Income Redistribution, Economic Freedom and State Growth as considerations for Location Strategy

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Abstract

Based on data for all 50 U.S. states, this paper investigates if location strategy of company headquarters should consider economic freedom, income redistribution, and economic growth. As far as we know, economic freedom, income redistribution, and growth for U.S. states has not been presented as considerations for company headquarters location strategy in this manner before. If state and local governments encourage an environment consistent with economic freedom, they may be able to attract more businesses, which creates opportunity for citizens rather than more income redistribution programs. Claims about the redistribution of income are frequently presented as justification for tax incentives, regulatory policies, and other government programs which may ultimately damage economic freedom within states and potentially state economic growth.

Introduction

Selecting a location for a company headquarters is not a perfect science. Organizations must complete an external environmental scan and an internal scan to determine the location needs the organization must have. Decisions on headquarters location must not be made lightly, as these decisions will have a direct impact on the organization's ability to meet shareholder's needs. Organizations that strategically choose a location set themselves up for success, thus maximizing shareholder value (Manning, Rodriguez, & Ghosh, 1999). Organizations that seek relocation of the company headquarters for the sole purpose of lowering taxes or lease terms, are being near-sighted. Organizations must consider other factors, such as access to personnel, wage rate, unionization, taxes, business regulations, location of stakeholders, land prices, transportation, utilities (Bartik, 1985),(Newman, 1983) (Wasylenko & MCGuire, ____),(Ho, Lee, Ho, 2008).

Income redistribution programs are increasingly becoming recognized as a key factor which contributes to less economic growth. As argued by Pasour (1994), "The effectiveness of poverty relief is eroded over time because the programs create perverse incentives that affect both the poor and the non-poor. First, any program that transfers income to the poor decreases the incentives of the poor to provide for themselves. Consequently, donors face what has been termed a "Samaritan's dilemma." A dilemma arises because the assistance rendered will lead to a decrease in self-reliance and, consequently, an increase in the amount of need." Many would be surprised at the vast amount of wasted resources and the diminishing amount of incentives which is helping to build a pervasive culture of dependency.

What causes economic growth is one of the most enduring questions in economics. Adam Smith in The Wealth of Nations, argued that free markets, the protection of private property rights, and a minimal government presence in the economy leads to prosperity and growth. In other words, economic freedom leads to economic growth. Perhaps one of the greatest economic freedoms is the freedom to earn an income and then spend according to individual choices.

As a state pursues policies that ensure growth in economic freedom comes the issue of more income inequality. At some point, governments may and will try to step in to try and correct the bad side of a perhaps "unfair" economic growth by transferring income and resources to low-income groups of the population that are not enjoying the benefits from this growth. This income redistribution can raise the unemployment rate and make access to workers harder for businesses.

Empirical Model

To enhance the existing evidence and to examine the combined effects of economic freedom, and income redistribution on U.S. state economic growth, data for all fifty U.S. states is analyzed. Data is gathered for each U.S. state on economic growth, the degree of economic freedom in the state, income redistribution, other state control variables, and location strategy variables. The measure of economic growth used for each state is GSP where growth is then measured from one period to the next. This data will be taken from the most current report from the Bureau of Economic Analysis, published by the U.S. Department of Commerce. Economic freedom is an essential determinant of the state's ability to grow. For the purpose of this study, we have chosen to use the widely cited Fraser Institutes' index Economic Freedom of North America Index (Stansel, Torra, and McMahon, 2017). for each U.S. state as a general measure of the freedom of citizens to pursue economic activities.

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Keywords: Economic growth, Economic Freedom, Income redistribution, Welfare, Location Strategy, Corporate Headquarters Location

Relevance to Marketing Educators, Researchers and Practitioners:

We posit that organizations may use the Economic Freedom Index as a consolidated resource in location strategy. Therefore, resources of time and money are saved, further contributing to maximizing shareholder wealth.

Track: Marketing Strategy

ID#: 1327