

Job Creation In The High-Tech Sector: What Is A California Legislator To Do (And Not Do)?

Robert S. Chirinko*
(University of Illinois at Chicago)

Testimony To The California Assembly Committee
On Revenue & Taxation
December 5, 2011

* Standard Caveat

Take-Aways

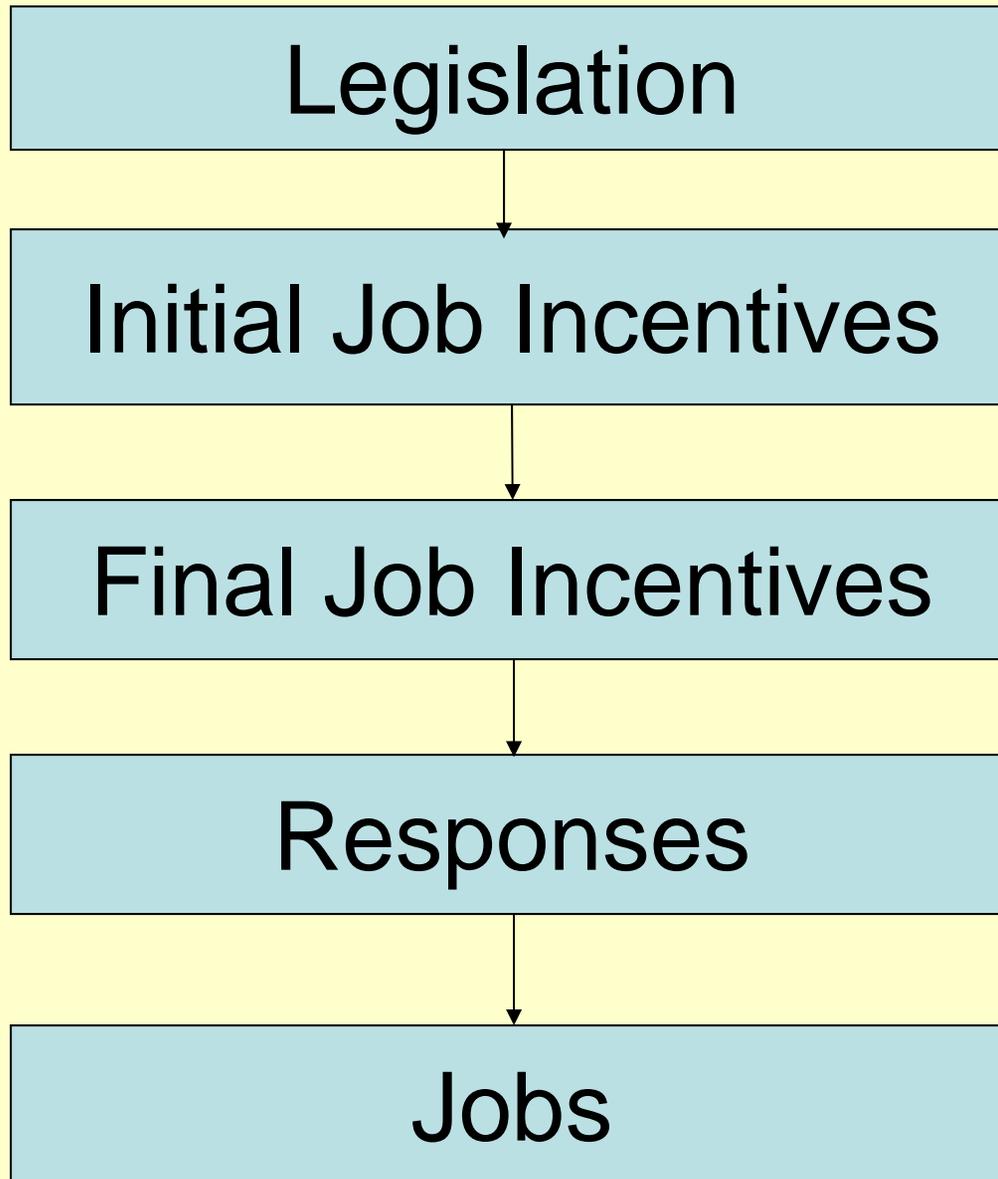
- A Disappointing Start
- The Positive Impact Of The Academic Literature Via A Framework
- Your Actions And Assumptions Matter
- **Criterion: Job Effective vs. Cost Effective**
- Alternatives To Tax Policy

