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Should Place-based Jobs Policies Be Used to Help Distressed Communities? Yes, but current policies need reforms.

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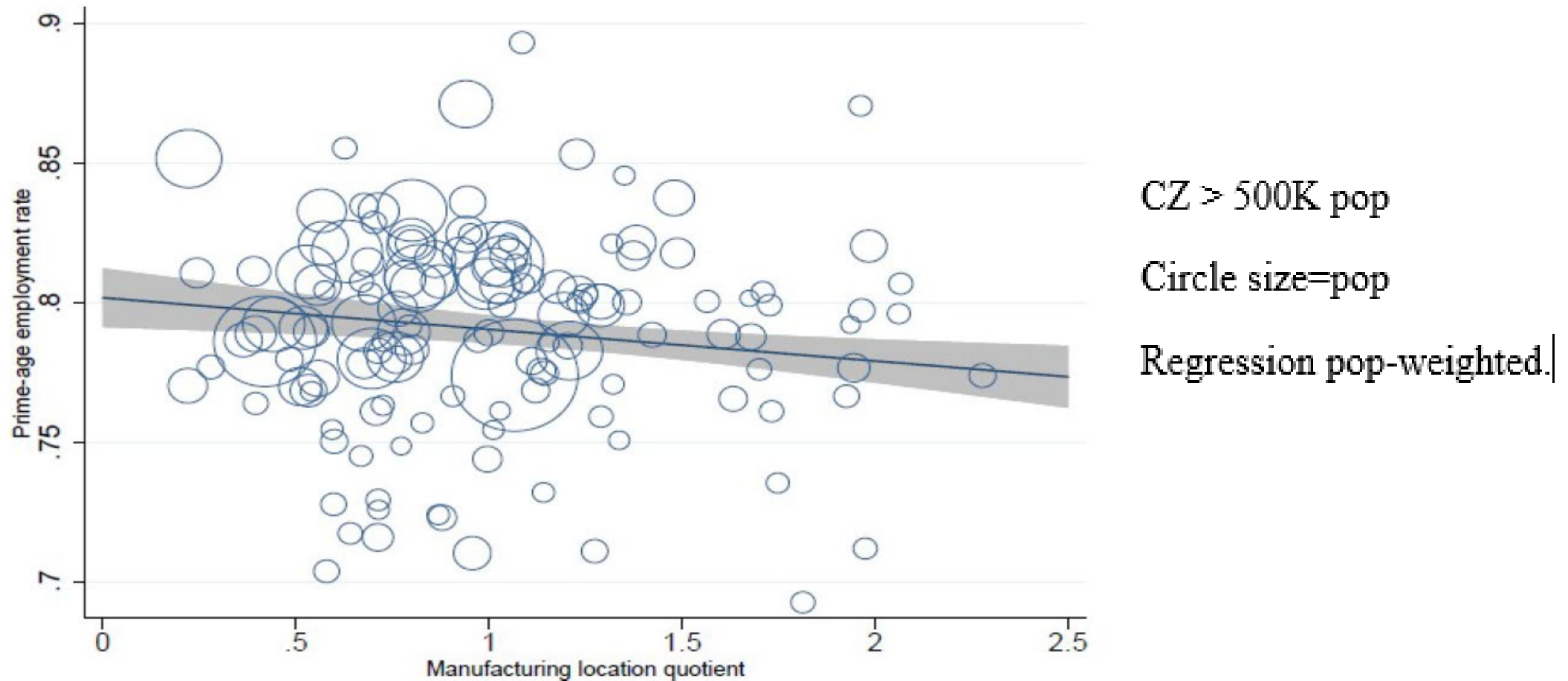
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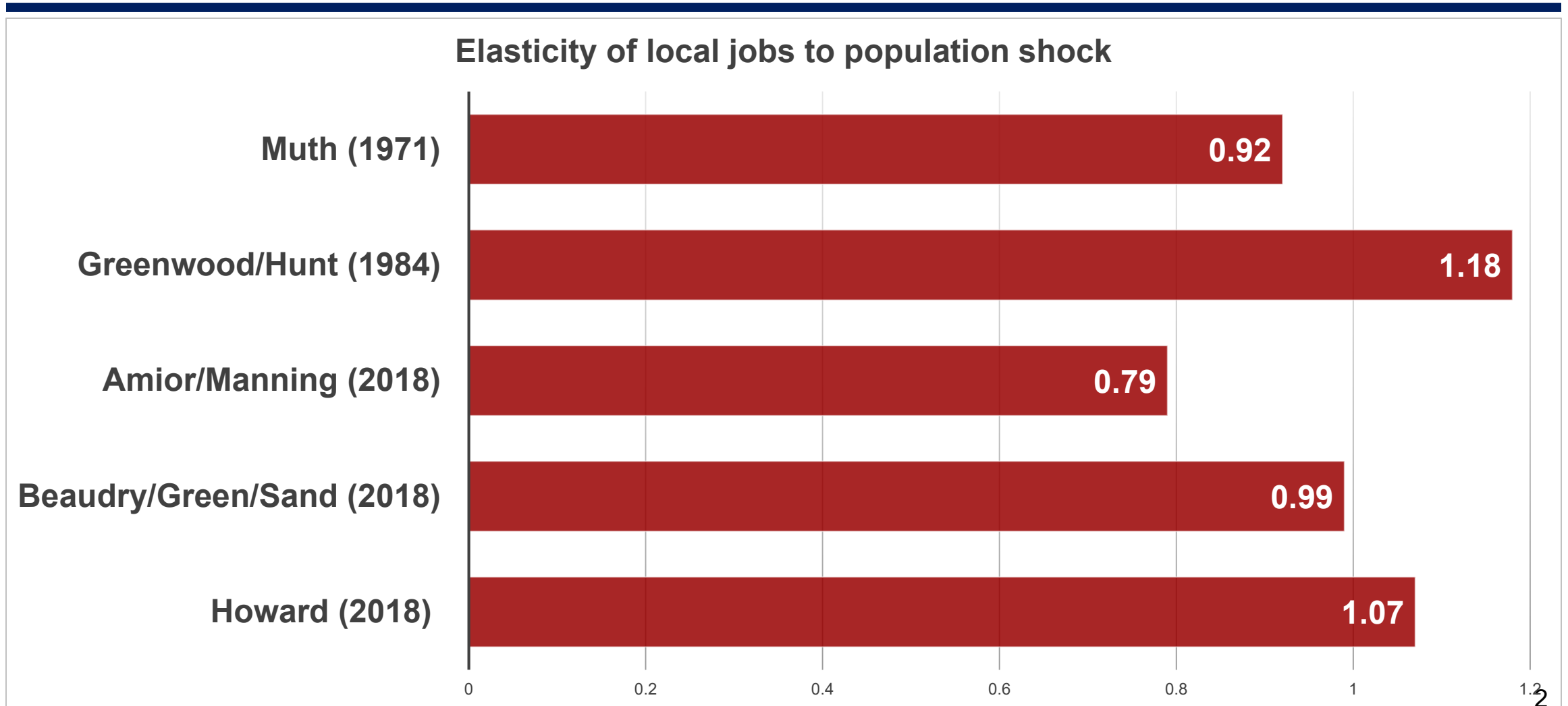


