

The Political Economy of Trophy Industrial Recruitment Projects

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Abstract

Why do states persist in offering large financial incentives to firms to induce them to invest in the state, a practice commonly derided as “smoke-stack chasing”? The conventional wisdom is that while incentives may be a poor long term economic development strategy, they are a good political strategy for governors seeking to improve economic conditions and political support in the short term. Using the annual list of top economic development deals compiled by *Site Selection* magazine, I examine the political impact of these “trophy” industrial recruitment projects on county level election returns in gubernatorial elections from 1989-2004. The results demonstrate that trophy hunting is an excellent short term political strategy that dramatically increases the number of votes a governor receives in the subsequent election.

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The hand-out game, whether it involves steel mills or baseball teams or high tech R&D, stops when politicians fathom or are made to learn that it doesn't pay off in most cases and it isn't their role in life to bestow these favors anyway. They ought to attend to competitiveness by maximizing the appeal of their jurisdictions to every kind of enterprise, not just those with a big snout. —Wall Street Journal, February 4, 1994.

A long-standing puzzle for scholars and practitioners of economic development policy is why states and their governors shower tax incentives and subsidies on firms to induce them to relocate to their state, a practice commonly derided as “smokestack chasing” (Graham 1993) or “buffalo hunting”¹ (Atkinson, 2002). Smokestack chasing has little effect on the location decisions of firms (Wolman 1988) and is rarely a cost effective use of public resources (Buchholz 1999, Burstein and Rolnick 1995, Corporation for Economic Development 1994, Lynch 1996). The accepted explanation among scholars is that governors prefer the immediate economic and electoral gratification from highly visible smokestack chasing policies (Eisinger 1995). While smokestack chasing is a poor long-term economic development strategy, it is presumed to be a sound political strategy akin to credit-claiming (Mayhew, 1974). While this explanation has been widely accepted (Feiock & Clingermayer, 1986; Wolman, 1988), it has only recently been tested empirically (Turner 2001).

This paper examines the political impact of trophy industrial recruitment projects on four cycles of gubernatorial elections from 1989-2004. Trophy projects are the sitings of new corporate facilities that create thousands of new jobs, receive significant public incentives, and are the subject of intensive inter-state competition. The high visibility of these projects provides a critical case for examining the potential electoral payoff for governors from an buffalo-hunting economic development. To identify trophy projects, I use an annual list of the top economic deals compiled by *Site Selection* magazine.

¹ The metaphor of buffalo hunting is inspired by the idea that economic developers go out in search of the “big kill”, that is the major employer who can provide 200 jobs.

The Persistence of Smokestack Chasing as a State Economic Development Strategy

Economic development practitioners and scholars present policymakers with two economic development strategies. On one hand, states can pursue a traditional economic development strategy of offering tax abatements, investment credits, low-interest loans, land write downs, and labor-training grants to lure manufacturing plants to relocate to their state (Cobb, 1982). The problems with an incentive-based economic development strategy are threefold. First, these incentives are typically too small to affect firms' site selection process (Fisher & Peters, 1997). Secondly, incentives like tax abatements erode a community's tax base and undermine its ability to provide critical public goods (Buchholz, 1999). Finally, perceived competitive pressures from neighboring states or communities leads policy-makers to offer incentives that outweigh the public benefits of the new facility (Burstein & Rolnick, 1995).

On the other hand, states can pursue a demand side or entrepreneurial approach premised on supporting indigenous firms and nurturing new businesses and technologies rather than attracting footloose firms (Eisinger, 1988). These new policies require a more interventionist and risk taking role for the state in creating high technology research parks, investing in state venture capital funds, fostering exports, and nurturing business start-ups (Fosler, 1988). In the face of increased international competition from low-wage competitors like China and Mexico, states could no longer compete solely by being low-cost, but rather on their competitive advantage (Porter XXX). These approaches have the potential to avoid the race-to-the-bottom dynamic of incentive based competition and avoid the zero-sum economic development approaches.