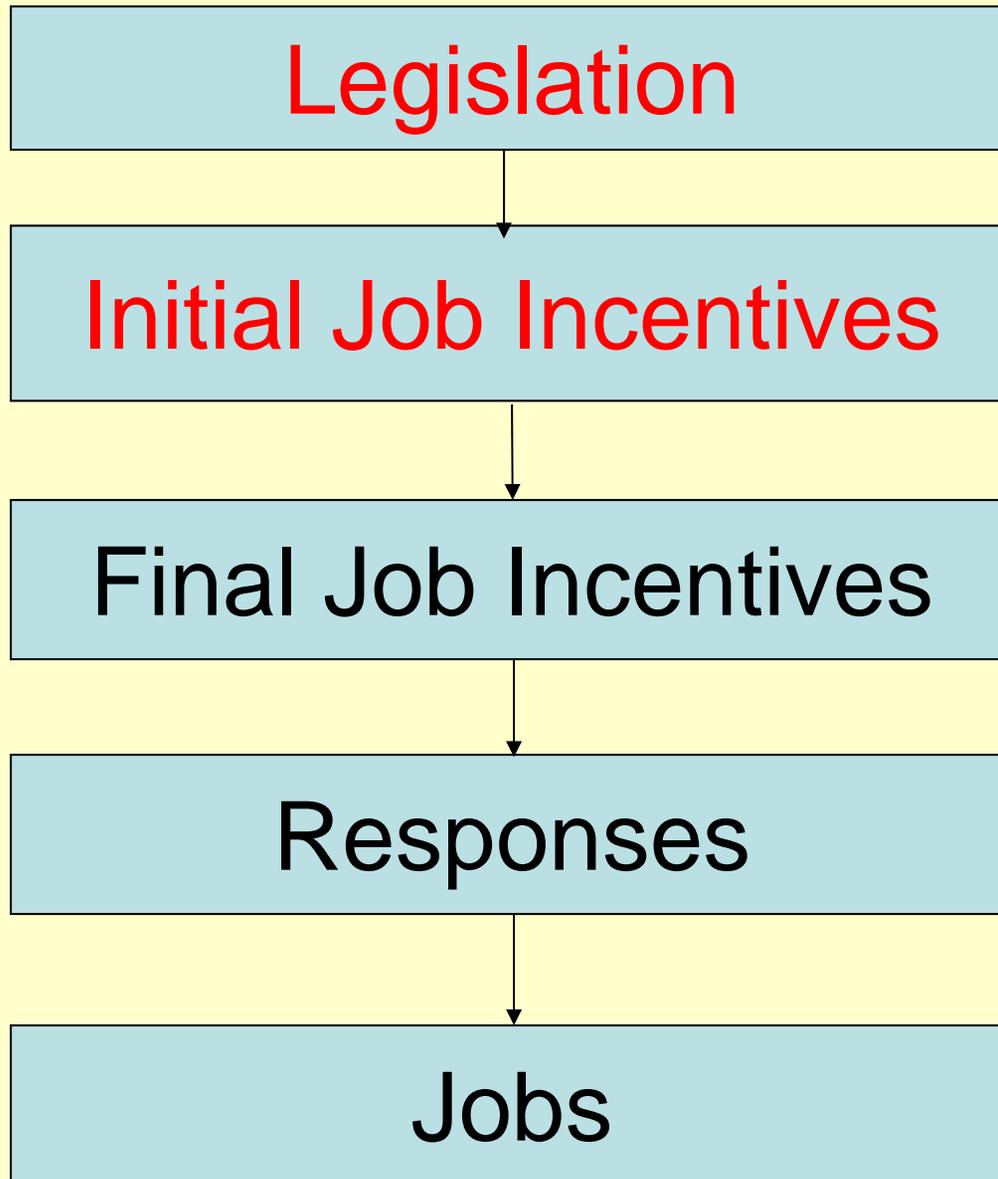
A Disappointing Start

- "Do Taxes Matter? Yes, No, Maybe So."
Therese McGuire (2003),
Past President, NTA
- Why Can't These Folks Figure This Out?
- Major Limitation –
 - Lack of Critical "Experiments"
 - The Need To Hold All Other Factors Constant