Large geographic disparities in E/Pop, related to size, manufacturing, and...

Figure 1 Prime-Age Employment Rate vs. Manufacturing Location Quotient in Commuting Zone, 2016



Why not move people to jobs? (1) People don't want to move; (2) Out-migration destroys jobs, so E/Pop is unchanged.





Our main jobs-to-people strategy is state/local business incentives

- Incentives tripled 1990-2015, to \$50 billion/year.
- Foxconn & some Amazon offers 10x avg incentive/job
- Incentives not targeted on distressed areas.
- Targeted on tradable industries, but little correlation with industry R&D or wages.
- Favor large firms: firms > 100 employees get 90%, compared to their 66% employment share.
- Many incentives long-term, > 10 years.



Market-failure rationale for subsidizing jobs in distressed places: asymmetric benefits due to social costs of involuntary unemployment

- Bartik (2009, 2015) finds MSAs w/ higher non-employment have 2/3rds higher E/Pop effects. But only marginally statistically significant.
- Austin/Glaeser/Summers (2018) find that “**consistent PUMAs**” with lower prime-age **male** E/Pop have 3/5ths higher E/Pop effects. But both geographic unit & distress indicator are problematic.
- Should geo area be smaller than CZ? Spatial mismatch, recent evidence from Manning/Petrongolo (2017).

Demand shocks to CZs dominate county shocks, due to both multiplier & labor market spillovers

Effects of shocks to county/CZ log(emp) on year-to-year change in county log(emp/pop)

	<u>OLS</u>	<u>2SLS (share IVs)</u>	<u>Reduced form</u>
County effects	0.215 (0.035)	0.195 (0.153)	0.122 (0.077)
CZ effects	0.117 (0.048)	0.340 (0.165)	0.497 (0.105)

1st-stage share effects on change in log(emp) of:

	<u>County</u>	<u>CZ</u>
County share effect	0.543 (0.066)	0.046 (0.025)
CZ share effect	0.622 (0.094)	1.103 (0.076)

609 counties >65K pop (77% of U.S.) in 225 CZs; 2005-06 to 2015-16.

Year dummies included; clustered at CZ. Data: ACS; BEA; WholeData.

CZ demand shock effects vary more significantly with overall (E/Pop) than with sub-group E/Pop

Demand shock effects on annual change in log of CZ overall (E/P), interacted with lagged (E/P) for different groups

<u>Lagged (E/P) interaction is for group on right</u>	<u>All 16+</u>	<u>Prime-age</u>	<u>Non-college 25+</u>
Share effect (defined as shock to log E)	0.152	0.332	0.285
	(0.145)	(0.128)	(0.143)
Share effect*lagged log(E/P)	-0.918	-1.112	-0.804
	(0.211)	(0.314)	(0.240)
Elasticity at 10th percentile of (E/P)	0.767	0.716	0.727
	(0.107)	(0.096)	(0.094)
Elasticity at 90th percentile of E/P	0.548	0.539	0.570
	(0.094)	(0.098)	(0.100)
10th percentile	0.512	0.708	0.578
90th percentile	0.649	0.831	0.702
Ratio of effects	1.40	1.33	1.28

Estimates for 240 CZs > 200K pop (89% of U.S.), 2005-06 to 2015-16. Year dummies included, clustered at CZ. All 3 regressions used same dependent variable: change in OVERALL log(E/Pop).

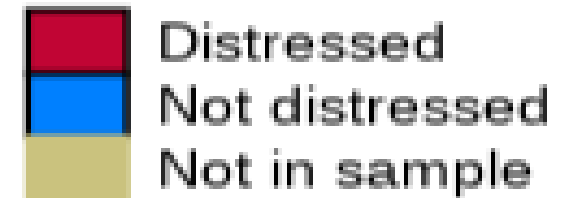
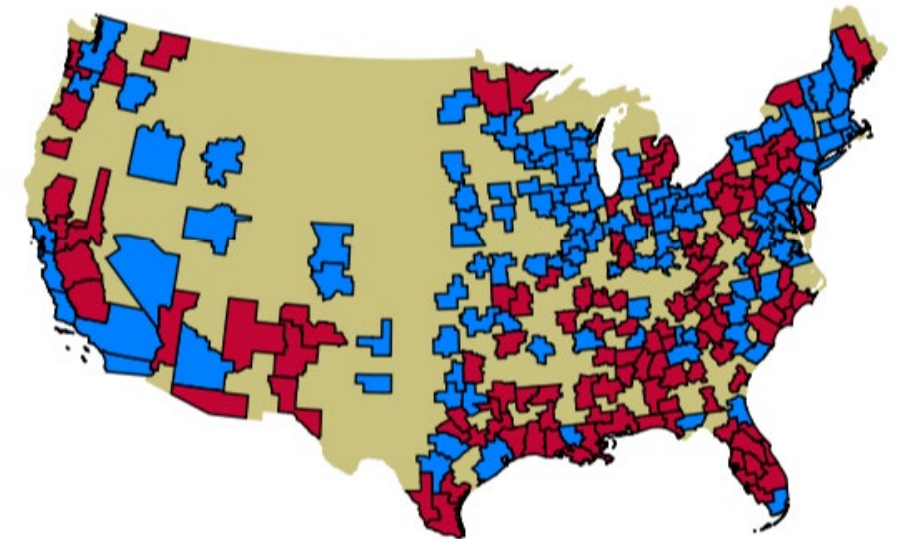
D-shock effects vary non-linearly with distress, vary more for LFP, by >4 to 1.

