State Policy to Attract Investment Based on Tax Exemption: Economic Analysis of Developing Countries in the 2016-2022 Period

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Abstract

This paper is intended to respond to the following questionings: facing national policies dismantling, which focused on regional development and heterogeneity obliteration among the different regions, how much can state tax and financial incentives alter inter-regional labor division and change territorial productive specializations? Do fiscal incentives necessarily change state industrial activity within national production? Do they bear straight relation to the state productive structures’ alterations? The subsidizing data, for the present analysis, illustrate that tax reduction do not necessarily contribute to regional industrial activity decentralization. Furthermore, many of the activities which were favored by the aforementioned incentives and presented spatial decentralization were also influenced, to a considerable extent, by other conditioning circumstances, mainly observed in non-durable consumer goods’ producing activities.

This paper aims to show that the Ceará State policy of attraction of companies, since the years 2018-2022, was not capable of modify the participation of the state in the Value of the Industrial Transformation, neither promote significant changes in its productive structure in a way to offer greater diversification and bigger complexity of its industrial structure.

Keywords: Fiscal War, National Development, Regional Development, Local Development, Federalism.

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A. INTRODUCTION

The main objective of this article is to analyze the ability of decentralized public policies to attract investments – promoted in isolation by state governments based on fiscal competition, which in the literature was called fiscal war – to promote changes in state productive structures and reduce regional heterogeneity in the generation of income and wealth in Brazil (Wall et al., 2019; Majid, 2020). To carry out this discussion, a case study of the state of Ceará will be presented, which, since the 1990s, has made its state policy of attracting investments more aggressive, similarly to other federated entities, in a progressive situation of generalization of tax war (Nikulina et al., 2019).

Therefore, the intention is to answer the following question: in view of the dismantling of national policies that aimed at regional development and overcoming regional heterogeneities, what is the capacity of state fiscal and financial incentives to change the interregional division of work and change regional productive specializations?

It is noteworthy that, although the fiscal war has different analytical dimensions, our purpose consists of an interpretation of this fact as an instrument of
regional and industrial development policy (Kostioukevtech et al., 2020). That is, we want to assess the ability of the so-called fiscal war – generally addressed in the literature, based on its aspects related to federative and tax issues – to increase productive investments in the State of Ceará, interfere in the process of spatial deconcentration of industrial activity and contemplate activities that do not significantly compose the state productive structure.

It is argued in this article that despite the transfer of high resources to private companies in the State of Ceará, its policy of attracting companies showed important limitations as a policy aimed at overcoming regional inequalities. The discussion of the fiscal war theme in a specific dimension of a possible regional and industrial development policy must take into account that capital has fluidity in the national territory, however there are limits to its mobility towards poorer states and with less complexity of its economic structures (Dao et al., 2020; Zafar et al., 2019). Such limits are not overcome by isolated investment attraction policies.

In addition to this first introductory section, this article presents three more sections and final considerations. The second section presents the concept of tax war and argues that the country’s federative structure and the taxation rules of the Tax on Circulation of Goods and Provision of Services (ICMS) are not sufficient factors for the occurrence of the tax war, since the competitive character of the dispute between the federal entities is closely related to the political and economic reforms implemented in Brazil in the 1990s. The third section presents the instruments used by the State of Ceará in the interstate competition for productive investments and it is emphasized that these instruments take on greater strength from the 1990s onwards (Sawley et al., 2019; Francois et al., 2020).

The fourth section presents data on encouraged investments and discusses possible impacts of these investments on various aspects of Ceará’s economy, such as participation in different industrial activities in the national Industrial Transformation Value (VTI), labor market, among others. This section also discusses which activities were most encouraged in the period, as well as the weight of benefits granted to companies in relation to ICMS collected. Such aspects of the investment attraction policy will be analyzed based on data on the volume of tax incentives made available by the Secretariat of Finance and the Secretariat of Planning of the State of Ceará (Khalivko et al., 2021; Hooijmaaijers, 2019).

