

**Place-Based Jobs Policies** by Tim Bartik, Senior Economist, Upjohn Institute  
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My talk today is on place-based jobs policies, by which I mean policies whose proximate goal is to boost jobs in particular local labor markets. By boosting jobs in local labor markets, I mean boosting jobs in local areas within which there is extensive commuting, such as metropolitan areas.

I am going to argue three propositions:

First, we need place-based jobs policies to deal with some significant American labor market problems, and specifically the problem of too high non-employment in some local labor markets.

Second, our current place-based policies are wasteful. Our current policies rely too much on long-term tax incentives to mega-corporations, and are not targeted in a way that will be very cost-effective in solving our labor market problems.

Third, there are better policies that will be more effective in boosting employment rates for all. These policies will cut back tax incentives and make them more short-term and better targeted on the problem of non-employment in distressed local labor markets. And we should replace most tax incentives with infrastructure, business services, and local human capital policies that will be more cost-effective in creating job opportunities to boost employment rates.

On the first point, why we need place-based jobs policies. To begin with, we have large disparities across local labor markets in employment rates. For example, suppose we look at the employment rate, the employment to population ratio, for so-called prime-age workers, ages 25-54. We look at this for one possible definition of local labor markets, which are commuting zones. The U.S. is divided into 709 such commuting zones, comprising groups of counties within which there is sufficient commuting that similar workers have similar labor market prospects.

What we find that in the most recent data, even though 10% of the U.S. population lives in commuting zones that have prime-age employment rates, or employment to population ratios, as great as 84%, we also have 10% of the U.S. population that lives in commuting zones in which the employment rate is 9 percentage points lower, at around 75%. 25% of the U.S. population lives in commuting zones whose prime-age employment rate is 6 percentage points lower, at 78%.

Low employment rates have a number of negative social costs, which I'm not going to go into the evidence on in this talk. But to sum up, low employment rates lead to lower long-term earnings, lower levels of perceived well-being, higher drug and alcohol abuse, higher crime, more family break-ups, and poorer outcomes for children raised in such local environments.

If we have too low employment rates in some local labor markets, there are two obvious types of solutions: we can move people out of those local labor markets, or we can move jobs into those labor markets: "people to jobs" strategies vs. "jobs to people" strategies.

I'm also not going to spend much time on "people to jobs" strategies in this talk. We can talk about that more in the question and answer period. I will just sum up by saying that people to jobs strategies can't and won't work. You can't get many people to move out of distressed areas at an affordable subsidy cost, and getting people to move out hurts those left behind. If you're trying to help Flint, trying to encourage people to move out of Flint is an ineffective and counter-productive strategy – it won't get many additional people to move out of Flint, and it certainly won't help those left behind in Flint.

In contrast, "jobs to people" strategies can work. If we increase local employment, it is simply mathematically true that either that strategy increases the local employment to population ratio, or increases population, or some combination – there's no other alternative. A new company that locates in a metro area may either hire the local employed, the local non-employed, or in-migrants to the area. But the local employed who are hired result in vacancies that are filled in the same three ways. This vacancy chain is only terminated when a job goes to someone local who is non-employed, or some in-migrant. Ultimately what matters is the division between hiring of local non-employed, and in-migrants, as we go along this vacancy chain.

The remarkable finding from research is that when we increase local jobs, in the long-run this increases the local employment rate, the local employment to population ratio, by 20-30% of the change in local jobs – the other 70-80% is reflected in higher population. And these effects are REALLY long-term. There is clear empirical evidence that these effects occur for 10 years, 20 years and longer.

As a specific example, consider a study done of the long-term effects of Mississippi's 1936 program, Balance Agriculture with Industry. This 1936 program was the original economic development incentive program of the modern era; Mississippi enticed northern manufacturers with free land and buildings and zero property taxes. A study of this program's long-term effects found that Mississippi counties that attracted manufacturing plants under this program had higher labor force participation rates as late as 1960, 24 years after the plants were attracted.

Why do these long-run effects exist? Because of job experience effects. A worker getting extra job experience in the short-run increases that worker's long-run skills, broadly defined – both the worker's hard skills and soft skills, including "skills" such as self-confidence and less problems with substance abuse and crime, etc. As a result of what more jobs do in the short-run, local residents are more competitive in the labor market in the long-run, and will have higher employment rates and earnings.

Now, I want to make two key points about the fact that new local jobs lead 20-30% to higher employment rates, 70% to 80% to higher population.

First, one consequence is that the main potential benefit of policies to promote local job growth, such as economic development incentives, are labor market benefits, not fiscal benefits. If we're increasing earnings forever by 20 to 30% of the earnings of the new jobs created, the present value of that increased earnings stream is a large number.