 - Evaluating A Tax Program During The Recession

The Positive Impact Of The Academic Literature

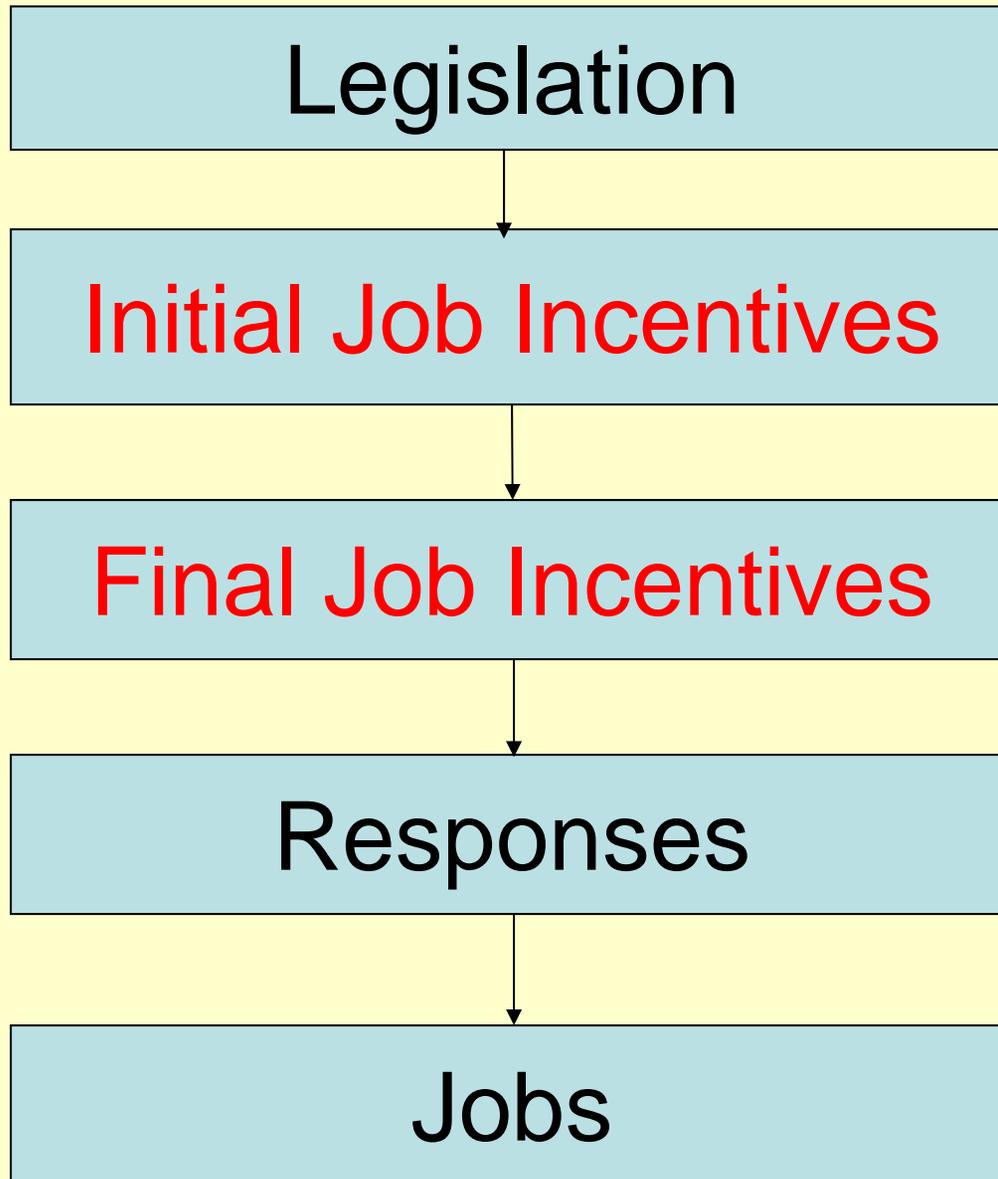
- Provides A Useable Framework For Reaching Policy Decisions
- Highlights The Key Issues
- Flags Some Pitfalls





