

# Cost-Effectiveness of Alternative Economic Development Policies

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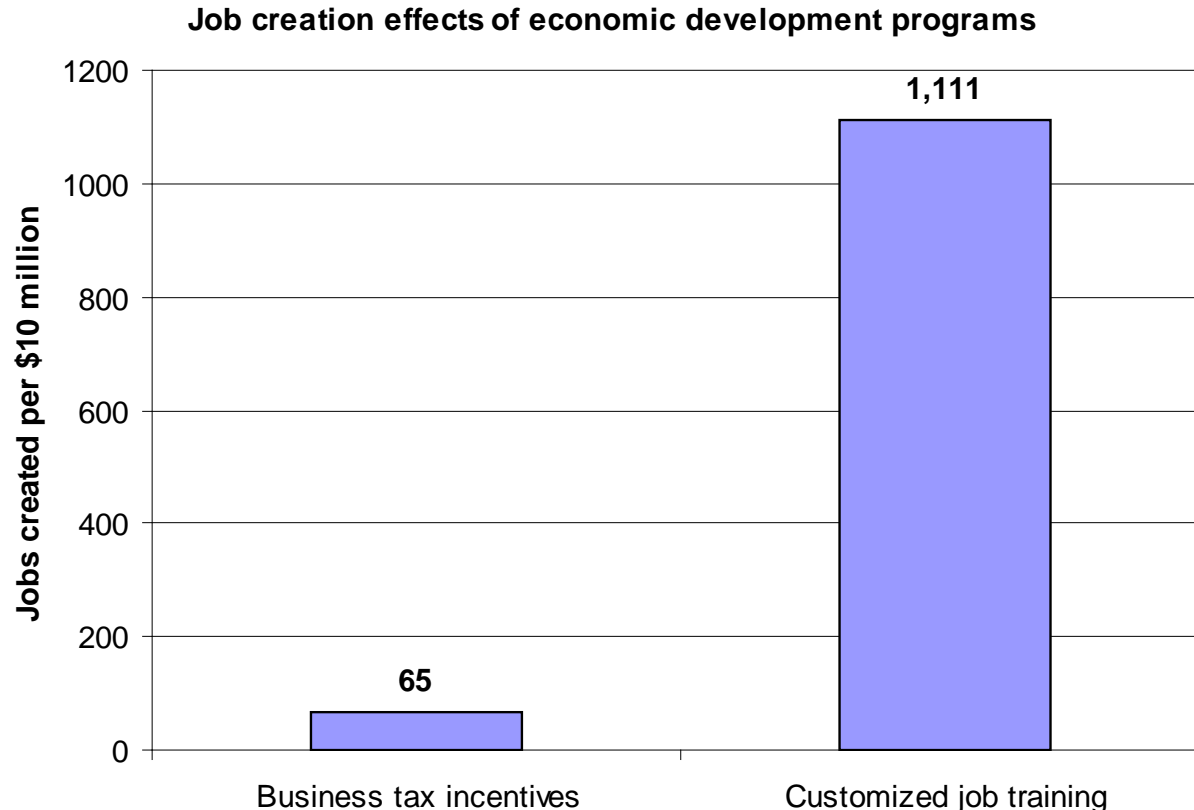
Presentation at 2009 Annual Conference of EARN,  
the Economic Analysis and Research Network

# Overview

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- How cost effective are alternatives to business tax incentives in increasing employment and earnings per capita of state residents?
- 3 types of alternatives to business tax incentives are considered here:
  - Customized business services
  - Alternative financial incentives
  - Preschool, as example of human capital policy