The fiscal war, in this work, is defined as a fact that occurs in federative countries as the Federation Units (FUs) intensify their competitive postures to attract productive investments through the use of fiscal and budgetary instruments. It is, therefore, a situation in which the FUs compete to offer a greater number of “comparative” advantages to the private sector, by promoting true investment incentive auctions, which correspond both to new investments (domestic or foreign), and the relocation of companies within the same national territory (Medve, 2020; Mardievna & Boltaevna, 2021; Yakulchuk et al., 2020). The essential issue that should be emphasized is that the fiscal war is characterized when non-cooperative actions assume a large proportion and occur in an isolated, disorderly and disjointed way,
without effective actions by the central power to regulate and articulate the different state policies. That is, the policies are implemented taking into account only the gains of the UF that practice them, not being an action within a national development policy.

Among the explanatory factors for the occurrence of the fiscal war in Brazil, it should be noted that this posture is directly related to the Brazilian tax system, in which the most important Value Added Tax (IVA), the ICMS, has characteristics that make it possible to increase of federative conflicts: the aforementioned tax belongs to state governments, contrary to the worldwide trend in which, in federative systems, VAT is the responsibility of the central power or is inserted in a system in which both the central power and the subnational power have competence on the tax at the same time. (Manning & Richter, 2022; Fahad et al., 2020). Despite keeping this close relationship with the national tax system, the tax war is intensified due to the confluence of this aspect of the problem with another explanatory element: the reduction of the federal government’s participation in the promotion of regional development policies and the responses given by the governments states in a context of spending constraints.

The intensification of interstate competition in Brazil for productive investments is directly related, on the one hand, with the very configuration of world capitalism, whose dynamics in recent decades are based on the transnational expansion of capital, whose valuation logic leads large business groups to search for the best profitability conditions, promoting real auctions between countries, between regions, between states and between cities. On the other hand, there was a weakening of state intervention and regulation instruments in Brazil, carried out by liberalizing reforms, which annihilated an institutional framework capable of synergistically articulating the three spheres of government in a national development project. (VIEIRA, 2009).

In this sense, we see that the theme of the fiscal war leads us to an extremely important factor that consists of the relations, so neglected in economic analyses, between the State and the Market, while it is perceived that the fiscal war reveals an expressive subordination of the public power to market forces. The liberalizing reforms implemented in Brazil imprinted a rationality of their own to public policies with regard to the promotion of economic development, because, as the instruments of State intervention in the economy are annihilated, private investment becomes the main responsible for the dynamics of economic growth. The public authorities, therefore, assume responsibility for allowing the proper functioning of the market and reducing production costs. This neoliberal “adjustment” also affects state governments, which lose important instruments of intervention and policy formulation, as happened with the privatization of banks and state-owned companies (Chauraisya et al., 2019; Matura, 2019). Add to these elements the fiscal adjustment, the immobilization of subnational spending and the reduction in the state and municipal governments’ debt capacity, which constitute real limits to public intervention within a true and necessary development policy (Zhu et al., 2019; Rajabov & Mustafakulov, 2020).
Although tax competition is a phenomenon extremely related to the country’s federative organization and the taxation rules of the main state tax (ICMS) and has manifested itself in other economic and political contexts in the decades of 1960s and 1970s, it was from the 1990s onwards that the posture of state (and municipal) governments became more aggressive. The exacerbation of rivalry between subnational units of government in the 1990s is a by-product of the adopted economic model. This model, with regard to regional issues, triggered the ideal of local development, causing localities to enter into a kind of war of places to be elected as the locus of the capital appreciation process. Fundamentally, the aim is to draw attention to an extremely important element: in Brazil, there are no solid mechanisms to control market forces and, therefore, the weakening of development policies coordinated by the National State allow the subsumption of localities to the logic of capital accumulation, in a mechanism in which the state and municipal public authorities make large concessions to the private sector even in a context of highly weakened finances and with the immobilization of their expenses (Tan & Zhao, 2019).

