What Should Michigan Be Doing to Promote Long-Run Economic Development?

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Outline

• State economic development goals can be promoted through
  – lower marginal business costs
  – improved human capital

• 8 ideas for lowering marginal business costs and improving human capital

• Estimated benefits and costs of these 8 ideas

• Barriers to these investments
General Principles of Economic Development

- Goal is higher per capita income
- Economic development policy IS labor market policy
- Labor demand: lower marginal costs of creating better jobs
- Labor supply: increase skills
- What is PV of state earnings benefit per $ invested?

Peter Lindert, Growing Public
Marginal Business Taxes vs. Average Business Taxes

Net tax rate on new manuf plant 1998, w/incentives (Fisher/Peters)

Avg. bus. tax rate 2000 (Ernst/Young)
Idea 1: Upfront Business Incentives

• High business discount rates (12%)

• 10-year incentive: PV earnings benefit of $3.14 per $

• Upfront: $4.47

• Current incentives: over $500M

• Upfront $100M yields $447M

• General business tax cut may reduce earnings
Idea 2: Customized Job Training

• 10-16 times as effective as tax incentives (Hollenbeck, Hoyt)

• Michigan: $30 million below past levels

• $30 million increases PV of earnings by $900 million
Idea 3: Manufacturing Extension

- 8 times as effective as tax incentives
- Quadrupling current efforts would cost $21M
- PV of earnings benefit: $550M
Idea 4: MEED

- Minnesota, 1983-1989
- $10/hr. wage subsidy to public/private employers to hire disadvantaged for 6 months
- New jobs, rollover requests
- Targets small & export-base
- Cost if run at MN level: $263M
- PV earnings benefit: $1.5B
Idea 5: Universal Pre-K

• 18% of Michigan’s 4-year-olds currently in state pre-K

• Expanding to 70% would cost $298M

• PV earnings benefit: $827M
Idea 6: Summer School in Early El.

- Mandatory summer school
- Learning rate 2 to 3 times as fast as regular school year (Chicago)
- Cost of $49M to have 20% of one MI grade
- PV earnings benefits: $406M
What Skills Are Needed?

Distribution of Future Jobs by Education Needed

- HS or less: 45%
- BA or more: 33%
- Some post-sec but not BA: 22%

Source: Holzer/Lerman
Idea 7: Career Academies

- 200 students, grades 9/10-12
- Career theme, partner with employers
- Costs $2,200 per student
- Annual earnings effect: $2,800
- 20% of MI 9th graders: cost of $63M
- PV earnings benefit: $691M
Idea 8: Adult Job Training

• Experimental JTPA data: cost per entrant of $1,700; annual earnings effect of $1,300

• Increasing MI training to offset federal cuts since 2000: $41M

• PV earnings benefit: $107M
Annual Earnings Impacts from Training: Greater for Employer-Focused

Source: Hollenbeck
Summary of Costs and Earnings Benefits

Total costs: $865M; Total benefits: $5.42B (2.2% of MI earnings)
Barriers to Investing

• $10B fiscal problem in FY 2017 (CRC/Upjohn Institute)

• Analytical capacity to
  – Look at marginal taxes
  – Analyze LR policy interventions based on research literature
  – Do new evaluations of policy based on matching, regression discontinuity, etc.
Analytical Example: Washington State Institute for Public Policy

Exhibit 5

Adult Prison Supply and Demand in Washington: 2008 to 2030, Current Forecast and the Effect of Alternative Evidence-Based Portfolios

Prison Beds

Existing Prison Supply & Rented Jail Beds

- CFC prison forecast and WSIPP extension
- Forecast with Current Level Portfolio
- Forecast with Moderate Implementation Portfolio
- Forecast with Aggressive Implementation Portfolio

Conclusion

• What I didn’t cover and why: autos, university research, creative class

• Focus should be on proven methods of lowering marginal business costs and raising skills

• Info services for existing business often cheap and effective

• Human capital either early or tied to employers

• Focus on market failures, not targeting particular industries