Despite the overwhelming support for the “grow your own” philosophy among economic development scholars and practitioners, the industrial recruitment philosophy and tax incentive programs have remained a core element of state economic development policies (Grant, Wallace, & Pitney, 1995; Leicht & Jenkins, 1994). Indeed, surveys of state economic development policies have found that most states have increased the number of tax concessions, loans, and outright cash grants available to firms willing to relocate or expand in the state (Chi, 2000), while reducing their entrepreneurial policies (Eisinger 1995). Incentive based competition reached new heights, or lows, when Alabama bested six other states to locate the new Mercedes SUV production facility with a \$253.3 million incentive package (Corporation for Enterprise Development, 1994). The persistence and growth of industrial recruitment policies is puzzling with the mounting evidence of the economic inefficiency of incentives and their detrimental side effects (Lynch, 1995.)

Governors’ economic development choice is especially important given the importance of economic conditions to voters’ attribution of responsibility and blame. While earlier research suggest that voters used a presidency centered model for evaluating the governor, more recent research suggests gubernatorial performance ratings reflect an incumbent-centered accountability model (Orth, 2001). When state unemployment is higher than the national average, governors are punished with lower approval levels; and when it is lower than the national average, governors are rewarded (Cohen & King, 2004). Voters’ evaluations of the state economy have a significant impact in gubernatorial elections (Atkeson and Partin 1995; Carsey and Wright 1998).

Thus, it is not surprising that governors consistently name economic development as one of their top three priorities and have taken a more active role in recruiting businesses, promoting

economic development, and creating jobs (Fosler 1988). However, it is not clear that the increased concern and policy activism has increased governors' ability to shape their states' economic destiny. Most assessments of state economic development policies have found these policies have negligible, or very modest, effects at best (Brace, 1994; Lowery & Gray, 1992, 1995).

The political economy view of economic development is that elected officials realize their ability to manage economic conditions is severely limited, and thus seek to shape the public's perceptions of their ability to control their economy through highly visible symbolic gestures (Dewar, 1998). For example, Swanstrom's concludes city tax abatement policies are "nothing more than a form of symbolic reassurance, a modern rain dance (1985)" Similarly, Burnier found most economic development practitioners in Ohio viewed incentives primarily in symbolic or political terms, as making elected officials appear active in promoting economic development and allowing them to claim credit in creating jobs (1992). This research suggests that economic development policies like industrial recruitment policies should be evaluated "as much for symbolic content as for effect (Wolman 1988)."

This concept of interpreting industrial recruitment in symbolic or political terms is akin to Mayhew's notion of credit claiming (Wolman 1988). According to Mayhew, credit claiming requires elected officials to act "so as to generate a belief in relevant political actors (voters) that one is personally responsible for causing the government, or some unit thereof, to do something that the actor (or actors) consider desirable (1974, p. 52-53)." As Mayhew notes, credit claiming events are particularly valuable when they provide benefits to a specific geographical constituency and the elected official can reasonably claim to have a hand in allocating them. The groundbreaking ceremonies of new industrial facilities provide prime credit claiming

opportunities for governors to demonstrate their prowess in recruiting new firms and jobs to a particular county in a non-partisan fashion.

What is significant about this symbolic interpretation of industrial recruitment policies is that it provides an explanation for why governors ignore their analysts and academics and engage in industrial recruitment. A governor's ability to benefit electorally from an economic development policy is the product of voters' perceptions of positive economic outcomes and attribution of responsibility to the governor. With entrepreneurial policies, a technology center at the state university would attract a graduate student which would later start a growing software company in a state funded business incubator program. Governors are unlikely to benefit politically for two reasons. First, the long time line between the governor's policy intervention and the positive outcome and the incremental nature of the positive economic outcomes makes it virtually impossible for voters to perceive the nature of the outcome. Second, the long time line and indirect impact of public policy on the company make it impossible for governors' to claim responsibility for the outcome. While entrepreneurial policies may have a positive impact on economic growth in the long term, they are a poor strategy for governors' seeking to shape the public's perception of their ability to shape the economic climate.

