



Do QACF Subsidies Lead to Increased Economic Activity?

The views expressed do not necessarily reflect those of the University of Central Arkansas.

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Outline

- QACF Background
- Possible Effects of the QACF
- Analysis and Results
- Conclusion

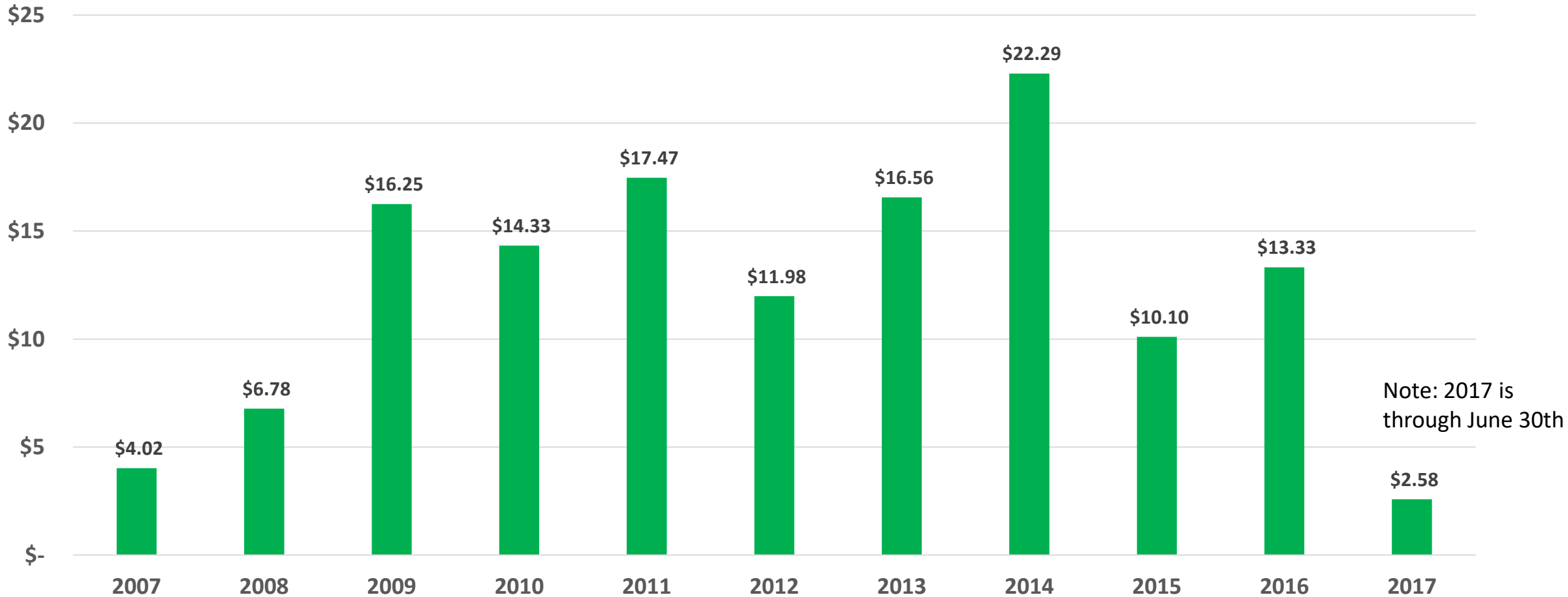


QACF Background

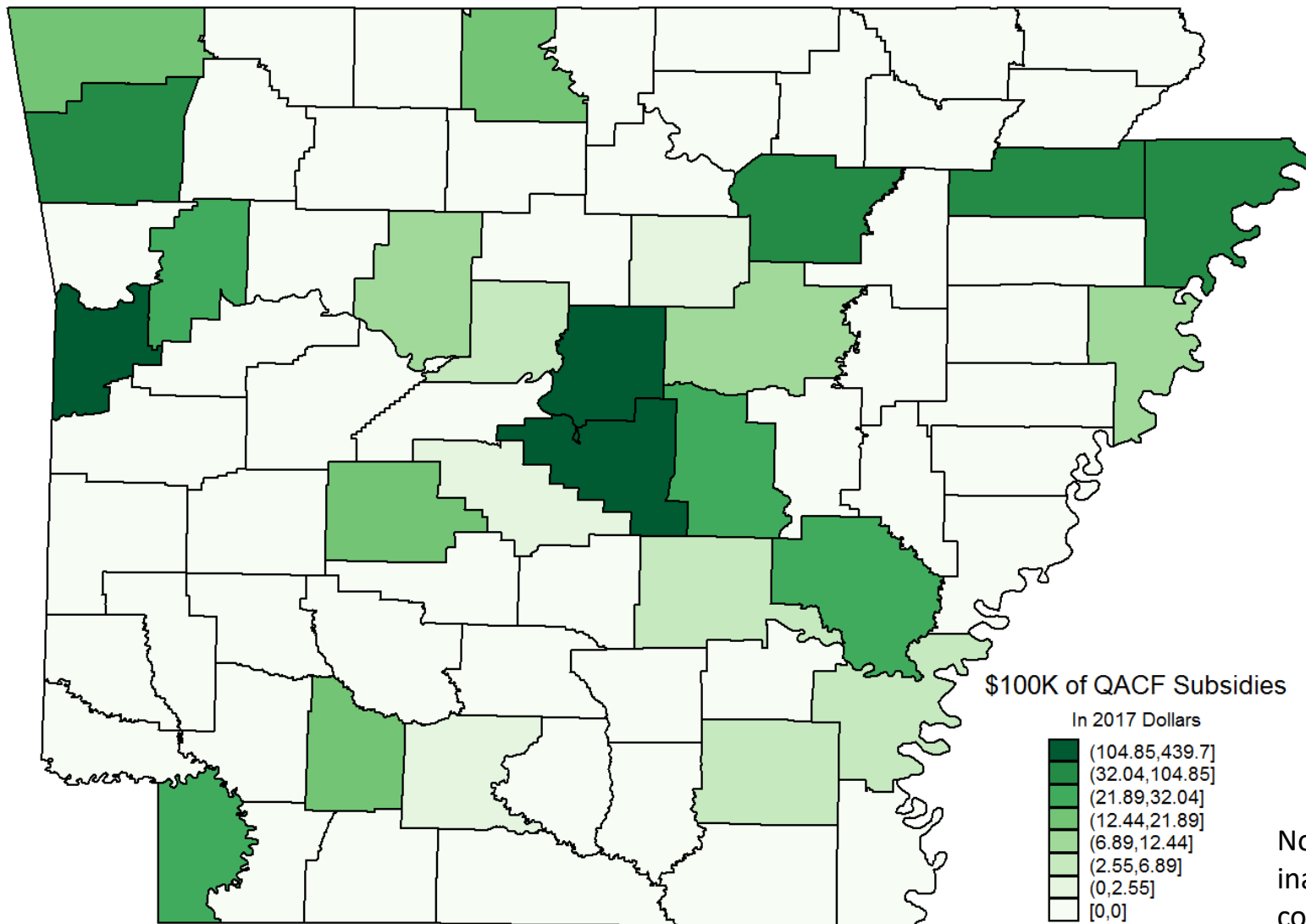
- “Deal-closing fund” created by Act 510 of 2007
- Discretionary cash grants
- Grants approved by Governor and reviewed by legislative council
- \$176,252,000 appropriated through FY 2017

Expenditures by Year

Millions of 2017 Dollars



Expenditures by County



Note: \$13.1M not included due to inability to trace funds to specific counties based on reporting methods.

Expenditures by Entity

Millions of Dollars



Fundamental Question

- AEDC reports 25,225 jobs promised by subsidized companies
 - 19,860 have been realized (AEDC)
- Narrow Effects vs Broad Economic Effects
- Do QACF subsidies have a significant relationship with county-level private employment and private establishments?

Possible Effects

- Positive
 - Direct activity
 - Indirect activity
- Negative
 - Crowding out
 - Fiscal costs
- Neutral
 - Offsetting effects
 - Profit motivations



Constructing the Model

- Analyzed Outcomes On:
 - Private employment
 - Private establishments
- 4-year cumulative effects
- Own-county & spillover effects
- Controlled for:
 - County Demographics
 - County Economic Factors
- Model spans 2009-2015



What Primary Model Tells Us

- “What is the expected change in County X’s employment if the value of QACF subsidies provided to its businesses increases by \$100,000?”
- “What is the expected change in County X’s employment if the value of QACF subsidies provided to businesses in its bordering counties increases by \$100,000?”

