623	157.600	0	20	78	4,000
Log GDP/Capita of State	11,318	10.760	0.105	10.449	10.692	10.823	11.103
Republican Governor	11,318	0.473	0.499	0	0	1	1
Swing State	11,318	0.153	0.360	0	0	0	1
Ruralness of Project Location	10,733	1.415	1.132	1.000	1.000	1.000	9.000
County Unemployment Rate	10,733	5.916	2.534	1.200	3.900	7.600	27.700

Table C.3: Descriptive Statistics County-Level Analysis

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
Log Median Jobs Labor Ratio	1,057	−2.058	1.715	−6.938	−3.406	−0.847	3.195
Daily Newspaper Presence	1,057	0.592	0.492	0	0	1	1
Log Median HH Income	1,057	10.728	0.243	9.981	10.569	10.865	11.688
Log County Area	1,057	21.180	0.937	15.460	20.790	21.570	24.673
Log County Population	1,057	11.403	1.393	6.031	10.459	12.343	16.100
County Unemployment Rate	1,057	9.700	2.861	2.100	7.800	11.300	29.400
County Poverty (in %)	1,057	16.109	5.810	3.100	12.000	19.500	42.200
County Urban (in %)	1,057	63.662	27.619	0	44.2	86.8	100
Newspaper in Neighbor County	1,057	0.908	0.289	0	1	1	1

C.4 Map of Counties with FDI

Figure C.3: Counties Receiving FDI Projects, 2010-2019



C.5 Robustness Results Project-Level Analysis

Table C.4: Full Results Pooled Model

	Received Investment Incentive						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Job Labor Ratio	0.082***	0.032***	0.032***	0.032***	0.031***	0.027***	
	(0.018)	(0.011)	(0.011)	(0.011)	(0.010)	(0.007)	
Capital Intensity		0.233***	0.220***	0.218***			
		(0.037)	(0.034)	(0.034)			
Log Job Labor Ratio							0.166***
							(0.031)
Log Investment Value		−0.028***	−0.028***	−0.028***	−0.020***	−0.015***	−0.015***
		(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.005)
Log Number of Jobs		0.079***	0.079***	0.079***	0.071***	0.064***	0.058***
		(0.010)	(0.010)	(0.010)	(0.009)	(0.009)	(0.009)
Log GDP/Capita of State		−0.211***	−0.201***	−0.222***	−0.152***	0.073	0.084
		(0.049)	(0.050)	(0.054)	(0.049)	(0.137)	(0.137)
Republican Governor		0.010	0.010	0.008	0.002	−0.002	−0.003
		(0.011)	(0.011)	(0.011)	(0.009)	(0.011)	(0.011)
Swing State		0.056**	0.058***	0.057***	0.057***	0.028*	0.028*
		(0.024)	(0.021)	(0.021)	(0.017)	(0.017)	(0.017)
Ruralness of Project Location		0.034***	0.033***	0.033***	0.027***	0.019***	0.009*
		(0.005)	(0.005)	(0.005)	(0.005)	(0.004)	(0.005)
County Unemployment Rate		−0.002	−0.002	0.001	0.001	0.005**	0.005*
		(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Log Company Revenue		0.002	0.001	0.001	0.001	0.0003	0.0004
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Missing Revenue Data		0.006	0.007	0.007	0.005	0.004	0.005
		(0.007)	(0.007)	(0.008)	(0.007)	(0.007)	(0.007)
Constant	0.074***	1.905***					
	(0.014)	(0.544)					
Investor Home Country FE	No	No	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	Yes	Yes	Yes	Yes
Sector FE	No	No	No	No	Yes	Yes	Yes
State FE	No	No	No	No	No	Yes	Yes
Observations	10,733	10,733	10,733	10,733	10,733	10,733	10,733
R^2	0.032	0.146	0.156	0.157	0.200	0.256	0.260