In contrast, the visibility and immediacy of industrial recruitment policies make them a superior economic development strategy from a political perspective. The gubernatorial groundbreaking ceremony for a new corporate facility and concurrent announcements of the number of new jobs increase the likelihood that voters are aware of the positive contribution to the regional economy. Moreover, governors can plausibly claim credit that their personal involvement in recruiting a firm to a county is the reason for the improved economic conditions. This analysis of the relative political value of industrial recruitment versus entrepreneurial

strategies is implicit in most explanations of why elected officials focus on "buffalo hunting" instead of "growing our own" strategies. The political benefits of bringing in the "big kill" (a.k.a. the major employer who can provide 200 jobs) outweigh a strategy premised on local companies hiring new workers.

However, relatively little research has been conducted on whether governors do benefit politically from the "big kill". An earlier study of the electoral impact of industrial recruitment strategies found that success at recruiting firms did not translate into political support at election time (Turner, 2001). However, this study only examined two rounds of gubernatorial elections in seven states. Moreover, many of the recruited firms were relatively small (under 150 employees), raising questions about the extent of gubernatorial involvement and the public's awareness, both critical conditions for successful credit claiming by the governor.

Research Design

This paper seeks to examine whether governors benefit from smokestack chasing in the subsequent election. While the electoral benefits of smokestack chasing for governors could accrue at both the statewide and local level, this paper examines the local effects of smokestack chasing since geographic proximity to the new trophy firm is likely to be positively associated with citizens' awareness of the economic impact and political attribution for the event. The dependent variable is thus the number of votes the incumbent governor or his or her party's candidate received in the subsequent election at the county level.

The dataset includes the county level election results from 1989-2004, which covers four gubernatorial election cycles. Since county level data on gubernatorial election cycles are not available in electronic format, the dataset only includes election results for a state if the governor successfully recruited at least one trophy firm in the gubernatorial election cycle. Out of the 200

potential state-cycles (50 states x 4 gubernatorial election cycles), our dataset includes 113. No states with two year gubernatorial election cycles receive a trophy firm.

Trophy Industrial Recruitment Projects

Identifying projects which received incentives and are of sufficient scale to have a political impact is difficult. By one estimate, there are between 200-300 large scale projects with approximately 15,000 investment attraction agencies pursuing them in any given year (Loveridge, 1996). One solution for identifying corporate projects is to use state economic development lists of corporate relocation funded by the state (Turner, 2001). However, this data is not available for the overwhelming majority of states, and many of the projects are relatively small in size (fewer than 100 employees).

To identify, the “trophy” industrial recruitment projects that create thousands of new jobs, receive significant public incentives, and are the subject of intensive inter-state competition, I turned to *Site Selection*’s annual list of the “top deals” in economic development (Bruns, 2005; Deal, 2002; Lyne, 1997, 1999, 2000; Starner, 2001, 2002, 2003, 2004). *Site Selection* is dedicated to tracking the siting of all major business deals in the United States and the pursuit of those deals via state incentives. It glorifies of the culture of smokestack chasing and the economic and political value of incentive based competition. They select their “top deals” based on total capital investment, total number of jobs created, regional economic impact, the role of incentives in landing the deal, and competition for the project to locate elsewhere. The magazine identifies the “top ten” deals every year as well as listing 10-15 sitings that qualify as “very honorable mentions.” While the Site Selection Top Deals list is not an exhaustive list of every major corporate location deal, the list includes the 10-25 high-profile industrial recruitment deals each year.

Each deal identified by Site Selection has three important characteristics for studying the political impact of credit claiming. They have a very large and immediate economic impact; they are subject to intensive inter-state competition for the deal; and they involve significant incentives and gubernatorial involvement. These characteristics are necessary to meet three criteria to assess whether voters reward governors for the symbolic value of smokestack chasing. First, the trophy must be visible and desirable to voters. The trophies identified by *Site Selection* clearly are. For example, in 2003, the nineteen top deals identified by Site Selection magazine reported creating 2,468 jobs and investing \$542.5 million on average. For example, the decision by Vanguard Group to expand its world headquarters in Chester County, Pennsylvania, involving the creation of 6,000 jobs at a corporate complex, was described as “Pennsylvania's largest jobs project in 25 years”. The sheer economic impact of these projects makes these projects both highly visible and desirable to voters (Starner, 2001).