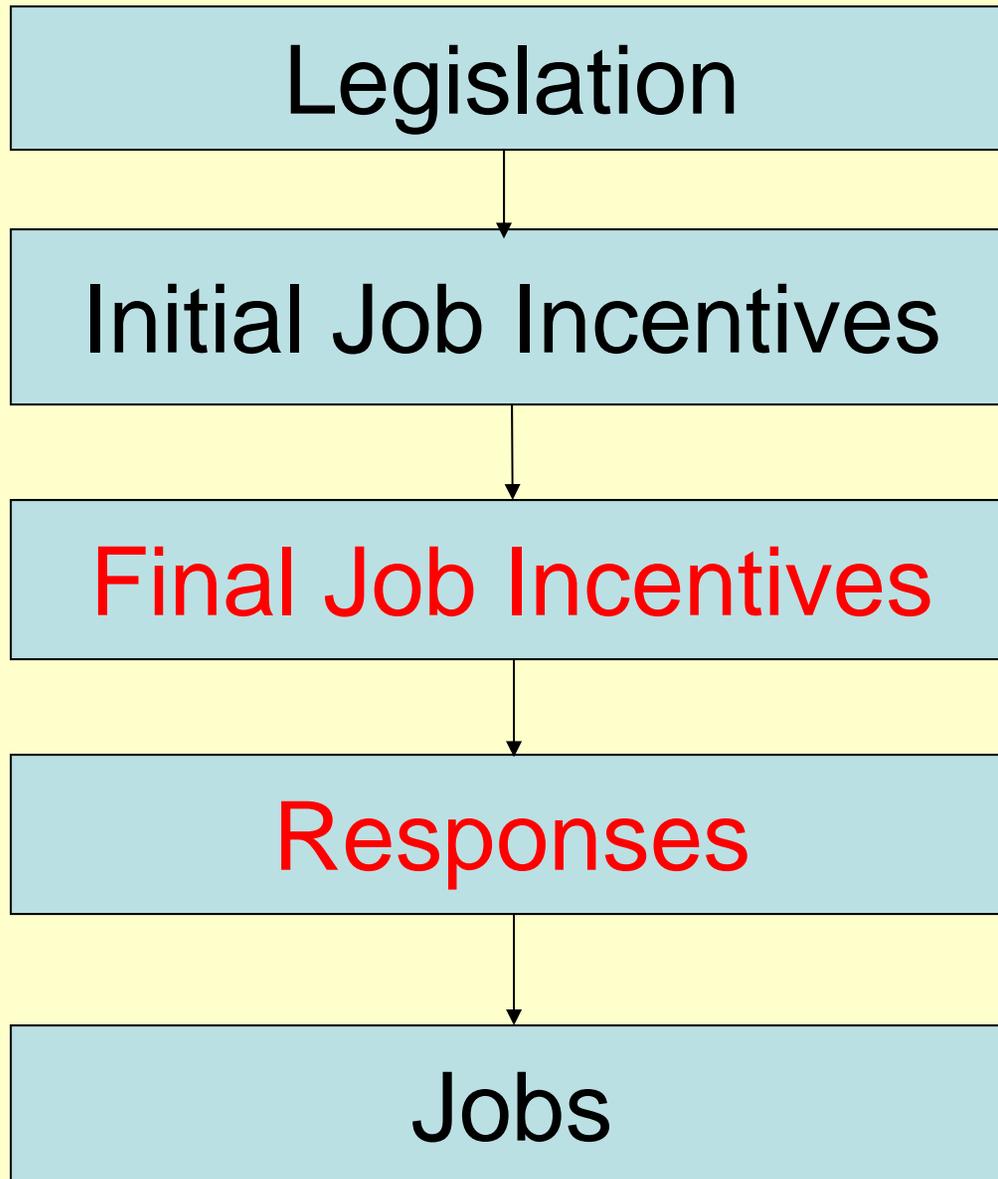
Legislation → Initial Job Incentives

- Encourage Saliience
 - Federal Job Credits
 - EZ Pass And Toll Increases
- Avoid Pitfalls
 - Short-Term “Hire-Then-Fire”
 - Perverse Anticipation Effects
(Chirinko and Wilson, 2011)
 - Rewarding Non-Incremental Hires
(Rolling Base)



