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Location-Based Tax Incentives: Evidence From India

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May 2016

Abstract

While policies targeting particular geographic regions are widely used by governments, there have been few rigorous evaluations of their causal impacts. In this paper, I study the impact of a location-based tax incentive scheme in India. Using aggregated and firm-level panel data, I find large increases in employment, total output, fixed capital, and the number of firms as a result of the program. These increases are due to both the growth of existing firms as well as the entry of new firms. There is supporting evidence that the new firms entering the treated regions are larger and more productive. I find no evidence for relocation of firms or spillovers in industrial activity between treatment and control areas. Finally, using data from household surveys, I show that wages of workers rise but find no changes in housing rents or migration across the treated and control regions. My results therefore suggest that the policy increased welfare, and I also conclude that the policy was cost-effective. This provides support for “place-based” policies to correct for regional economic disparities, especially in settings with low labor mobility.

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