Second, in order to credit claim, voters must believe that the government action was responsible for the outcome in question. With each of the trophy deals, the *Site Selection* descriptions emphasize the importance of large incentives in landing the deal in the face of significant interstate competition. According to *Site Selection*, “the issue of existing or specially approved incentives was omnipresent” for the winning states. For example, the siting of the Vanguard Group would not “be a reality for Pennsylvania, however, without a \$55.5 million incentive package that apparently sealed the deal. ‘It's a competitive world, and Delaware's not far down the road, to be honest,’ said John J. Brennan, chairman and CEO of Vanguard. In fact, Brennan noted, Pennsylvania's incentive package “tipped the balance” in favor of Vanguard staying home for the expansion.”

Finally, the third ingredient of credit claiming is that the voters have to believe that the governor is personally responsible for the positive outcome. The *Site Selection* descriptions are characterized by governors emphasizing their role in the wooing of these businesses and trumpeting the significance of these deals for locality and area. For example, Virginia Governor Mark Warner personally hosted Eli Lilly executives for lunch at the Governor's Mansion “to help close the deal on an incentive package” that resulted in a \$425-million insulin manufacturing plant and 700 jobs in Prince William County (Deal, 2002). In Michigan, after giving a \$256 million incentive package to entice General Motors to build two plants just outside Lansing, Governor John Engler said, "This is a tremendous victory for Michigan and Lansing area workers and businesses (Starner, 2001)." Finally, after IBM decided to build a new \$2.5 billion chip manufacturing facility in East Fishkill, New York, after receiving over \$500 million in incentives from the state, Governor Pataki heralded IBM's decision as the beginning of a “comeback” for the state and evidence of the governor's good leadership. Pataki declared, “By leading the nation in tax cuts, reducing workers' comp rates, slashing job-choking red tape and making sound investments in education, We turned crisis into comeback. Now IBM is not just staying in New York; it is growing and investing in New York (Starner, 2001).”

In short, the visibility, economic impact, role of incentives, and gubernatorial involvement in these trophy deals makes them a critical case for studying the best case scenario of the potential political impact of industrial recruitment strategies. Moreover, these incentive laden trophy deals are precisely the very ones that incentive reformers identify as examples of the worse examples of incentive based economic development.

Figure 1 Here

In our dataset, the trophy variable is a dummy variable coded 1 if a trophy firms sited in the county during the previous four year gubernatorial cycle. Only a handful of states and counties received these trophy firms. Figure 1 shows the percentage of states, which successfully recruited at least one trophy firm over the four gubernatorial elections from 1989-2004. Twenty four percent of states never recruited a single trophy firm, while 34 percent of states recruited at least one in each of the four gubernatorial election cycles. This concentration of benefits is more pronounced at the county level. In the four gubernatorial election cycles studied from 1989-2004, 98.2 percent of all counties never received a single trophy firm, 141 counties received one, 12 counties received two, and 5 counties received three. I hypothesize the governors should receive more votes in counties that received a trophy relocation.

Studies of major automobile production facilities suggest that major industrial investments have significant economic and social spillover effects on their neighboring communities (Hoyman, 1997; Marvel & Shkurti, 1993). Thus, I included the total number of trophy firms that located in an adjacent county during the previous four year gubernatorial cycle. While 95 percent of all counties were did not have a trophy firm siting in an adjacent county, 343 counties had one trophy firm siting in an adjacent county, 60 counties had two trophy firm siting in an adjacent county, and 28 counties had three or more trophy firm siting in an adjacent county. I predict that governors will benefit politically in the adjacent trophy counties, but to a lesser degree than the trophy county. Not surprisingly, accurate estimates of the cost to taxpayers in incentives were not available.

