

Rethinking Michigan's Economic Development Policies

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What does research say about how to maximize net benefits of state economic development policies?

1. Benefits per job created depend on how they affect local **employment rate**.
2. Costs per job created are lower for **business services** than for business **incentives**.
3. Benefits of economic development policies are greater from **comprehensive** and locally-**customized** policies, rather than single programs or projects.

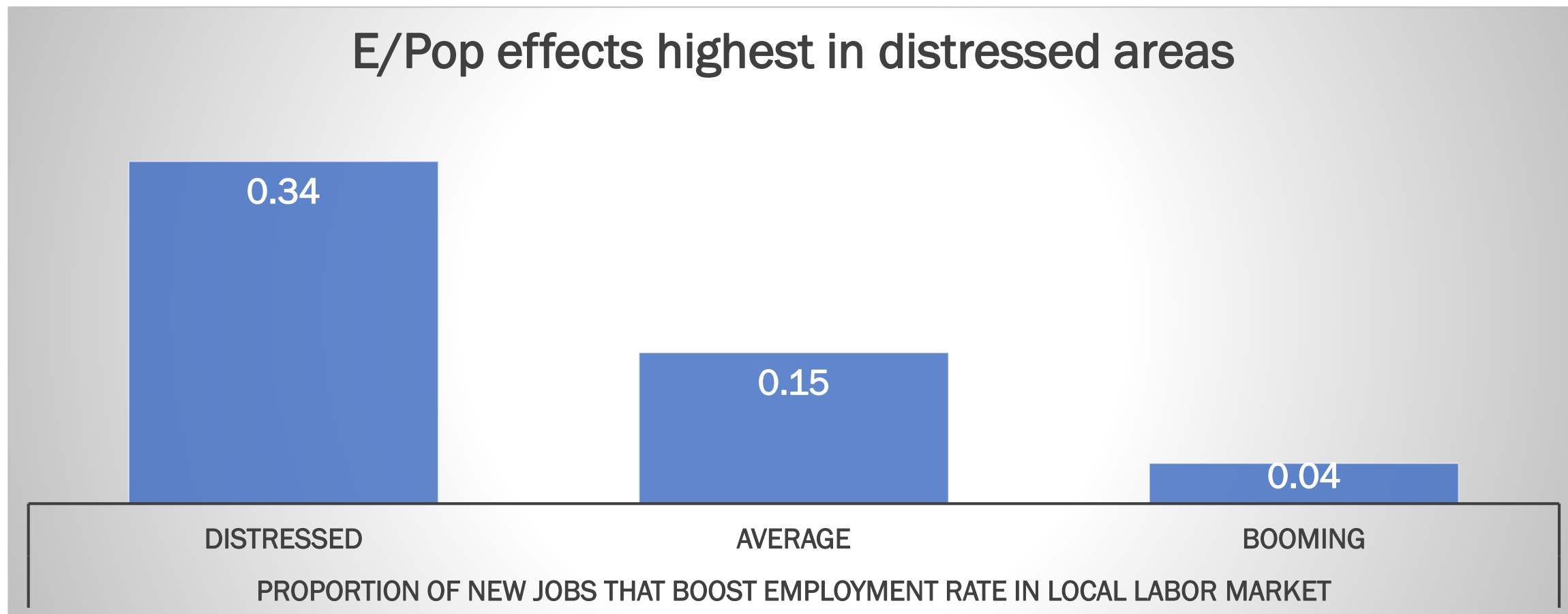


Point 1: Main benefits of local job creation come from increasing employment rate, with these effects relatively small, on average, compared to in-migration effects

- On average, **15%** of new jobs increase local **employment rate**.
- **85%** of new jobs increase **in-migration**.
- In-migration effects are so high because of hiring along job **vacancy chains** created when firms hire already-employed residents.
- **Social and fiscal benefits** of new jobs much greater if they **increase employment rate** more.



