

The Future of State and Local Economic Development Policy: What Research Is Needed?

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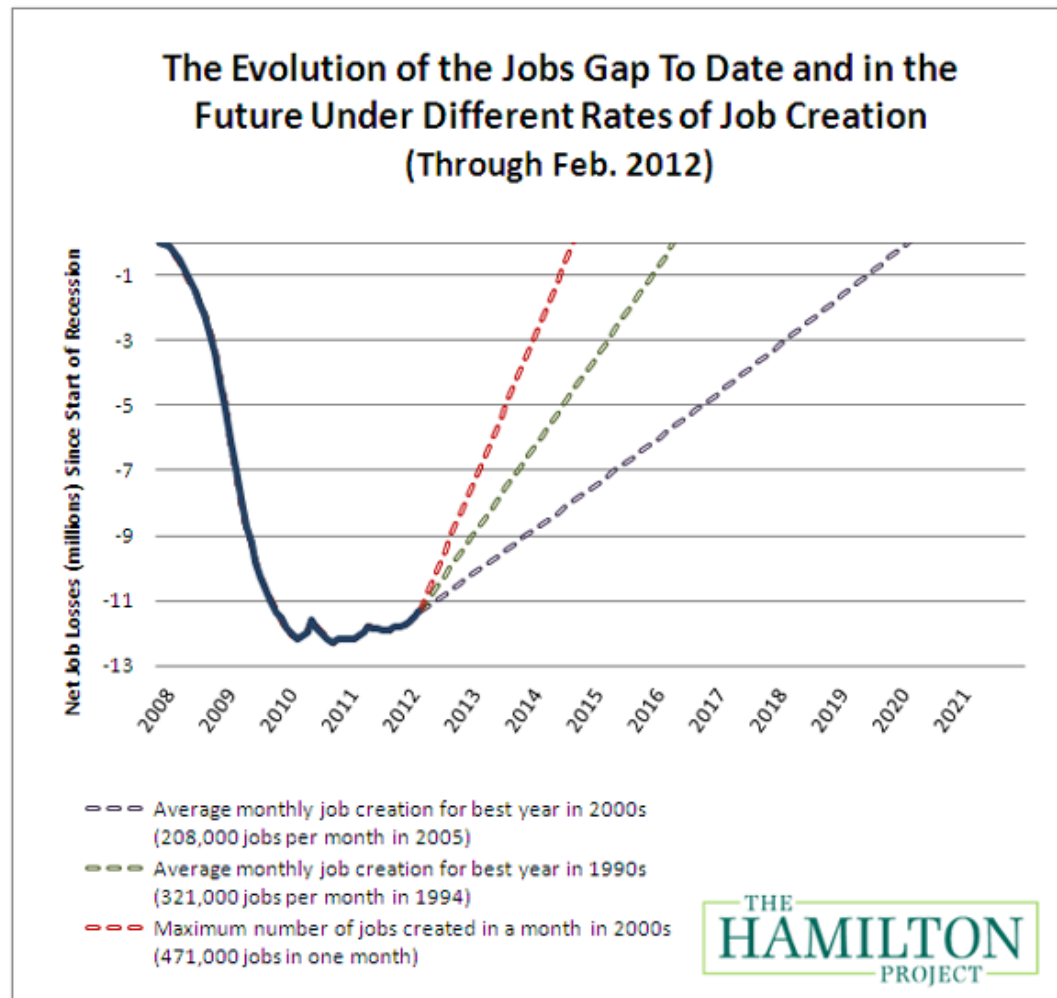
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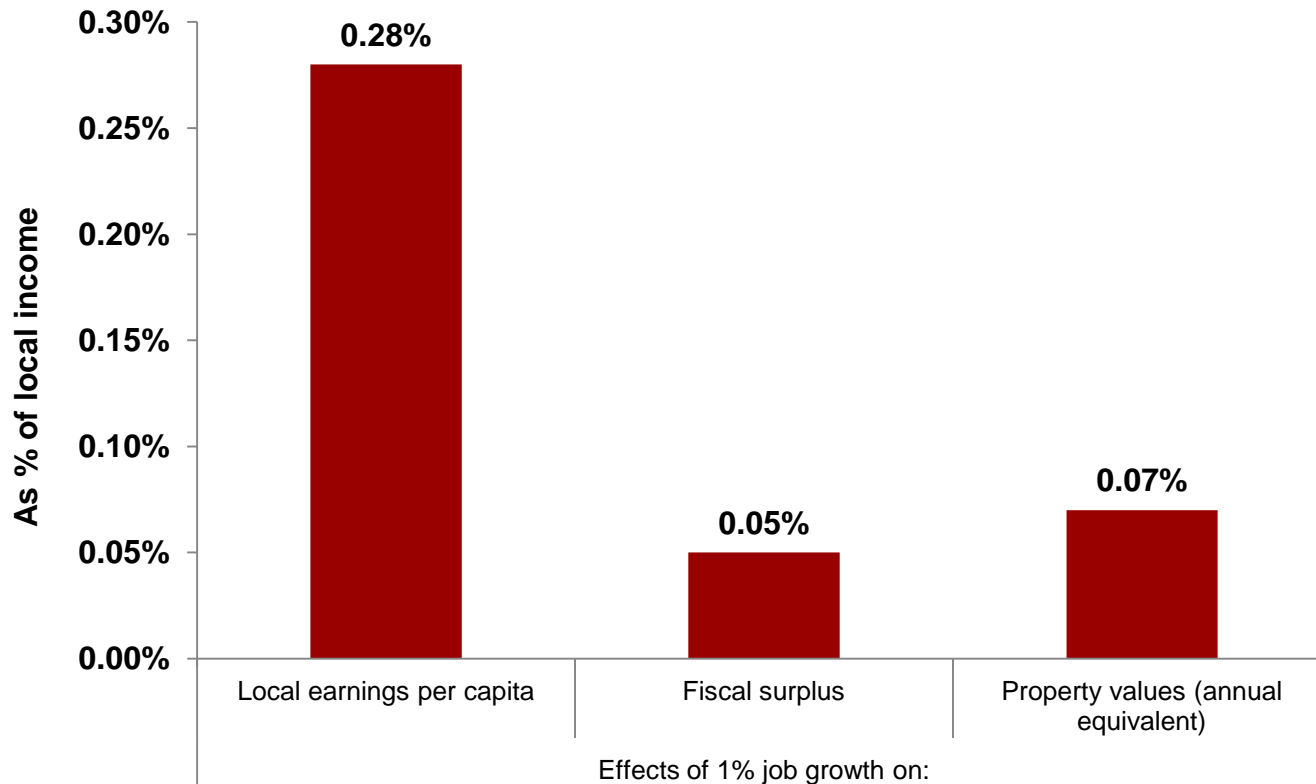
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Persistent high unemployment will drive state and local economic development policy