Economic Variables

State level studies of gubernatorial elections have found that governors are held accountable for state level economic conditions (Atkeson & Partin, 1995; Carsey & Wright, 1998), although no one has ever examined the impact of local economic conditions. While other studies have used state level unemployment rates or growth in per capita income to assess whether voters hold governors accountable, both measures obscure the significant regional variation within the state on both measures. For example, in Georgia, the county unemployment rate during the election year of 1990 varied dramatically from a low of 3.1 percent in Fayette County to a high of 12.2 percent in Marion County. I use the county unemployment rate during the gubernatorial election year and increase in county per capita income during the gubernatorial election cycle to assess changes in local economic conditions. Data on per capita income and unemployment were taken from the US Census and Bureau of Labor Statistics. I assume higher unemployment will have a negative impact on county level vote totals while increases in per capita income will have a positive impact.

Political Variables

I include three political dummy variables. First, I include a dummy variable to capture whether an incumbent governor is running. I predict it should be positive owing to the electoral advantages accruing to incumbent. Second, since approximately 15% of our county election results are during the 4 presidential election years of 1992, 1996, 2000, 2004, I include a dummy variable for whether the gubernatorial election was held during a presidential election year. I predict voter turnout should be higher during a presidential election year than during an off year election. Third, I include a variable for whether the governor's incumbent party is Republican or not. Since Democratic votes are concentrated in urban areas, I predict that the majority of county

level results should favor Republicans. Third, I include the percentage of the county voted Republican or Democratic in the 2000 presidential election as a measure of the underlying partisan tendencies of the district or normal vote. Finally, county population is included as a control.

The Electoral Impact of Trophy Industrial Recruitment Projects

The findings demonstrate that governors are held accountable for local economic conditions, and that trophy hunting is an excellent political strategy for governors to compensate for their relative lack of influence over economic conditions. The results from Table 1 suggest that by recruiting a trophy firm to the state, the governor's party candidate receives, on average, 5,417 more votes in that county and 2,257 more votes in each adjacent county in the subsequent election. There is a strong relationship between local economic conditions and gubernatorial vote totals. Each dollar increase in average county per capita income translates into one more vote for the governor. On the other hand, each one point increase in the average unemployment rate costs the governor on average 214 votes per county. The results paint a stark picture of why governors choose smokestack chasing over entrepreneurial policies. The short term political payoff from highly visible smokestack chasing strategies dramatically exceeds the even the most wildly successful, but less visible, entrepreneurial policies. Even if a governor's entrepreneurial policies were wildly successful in reducing county level unemployment by three percentage points during the election year, he or she would receive 643 more votes in the next election, or less than 12 percent of the votes they would receive from recruiting a trophy firm to that county.

Tables 1-3 Here

In approximately half of the states, the governor who recruited the trophy firm did not run for reelection. This raises the question of whether the gubernatorial candidate from the same

party as the governor benefits politically from the actions of their predecessor. To examine whether credit claiming activities of the incumbent “rubs off” on their partisan successor, I created an interactive variable for whether the incumbent governor who recruited the trophy firm was a candidate in that election (trophy x incumbent, adjacent trophy x incumbent) or not (trophy x no incumbent, adjacent trophy x no incumbent). Table 2 shows that both incumbent and non-incumbent governors benefited from the recruitment of a trophy firm, although incumbents receive 2,872 more votes in the county. It is not clear why incumbent governors lost significant votes in the adjacent counties.

Finally, we were also interested in whether smokestack chasing paid differing electoral rewards for Democratic or Republican governors. The results in Table 3 suggest an interesting relationship between the siting of trophy firms and the partisan attribution of credit. For Democratic governors, the electoral benefit from trophies comes entirely from the county that the trophy firm is sited, rather than the adjacent counties. For Republican governors, the electoral benefit is entirely from the adjacent counties. This result may be due to the fact that most of the trophy firms are sited in urban areas, which vote disproportionately Democratic, while the adjacent counties are suburban areas, which vote disproportionately Republican.

