

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

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Outline

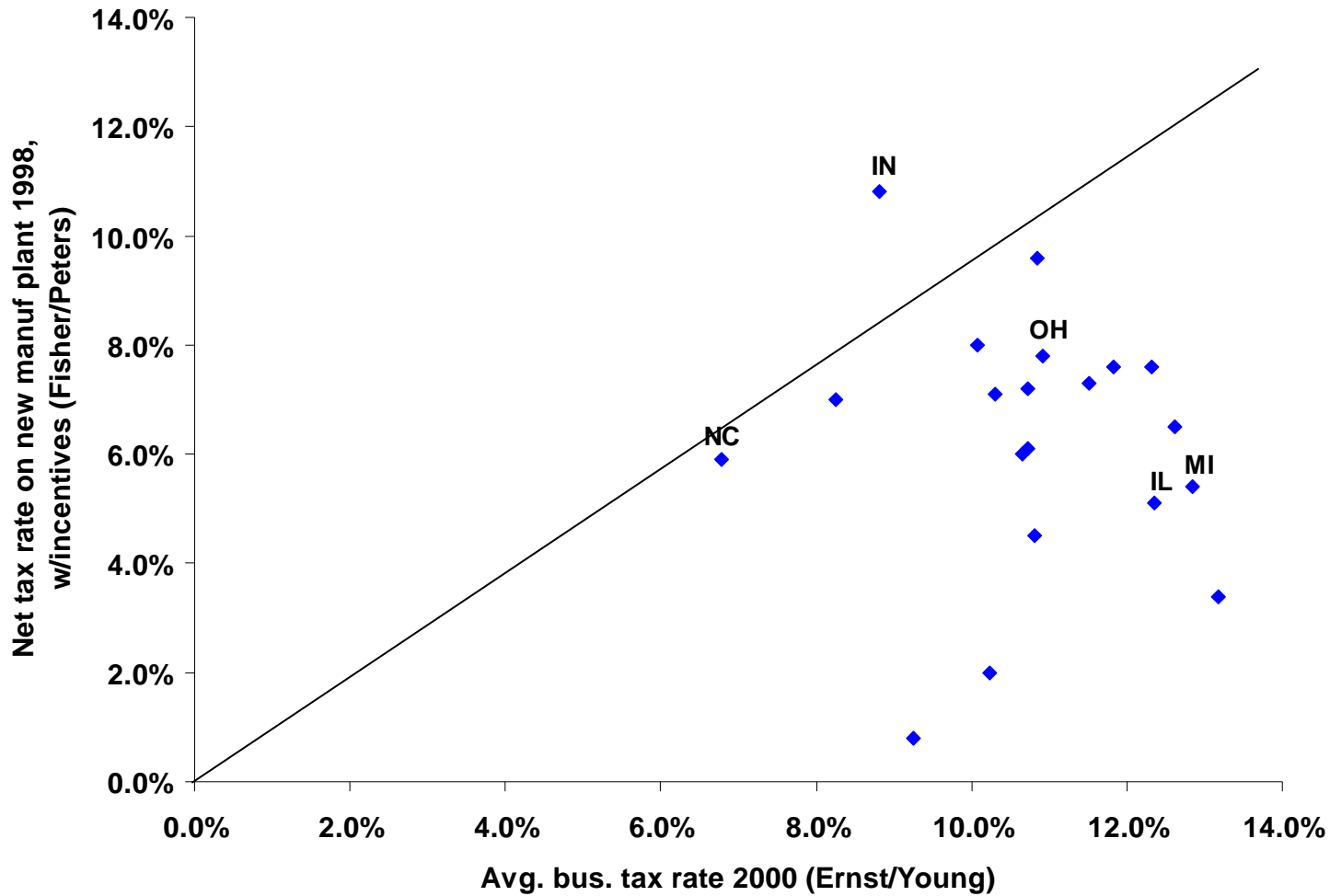
- **State economic development goals can be promoted through**
 - lower marginal business costs
 - improved human capital
- **8 ideas for lowering marginal business costs and improving human capital**
- **Estimated benefits and costs of these 8 ideas**
- **Barriers to these investments**