The resumption of foreign direct investment, along with the other factors mentioned above, form the set of explanatory elements of the fiscal war around some sectors, mainly the automotive sector. However, this element is not a relevant factor for all industrial sectors, and is more due to the dynamics observed in the automotive sector. In the case of the State of Ceará, which will be addressed in the next item, a small participation of foreign companies can be seen among the companies receiving incentives.

In summary, in addition to the factors that are widely analyzed in the literature, the fiscal war is interpreted as the result of a process of increased territorial competition in the face of the tendency to value decentralized industrial policies from the perspective of endogenous local development, in which governments states use tax incentives as the main instruments for formulating investment attraction policies. In other words, what the subnational governments forgo consists of a potential revenue, which does not exist at the time of granting incentives, except when the incentive is extended to companies that have already been established previously. The understanding that the state is central to understanding how, in a situation of weakened finances (given that in the 1990s several states had fiscal and financial problems) and with limited spending (recalling that in the 1990s state governments underwent fiscal adjustments, financial and patrimonial assets and in the 2000s the Fiscal Responsibility Law was instituted, subnational governments can make “policies” to attract investments.

B. METHOD

This study uses a type of qualitative research using descriptive analysis. Qualitative methods in the field of economics are a method of research that collects data and information through direct observation, interviews, and document studies to understand complex economic phenomena and the complexity of human interaction in an economic context. Qualitative methods are usually used to answer...
questions that are difficult to measure with numbers or statistics, such as subjective experience or perceptions of economic actors. Some of the techniques used in qualitative methods in economics include:

1. Interviews: Interviews can be conducted with economists, businesses, customers or other interested parties to understand their views and experiences on complex economic issues.

2. Observation: Observation involves direct observation of economic interactions in real contexts, such as observations of consumer behavior in stores or the behavior of business people in the market.

3. Case studies: Case studies involve in-depth analysis of specific cases, such as an analysis of a company’s business strategy or an explanation of the success or failure of an economic policy.

4. Content analysis: Content analysis involves identifying and analyzing the content of documents, such as policy documents, financial reports, or media articles, to understand economic-related views or policies.

Qualitative methods in economics are very useful for gaining in-depth understanding of complex and multifaceted economic phenomena, as well as assisting in formulating more effective and efficient economic policies.

C. RESULT AND DISCUSSION

1. Economic Analysis and Policies of Developing Countries

Before starting the analysis of the investment attraction policy in the State of Ceará, it is necessary to make some methodological considerations about the data used in this item. Data on incentive investments correspond to information made available by the Economic Development Council of the State of Ceará and refer to investments made using incentives. It is worth mentioning that the database we used also had investments in the protocol and those in the implementation phase, which were discarded so that we could only work with the investments actually made.

Whenever we refer to foreseen or projected jobs, it will be information referring to the investments actually made, but we know that, in the case of jobs, they are projections made by the respective companies. Therefore, in order to assess the effective changes in the labor market, we will use employment data from the Annual Industrial Survey (PIA) of the Brazilian Institute of Geography and Statistics (IBGE) or formal employment data from the Annual Social Information Report (Rais).

All information on encouraged investments, projected jobs, amount of incentives targeted at benefiting companies, were obtained through research and interviews carried out at the Ceará State secretariats responsible for formulating and implementing the investment attraction policy.

If we had chosen to carry out an assessment of the relative weight of investment in each industrial activity in the total incentivized investments, we would have made the mistake of treating industrial activities that have unequal capital/labor ratios in a similar way. For example, an investment decision by a company producing durable consumer goods would have similar weight to the investment of several companies...
producing non-durable consumer goods. In this sense, while being aware of the limitations, for the sectorial assessment of encouraged investments, we chose to consider the relative weight of the encouraged investment on the VTI referring to the same industrial activity, as in this way we can assess whether it is about investments in sectors that already make up significantly the state productive structure, or if the state is attracting, in a significant and sustainable way, investments capable of changing the composition of its state productive structure.