Effect of log(demand shock) on change in log(3 diff labor force outcomes), 2 CZ groupings; 120 CZs in each grouping.

Lower E/Pop half of CZs (27% of total pop; cutoff 1 pp below nat avg; avg E/Pop is 54.8%)

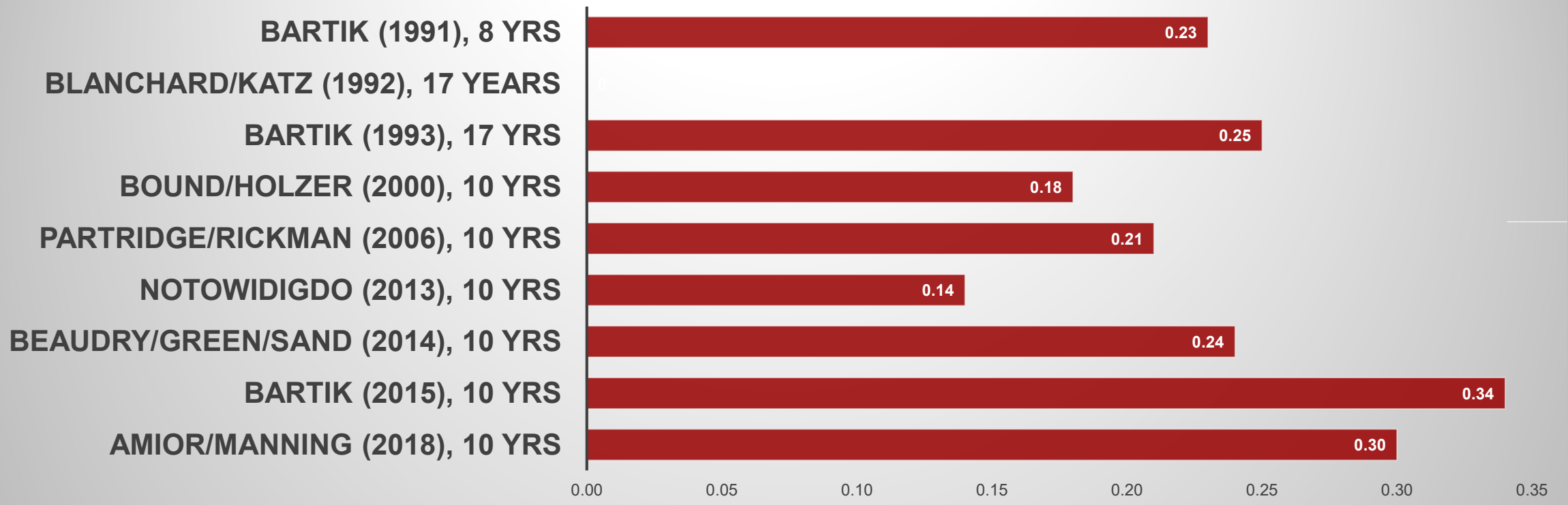
Dep var: change in (logged)	<u>E/Pop</u>	<u>E/LabF</u>	<u>LabF/Pop</u>
	0.794	0.318	0.476
	(0.118)	(0.055)	(0.098)
	Upper half of CZs (avg. E/Pop is 62.5%)		
	0.396	0.284	0.113
	(0.132)	(0.080)	(0.082)
T-stat on difference	2.25	0.35	2.85

3 dep var by 2 groups = 6 regressions. Includes year dummies, clustered at CZ. 240 CZs comprise 89% of U.S. population.