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



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

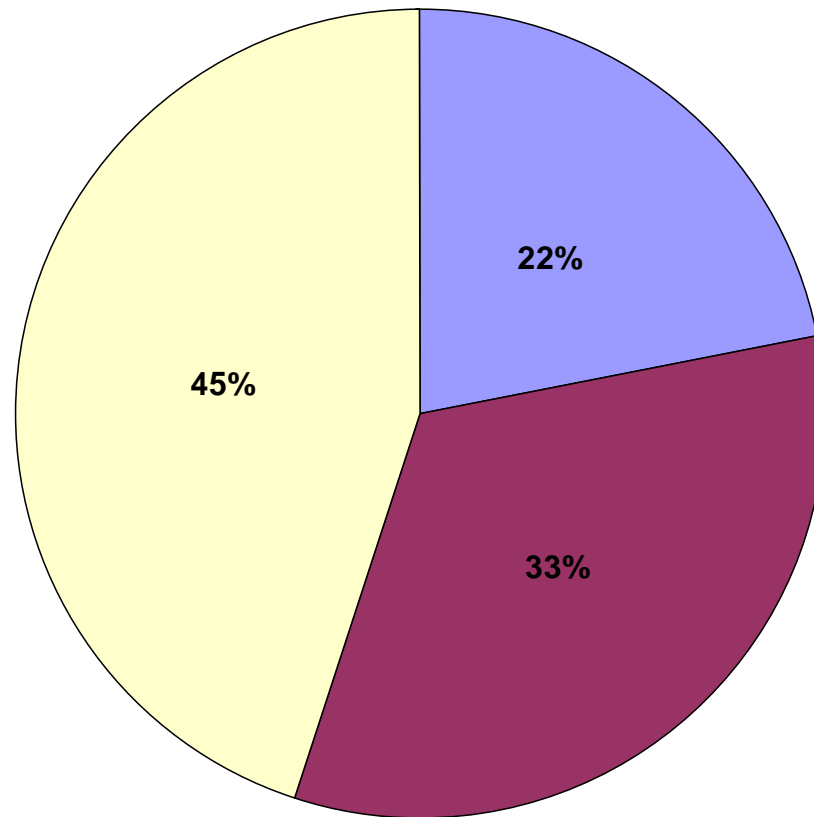
- **18% of Michigan's 4-year-olds currently in state pre-K**
- **Expanding to 70% would cost \$298M**
- **PV earnings benefit: \$827M**

Idea 6: Summer School in Early EI.

