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The Aftermath of the Pandemic Recession: The Role of Economic Development Policy

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The Aftermath of the Pandemic Recession: The Role of Economic Development Policy

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Presentation to

Economic Development Research Partners, IEDC

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Note: Statements of research findings backed up by hyperlinks in PowerPoint

Economic Challenges Due to the Pandemic

- **Exacerbates inequalities:** regional, by income group, small vs. big business, by race
- **Increases trends towards remote work**
- **Reveals deficiencies in our current health research capacity, and health-related manufacturing capacity**
- **Erodes fiscal capacity of state and local governments**

Increased regional inequality leads to need for more targeting of distressed places

- **Pandemic has increased regional inequality:** in June 2019, 5 states with lowest unemployment averaged 2.5%, 5 highest averaged 5.3%, a gap of 2.8%. In June 2020, 5 lowest averaged 6.5%, 5 highest averaged 15.7%, a gap of 9.2%.
- **Metro areas hit harder by recessions suffer permanent losses:** 5% more job loss during recession leads 10 years later to 6% lower employment than comparable metros, 2 percentage points lower employment rate.
- **Job growth boosts LR employment rates – and by much more in more distressed areas:** A 10% boost to jobs in a local labor market (e.g., metro area) will boost its “employment rate” (employment/population) by 2% even 10 or 20 years later – and this effect is one-half greater, at 3%, in an area that originally has low employment rate.
- **This increased regional distress provides greater reason for both state governments and the federal government to do more targeting of distressed local labor markets for economic development assistance:** This will not only help distressed areas, but will boost overall employment rates for state/nation.

Disparate impact of pandemic on low-wage workers leads to need for better linking economic and workforce development

- Pandemic has disproportionately hurt low-wage workers: [From Feb to May, employment of workers in lowest wage quintile declined by 30%; highest-wage quintile, decline of 5%. Surveys of households & business suggest 20-40% of job losses are permanent.](#)
- Targeting job growth towards lower-wage workers requires economic development programs with ties to workforce development, & vice versa.
- Economic development assistance can increase share of jobs for more disadvantaged by including customized training.
- Economic development job-creation subsidies can require hiring long-term unemployed: [Examples include Minnesota's MEED program of 1980s.](#)
- State free-college programs can extend community college training programs to all adults, as in [Tennessee Reconnect](#) program
- Demand-oriented job training programs can have very high returns: Project Quest in San Antonio, which targets getting disadvantaged adults into in-demand health care jobs, [boosts annual earnings by \\$5K](#), averaged over all those who entered program.

Pandemic has hurt small business more, increasing need for assisting this sector

- From Feb. to April, jobs in businesses with > 500 employees declined by 15%, while jobs in businesses with < 50 employees declined by 25%. By May, both groups had decline of 15%. But more of job loss in small business sector due to permanent closures.
- **Small business can be helped by expanding “business advice” programs – Small Business Development Centers, manufacturing extension programs – and by financing programs: Manufacturing extension programs have low estimated costs of job creation: \$15K to \$35K per job.**

Pandemic has disproportionately hurt Black workers and Black businesses: how do we offset?

- **Blacks more likely to lose jobs:** Compared to similar whites, Blacks were 5 percentage points more likely to lose their job between March and April – and among those who lost jobs by April, Blacks were 8 percentage points less likely to be rehired in May.
- **Black business owners hurt more:** Between February and June, the number of white business owners declined 5%; Black business owners, 19% decline.
- **Need programs to increase jobs and business among Blacks.** HireReach program in Grand Rapids seeks to base hiring more on objective data; this doubles minority hiring, reduces 1st-year turnover by 23%.

Pandemic likely to accelerate trend toward remote work: how do we help workers adjust?

- 40% of all jobs could POTENTIALLY be done from home.
- Pre-pandemic: 3% of jobs were full-time at-home, 10% were part-time or full-time at home
- Post-pandemic: based on employer surveys, share of work at home will triple: 10% of jobs will be full-time at-home, 27% will be part-time or full-time at home.
- For full access to remote work opportunities, need investment in rural broadband, and some subsidized public utility access to broadband across all economic classes.

Pandemic will accelerate demand for health research and health-related manufacturing: can we spread out this high-tech activity?

- Most high-tech growth, including in health-related industries, in few coastal metros. Cost of this geographic concentration is lost jobs for much of U.S., less support for federal R&D, and “congestion” problems (e.g., higher housing prices) in coastal metros.
- **Possible federal policy to spread out high-tech growth, including health care research:** Gruber & Johnson, in book *Jump-Starting America*, propose increasing federal R&D by \$100 billion/year -- & targeting that R&D at 20-30 federally-chosen tech hubs, outside of coastal metros.
- **State/local economic development policy can help by supporting high-tech, including manufacturing extension services & other assistance to help manufacturers move into health-related markets, as has been done in Grand Rapids.**

Pandemic will cause prolonged state/local fiscal problems: can economic developers help state fiscal situation while encouraging job growth?

- **State/local fiscal problem is large & prolonged:** Based on CBO [forecast](#), state/local fiscal problem of 15% of budget in 2020 and 2021, slowly declining to 5% problem by 2024. In dollars: \$1.4 trillion total problem, 2020-2025. (Updates my [prior estimate](#)).
- **Incentives are currently modest fiscal issue ([\\$45 billion, 3% of state/local revenue](#)).** But some offers, such as [Wisconsin's offer to Foxconn, are 7 to 10 times current incentives per job](#), which risks an escalation that would be much larger burden on state budgets.
- **State governments can raise tax revenues, while encouraging investment & job growth, by combining increased tax rates with offsetting investment credits & job creation credits to export-base industries, via either discretionary incentives or incentives written into tax code.**
- **State governments could consider backing national compact, enacted into federal law, that would cap *discretionary* incentives to large firms, similar to EU. [EU sets limits](#) in *most* areas of incentives to *large projects* of 3.4% of investment; 17% in *distressed* places. For example, this means that Foxconn's \$10 billion investment, for which Wisconsin bid \$3 billion, would be eligible in EU for incentives of \$340 million to \$1.7 billion.**

Summary of possible initiatives for economic development policy to respond to the pandemic recession

- More targeting of distressed areas, to offset increased geographic disparities.
- More linkage between economic development and workforce programs, to help disadvantaged workers.
- Help small business rebound from the pandemic.
- Help Black workers and business owners.
- Broadband access for all regions and economic classes.
- Diversify high-tech, including health-related high-tech, beyond the coastal metros.
- Design business tax policies and incentives that will raise state revenue, while encouraging investment in export-base industries.