

REGIONAL COMPETITION FOR DOMESTIC AND FOREIGN INVESTMENT:

EVIDENCE FROM STATE DEVELOPMENT EXPENDITURES

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ABSTRACT

We develop a model in which state governments spend funds on attracting capital with the intent of maximizing the domestic wage bill. Our results suggest that states are likely to spend more on industrial development as the share of manufacturing in the state labor force increases, and spend less on economic development as the state wage level increases. Empirical tests using state expenditure data confirm the predictions of the model.

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