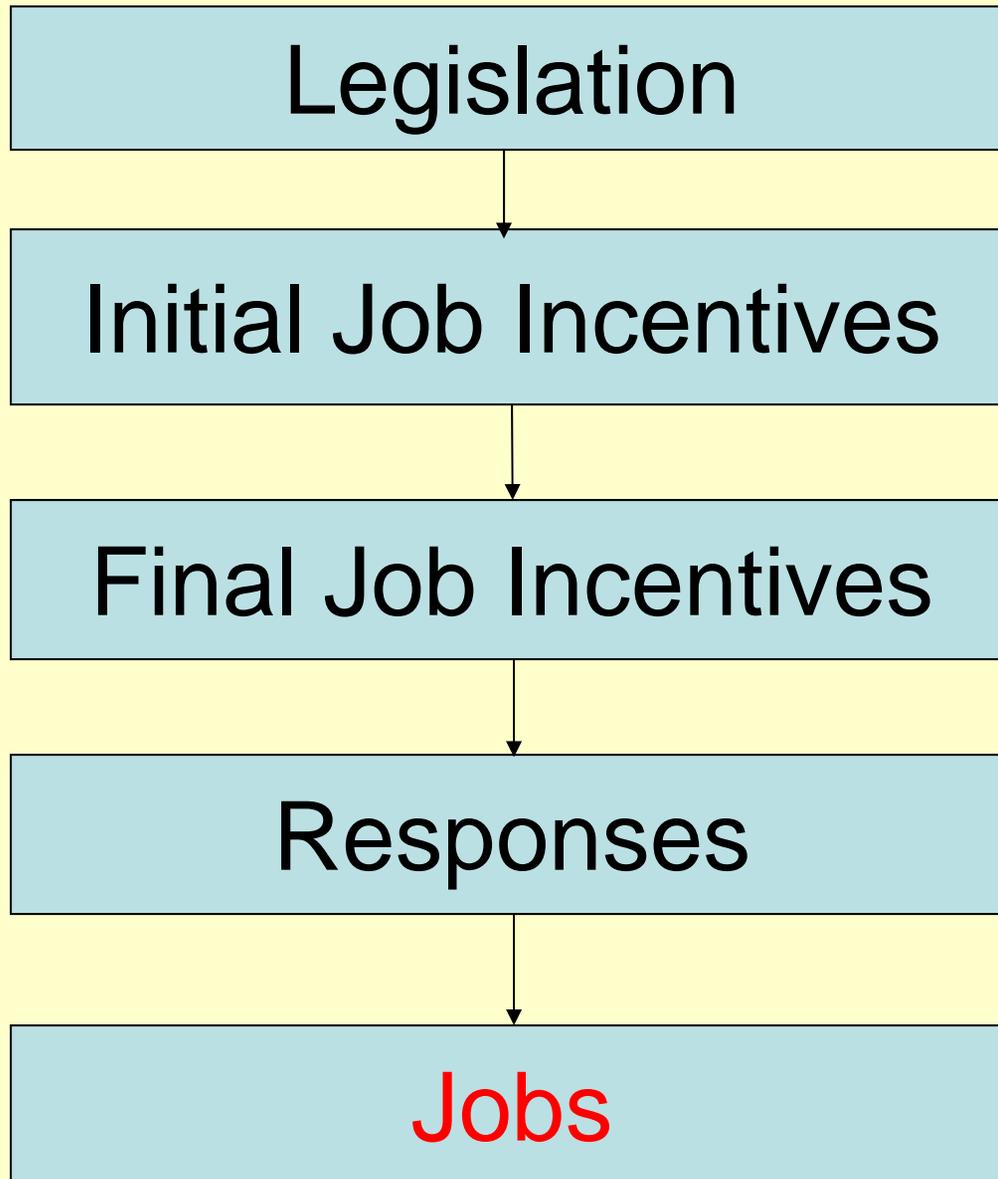
Initial Incentives → Final Incentives

- You Are Not Fully In Control
- Tax Competition
 - Zero Sum Game Between States?
 - Borders Matter (Chirinko and Wilson, 2008)
 - Harmful or Helpful?
 - Unrestrained Competition
 - Regional Coordination May Be Useful



Final Incentives → Responses

- What Is The Response To Incentives?
 - Large
 - **Small*****
 - Taxes Are Only One Factor In The Financial Model Guiding Business Decisions
 - For High-Tech, The Quality Of The Workforce Looms Large
- The Multiplier Pitfall



Legislation -----> Jobs

- Your Actions And Assumptions Are Key
 - **Actions** -- Good Policy Design
 - **Assumptions** – The Response To Incentives

An Ongoing Study

- Chirinko and Wilson (2011) Examine The Impact of 23 Job Creation Tax Credits At The State Level
- Preliminary Results: A 10% Job Tax Credit → 0.2% In Employment
- Small Effect Due To:
 - Generally Small Reaction To Incentives
 - Small Incentives (Only 2% Of Long-Term Wages)

Criterion For Evaluating Legislation

- Jobs Effective vs. Cost Effective
- All Job-Creating Tax Policies Will Be Jobs Effective
- But Two Unanswered Questions:
 - At What Cost? (Depends On Responsiveness)