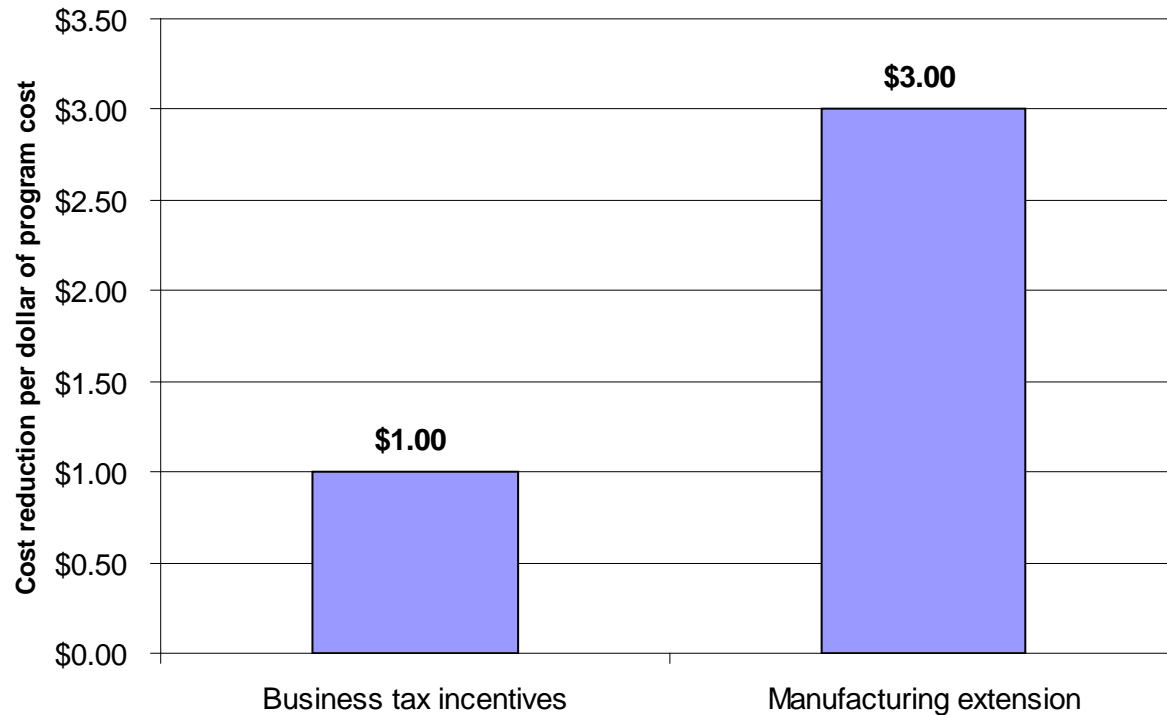
# Customized Job Training: 17 Times More Effective in Creating Jobs Than Business Tax Incentives



**NOTE:** Job creation effects of customized job training estimated in Hollenbeck, Kevin. (2008). "Is There a Role for Public Support of Incumbent Worker On-the-Job Training?" Upjohn Institute Staff Working Paper No. 08-138, available at [www.upjohninstitute.org/publications/wp/08-138.pdf](http://www.upjohninstitute.org/publications/wp/08-138.pdf). Effects of business tax incentives reported in Bartik, Timothy. (2006). "Taking Preschool Education Seriously as an Economic Development Program: Effects on Jobs and Earnings of State Residents Compared to Traditional Economic Development Programs." Upjohn Institute Report, available at [www.upjohn.org/preschool](http://www.upjohn.org/preschool).

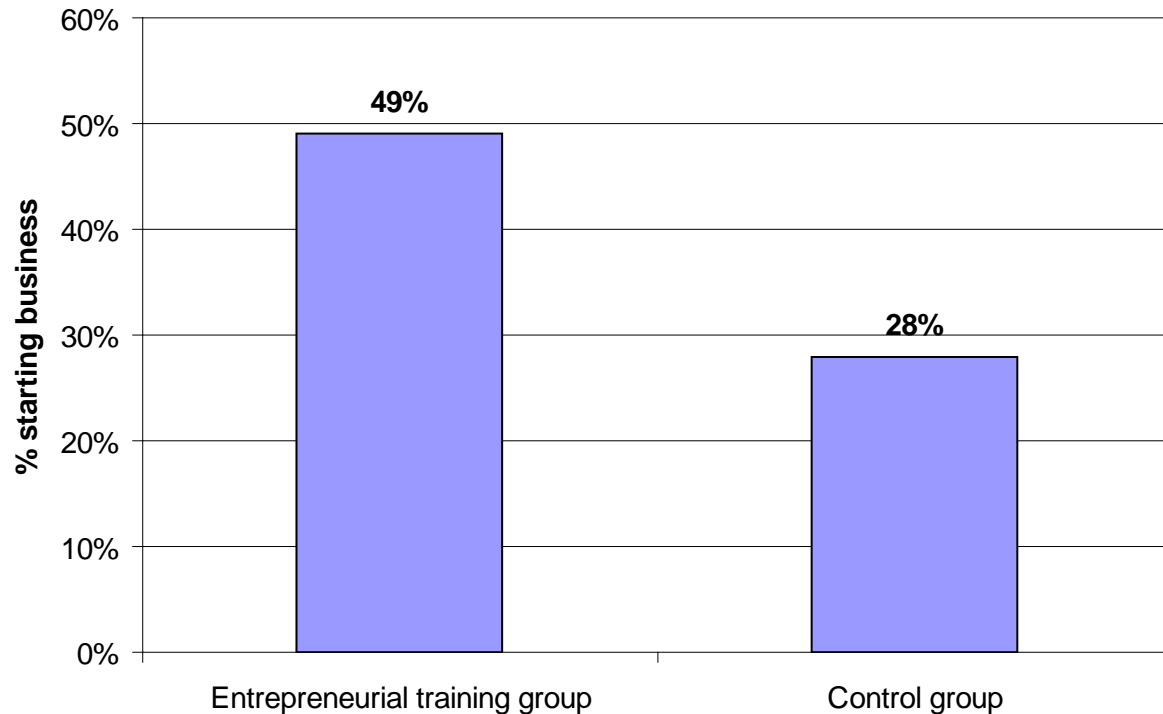
# Manufacturing Extension Services:

