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Place-Based Jobs Policies

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Main Points

1. Place-based jobs policies can increase *long-term* employment rates in distressed areas.

2. Current incentive policies are wasteful, both in targeting and design.

3. Policy reforms can lower cost per job created, and increase employment-rate effects per job created.
# Geographic Disparities in Employment Rates

## Employment Rate for "Prime-Age" (25-54), 709 U.S. "Commuting Zones," 2017

<table>
<thead>
<tr>
<th>10th Percentile</th>
<th>25th Percentile</th>
<th>Median</th>
<th>75th Percentile</th>
<th>90th Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>78%</td>
<td>80%</td>
<td>82%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Statistics are weighted by commuting zone population.
“Jobs to People” Has Potential

• In long-run: 20-30% of new jobs increase local employment rate, 70-80% boost population.

• Why: SR job experience has LR “skill” effects.

• Local job growth’s major benefit is higher E/Pop, not fiscal benefits.

• E/Pop effects 2/3rds higher in depressed areas (e.g. up to 40% share of new jobs raising employment rate).

• E/Pop share affected by local workforce institutions.
## Current Place-Based Policies

### Place-based Jobs Policies: Annual Resources, Billions of $

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Annual Resources, Billions of $</th>
</tr>
</thead>
<tbody>
<tr>
<td>State/local business incentives</td>
<td>47</td>
</tr>
<tr>
<td>Other state/local programs</td>
<td>3</td>
</tr>
<tr>
<td>Federal tax incentives</td>
<td>5</td>
</tr>
<tr>
<td>Federal spending programs</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>
Incentives have Tripled

Incentives as % of value-added

- 0.0%
- 0.5%
- 1.0%
- 1.5%
- 2.0%

Incentives are Wasteful

• Targeted at “tradable” industries, but not targeted by industry wages, R&D.

• Disproportionately to large firms.

• Excessively long-term, half after 5 yrs
Incentives at High Level through Year 10

Annual Incentives, Various Years of Investment Decision

% of VA vs. Year of Location/Expansion Decision
Incentives are Wasteful

• Targeted at “tradable” industries, but not targeted by industry wages, R&D.
• Disproportionately to large firms.
• Excessively long-term, half after 5 yrs
• Incentives not higher in distressed states or distressed places w/i states.
• “But for” only 10-15% (85% just costs)
Reforms to Place-Based Jobs Policies

• Target distressed areas.

• Limit to first 3 years, non-refundable, max of $20K/job.

• Shift more resources to customized business services & infrastructure.
Customized Business Services & Infrastructure

- Manufacturing extension, customized job training: create jobs in smaller businesses at 1/10th cost of incentives.
- Infrastructure, neighborhood services, brownfield: 1/5th costs.
- Why cheaper: directly deal with problems that impede job growth.
Reforms to Place-Based Jobs Policies

• Target distressed areas.
• Limit to first 3 years, non-refundable, max of $20K/job.
• Shift more resources to customized business services & infrastructure.
• Encourage more local hiring of non-employed.
Encouraging Local Hiring

• Customized job training.
• Minnesota MEED: discretionary wage subsidies w/ screening of both job seekers & employers.
• Neighborhood Employment Hubs.
• Employer Resource Centers.
• Other ideas?
Economic Development Policy is Part of Labor Market Policy

• Local job growth not good in itself, but as way to increase E/Pop.
• Makes more sense w/ lower costs per job & higher benefits per job.
• Lower costs: upfront incentives; more business services & infrastructure.
• Higher benefits: target distressed areas; increase local hires.