So You Want to Create a Job…

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The Simple Story

- The Governor snaps his fingers
- Firms appear and need workers
- Idle workers take the jobs
- Economy grows
- Everyone is better off by the amount of added growth
- So simple

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The ~~Simple~~ Story

- The Governor snaps his fingers
  - Every time this happens money moves from one person to another
- Firms appear and need workers
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The ~~Simple~~ Story

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- Firms appear and need workers
  - Firms sell their location decision to localities, who bid against each other and raise the price
- Idle workers take the jobs
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The ~~Simple~~ Story

- The Governor snaps his fingers
- Firms appear and need workers
- Idle workers take the jobs
  - Except in a recession, there are no idle workers. Each new hire is from some other firm, costs rise.
- Economy grows
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The ~~Simple~~ Story

- The Governor snaps his fingers
- Firms appear and need workers
- Idle workers take the jobs
- Economy grows
  - Jobs are a ***cost*** of production. Maximizing jobs is maximizing a cost. Net growth may be negative.
- Everyone is better off by the amount of added growth
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The ~~Simple~~ Story

- The Governor snaps his fingers
- Firms appear and need workers
- Idle workers take the jobs
- Economy grows
- Everyone is better off by the amount of added growth
  - A greater flow of money does not imply increasing well-being. It is gross gain not net gain.
- So simple ***and so wrong!***

Another Story: In Two Chapters

- Recession and Expansion
- Chapter 1: Recession
  - Slack resources, capacity utilization of labor and capital very low; disequilibrium; prices do not reflect resource scarcity
- Chapter 2: Expansion
  - No slack resources, high utilization; equilibrium; prices reflect resource scarcity

Chapter 1: Recession

- Increasing resource utilization brings undervalued resources into production
- Increasing spending can increase utilization
- How can a balanced budget state spend more?
- Borrow (If you’re squeamish, don’t listen.)
  - Deficit spending (Don’t tell Standard & Poors!)
  - Balanced budget multiplier (T-- and spend, yikes!)
  - Spend someone else’s money (Uncle Sam’s)

How the State BBM Works

- Raise $1 in t■■■s
- Get $0.20 in deferred private saving
- So $1 in increased taxes earns a *net increase* of $0.20 in current spending
- Plus, resources can be purchased cheaply for making public investments

How the State BBM Works

- Raise $1 in t[redacted]s
- Get $0.20 in deferred private saving
- So $1 in increased taxes earns a *net increase* of $0.20 in current spending
- Plus, resources can be purchased cheaply for making public investments
- Not a recommendation; I'm just sayin'

Federal Match

- Maxing out on your federal match helps the economy
- Raise $1 in t■■■s
- Earn an extra $1 in federal match
- So, a $1 in increased taxes earns a *net increase* of $1.00 in current spending
- Leaving federal $ on the table hurts you

Chapter 2: Expansion

- The key characteristic of a private economy:
  - Resources move toward their highest use through a series of price-mediated voluntary transactions
  - Prices reflect the value of resources as measured by what is given up in moving resources from their current use, their "opportunity cost"

Resources in an Open Economy

- Any state policy must be understood in the context of an open economy where resources can move readily across state and local boundaries
- Income, population, and property values depend on each other and are determined by movements of people and production

Spatial Equilibrium

- Where prices can adjust reasonably quickly:
  - Workers must be indifferent between locations
  - Firms must be indifferent about hiring
  - Builders indifferent about supplying more housing
- This equilibrium determines local population, wages, and housing costs which depend on local productivity, amenities, and construction costs

Let's Create Jobs!

- Given local productivity (α), amenities (θ), cost of adding housing stock (η):
- Governor pays a firm to locate in a community (evidence suggest that this is VERY costly per job created)
- Firm hires workers
- So who wins?

The New Equilibrium

- Firm bids up wages (hiring costs rise)
- Workers bid up housing (real wages fall)
- Housing expands, prices fall (wages rise)
- Migrants enter for high wages (wages fall, housing prices rise, etc.)
- Wages return to prior level, population is higher, property prices are higher

Who Gained? Who Lost?

- Gainers: stockholders of the firm with the subsidy, property owners, migrants into the region
- Losers: the original workers who now have lower real wages, renters who now have higher rents
- What public policy goal was accomplished?

Can We Do Better?

- Policies that improve θ, η, and α
- Amenities: safety, education, transportation, parks, air and water quality
- Housing: ease of adding new housing stock
- Productivity: effective public institutions, local entrepreneurship, and human capital, *human capital*, ***human capital***

State Jobs Policy in Equilibrium

- Policy effects are determined by spatial equilibrium
  - If you don't believe in spatial equilibrium, burn your Adam Smith *and* your John Locke
- "Jobs policies" have unknown and often unintended consequences
- At the margin, policies to improve θ, η, and α are better targets for state policy

Thank you

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