Higher proportion of jobs go to non-employed residents in distressed areas

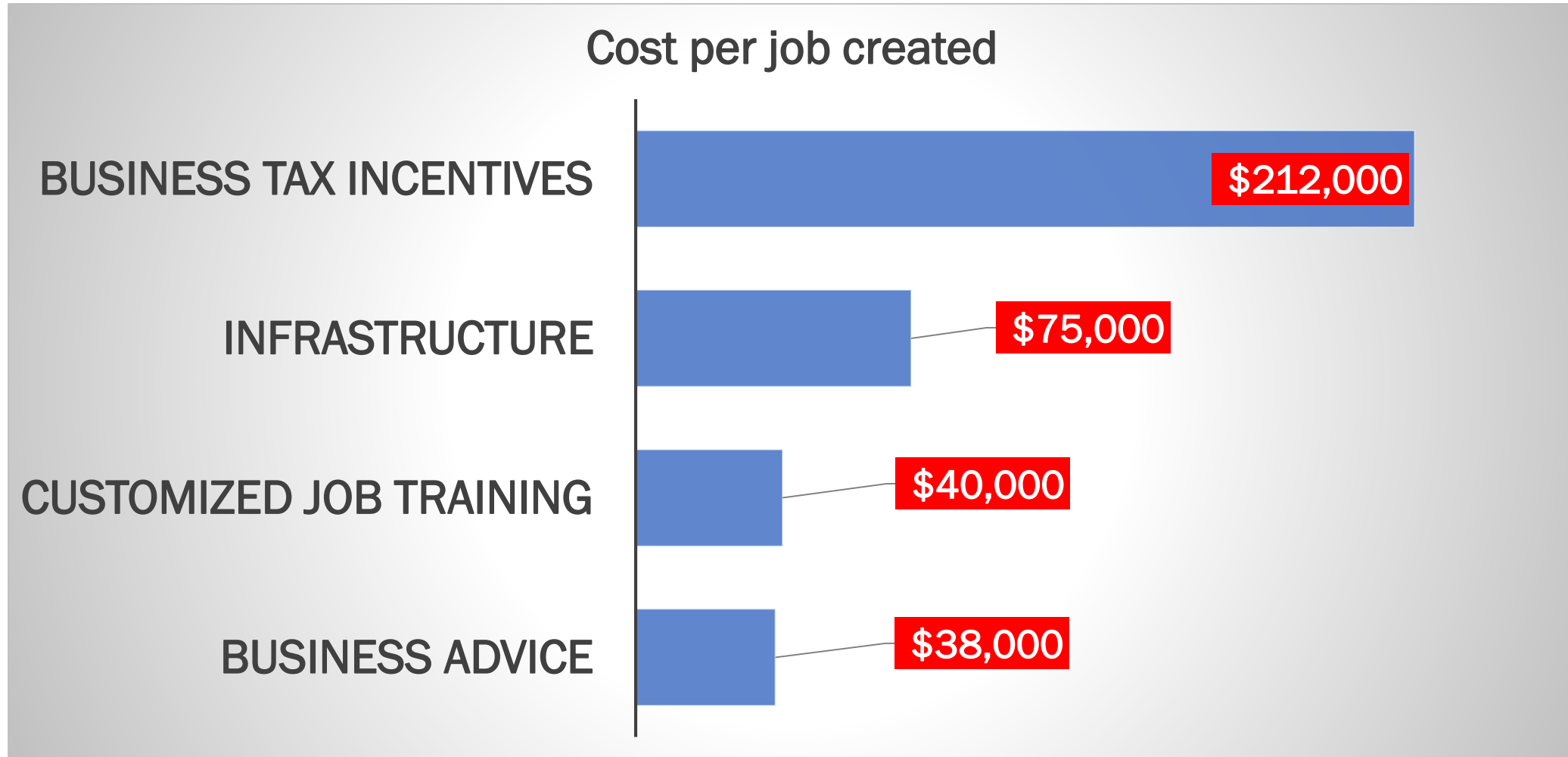


Local jobs will boost employment rate more by improving job access in distressed neighborhoods

- Hires of local non-employed can be increased by “**job access services**”.
- “Job access services”: not just **public transit**, also reliable **used cars, child care, workforce development** services.
- “Job access services” have greater benefits if we target **distressed neighborhoods**.



Point 2: Business services cheaper per job; incentives easier to expand



Point 3: Comprehensive and locally-customized services to create jobs and improve job access have synergistic benefits.

- Job creation boosted more by improving **all** business inputs.
- Employment rates boosted more by **combining** job creation with job access.
- The “Michigan economy” is a collection of **diverse** local economies.
- One size does not fit all: **one service** does not help **all** local economies.



Conclusion: Key is targeting & customized local strategies.

- Should state devote **greater proportion** of economic development budget to **services**? **Yes but....**
- Should state **expand** economic development budget? **Maybe....**
- Economic development has higher benefit/cost ratio if **targeted** at **distressed** local labor markets and neighborhoods.
- Costs/job lower from services, but better is funding **customized local strategies**.