Local economic development policy is labor market policy, because its main benefits are higher earnings per capita



Source: Bartik (2005), *Growth and Change*

Local economic development policy issues:

A typology based on how policy is transmitted to earnings

	Labor Demand	Labor Supply
Impact on DS	<p><u>Quadrant 1</u></p> <p>Taxes & services, business taxes, incentives, customized business services</p>	<p><u>Quadrant 3</u></p> <p>Preschool, ed reform, job training, creative class</p>
Impact of DS	<p><u>Quadrant 2</u></p> <p>Matching of jobs to local labor market, policies that affect matching, local conditions</p>	<p><u>Quadrant 4</u></p> <p>Displacement, skills spillovers, policies to match skills to jobs</p>

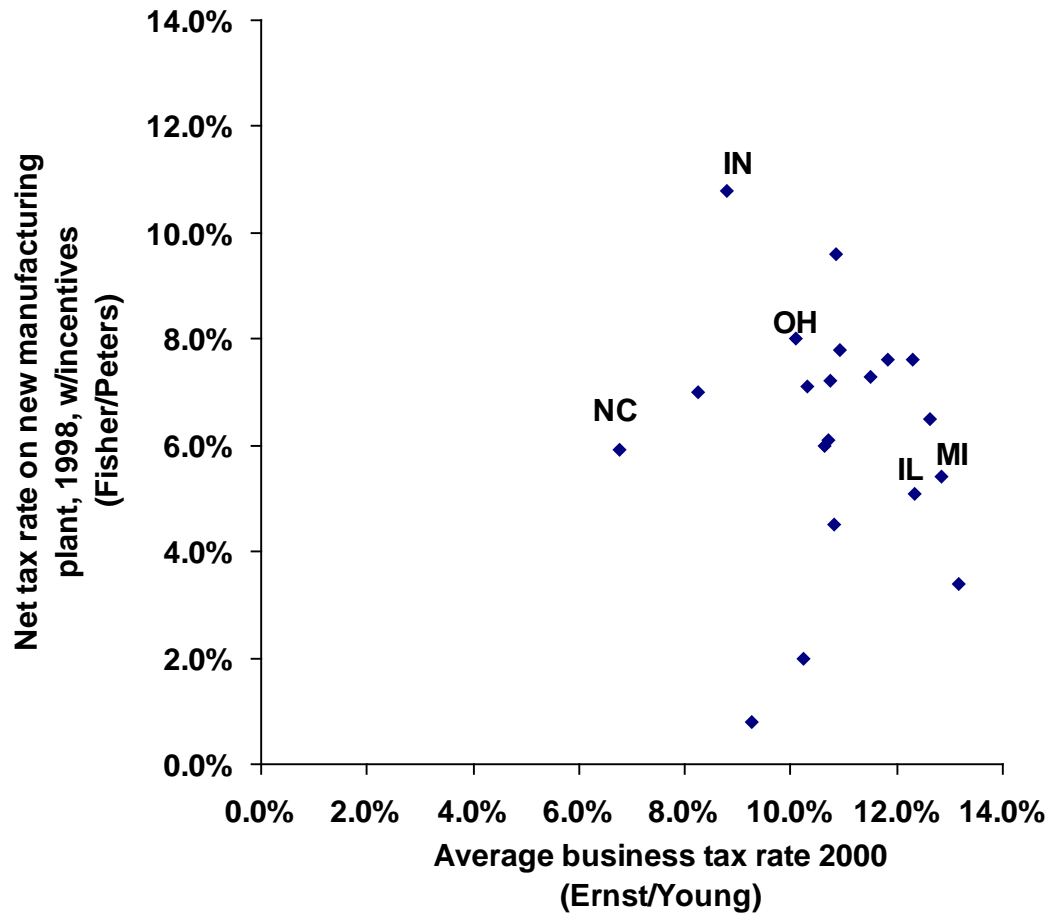
Higher earnings per capita

Policies that affect labor demand: what we know and don't know

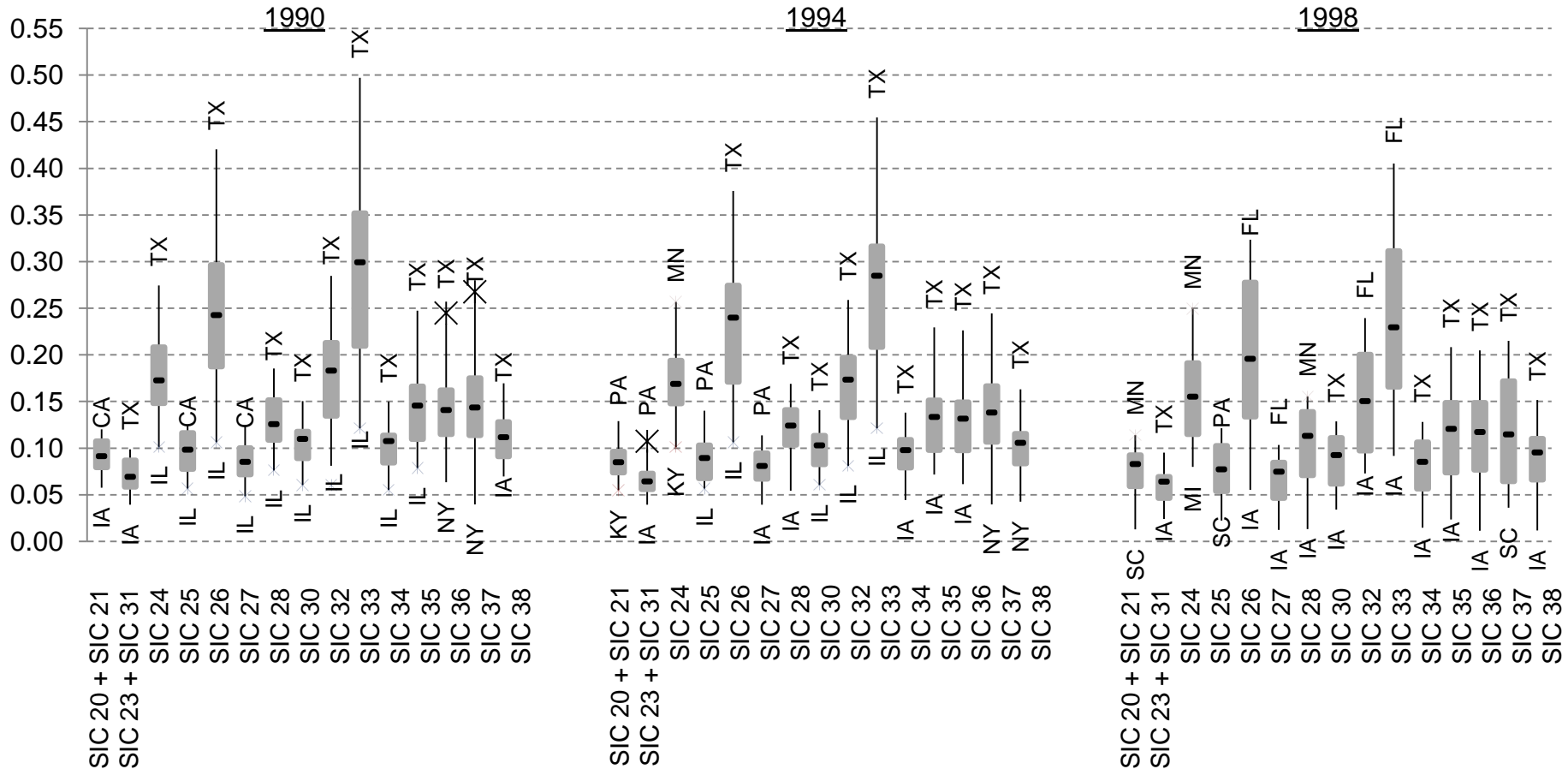
- Spending & taxes: BBM
- Average business tax rates: LR elasticity of -0.1 to -0.6, annual cost per job created from \$43K to \$7K—need narrower range
- Marginal tax incentives for export-base: 6 times as cost-effective as general business tax cuts?—need better data (MEGA paper, Bartik & Erickcek, 2010)
- Enterprise zones: state zones don't work, fed zones did (Busso/Gregory/Kline, NBER, 2010)
- Customized business services: manufacturing extension & training—10 times as effective as marginal tax incentives?—need more quasi-experiments (Bartik, 2010, Hamilton Project)