3 Times as Effective in Reducing Costs  
as Business Tax Incentives



**NOTE:** Figures are derived by author from reports from Michigan Manufacturing Technology Center.

# Entrepreneurship Training: Increases Small Business Start-Ups by 3/4ths



**NOTE:** Figures come from Benus, J.M., Wood, M., & Grover, N. (1994). *A comparative analysis of the Washington and Massachusetts UI self-employment demonstrations*. Report prepared for U.S. Department of Labor, by Abt Associates.

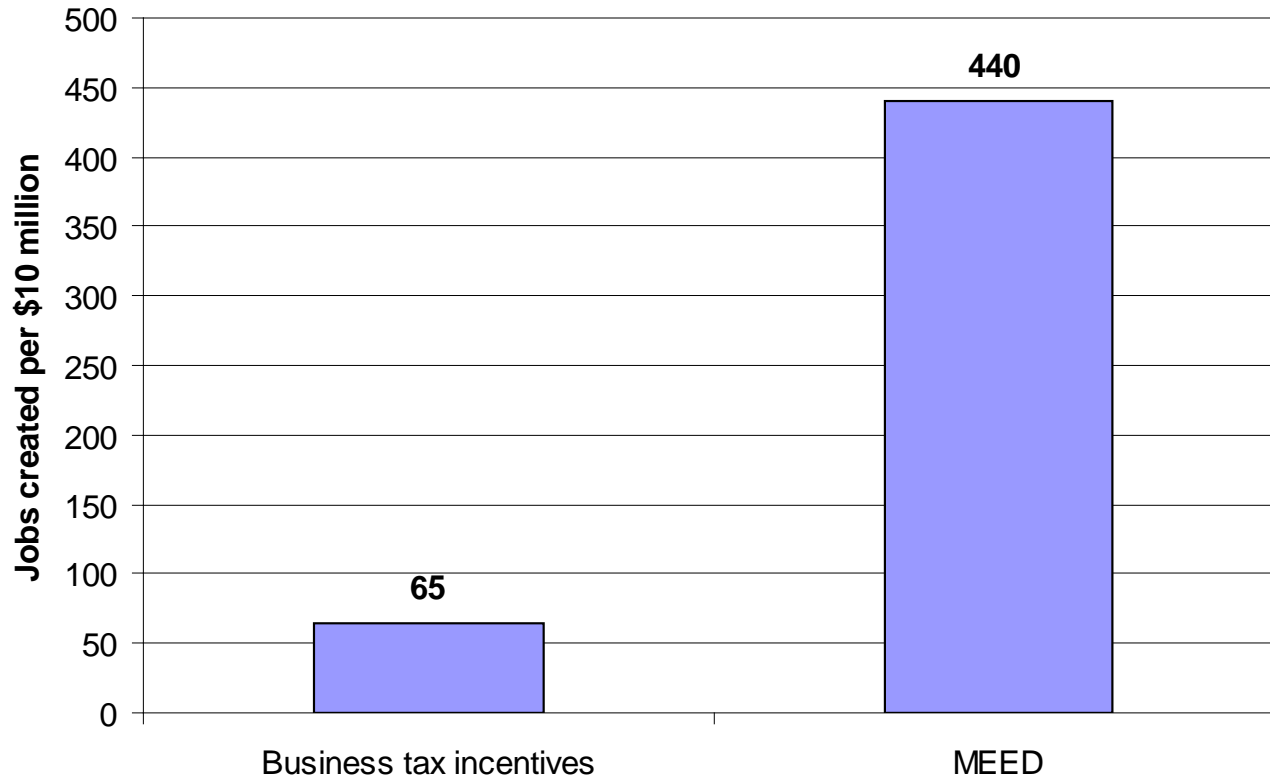
# Alternative Financial Incentives: The MEED Program