In each of the three models, three of the four political variables, incumbency, Republican, and population, are statistically significant and in the correct direction. Interestingly, the normal vote for the incumbent party is negative, although not statistically significant, which suggest that state gubernatorial elections are more competitive than presidential elections. Similarly, in each of the four models, our two economic variables, unemployment rate in the election year and increase in per capita income at the county level, were statistically significant and in the correct direction, suggesting that voters hold governors accountable for local economic conditions.

Conclusion

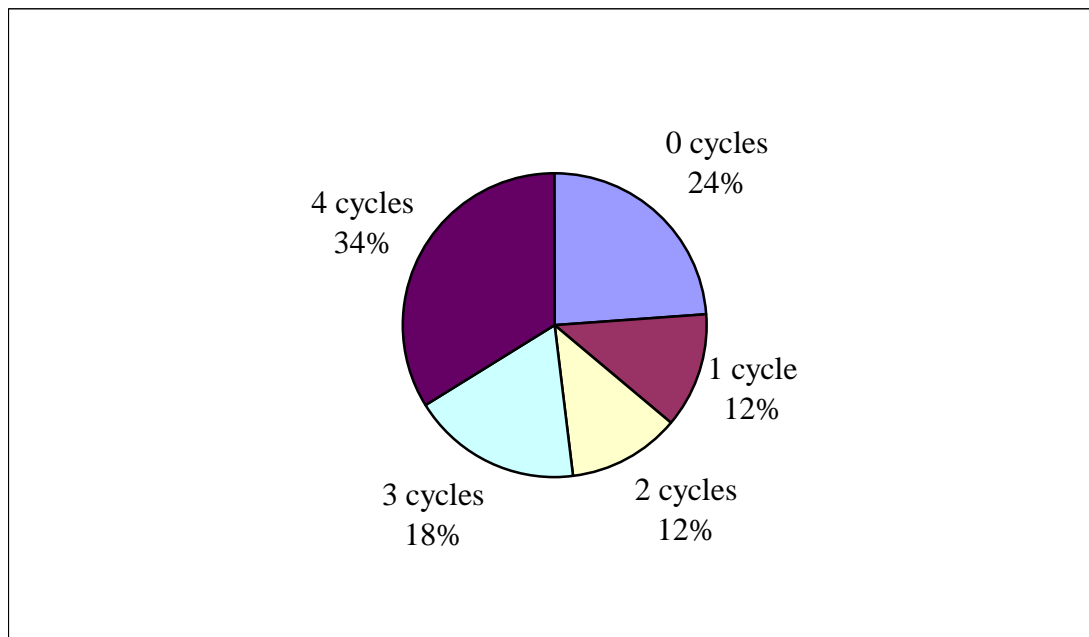
Do big economic recruitment victories in the economic development arena provide electoral benefits for the governors that recruit them? Yes. As a political strategy, trophy smokestack chasing or buffalo hunting is very sound. The conventional wisdom that groundbreaking ceremonies for new firms provide a valuable credit claiming opportunity for governors to demonstrate their capacity as a jobs rainmaker and commitment to a particular county is true for these trophy firms. The local electoral benefit from the highly visible trophy hunting dramatically exceeds the electoral benefit from lowering unemployment rates or increasing per capita income through less visible means. Moreover, these estimates of the electoral benefit of smokestack chasing in all likelihood under-estimate the actual electoral benefit from governors. The trophy variable only measures the pure credit claiming or symbolic impact of the recruitment of the trophy. The increase in per capita income and lowering of unemployment rates associated with the arrival of the trophy firm and raises per capita income. The unemployment rate in counties that received at least 1 trophy firm was 5.01% compared to 6.07% for the rest of the counties. Similarly, the increase in per capita income in counties that received at least 1 trophy firm was \$2,960 compare to \$2,163 for other counties.

