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The Effects of Tax Increment Financing on Economic Development

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Abstract

Local governments attempt to influence business location decisions and economic development through use of the property tax. Tax increment financing (TIF) earmarks property tax revenues that result from growth in assessed valuation. The TIF revenues are to be used for economic development projects but may also be diverted for other purposes. Using data for the Chicago metropolitan area that includes information on property value growth before and after TIF adoption, we find evidence that cities that adopt TIF grow more slowly than those that do not. We test for and reject sample selection bias as an explanation of this finding.

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Do tax incentives affect business location and economic development? Evidence from state film incentives

2019, Regional Science and Urban Economics

Citation Excerpt :

...We also learn more broadly that even in cases where business location decisions are relatively insensitive to locational characteristics, and incentives are lucrative, incentives can still have little impact on business location and economic activity. These results mirror other studies of incentives that find few effects or even adverse effects on economic development (e.g., Schmenner, 1982; Plaut and Pluta, 1983; Carlton, 1983; Schmenner et al., 1987; Blair and Premus, 1987; Dabney, 1991; Bondonio and Engberg, 2000; Dye and Merriman, 2000; Lee, 2008; Hanson, 2009; Neumark and Kolko, 2010; Hanson and Rohlin, 2013; Freedman, 2015) but are in contrast to studies that do find meaningful effects (e.g., Bartik, 1985; Bartik, 1989; Walker and Greenstreet, 1991; Papke, 1991; Wu, 2008; Krupka and Noonan, 2009; Freedman, 2013; Strauss-Kahn and Vives, 2009; Rogers and Wu, 2012; Moretti and Wilson, 2014; Weinstein, 2018). Given that this case study of state film incentives is one where one would expect large effects, the conclusions of this study tip the non-consensus (Wasylenko, 1999; Buss, 2001; Arauzo-Carod et al., 2010) in the literature more towards a conclusion that incentives are generally ineffective at creating industry clusters or inspiring economic development....

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