

# So You Want to Create a Job...

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# The Simple Story

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- # 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

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# The Simple Story

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- # 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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  - # So simple ***and so wrong!***
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# The Simple Story

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- # The Governor snaps his fingers
  - # 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
  - # Economy grows
  - # Everyone is better off by the amount of added growth
  - # So simple ***and so wrong!***
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# The Simple Story

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- # 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
  - # Everyone is better off by the amount of added growth
  - # So simple ***and so wrong!***
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# The Simple Story

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- # 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
  - # So simple ***and so wrong!***
-

# The Simple Story

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- # 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!***
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# Another Story: In Two Chapters

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## # 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
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# Chapter 1: Recession

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- # 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)
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# How the State BBM Works

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- # Raise \$1 in taxes
  - # 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
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# How the State BBM Works

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- # Raise \$1 in taxes
  - # 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'
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# Federal Match

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- # Maxing out on your federal match helps the economy
  - # Raise \$1 in taxes
  - # 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
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# Chapter 2: Expansion

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- # 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”
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# Resources in an Open Economy

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- # 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
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# Spatial Equilibrium

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- # 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
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# Let's Create Jobs!

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- # Given local productivity ( $\alpha$ ), amenities ( $\theta$ ), cost of adding housing stock ( $\eta$ ):
  - # 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?
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# The New Equilibrium

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- # 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
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# Who Gained? Who Lost?

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- # 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?
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# Can We Do Better?

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- # Policies that improve  $\theta$ ,  $\eta$ , and  $\alpha$
  - # 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*
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# State Jobs Policy in Equilibrium

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- # 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  $\theta$ ,  $\eta$ , and  $\alpha$  are better targets for state policy
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# Thank you

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