*p<0.1; **p<0.05; ***p<0.01

Table C.5: Full Results Interaction Model

	Received Investment Incentive						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Job Labor Ratio	0.295***	0.124***	0.126***	0.125***	0.105***	0.078**	
	(0.047)	(0.038)	(0.038)	(0.038)	(0.036)	(0.036)	
Interaction	0.335***	0.267***	0.267***	0.266***	0.233***	0.179***	
	(0.070)	(0.056)	(0.055)	(0.055)	(0.054)	(0.053)	
Log Job Labor Ratio							0.174***
							(0.058)
Log Interaction							0.263***
							(0.077)
Daily Newspaper	0.010	−0.019*	−0.020*	−0.020*	−0.018*	0.007	0.007
	(0.031)	(0.012)	(0.011)	(0.011)	(0.009)	(0.011)	(0.011)
Capital Intensity		0.215***	0.204***	0.202***			
		(0.035)	(0.032)	(0.032)			
Log Investment Value		−0.027***	−0.027***	−0.027***	−0.021***	−0.016***	−0.016***
		(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.005)
Log Number of Jobs		0.062***	0.062***	0.062***	0.058***	0.055***	0.052***
		(0.009)	(0.010)	(0.010)	(0.009)	(0.009)	(0.009)
Log GDP/Capita of State		−0.199***	−0.190***	−0.211***	−0.156***	0.073	0.082
		(0.046)	(0.047)	(0.052)	(0.049)	(0.135)	(0.135)
Republican Governor		0.009	0.010	0.008	0.003	−0.004	−0.005
		(0.010)	(0.010)	(0.010)	(0.009)	(0.011)	(0.011)
Swing State		0.057***	0.060***	0.058***	0.057***	0.026	0.026
		(0.022)	(0.020)	(0.020)	(0.016)	(0.017)	(0.017)
Ruralness of Project Location		0.020***	0.019***	0.019***	0.014***	0.013**	0.008
		(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)
County Unemployment Rate		−0.003	−0.002	0.0004	−0.00002	0.004	0.004
		(0.002)	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)
Log Company Revenue		0.002*	0.001	0.001	0.002	0.001	0.001
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Missing Revenue Data		0.007	0.009	0.008	0.007	0.006	0.007
		(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Constant	0.044	1.879***					
	(0.030)	(0.509)					
Investor Home Country FE	No	No	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	Yes	Yes	Yes	Yes
Sector FE	No	No	No	No	Yes	Yes	Yes
State FE	No	No	No	No	No	Yes	Yes
Observations	10,650	10,650	10,650	10,650	10,650	10,650	10,650
R^2	0.094	0.154	0.164	0.165	0.202	0.252	0.254