These findings have important implications for both the research on state economic development policy making and the issue of whether governors are held accountable for economic conditions. First, these results are likely to prove disappointing to critics of the incentive war between the states (Burstein and Rolnick 1995), since they suggest the political advantages from the pursuit of short-term economic development strategies like industrial recruitment are potentially far greater than the long-term economic payoff from alternative economic development strategies. As noted earlier, there are estimated to be 200-300 major

projects each year, which, although smaller in economic size and visibility, would be reasonably expected to have a positive electoral impact. These results demonstrate why governors, particularly those facing difficult reelection campaigns, are tempted to join the incentive bidding war against the advice and pleading of academics and policy analysts.

Second, the results also contribute to the debate over whether gubernatorial elections are best understood as a referendum on the president or as a retrospective evaluation of gubernatorial performance. To date, no analysis has looked at the impact of county economic conditions on aggregate vote outcomes. As the discussion of state economic conditions above showed, there is significant variation in intra-state economic conditions such as unemployment and per capita income growth. The results presented here support the retrospective model of vote choice. Per capita income growth and lower unemployment rates at the county level are closely associated with increased votes for the governor.

Figure 1 State Success in Smokestack Chasing Over Time



Percentages refer to the number of states that successfully recruited at least one trophy firm

Table 1 Electoral Benefit of Smokestack Chasing

	B	Std. Error	p> z
Trophy	5417.14	1263.43	0.00 ***
Adjacent Trophy	2257.72	759.67	0.00 **
Per capita income	1.06	0.13	0.00 ***
Unemployment	-214.71	55.05	0.00 ***
Incumbency	1885.22	331.94	0.00 ***
GOP	1140.45	352.06	0.00 ***
Presidential election year	-13.50	11.95	0.00 ***
Normal Vote	5330.18	493.54	0.26
Population	0.11	0.00	0.00 ***
(Constant)	192.71	794.03	0.81

N=8325, Adjusted R²= .86

Dependent variable: county level votes for the Incumbent Party's gubernatorial candidate

Method: OLS Regression

Probabilities based on a 2-tailed test. *p<.10, **p<.05, ***p<.01

Table 2 An Incumbent Benefit Model of Smokestack Chasing

	B	Std. Error	p> z
Trophy x Incumbent	7476.21	1852.25	0.00 ***
Trophy x No Incumbent	4604.08	1778.54	0.01 ***
Adjacent Trophy x Incumbent	-5716.85	4144.41	0.17
Adjacent Trophy x No Incumbent	2509.30	1038.69	0.02 **
Per capita income	1.06	0.13	0.00 ***
Unemployment	-214.37	55.07	0.00 ***
Incumbency	1953.19	339.84	0.00 ***
GOP	1118.82	352.14	0.00 ***
Normal Vote	-13.21	11.96	0.27
Presidential election year	5336.23	493.71	0.00 ***
Population	0.11	0.00	0.00 ***
(Constant)	167.86	795.85	0.83

N=8325, Adjusted R²= .86

Dependent variable: county level votes for the Incumbent Party's gubernatorial candidate

Method: OLS Regression

Probabilities based on a 2-tailed test. *p<.10, **p<.05, ***p<.01

Table 3 A Partisan Benefit Model of Smokestack Chasing

	B	Std. Error	p> z
Trophy x Dem	11044.46	1712.28	0.00***
Trophy x GOP	-1041.16	1824.82	0.57
Adjacent Trophy x Dem	195.98	997.15	0.84
Adjacent Trophy x GOP	5036.32	1164.52	0.00***
Per capita income	1.06	0.13	0.00***
Unemployment	-214.62	54.95	0.00***
Incumbency	1899.83	331.62	0.00***
GOP	1103.90	362.88	0.00***
Normal Vote	-14.05	11.93	0.24
Presidential election year	5285.43	492.75	0.00***
Population	0.11	0.00	0.00***
(Constant)	208.60	793.00	0.79

N=8816. Adjusted R²= .86

Dependent variable: county level votes for the incumbent party's gubernatorial candidate

Method: OLS Regression

Probabilities based on a 2-tailed test. *p<.10, **p<.05, ***p<.01

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