Marginal business taxes not highly correlated with average taxes

Figure 1. Marginal Business Taxes vs. Average Business Taxes



Marginal tax rates including incentives vary greatly across industries, states, time



Source: Funderburg, Bartik, Fisher, Peters (2012).

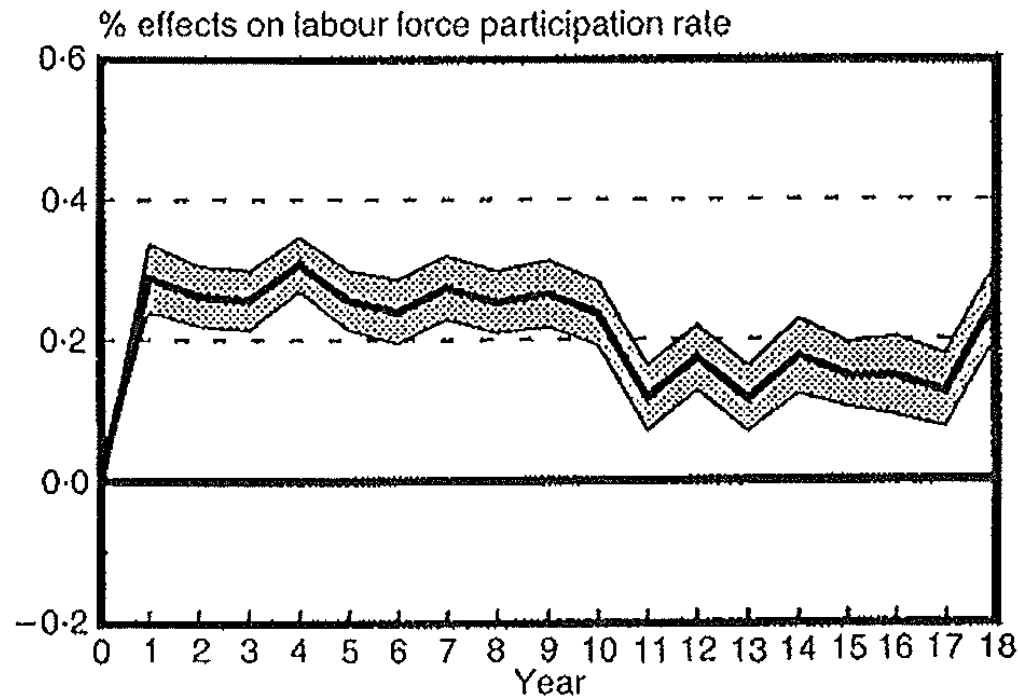
Box = Interquartile range; black band = median.