Results - Employment

- Own-county effect
 - No evidence QACF is related to jobs
- Spillovers
 - No evidence QACF is related to neighbor's jobs
- Conclusion
 - Reason to be skeptical of QACF

Variables	Employment Per 1,000 Population
QACF Subsidies (Cumulative)	0.211 (0.192)
QACF Subsidies in Border Counties (Cumulative)	-0.00352 (0.0855)
Average Wage	67.06*** (15.56)
Education	1.045** (0.522)
Population Density	27.35 (56.13)
Wealth of County	2.072 (13.82)
Age of Population	-103.3* (56.89)
Racial Composition	1.271 (1.514)
Observations	300
Number of Counties	75
R-squared	0.204

Robust standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Results - Establishments

- Own-county effect
 - No evidence that QACF is related to establishments
- Spillovers
 - QACF is negatively related to neighbor's establishments
 - Average county = lose 6 establishments per \$1M spent on border counties
- Conclusion
 - Reason to be skeptical of QACF

Variables	Establishments Per 1,000 Population
QACF Subsidies (Cumulative)	0.0208 (0.0188)
QACF Subsidies in Border Counties (Cumulative)	-0.0158* (0.00825)
Average Wage	0.824 (1.529)
Education	-0.146 (0.0883)
Population Density	-20.88*** (5.728)
Wealth of County	-1.258 (2.251)
Age of Population	2.575 (5.101)
Racial Composition	0.110 (0.103)
Observations	300
Number of Counties	75
R-squared	0.264

Robust standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Conclusion

- No evidence that QACF increases employment or establishments at county level
 - In line with existing studies
- Opportunity Cost
 - How else could we have spent \$176 million?
- Consider Eliminating Program
 - New Jersey
 - Florida



QUESTIONS?

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