- **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



Source: Holzer/Lerman



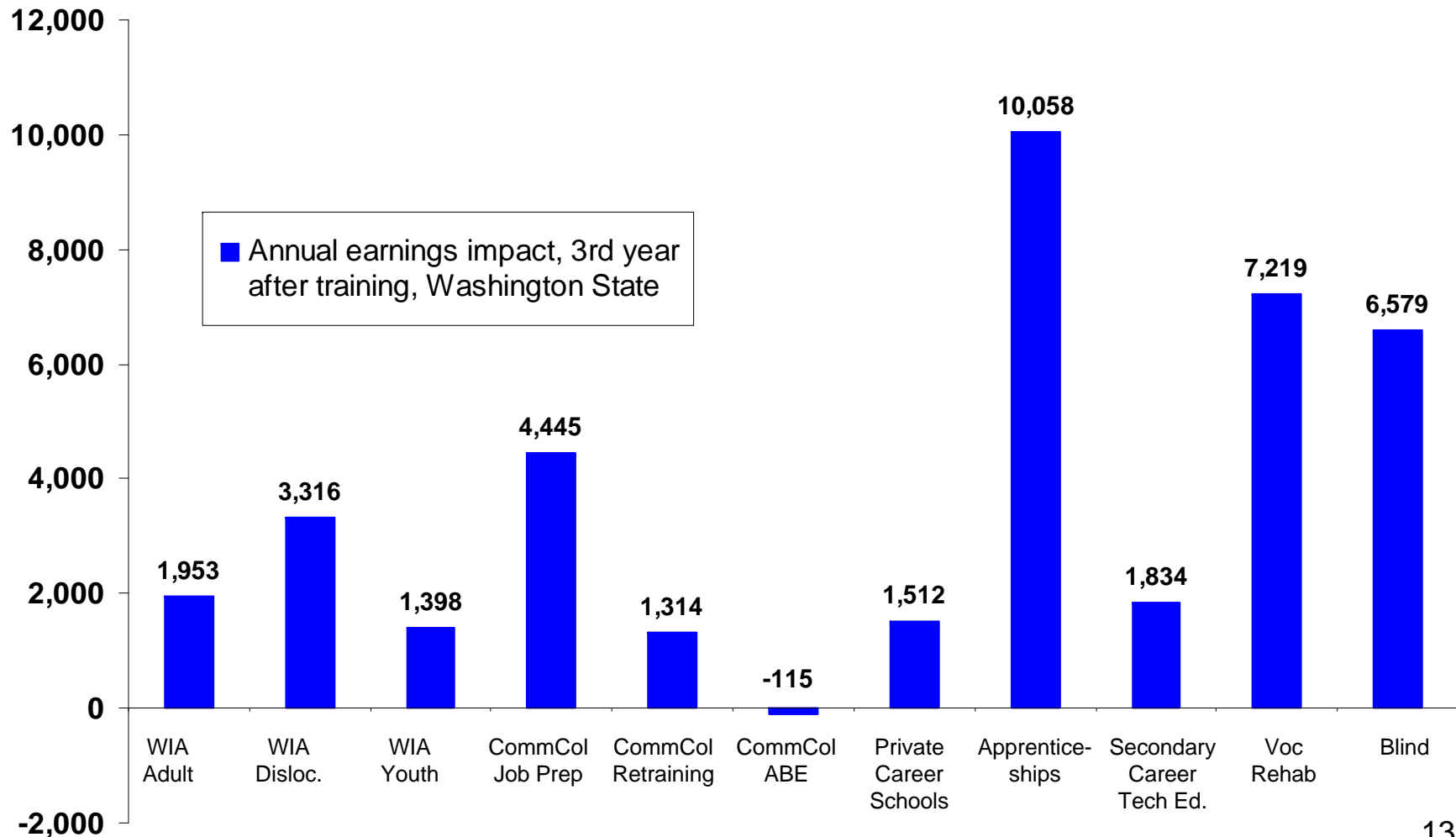
Idea 7: Career Academies

- **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

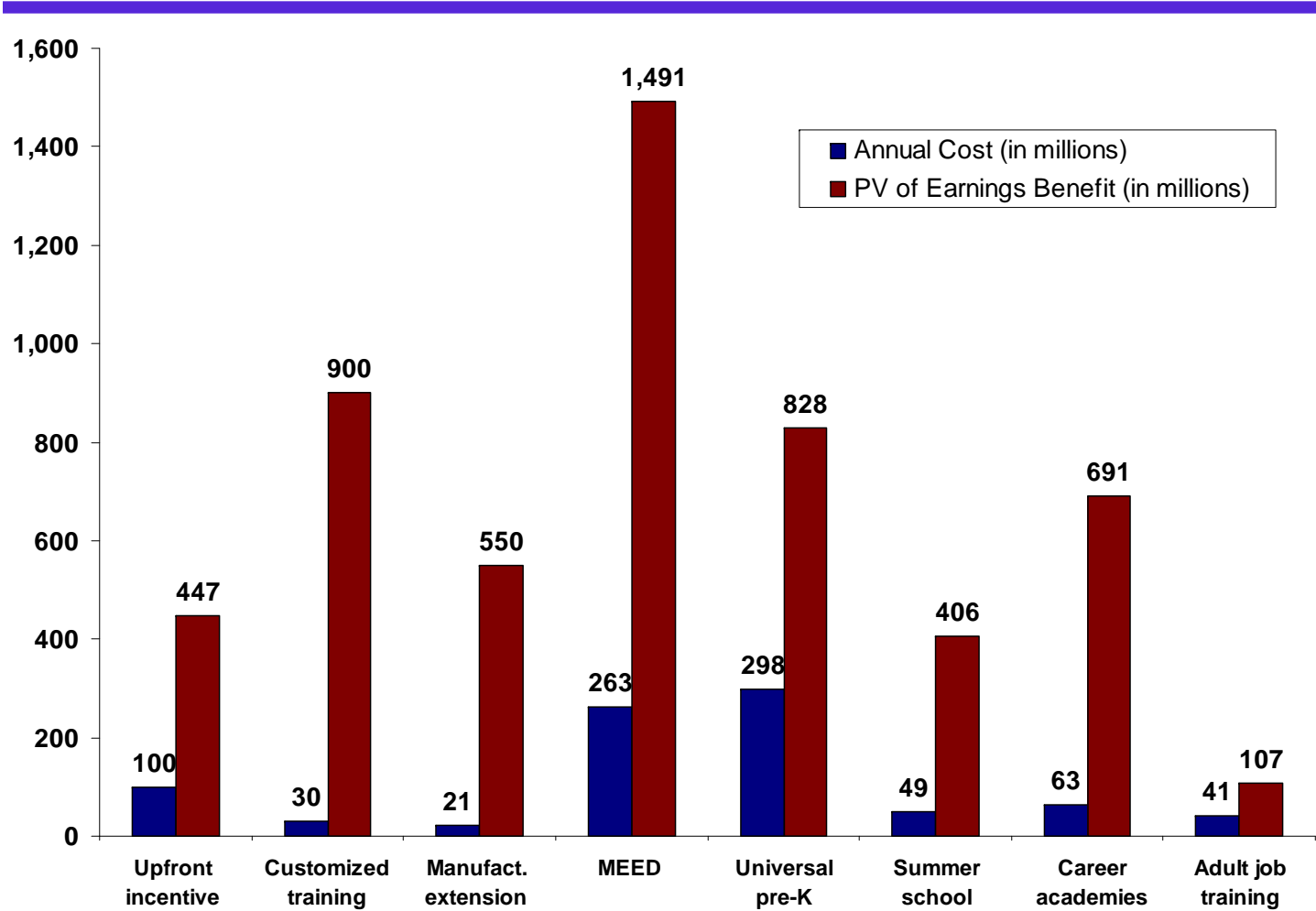
- **Experimental JTPA data: cost per entrant of \$1,700; annual earnings effect of \$1,300**
- **Increasing MI training to offset federal cuts since 2000: \$41M**
- **PV earnings benefit: \$107M**