On the other hand, once we take account of the fact that 70% to 80% of the new jobs lead to population growth, fiscal benefits of job growth are slight. By “fiscal benefits”, I refer to the often made claim that economic development programs, by generating job growth, will help state and local government finances by increasing the local tax base. But what this argument overlooks is that local growth also increases the needs for expanded public services. With faster job growth and population growth, you’re going to have to hire a lot of new school teachers and policemen and firemen to serve the additional population. To avoid increased congestion, you’re going to have to build a lot of expensive new infrastructure. Economic development policies are not a way to make money for the government.

Second, this 20-30% employment rate effect is not a fixed number – it is affected by the local economic environment, and by local policy. Distressed local areas will have greater employment rate benefits. The percentage of new jobs that go to local residents, compared to in-migrants, is roughly two-thirds higher in an economically distressed area, compared to an area that is essentially at full employment.

In addition, we can imagine that policies that make it more likely that workers will be hired locally will make a difference – such as policies to better match the attracted jobs to the local non-employed, or job training policies and job placement policies that help encourage or facilitate more hiring of the local non-employed, not just in the firms directly attracted, but in all firms along the job vacancy chain. At each point where a firm might hire either locally employed, locally non-employed, and in-migrants, we would prefer that more locally non-employed be hired, if we’re trying to maximize social benefits by increasing employment rates.

So, in debating public policies to promote local job growth, we need to consider that growth is not valuable in and of itself. Rather, it is mostly valuable as a means to the end of promoting higher local employment rates. So, if all jobs go to in-migrants, there are no local labor market benefits, and the policies might have significant fiscal costs. On the other hand, if we are in a high-unemployment local labor market and succeed in designing the policies so that more jobs go to the non-employed, then the project might have huge labor market benefits.

My second big topic is that our current place-based jobs policies are often wasteful. What are our current place-based jobs policies? They are largely state and local business tax incentives. The federal government plays a minor role. In addition, relatively few resources are devoted to services to business.

Business tax incentives have grown enormously in recent years. Based on an incentives database I have constructed for most U.S. states and industries, from 1990 to 2015, they roughly tripled. The average incentive today has gone up to be equivalent, over a 20 year period to around 1.5% of the business’s value-added, which is roughly 3% of the business’s wage bill. And some recent incentive offers raise fears that current incentives may escalate. Wisconsin’s offer to Foxconn was over 10 times or great, averaging over 35% of wages over 20 years. Some of the Amazon offers were over 12% of wages – New York’s was about 6% of wages.

What’s wasteful about these incentives? First, in general they’re not targeted in a sensible way.

I should acknowledge that some of the targeting of incentives does make sense. Incentives ARE targeted mostly to so-called “tradable” or export-base industries, by which regional economists mean more than businesses that sell outside the U.S. – we include any industry that sells outside the state. This includes manufacturing industries and some service industries, such as software. But it excludes most retail and many service industries, which sell locally.

This targeting makes sense for state and local economic developers– why would you want to target the expansion of a local McDonalds’ when any increase in its sales and jobs will just reduce sales and jobs in the Burger King down the street? In contrast, if you target a new auto plant in Michigan, it might reduce jobs at an auto plant in Ohio, but that’s not Michigan’s problem. And the new auto jobs in Michigan will have some positive multiplier effects on Michigan jobs in auto suppliers, and in retailers responding to the increased demand from additional auto workers. So, it makes sense to target manufacturers, whose multiplier might be 2, versus fast food restaurants, whose multiplier might be zero.

On the other hand, WITHIN “tradable” industries, incentives are not really targeted in any logical way. In my analysis of my incentives database, there is virtually no correlation between an industry’s incentives and its wages. And high-tech industries don’t receive more incentives than others.

In addition, the evidence strongly suggests that within tradable industries, incentives are strongly targeted on big business. Firms with over 100 employees get over 90% of incentives, even though they constitute just two-thirds of private jobs. And although there is no data on this, I suspect the situation is worse than that – my guess is that the approximately 1,500 U.S. firms with over 10,000 U.S. employees get over half of all tax incentives.

Incentives are not targeted much geographically. Indiana’s incentives are twice as great as Illinois’s, even though the two states have very similar employment rates. South Carolina’s incentives are twice those of North Carolina, even though these two neighbors again have very similar employment rate. And within states, there doesn’t appear to be too much targeting of incentives on distressed areas.