In order to assess the participation of industrial activities in the national VTI and the composition of the state’s productive structure, we divided them into three groups: group predominantly producing non-durable consumer goods (GI); intermediate goods producer group (GII); group producing consumer durables plus capital goods (GIII). This feature is justified for, on the one hand, assessing the degree of complexity of the state’s industrial structure, as productive structures with a large weight of companies producing non-durable consumer goods are less complex productive structures, given that the industrial activities that possess the power to impart an “endogenous” dynamic to industrial growth, as highlighted by economic theory, consist of those classified as producers of durable consumer goods and capital goods. On the other hand, this resource is used to emphasize the need for sector-specific policies and, with regard to the relationship between industrial activity and territory, to show the limits to deconcentration, that is, to the raising of more complex and voluminous capital by certain fractions of the territory.

2. Data Analysis

The industrial production of the State of Ceará corresponded to 1.2% of the national VTI in 2022, the year in which its production of Non-Durable Consumer Goods (GI) consisted of 2.3% of the national VTI referring to this group, being even less the state’s participation in the national VTI corresponding to Intermediate Goods (GII) and Capital Goods plus Durable Consumer Goods (GIII) is significant, respectively 0.8% and 0.4%. These shares reflect the composition of the state’s industrial structure, which is not very complex, with a large weight of the goods that make up the GI, although this group has lost its share in the state’s industrial structure between 1985 and 2022, going from 79.1% to 62.9 %. On the other hand, the composition of the productive structure of the state showed an increase in the weight of the GII, which went from 17% in 1996 to 30.4% in 2022, while the GIII presented a decrease of 2 percentage points between 1985 and 2022, finding up in the last year at 6.7%.

Following the problem presented in the introduction, it is worth remembering the central question of this article: the policy of attracting investments in the State of Ceará was able to attract dynamic industries, capable of significantly altering the industrial structure of the state, or reinforced the participation of the state as a producer of non-durable consumer goods?

In the period from 1995 to 2002, this policy mostly contemplated industries producing non-durable consumer goods, which accounted for 72.1% of the total
investments encouraged. Among these activities, the industrial category with the greatest weight consisted of Textiles with 27.6%, followed by Food and Beverages (23.5%), Footwear (14%) and Apparel (5.7%). The activities of the GII and GIII had, respectively, 18% and 9% of total investments.

With regard to the origin of encouraged investments, 52.4% corresponded to investments from the state itself, 22.3% from SP, 9.4% from RS and 8.4% from other countries. Investments declared as originating from capital from Rio Grande do Sul correspond, for the most part, to the implementation of Leather and Footwear companies.

The low participation of encouraged foreign investments shows that the resumption of Foreign Direct Investment (FDI) in Brazil cannot be identified, for all states involved in the fiscal war, as one of the explanatory elements for the intensification of disputes between UFs for new investments. Disputes surrounding activities such as Assembly of Motor Vehicles, which involve a large volume of investments and were the target of federal disputes, may have as an explanatory element the resumption of FDI. However, the poorest and most peripheral states compete for investments, roughly speaking, of lesser complexity and, to a large extent, of national capital. In the case of Ceará, local capital benefited from a significant part of the benefits.

**Table 1. Industrial Activities Driven by Developing Countries Fiscal Incentive Policies and Investor Income in 2018-2022**

