Ohio at a Crossroads
A Primer on Economic Development Policy

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Across Ohio, from the state level to local levels, citizens, governments, community leaders are considering changes in economic development policies. We have discussed the critical issues to be considered. Today we will discuss economic development.

Some of my sources are:


Intro-cont—Place-Based Policy.

◊ Most economists also don’t like place-based policies
  ➢ Because they don’t encourage growth in most productive locations
  ➢ Can be politically manipulated

◊ I have written that under certain conditions they can be useful and successful—People can’t move like financial capital.
  ➢ But I may be a bleeding heart who wants to keep his job—(and Chester J’s job and J. Magill’s job and so on).
Intro-cont-Sectoral Policy

3. Sectoral policies—build sectors with future growth potential—e.g., advanced technology
   - Was the rave of the 1980s/early 1990s to replicate Silicon Valley
   - Economists enthusiasm quickly waned when it became apparent that most government efforts had badly failed. E.g., Seattle 1978.
   - Economists now promote: “Back to the basics”
     - Better workforce skills, quality of life, good government, infrastructure
     - Recently, really harked on the need to avoid the latest “fads” like “clusters” and stick to what works—even if boring.

Intro-cont

- All economists favor people-based policies
- All economists believe that raising the skills of the workforce is critical in an information economy.
  - Early childhood development garners the highest returns (Heckman).
  - Low returns in retraining adults (Heckman)
Tax Incentives—Ohio has been involved in this for decades.

- Two approaches to tax policy
- Low taxes for everyone and let the most productive businesses rise.
  - This is currently favored by the vast majority of economists (exception Greenstone et al, NBER).

Mark Partridge, Swank Chair Rural-Urban Policy and AED Economics
Pick winners with incentives
- Economists eschew gov’ts picking winners
  - Financial pros can’t pick winners—mortgage derivatives.
- Need to raise taxes for everyone else to cover the tax loss—making the rest of the local economy less competitive.
- BUT, practitioners like them because they say they have to use them to compete.
- Politicians like to “cut ribbons” and show “success” before the next election.
  - Politicians work on an election cycle, not the 20 year economic cycle of local competitiveness.
  - They want 24 month successes that are unlikely
Evidence that Robert will discuss

◊ Hundreds of studies, but a high quality Ohio study is:

◊ Statistical study (not survey), good journal, mid 1990s data, findings:
  ➢ 1. Companies that received ODD incentives promised greater numbers of new jobs than otherwise equal firms.
  ➢ 2. Companies that received incentives created fewer jobs than otherwise equal firms.
Questions for Policy

◊ What should Ohio do?
  ➞ Tax incentives aren’t from Santa Claus and can be used in other ways.

◊ Abandon incentives and reallocate moneys to lowering taxes and/or providing more-valued services.

◊ Reform incentives to try to improve them: try to get local businesses to contribute if there are spillovers

◊ Status quo because it is the best that we can do. Any changes would be worse.
Thank you

Let Robert Greenbaum tell us what he thinks!

Presentation will be posted at The Ohio State University; AED Economics; Swank Program:
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