Incentives are also excessively long-term. The average incentive package in the U.S. starts out very high in the first year, goes down by about half in the second year, but then continues at that high level through 10 years after the investment decision is made. Some states have incentives that go even longer, for example in both the New York and Virginia Amazon deals, and the Wisconsin Foxconn deals. But long-term incentives don’t make economic sense – business executives in making investment decisions heavily discount the future. It’s hard to believe that the incentive provided in year 10 really has any effect whatsoever on location decisions today.

There is a political logic to how incentives are designed. Incentives are popular with the public—the public likes it if a governor or mayor tries to “do something” about jobs. “At least he’s trying” – that seems to be the attitude. And to maximize media attention and voter support, it makes sense to target the big fish mega-corporation with big incentives. If a governor or mayor wants to minimize the incentive costs he has to deal with, he tries to push a higher proportion of incentive costs off onto the next governor or mayor, and make it HIS budget problem. And why

target high-wage industries or distressed areas – it’s politically easier to just spread the incentive love as widely as possible.

But my most important point is that incentives are often wasteful because they don’t affect many location or expansion decisions. Incentives are of modest size compared to overall business costs – as I said, they average 3% of wages. A 3% of wages subsidy is not going to tip many location decisions from some other state to this state. The research literature on how sensitive business location decisions are to taxes suggests that average incentives might tip around 10-15% of location decisions. In other words, at least 85% of the time, incentives are simply all cost, no benefit. Or to put it another way, if the incentive had NOT been provided, 85% as many jobs would have been created anyway.

Now, there always are uncertainties in research. Maybe incentives of 3% of wages tip more than 10-15% of location decisions – maybe it’s 25%. Or maybe it’s only 5%. There’s some uncertainty. But one thing I’m sure of – it’s very misleading to analyze the benefits and costs of incentives under the assumption that anything that is touched by an incentive is induced by the incentive, that is by assuming that the “but for” is 100%.

That brings me to my third point. There would be great social benefits from reallocating some jobs to distressed areas, that is areas have too low employment rates. Such a job reallocation would help increase overall U.S. employment rates. Is there a way of accomplishing this reallocation that is less wasteful than the current design of business tax incentives?

First, we should reform incentives so that they are targeted more at distressed areas. Tax incentives should be greater in states with lower employment rates. And within states, tax incentives should be targeted at areas with lower employment rates. North Carolina is one model – North Carolina for a long time has had incentives vary by three tiers of North Carolina counties, based on each county’s economic status.

Incentives currently are as likely to hurt distressed areas as to help them. That needs to change.

Second, incentives should be upfront. They should be payable in the first year of the location or expansion decision, or the first three years, and not carried forward into the next governor or mayor’s term of office. To limit excesses, I would suggest incentives should be limited to the company’s income tax and property tax liability on its first three years of operations. This would average about \$20K per job in the U.S. And the credits should be non-refundable, and not be able to be carried forward after 3 years.

\$20K per job would be about what Virginia, a below-average incentive state, offered Amazon in tax incentives, although they offered it over a long time. And it’s about one-fourth of what New York offered Amazon, although again they offered it over a long time. And it’s about one half of the average tax incentive package in U.S.

Third, we should pursue incentives more through other policies that might be more cost-effective. I’ve argued before that customized business services to small and medium sized businesses might create jobs at one-tenth the cost of average incentives. What kind of services? The services

for which there is the best evidence of effectiveness are manufacturing extension services and customized job training.

Manufacturing extension services are partially federally funded. Each state has one or more manufacturing extension office. Manufacturing extension service provide small and medium size manufacturers with advice, either directly from the office, or they broker advice from local university faculty or private consultants. The advice provided to these smaller manufacturers is on a wide variety of topics, including new production technologies, business software, finding new markets, personnel policies, etc.

Customized job training is where states agree to pay part or all of the cost of training new or incumbent workers to a firm's specific job requirements, with the training typically provided through local community colleges. The training is frequently part of a package provided to entice a new firm location decision, encourage an expansion, or help retain jobs threatened by foreign competition.

Without getting into the weeds of evaluation studies, there is some good evaluation evidence on manufacturing extension services and customized job training from quasi-experiment studies that compare assisted firms with similar unassisted firms. This research suggests that manufacturing extension and customized job training are cost-effective in helping reduce business costs and spur job growth.

There also is good evidence that some regional efforts to boost infrastructure, such as the Tennessee Valley Authority (TVA) and the Appalachian Regional Commission, have been cost-effective. For example, TVA seems to have permanently boosted manufacturing jobs in the TVA region, compared to otherwise similar regions, and by a large amount compared to the federal investment in TVA. The estimated cost per job created is less than one-fifth of that for business tax incentives.