<table>
<thead>
<tr>
<th>Economic activity</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Transformation</td>
<td>16.0</td>
<td>5.8</td>
<td>4.0</td>
<td>4.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Food and drinks</td>
<td>4.4</td>
<td>5.0</td>
<td>1.6</td>
<td>7.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Smoke</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Textile</td>
<td>23.0</td>
<td>7.3</td>
<td>8.6</td>
<td>0.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Clothing &amp; Accessories</td>
<td>35.5</td>
<td>2.4</td>
<td>6.2</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Leather and Footwear</td>
<td>10.5</td>
<td>8.0</td>
<td>2.4</td>
<td>1.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Wood</td>
<td>6.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Paper and Cellulose</td>
<td>6.0</td>
<td>6.3</td>
<td>7.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Editing, Printing and Recording</td>
<td>0.0</td>
<td>3.1</td>
<td>0.1</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Oil derivates</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1.8</td>
<td>5.7</td>
<td>0.0</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Rubber and Plastic</td>
<td>62.9</td>
<td>2.4</td>
<td>19.7</td>
<td>61.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Non-Metallic Minerals</td>
<td>3.4</td>
<td>3.7</td>
<td>3.4</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Basic Metallurgy</td>
<td>0.0</td>
<td>32.2</td>
<td>1.1</td>
<td>4.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Metal products-except</td>
<td>0.0</td>
<td>1.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Machines</td>
<td>70.1</td>
<td>3.6</td>
<td>3.4</td>
<td>26.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Office and computer machines</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Electric materials</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Electronic Material</td>
<td>0.0</td>
<td>183.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Medical-hospital equipment</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Manufacture and Assembly of Vehicles</td>
<td>51.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Other Transport Equipment</td>
<td>0.0</td>
<td>8.9</td>
<td>324.8</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Activities that had a ratio greater than 100%, such as Pulp and Paper Products and Basic Metallurgy in 1996, Manufacture of Electronic Materials and Communication Devices in 1997 and 1999, Manufacture of Motor Vehicles in 1999, and Other Transport Equipment in 2000 five activities have little weight in the composition of the industrial structure of the state, which made the weight of encouraged investments very relevant.

Analyzing Table 1 and Table 2 comparatively, with regard to Paper Products, the state’s participation in the national VTI increased from 0.1% in 1985 to 0.2% in 1996 and 0.5% in 2022. The incentives were directed towards less complex activities, such as packaging, labels, boxes, activities that may have had a high demand in the State of Ceará due to the dynamics presented by other encouraged activities, such as the footwear production segment, for example.

The state also increased its participation in the national VTI with regard to Basic Metallurgy, which increased from 0.2% in 2018 to 0.4% in 2022. (Table 2). Incentivized companies also predominantly produce less complex items, such as the manufacture of aluminum sheets, stamping, frames, among others.

Electronic Material and Communication Devices, which, according to Table 1, presented, in 2018 and 2019, a ratio between Incentive Investment and VTI, respectively, of 222.7 and 183.8, had participation in the national VTI around 0.3% in 2021 (Table 1) and the activities encouraged in this industrial segment corresponded to the production of basic electronic material. The data in Table 1 show that the State of Ceará had insignificant national participation for this industrial segment until 2022.

The magnitude of the relationship between encouraged investment and VTI for Other Transport Equipment, an activity for which the State of Ceará lost national participation between 2018 and 2022, is due to a company producing Motorcycles and Bicycles. Incentivized investments referring to the Manufacture of Motor Vehicles consist of investments by Troller, in 2017 (recently acquired by Ford), while in 2018 they refer to the production of auto parts and accessories for vehicles. The participation of the aforementioned industrial activity in the national VTI did not change between 2018 and 2022, appearing in the latter year at around 0.1%, according to Table 1.

The information presented above highlights the difficulties for the more peripheral states to attract more complex activities from the GIII, which result from a series of blocks to their spatial deconcentration. That is, in a context of increased interstate disputes over investments, industrial activities that have production units with large capital absorption and, consequently, a large capital-labor ratio and large production scales (capable of serving the regional market, the national market and the world market), tend to be located in the dynamic pole or in regions close to the pole. In this way, the effort of the peripheral states in granting benefits is not enough to substantially change the logic of the locational decision of these industrial activities.