What we do and don't know about demand shock impacts

- 1% demand shock has LR effects of 0.4% earnings boost, half from ER, half from occupation upgrading
- 1% higher wage mix yields 2% higher earnings
- Lower earnings effects in Sunbelt
- Are earnings effects higher in high UR areas?
- Are earnings effects higher if better match?
- Do “first source” policies matter? Persky et al. (2004) job chain results: boosting % of vacancies filled by unemployed from 13% to 26% boosts % of jobs that help unemployed from 34% to 54%

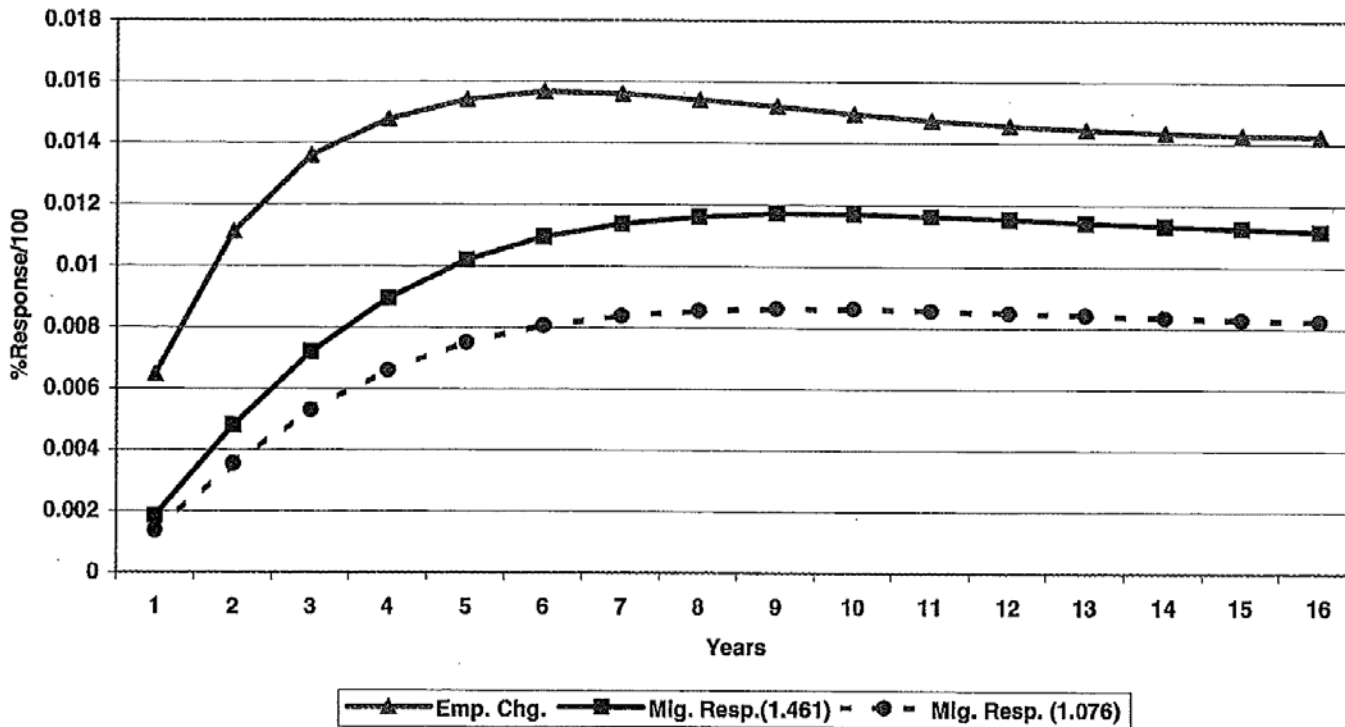
Local labor demand shocks have persistent effects on employment rates and occupational attainment

Bartik LFP estimates, *Regional Studies* 1992, of effects of 1% shock to local labor demand.