Do local Ld shocks have lasting labor market benefits? Yes, due to skills effects.

LR elasticity of (E/Pop) wrt local jobs



Other studies:

Freedman (2017) “Mississippi's 1936 BAWI program increased county LFP for >24 yrs.”

Hershbein/Stuart (forthcoming) “MSAs with worse recessions have lower E/Pop a decade later”



Are there **MARGINAL** agglomeration economies to adding jobs to local clusters, & do they **VARY** by place?

- Agglomeration exists, but are there benefits of adding still more tech jobs to Silicon Valley?
- Might justifying targeting tech in tech clusters; might be way for distressed places to lower cost per job created.
- Agglomeration used to justify higher multipliers (REMI).
- Moretti (2010) estimated high-tech multiplier of 6, which would justify very large incentives.

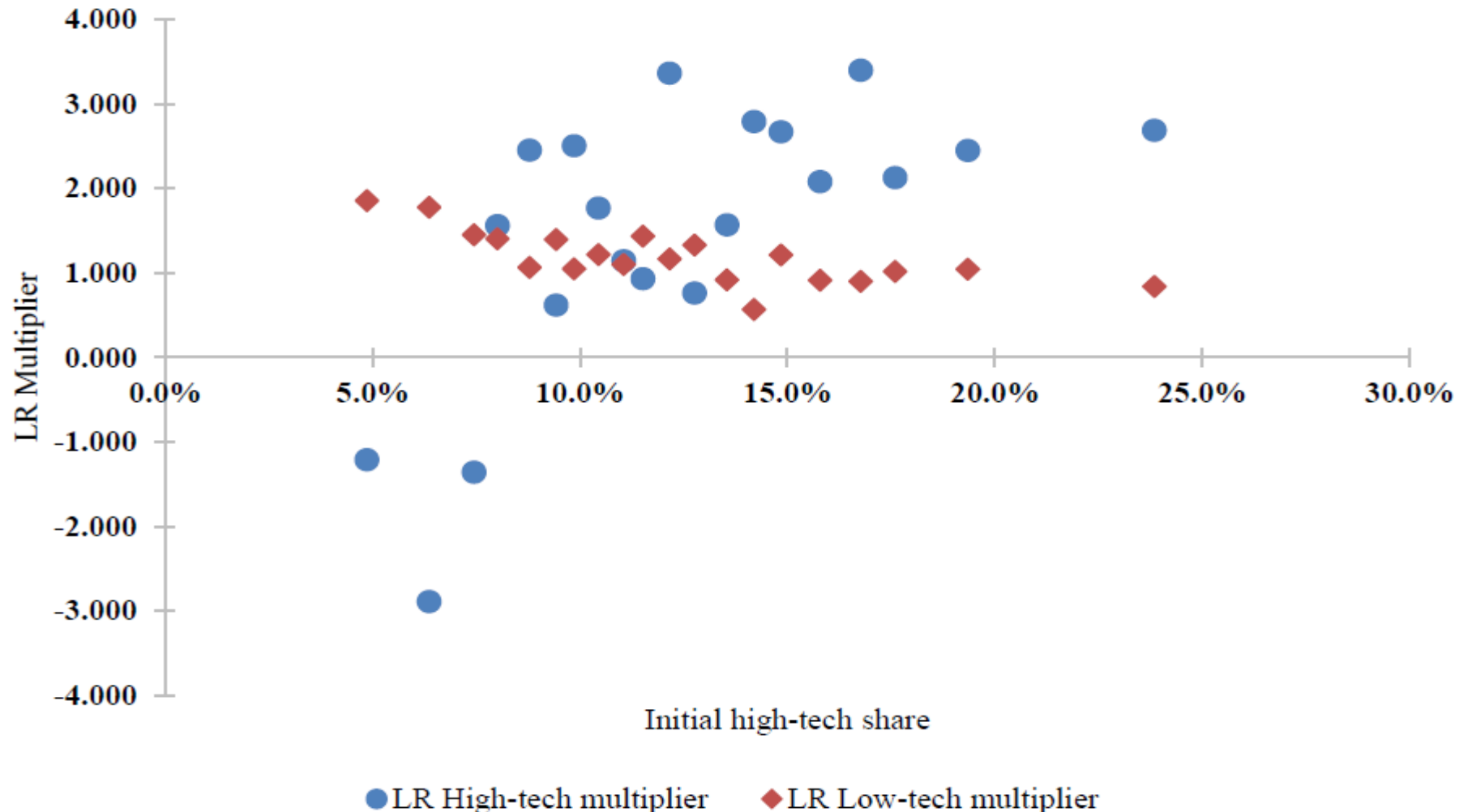
LR high-tech multiplier varies w/ high-tech share, E/Pop, & CZ size

