Place-Based Jobs Policies

Timothy J. Bartik
W.E. Upjohn Institute, bartik@upjohn.org

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Place-Based Jobs Policies

Tim Bartik
Senior Economist
W.E. Upjohn Institute for Employment Research
bartik@upjohn.org

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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

<table>
<thead>
<tr>
<th>Place-based Jobs Policies: Annual Resources, Billions of $</th>
</tr>
</thead>
<tbody>
<tr>
<td>State/local business incentives</td>
</tr>
<tr>
<td>Other state/local programs</td>
</tr>
<tr>
<td>Federal tax incentives</td>
</tr>
<tr>
<td>Federal spending programs</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Incentives have Tripled

Incentives as % of value-added

- 1990
- 1995
- 2000
- 2005
- 2010
- 2015
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

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 $1/10^{th}$ cost of incentives.
- Infrastructure, neighborhood services, brownfield: $1/5^{th}$ 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.