Cumulative employment and migration response to demand shock

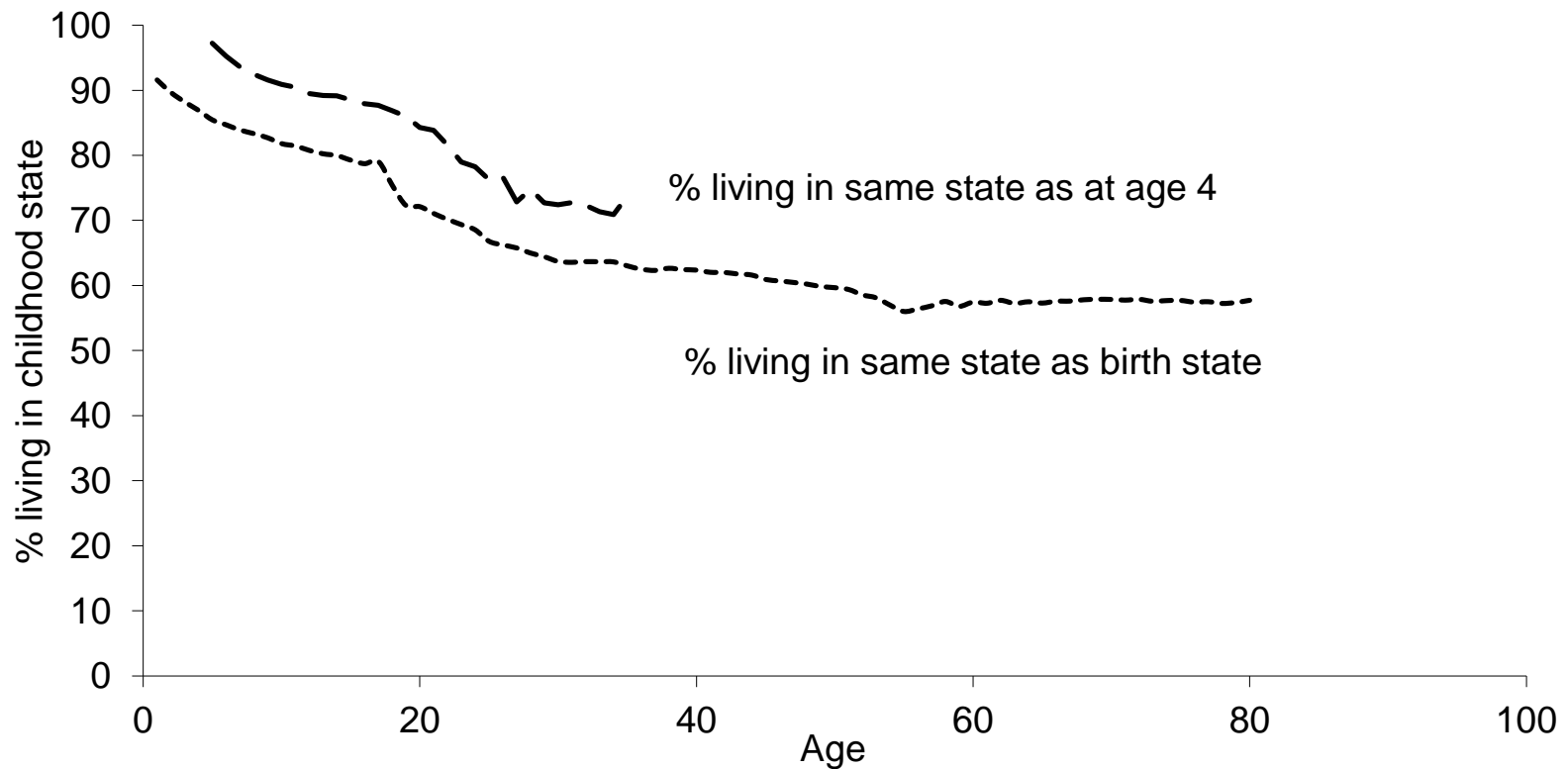
Partridge & Rickman migration estimates, *SEJ*, 2006



Labor supply policies with solid evidence on effectiveness in boosting skills:

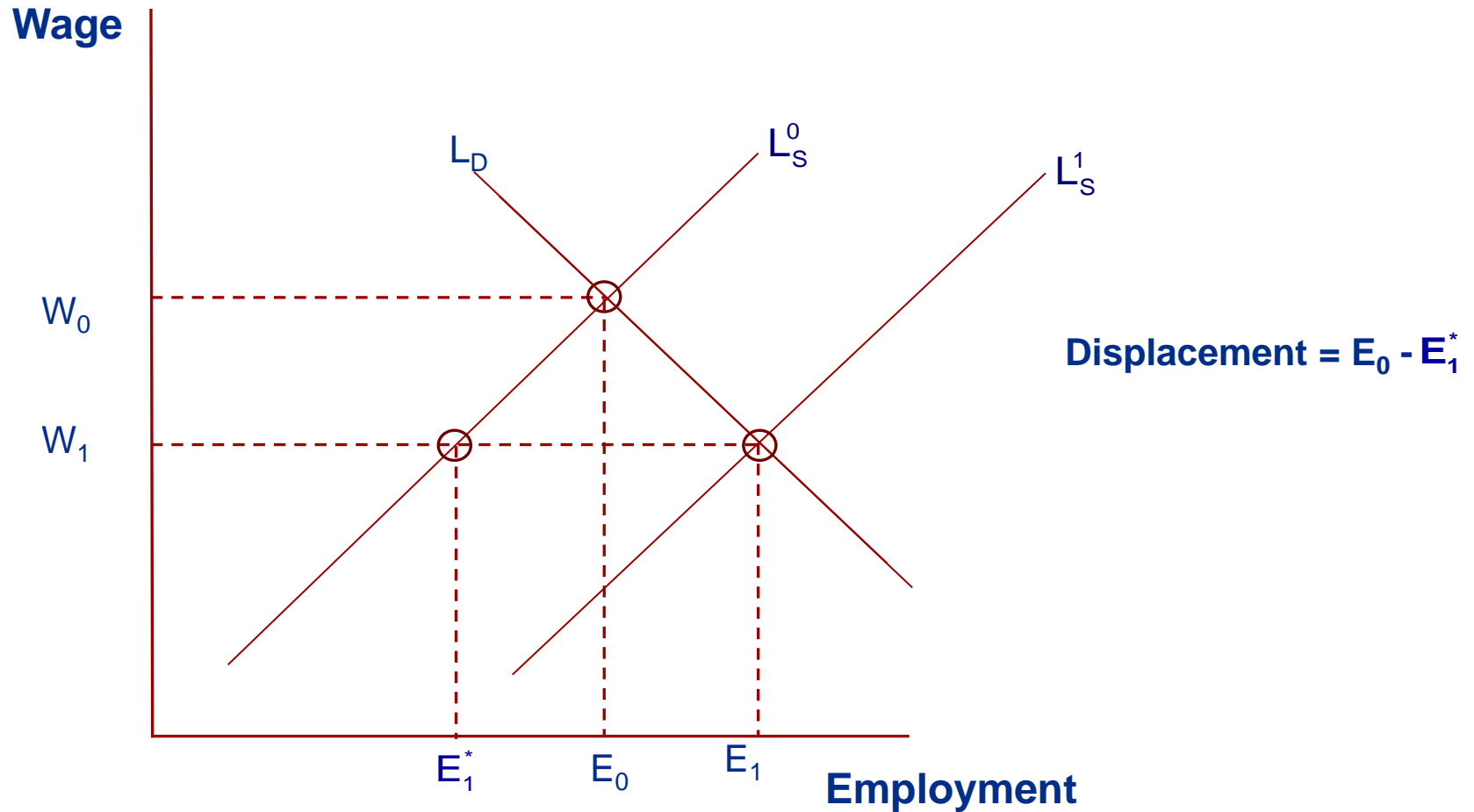
- Preschool
- Mandatory summer school
- High school career academies
- Improving teacher quality
- Demand-oriented job training