The Empowerment Zone program of the late 1990s, at least in its original form, also seems to have been relatively effective, comparing the very large neighborhoods assisted by the program with similar unassisted large neighborhoods in other cities. This Empowerment Zone program combined subsidies for hiring residents of distressed neighborhoods, with various job training service and business services in these neighborhoods. Empowerment Zones seem to have been far more effective than state enterprise zone programs. Why the difference? That's unclear, but it could be that most state enterprise zone programs just provide tax breaks, whereas Empowerment Zones also provided some services to help businesses and increase job skills in the assisted neighborhood.

Finally, I know of one study of brownfields that finds high cost-effectiveness. However, this study is a before and after comparison, so I would tend to regard this evidence as weaker than for the other programs.

Now an interesting philosophical question is WHY these various customized business services and infrastructure and land development policies tend to often be more cost-effective than simply subsidizing job growth through business tax incentives. I think the main reason is that these

business services and infrastructure services and land development policies directly deal with the problems that impede job growth in an area, by providing high-quality inputs to business production at a cost less than their value to assisted businesses. In contrast, business tax incentives simply provide temporary subsidies that don't really fundamentally change the competitiveness of the area for job growth. A lot of what gets subsidized would have occurred anyway. It's easier to just hand out cash via business tax incentives than it is to provide valuable public services, but providing high-value public services is more cost-effective if you spend the time to figure out how to do it.

Fourth, I think we should be continually experimenting with ways to encourage more local hiring of the unemployed. This can be done in part with well-run customized training programs. This could also be done in part with tying some tax incentives for job creation to hiring the long-term unemployed.

Now the big problem with tying tax incentives to hiring the long-term unemployed is stigma effects. There is a famous experiment in which welfare recipients were randomly assigned to a treatment group that was instructed to go out and tell potential employers that they would get a wage subsidy for hiring them. And the welfare recipients who did so ended up being less likely to be hired, presumably because many employers had a bias against hiring welfare recipients.

But there are ways of overcoming stigma effects. Minnesota had an economic development program in the 1980s, the Minnesota Employment and Economic Development Program or MEED, which offered wage subsidies for hiring the long-term unemployed for new jobs – but the wage subsidies were not an entitlement, but rather were discretionary subsidies that were controlled by local workforce agencies. The local workforce agencies screened the long-term unemployed, and in some cases provided some training. They then carefully marketed these clients to local employers who they thought would be more willing to take a risk on someone who has been unemployed long-term, and less likely to stigmatize them. There is survey evidence that the program was successful, but no rigorous evidence. We need to do some more rigorous experiments with programs of this type. As I already mentioned, anything we can do to encourage more local hiring to be from the local non-employed will help make growth more inclusive, by helping get more new jobs to raise the local employment rate, rather than simply boosting in-migration.

I also want to mention that the Upjohn Institute is running some innovative employment programs in Southwest Michigan. The Upjohn Institute has since the early 1970s been the administrative agent for federally-funded and state-funded workforce programs in Kalamazoo County and nearby counties. Recently, as part of our work running these workforce programs, which go under the name Michigan Works, we have been trying out some new ways of linking the non-employed to jobs. These include a program called Neighborhood Employment hubs, in which we bring employment counselors and job developers into neighborhood centers, churches and other trusted organizations in low-income neighborhoods. These include another program called Employer Resource Networks in which a consortium of employers pays for Michigan Works staff to provide “success coaches” to help overcome problems that might impede job retention for new hires. We don't know yet whether these program approaches have a large effect on encouraging hiring and job retention for the non-employed, but we hope to find out.

We pay a lot of money trying to increase job growth in local areas. We should be willing to pay some money to experiment, to see if we can do better at increasing access to these new jobs by the non-employed. Ultimately, such benefits for the non-employed are the only good rationale for large subsidies to creating new jobs in local area.

To finish up by summarizing my main message: Place-based jobs policies should be considered a key component of overall U.S. labor market policy. Its role within overall U.S. labor market policy is to deal with the special social and economic problems caused by geographic disparities in employment rates. But for these programs to make the most sense, they not only need to target distressed areas with low employment rates, but they need to be designed so they are more cost-effective, both in creating new jobs, and in directing those new jobs to the non-employed. This can be done with scaled back upfront tax incentives, business services, and infrastructure and land development programs. And these programs will be more effective in raising employment rates if we coordinate these place-based jobs programs with innovative local workforce programs that do a better job of linking the non-employed with jobs. Taking place-based jobs policies seriously as a labor market policy requires both significant investments, and significant reforms of current incentive policies.