<table>
<thead>
<tr>
<th>Furniture and Miscellaneous Industry</th>
<th>25.3</th>
<th>21.3</th>
<th>2.1</th>
<th>19.1</th>
<th>20.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycling</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
It can be seen from Table 2 that, among the encouraged activities, only Leather and Footwear showed a significant increase in participation in national VTI, rising from 1.2% in 2018 to 15.5% in 2022. The weight of Ceará industry in national footwear production has been progressive since the second half of the 2019.

Its participation in the national VTI, or kept it stable, as was the case of Food and Beverages, Textiles and Apparel. The incentives directed towards these activities were not enough to significantly increase Ceará’s participation in the national VTI corresponding to these goods because they mostly benefited companies already installed in the state, as illustrated in Table 3. According to Rocha (2004, p. 70), “in order to preserve the competitiveness of the local industry, the Government was forced to give in to many of these pressures and also grant tax benefits to companies from Ceará, which affected the real tax collection base of the State”.

Once again, we emphasize that the state did not capture, significantly, through tax incentives, more complex investments from the GIII. In this sense, the fiscal war does not break with the concentrating logic (territorially) of capital referring to Capital Goods and Durable Consumer Goods.

Companies producing Leather and Footwear are mostly from SP and RS (more from the latter state than from the former) and increased their share in the state VTI from 11.3% to 23.1%. This consists of the activity in which Ceará was most “successful” in the Fiscal War. However, it should be noted that the attractiveness of the Northeastern states is not limited to tax incentives, but also to elements linked to the organization of the labor market in the region, which consists of a workforce with lower wages and less union organization, elements of high attractiveness for investors.

As we saw earlier, the Leather and Footwear activity is among the most encouraged in the State of Ceará and was the one that presented the greatest gains in state VTI. In addition, the state significantly increased its share both in national VTI and in national footwear exports. Those encouraged in that activity were, for the most part, coming from the states of Rio Grande do Sul and São Paulo, and that other Northeastern states entered the dispute for those investments. It is noteworthy that, in addition to tax incentives, another important factor for this expansion of the footwear sector in the State of Ceará (as well as in other northeastern states, for example Bahia) may consist of the lower wages that prevail in the Northeast region.

Graph 1 shows that average wages in the Leather and Footwear sector in the states of Ceará and Bahia are much lower than those in the states of São Paulo and Rio Grande do Sul, as well as the Brazilian average. While Brazil, Rio Grande do Sul and São Paulo showed a drop in average wages in the industrial sector analyzed, between 2016 and 2017, with subsequent continuous growth, the State of Ceará showed growth throughout the period from 2017 to 2022. However, average earnings in the State of Ceará corresponded to 83% of the national average in 2022, while those presented by Rio Grande do Sul and São Paulo corresponded, respectively, to 110% and 116% of the national average. In the State of Bahia, after a sharp drop in the period from 2017 to
2019, average earnings recovered their real value, reaching around 81% of the national average.

The analysis of the percentage of workers employed in the Leather and Footwear segment who earn up to two minimum wages reveals that in 1995, the CE had 85.9% of workers in this income range, a percentage that rose to 94.7% in 2020. What most calls attention is the increase in the percentage of workers in this income range for the other three states, including SP and RS.

In this sense, we see that the fiscal war contributed to this industrial segment moving mostly to locations with workers with lower incomes. On the other hand, there is also an increase in the share of workers with lower incomes in states where labor is more expensive. In this sense, we see that in addition to the large transfer of public resources to private groups, the fiscal war can contribute to the trend of flattening income in the country as a whole, since the frequent threat of relocation of companies, due to interstate competition, weakens further strengthen the negotiating capacity of workers in the most dynamic regions.

D. CONCLUSION

Based on the results of data analysis, it can be concluded that the initiatives of subnational units are isolated and have no coordination by the federal government in national policies regional development, government action (whether municipal or state) assumes a highly competitive dynamic, in which disputes develop over who offers the greatest incentives. So, the greater the competition, the greater the cost to attract companies. In other words, the deconcentration process triggered in this way has higher and higher costs. Incentives, however, are unable to break the logic of capital concentration.

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