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- Minnesota, 1983–1989
- Provides wage subsidies for hiring the unemployed for newly created jobs
- In 2009 \$, wage subsidies equivalent to \$8 per hour, plus up to \$2 per hour for benefits
- Wage subsidies up to 6 months
- Spending program controlled by local workforce boards
- Public as well as private job creation
- Targets small- and medium-sized employers

# MEED:

About 7 Times As Effective  
As Business Tax Incentives



**SOURCE:** Author's estimates.

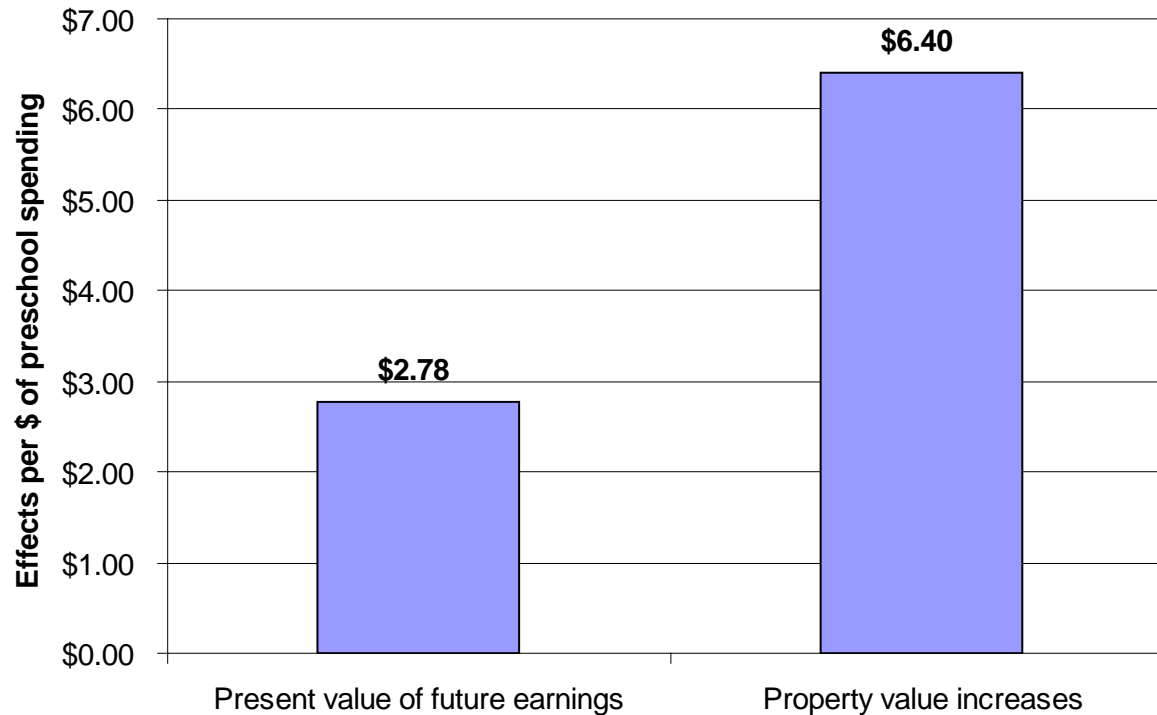
# Preschool as an Economic Development Program

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- Like many human capital programs, increases quality of states' labor
- For example, some preschool programs increase high school grads by 1/5<sup>th</sup>, increase income at age 40 by 60%
- About 65% of those born in a state will stay there for most of their work life
- As a result, in long-run preschool investment will create additional jobs and earnings in state
- In short-run, universal preschool is likely to increase property values



# Preschool's Effects on State Earnings and Property Values per Dollar of Spending



**SOURCES:** Earnings effects: Bartik, Timothy. (2006). "Taking Preschool Education Seriously as an Economic Development Program: Effects on Jobs and Earnings of State Residents Compared to Traditional Economic Development Programs." Upjohn Institute Report, available at [www.upjohn.org/preschool](http://www.upjohn.org/preschool). Property value effects: Bartik, Timothy J. (2009). "How Policymakers Should Deal with the Delayed Benefits of Early Childhood Programs." Upjohn Institute Staff Working Paper No. 09-150. Available at: [www.upjohn.org/publications/wp/09150wp.html](http://www.upjohn.org/publications/wp/09150wp.html).

# General Principles of Effective Economic Development Programs

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- More effective if targeted at particular stages of business life cycle or human life cycle. For businesses, small- and medium-sized businesses already in state, particularly those considering change in operations. For people, early interventions.
- Information and training are often cheap relative to benefits
- More targeted interventions work better