

RSAEM

RESEARCH SEMINAR IN APPLIED ECONOMICS AND MANAGEMENT

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WHERE DOES OPPORTUNITY KNOCK? EXECUTIVES AND DISTRIBUTIVE POLITICS

How does an executive prioritize the competing goals of placating members of the legislative branch, securing their own reelection, and being an effective steward of the state? The Trump Tax Bill of December 2017, which gave U.S. state governors a one-time opportunity to distribute a geographically-targeted federal tax incentive, provides a useful case-study to examine this question. All 50 Governors were given the opportunity to designate census tracts within their state for preferential tax treatment. Within 120 days of passage, governors selected up to 25% of their eligible tracts, a short window that allows confident measurement of the political situation when the favor was distributed. Opportunity zones, being clearly intended to alleviate poverty, are more easily targeted to the governor's co-partisan voters and legislators when the governor is a Democrat. We build a model where governors of different parties are symmetric in their utility functions; the sole source of asymmetry is the targetability of the good in question. We then estimate the likelihood that an eligible tract is selected as a function of both the economic characteristics of the tract and the political characteristics of the governor and the relevant state and federal legislators. We find persistent differences between Republicans and Democrats. As predicted by our symmetric-utility model, Democratic governors targeted tracts largely based on poverty while Republican governors gave significant preference to legislative co-partisans. However, we also find that partisan differences are intensified among governors insulated from electoral pressures due to term limits or insulated from the need to reach across the aisle by virtue of controlling both chambers of the state legislature. These results are harder to explain without asymmetric utility.