9-5-2019

What Should States Do about Incentives?

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

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

September 5, 2019

Testimony before Senate Select Committee on Economic Growth Strategies, New Jersey Senate
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Model State Incentive Reforms

- “But-for” for incentives < 25%. Hard to target firms to boost.
- Incentives’ fiscal benefits low due to public service costs.
- Encourage hiring of local non-employed by: (1) targeting distressed areas; (2) tying incentives to “first source” hiring agreements or customized training.
- Avoid excessive incentives: Avg national incentives $33K/job, New Jersey at $66K, but not twice as effective.
- Avoid long-term incentives (NJ heavily uses): Upfront incentives 40% more effective, as firms heavily discount. Use clawbacks.

Other Policies Can Create More Jobs per $ than Incentives

- Customized job training 10 times as effective as incentives; other skills development can also be effective.
- Manufacturing extension programs 10 times as effective as incentives; other small business development programs also cost-effective.
- Infrastructure programs (highways, transit, industrial or research parks, brownfield redevelopment) can be 5 times as effective.

Virginia Amazon example

- Virginia attracted Amazon with tax incentives of $10K to $20K per job, depending on how calculated.
- Virginia awards one-time incentives per job created, but payment not made until 4 years later, & is calculated as job credit times LOWER of (initial jobs, 4-year average jobs).
- For 38K Amazon jobs, Virginia combined up to $750M in tax incentives with around $1.3B in investments, including new NoVA campus for Va Tech, expanded computer skills in K-12 & post-sec across states, & transit/highway improvements.

Oregon discretionary incentives

- Discretionary incentives awarded as forgivable loans, to allow easier clawbacks if jobs not maintained.
- Give priority to business projects that provide “public benefits”
- Example of public benefits: “First Source Hiring Agreement” to ensure unemployed/underemployed/hard-to-employ are priority targets for open jobs.
- Other example: local youth internship programs.
- Other example: company career ladders that encourage internal promotions
- Other example: adoption of plan to increase firm’s local purchases.

North Carolina tiers

- North Carolina annually divides its 100 counties into 3 tiers: 40 most distressed, 40 in middle, 20 least distressed.
- Distress criteria vary over time. Currently include: average unemployment rate, median household income, % growth in population, and property tax base per capita.
- More distressed tiers get higher incentives, and local government contribution is less.

Summary

- New Jersey should cut average per job amount of its incentives by at least one-half or more.
- Incentives should be awarded up-front, with clawbacks that can be enforced (forgivable loans, delayed payment)
- Maximum incentive only available in distressed areas, based on objective economic criteria.
- Tie incentives to local hiring, particularly of non-employed.
- Use savings from lower incentives to invest in skills training, small business services, infrastructure, & land development.