*p<0.1; **p<0.05; ***p<0.01

Figure C.4: Marginal Effects of Newspaper with Cubed Job Labor Ratio

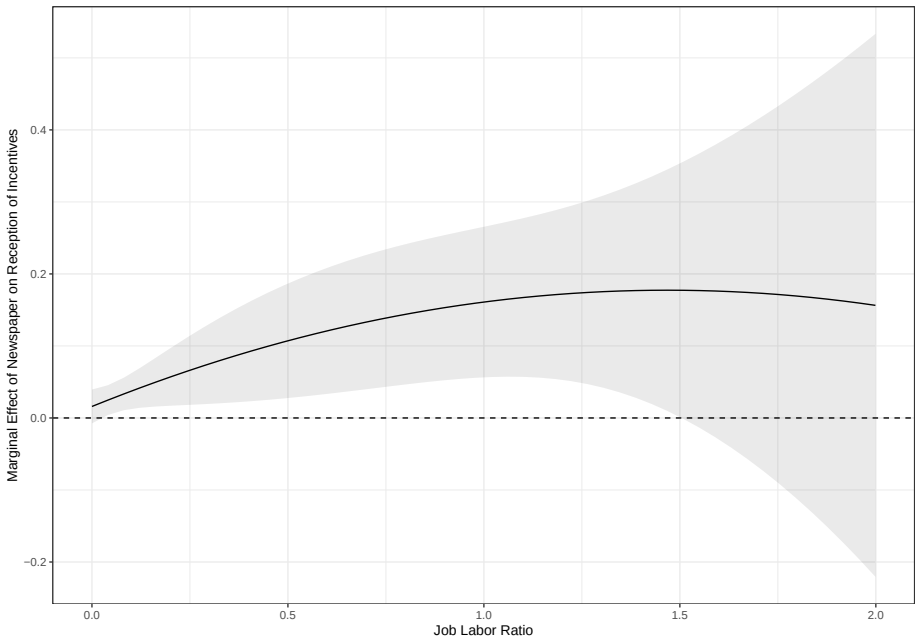


Table C.6: Main Specifications Using Logit Models

	Received Investment Incentive	
	(1)	(2)
Log Job Labor Ratio	0.531***	0.556
	(0.203)	(0.530)
Daily Newspaper		−0.175
		(0.341)
Interaction		1.477**
		(0.708)
Capital Intensity	4.557***	4.486***
	(0.400)	(0.406)
Log Investment Value	−0.343***	−0.335***
	(0.054)	(0.054)
Log Number of Jobs	1.029***	0.944***
	(0.060)	(0.065)
Log GDP/Capita of State	−3.678***	−3.615***
	(0.923)	(0.929)
Republican Governor	0.227	0.219
	(0.197)	(0.188)
Swing State	0.751***	0.766***
	(0.218)	(0.207)
Ruralness of Project Location	0.252***	0.242***
	(0.043)	(0.046)
County Unemployment Rate	−0.062**	−0.063**
	(0.029)	(0.030)
Log Company Revenue	0.032*	0.035*
	(0.018)	(0.018)
Missing Revenue Data	0.077	0.108
	(0.149)	(0.152)
Constant	29.914***	29.679***
	(9.997)	(9.956)
Observations	10,733	10,650
Log Likelihood	−2,302.830	−2,234.483
Akaike Inf. Crit.	4,629.661	4,496.966

*p<0.1; **p<0.05; ***p<0.01

Table C.7: Testing Different Job Labor Ratio Thresholds

	Received Investment Incentive		
	JLR < 1.75	JLR < 2.25	JLR < 2.5
	(1)	(2)	(3)
Job Labor Ratio	0.140^{***}	0.087^{***}	0.101^{***}
	(0.042)	(0.034)	(0.029)
Daily Newspaper	0.013	0.009	0.013
	(0.011)	(0.011)	(0.012)
Interaction	0.154^{***}	0.164^{***}	0.131^{***}
	(0.057)	(0.050)	(0.048)
Capital Intensity	-0.016^{***}	-0.016^{***}	-0.016^{***}
	(0.005)	(0.005)	(0.005)
Log Investment Value	0.054^{***}	0.055^{***}	0.056^{***}
	(0.009)	(0.009)	(0.009)
Log Number of Jobs	0.055	0.058	0.067
	(0.135)	(0.136)	(0.136)
Log GDP/Capita of State	-0.005	-0.005	-0.004
	(0.011)	(0.011)	(0.011)
Republican Governor	0.026	0.025	0.026
	(0.017)	(0.017)	(0.017)
Swing State	0.011^{**}	0.013^{**}	0.013^{**}
	(0.006)	(0.005)	(0.005)
Ruralness of Project Location	0.004	0.004	0.004
	(0.002)	(0.002)	(0.002)
County Unemployment Rate	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)
Log Company Revenue	0.007	0.006	0.006
	(0.007)	(0.007)	(0.007)
Investor Home Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Observations	10,627	10,657	10,672
R^2	0.255	0.255	0.258

*p<0.1; **p<0.05; ***p<0.01

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