Measuring the Effect of Job Creation Tax Credits

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comments by
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Outline of the Paper

1. Introduction
2. Georgia's Job Tax Credit Program
3. Methodology
4. Data
   1. County level data
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   3. Control variables
5. Empirical results
   1. County level analysis
   2. Establishment level results (not yet)

Rigorous evaluation of economic development incentives

- Objective/rigorous evaluation of economic development incentives is crucial because
  - They are politically enticing
  - They get to the heart of what many people want from gov't
- This paper asks a really important question and tries to conduct the analyses in a careful, objective and responsible way. It is a model of what policy analysts should try to do.
- My comments here are meant to be constructive, general *suggestions* for how work on this important paper might proceed.

Policy evaluation 101

- Start with the “back-of-the-envelope” calculation—what are the upper and lower bounds on what we might expect
  - Potential benefit to employer
    - $3500
    - Maximum period credit will last (5 years?)
  - Potential cost to employer
    - Must create a minimum of 5 jobs —what happens if 5 jobs created and then falls to less than 5 jobs?
    - Must meet certain other criteria (health insurance)
    - Must be located in certain area—(what happens if employer moves)
  - What is the potential “market” for this kind of credit?
    - How many employers would be eligible for the credit in the absence of the credit? (e.g. how many created enough jobs to generate the credit in years/locations w/o the credit
    - Any subsidy policy subsidizes some activity that would have occurred even in the absence of the subsidy—we would always like to know how much of the subsidized activity is stimulated by the subsidy.

Policy evaluation 101 (continued)

- After reviewing the “back-of-the-envelope” calculations plan rigorous cross-cutting analyses
- Clear delineate causal model (ie in economics lingo--explain your “identification strategy”)
  - Here, “bigger subsidies shift employers’ demand for labor curve, new equilibrium has more employees and higher wages”
- Explain complications in reaching a causal interpretation
  - Here, “subsidies depend to some extent on market conditions in the county so are “endogenously” determined” because we do not know if change in jobs caused higher subsidy or higher subsidy caused change in jobs
- Explain how to fix complications
  - Here, “subsidy is flat for a variety of market conditions (tiers)” We exploit the variation in market conditions among counties with the same subsidy to measure the impact of the subsity

Policy evaluation 101 (continued)

- Present research plan/methodology

Merriman's (flawed) graphic depicting analyses Plan in Christie et. al.		
	County-level analysis	Firm level data
1		After estimating a preliminary "participation equation", estimate difference in job creation strategies among firms that were predicted to take the credit and those that were predicted not to take the credit.
2	Equation 1 correlation between rate of job creation and amount of subsidy controlling for rank of county in tier	Estimate equation 1 using firm level data
3	correlation between rate of job creation and amount of subsidy restricting sample to counties that border each other but have different susidy rates	correlation between rate of job creation and amount of subsidy restricting sample to establishments located in census tracts that border each other but have different susidy rates

Policy evaluation 101 (continued)

- Empirical results
  - Simple cross tabs help (in table 3 I would like to know job creation or percentage job creation) by tier of county
  - Explain sample and sample attrition
    - 159 counties over 22 years=3,498 potential obs
    - Why do we lose observations in table 2, table 7, etc.
  - Help interpret magnitudes
    - Table 7 column 1 (what is the dependent variable? Absolute change in county in employment, percentage change in county employment?) What does the coefficient (16.7) mean? Counties with a (higher) credit gained 16.7 more jobs than counties with a lower credit?
    - Justify various specifications (Isn't column 5 superior to columns 2,3 and 4? If not, why not?)

Implications

- Policy analysis of economic development programs are very challenging
- This paper describes an ambitious, rigorous evaluation but is clearly a project that is as yet far from complete and so it is difficult to draw conclusions
- Challenge is to be rigorous and at the same time to be clear and to link conclusions to basic underlying question.
- Key is simply explain basic question at the out-set and to use that basic question as frequent touchstone.