Interaction of LR High-tech and Low-tech Multipliers with Local Employment Size, Prime-Age Employment Rate, and Initial High-tech Share

	Mult at means	Interaction w/ log(emp98)	Interaction with log(prime-age E/Pop)	Interaction w/ log(High-tech share 98)
High-tech	1.428	0.371	-9.169	1.963
	(0.327)	(0.180)	(4.531)	(0.449)
Low-tech	1.219	-0.004	-0.111	-0.532
	(0.138)	(0.057)	(1.012)	(0.155)
Standard dev of interaction term times high-tech coefficient		0.379	-0.586	0.762

284 CZs w/ 1998 employment > 50K (93% of U.S.), 1998-99 to 2015-16. Multiplier is cumulative effect of share effect demand shock w/ 5 lags. 979 industries used. High-tech are 14% of total jobs, & have industry employment in science/engineering/technician occupations that is 2x national avg. Year dummies included, & standard errors clustered by CZ. Dependent variable is year-to-year change in log(CZ employment).

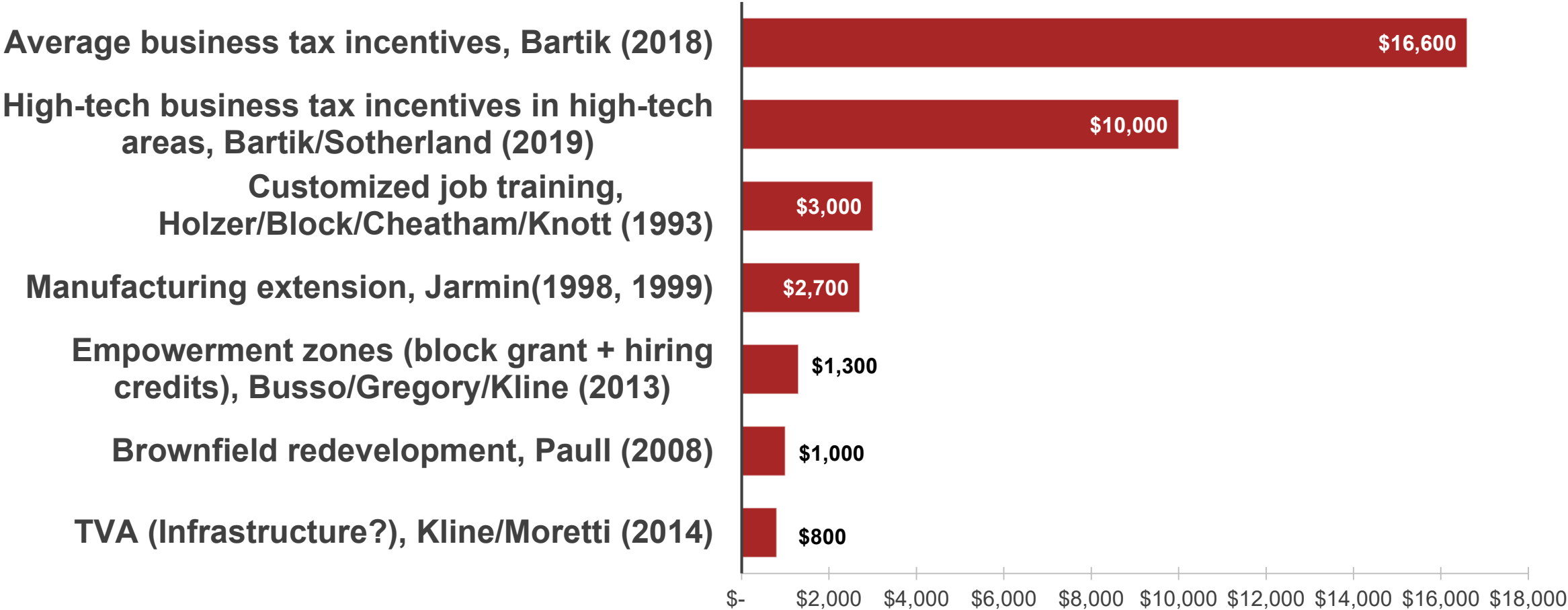
High-tech multiplier: threshold effects in high-tech share, 20 groups of CZs