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)

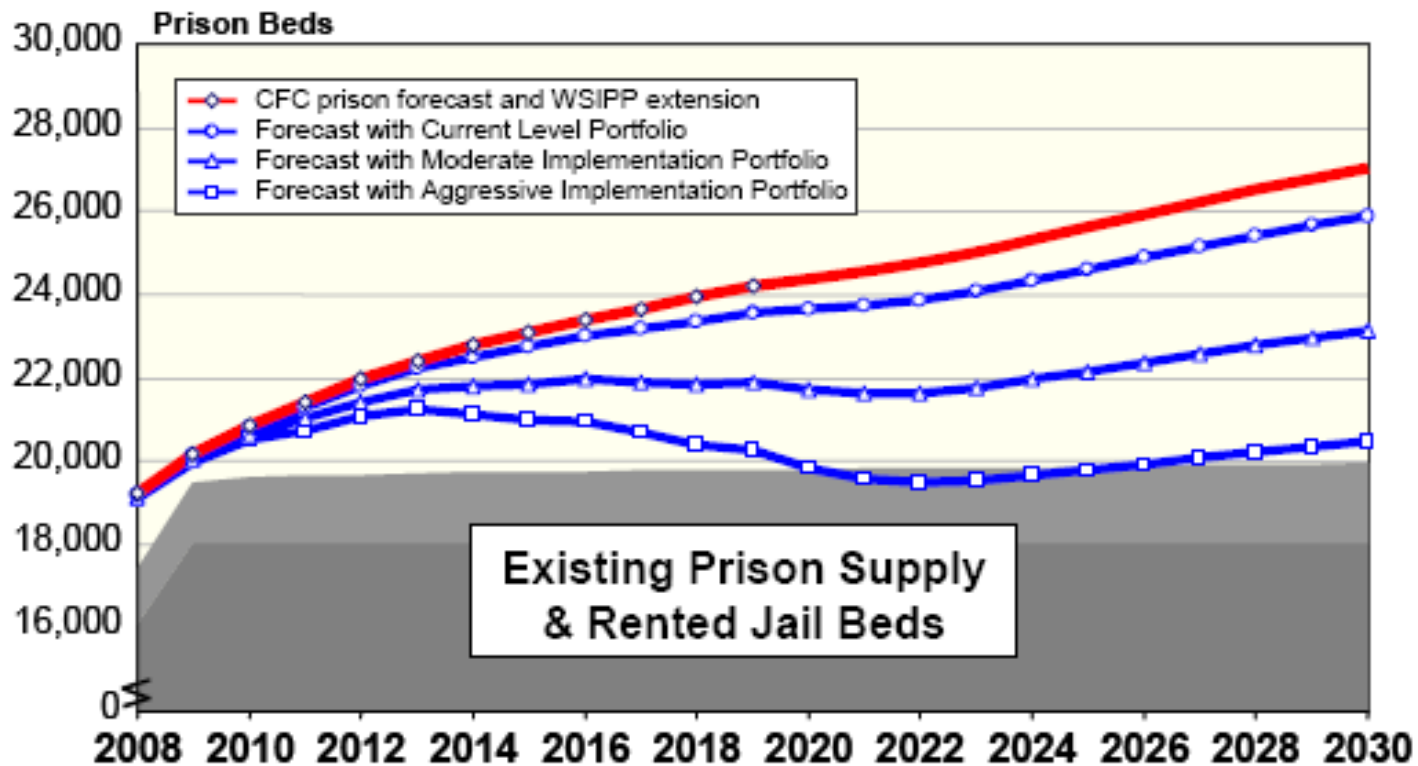
Barriers to Investing

- **\$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



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**