 - Alternative Uses Of Funds (Opportunity Cost)?

How To Spend State Funds: “Opportunity Cost”

- Job-Creation Tax Credit
vs.
- Spending On Education, Infrastructure, and/or
Public/Private Partnerships

How To Spend State Funds: “Opportunity Cost”

- Job-Creation Tax Credit
vs.
- Spending On Education, Infrastructure, and/or
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OR

- Job-Creation Tax Credit
vs.
- Cuts In Personal Income Tax Rates

Frustrated?



You Are Not Alone

Frustrated?

When discussing economic policy issues with President Harry Truman, Dr. Edwin Nourse (the first chairman of the U.S. Council of Economic Advisers) remarked

**"On the one hand...but then
on the other hand.."**

After Dr. Nourse left the office, a somewhat frustrated Truman supposedly asked his assistant, John Steelman, **"John, do you think you could find me a one-armed economist?"**

Frustrated?: Hopefully Not....

Take-Aways

- The Academic Literature Provides A Framework
- Your Actions And Assumptions Matter
- Pitfalls To Avoid
 - Short-Term “Hire-Then-Fire”
 - Perverse Anticipation Effects
 - Rewarding Non-Incremental Hires
 - Large Responses and Self-Financing
 - Magical Multipliers
- **Criterion: Job Effective vs. Cost Effective**

The End