



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**, but cash easier to expand.
3. Benefits of economic development policies are greater from **comprehensive** and locally-**customized** policies, rather than single programs or projects.



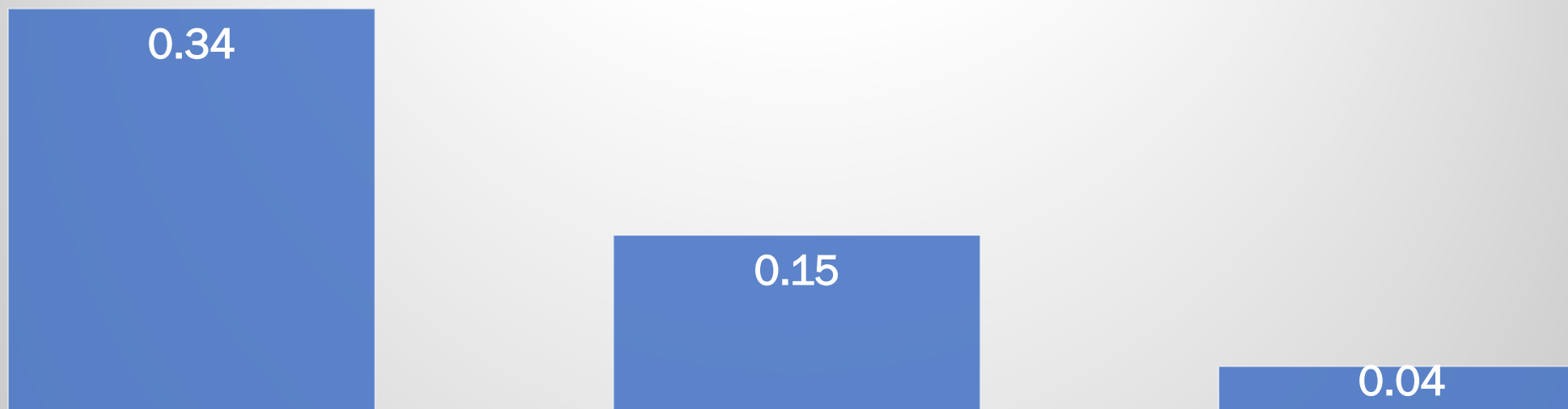
Point 1: Main benefits of local job creation come from increasing employment rate, with these effects relatively small, on average, compared to in-migration effects

- 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

E/Pop effects highest in distressed areas



DISTRESSED

AVERAGE

BOOMING

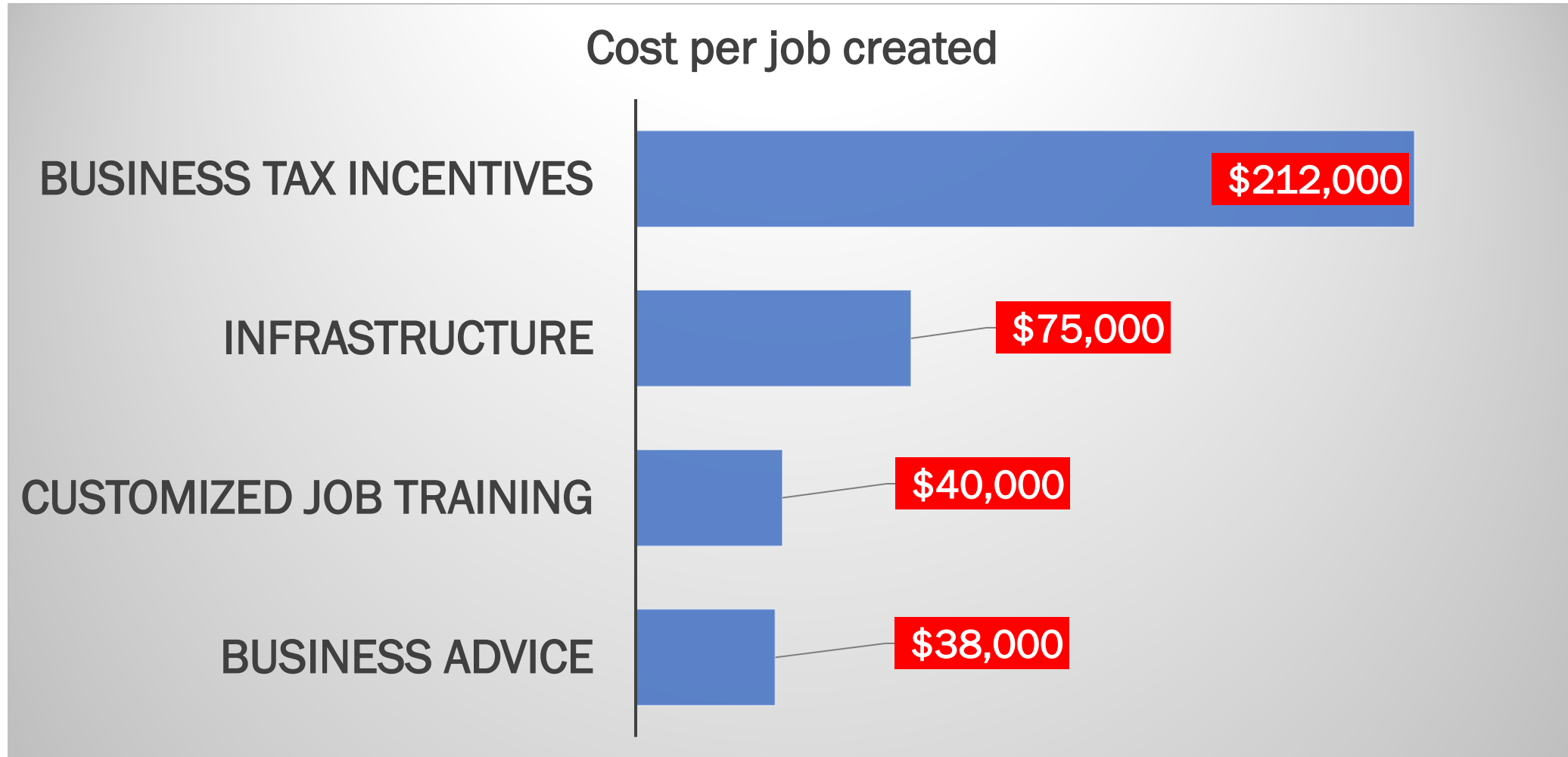
PROPORTION OF NEW JOBS THAT BOOST EMPLOYMENT RATE IN LOCAL LABOR MARKET

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**.