Services to provide business inputs can *sometimes* be more cost-effective than incentives (for sources, see Bartik CBPP report)

Annual costs per job-year created (uses 3% discount rate)










Principles for how states should reform incentives

- Choose incentive levels based on state's distress levels, and target distressed areas within states.
- Target high-tech firms in high-tech areas.
- Reduce long-term incentives.
- Don't favor larger firms.
- Rely more on services enhancing business inputs (including business services, infrastructure, skills).
- Evaluate (RDD, surveys, simulation models).

VA's HQ2 deal was \$20K per job in cash (nat avg is \$50K), more \$ for skills, infrastructure

Recap of Virginia's financial commitments related to HQ2

Focus area	Component	Description	Size (\$MM)
Company incentive	 Provide post-performance incentive grants	Provide post-performance job-creation grants to offset Amazon's talent acquisition and development costs associated with standing up HQ2	550*
Tech-talent pipeline initiative	 Expand tech-talent pipeline across Virginia	Expand Virginia's statewide tech-talent pipeline, adding 12,500-17,500 bachelor's degrees in computer science and closely related fields in excess of current levels over the next 20 years, as well as invest \$25 million in expanded internship opportunities to connect tech students to tech jobs	Up to 710**
	 Launch tech campus(es) in Northern Virginia	Build a tech campus (or two distinct campuses) alongside a leading anchor university that will attract and retain top talent globally, creating an additional 12,500-17,500 master's degrees in computer science and closely related fields in excess of current levels over the next 20 years	Up to 375**
	 Broaden K-12 tech-talent pipeline	Boost the tech-talent pipeline of the future by further developing and deploying K-12 tech-talent education programming	25
	 Enhance multimodal transportation infrastructure	Provide state support for priority transportation infrastructure projects that will improve mobility in the region	195***
Total of company incentives			550*
Total of state competitiveness investments (tech-talent pipeline initiative and infrastructure expansion)			Up to 1,305****

High job growth cities with high employment rates *should* cut back incentives.



Nashville Mayor's Unorthodox Promise: Slow Corporate Handouts

City's new leader wants to rethink costly incentives used to lure companies as residents complain about housing prices, traffic



Should feds intervene?

- No efficiency problem if states/locals optimally price job creation.
- Distributional problems even with optimal Tiebout competition: distressed areas pay, capital owners gain (Slattery, 2019).
- Political problems: state/local political leaders gain politically by long-term cash incentives to largest firms.



A proposal for federal block grant assistance for distressed communities

- Federal block grant for distressed communities recognizes diverse needs & ideas, & potential synergies.
- Tie block grant to reducing excessive long-term incentives for 1,500 firms w/ >10K employees.
- Evaluate block grant via RDD.
- Program size: \$18-\$36 billion per year for 10 to 20 years is a realistic magnitude to help distressed areas' job needs.



What will promote needed reforms?

- Transparency
- Evaluation
- Well-developed alternatives to cash incentives
- Full-employment macro environment