Most Americans spend most of their working career in their state of origin

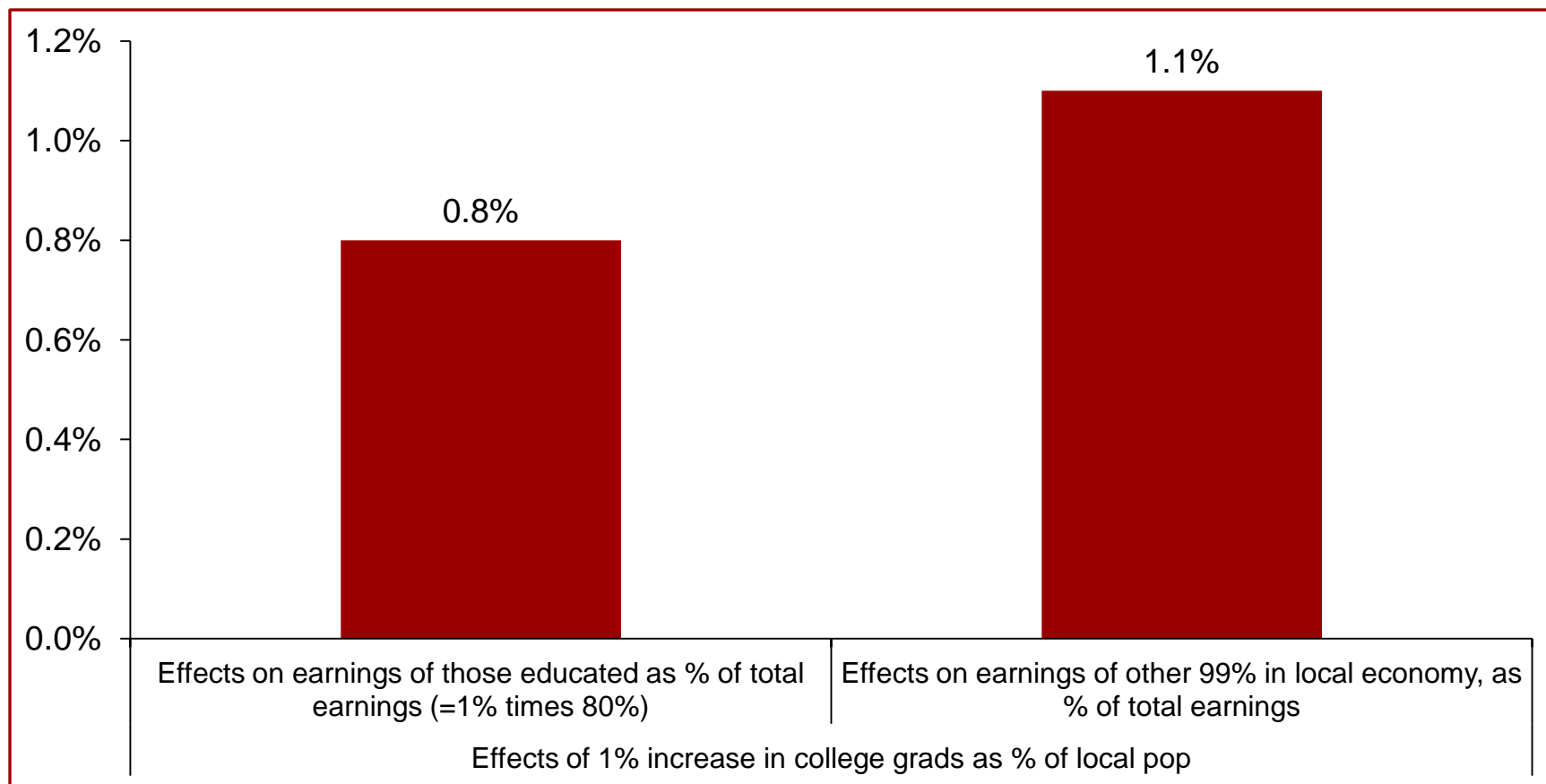


Source: Bartik, 2011. *Investing in Kids*, Figure 2.1.

Displacement due to supply shocks depends on model and elasticities



Skills may have sizable spillovers



Source: Moretti, 2004.

Summary of ratios of PV of local earnings effects to costs

- Average business tax reductions: 0.5?? (uncertainty about tax elasticity)
- Well-designed business tax incentives, 3.1?? (uncertainty about tax elasticity)
- Manufacturing extension: 28?? (limited # of good studies)
- Customized job training: 30?? (limited # of good studies)
- High-quality preschool: 2.8?? (uncertainty about displacement effects, spillovers)
- Mandatory summer school in early elementary grades: 8.3?? (displacement and spillover issues, and limited studies)
- High school career academies: 11.0?? (displacement and spillover effects)

Source: Bartik, 2009. "What Should Michigan Be Doing To Promote Long-Run Economic Development?"

Conclusion: For more policy-relevant economic development research, we need:

- Better quasi-experimental estimates of business tax elasticity and cost-effectiveness of business services
- Better estimates of how average effects of demand shocks vary in different circumstances
- Better estimates of displacement and spillover effects of supply shocks