

# Discussant Comments on Hyman et al paper on California Competes Tax Credit (CCTC)

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**Paper convincingly shows large effects of CCTC on firm's short-run job creation; if long-run California job effect, CCTC cheap, pays for itself, and has high benefits.**

- One of best papers ever on state business tax credits, because it convincingly estimates causal effects using “natural experiment”: variation in scoring cutoff for CCTC.
- CCTC provides **one-time** credit averaging \$10K/job. Estimates imply job creation equal to 82% of job creation at proposed project site. Job creation costs, after credit recaptures, of \$7,721 per job.
- \$7,721 net cost less than 1/20<sup>th</sup> the average cost per job created of state/local business tax cuts from research literature, of \$165K per job created. ([Bartik 2020](#)).
- If these represent effects on California LR jobs, program pays for itself within 2 years. (Average pay of \$60K/job, California taxes of at least 8%) Given other benefits (e.g., higher employment rates), CCTC should be adopted by other states.

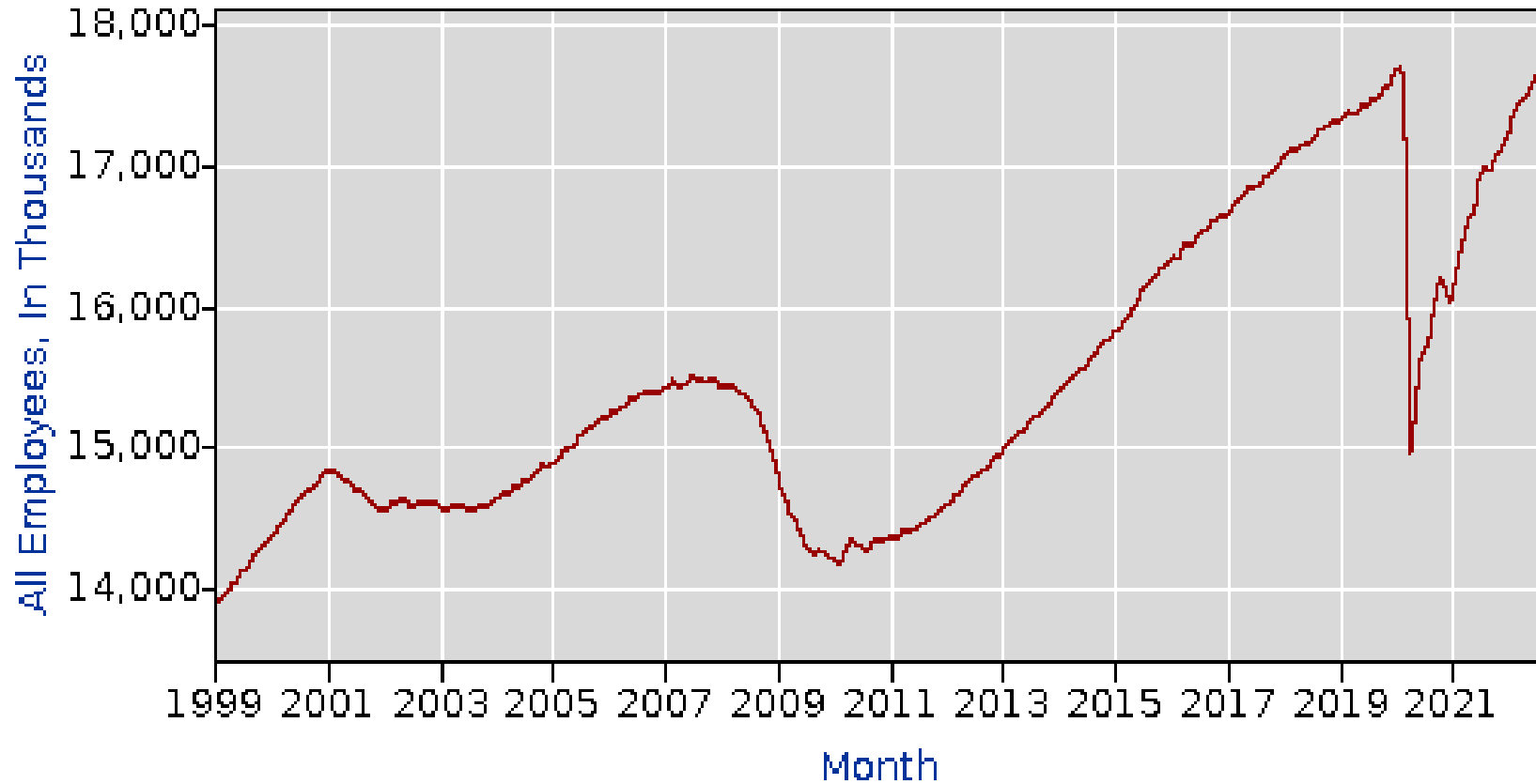


# But CCTC effects seem too large to be plausible LR effects on California jobs

- If estimated firm job effects are long-run job effects, and are due to effects on probability of project being undertaken, then effects on jobs are *extremely* large relative to reduction in payroll costs. One-time incentive of \$10K is 17% of 1-year payroll per job of \$60K, but much lower % of present value of future payroll costs: at 12% real discount rate, \$10K represents 2% reduction in present value of payroll costs. Effect on probability of project being undertaken is 82 percentage points, so this 2% wage subsidy QUINTUPLES jobs. (100% over 18% probability of project w/o CCTC).
- If CCTC effects are LR California job creation effects, CCTC probably increased California job creation from 2014-2021 by 250K jobs. (=153K jobs incentivized times 82% effectiveness ratio times multiplier of 2). This is 18% of California's job growth during this period. But this is not apparent in aggregate job trends (see figure).



# California aggregate job statistics show no sign of increased growth starting in 2014, when CCTC started





# Alternative interpretations of this paper's CCTC effects

- Alternative interpretation 1: Effects are SR effects on *timing* of firm's job creation, with much smaller effects on LR job creation by firm. Firms that are flexible about *when* to undertake a project may initially ask for large incentives, and lower ask in subsequent incentive rounds. Depending upon when their incentive request passes CCTC score cutoff, firm may accelerate or delay project.
- Alternative interpretation 2: As in other states, California's state economic development agency provides extensive assistance to helping selected firms get environmental permits and overcome zoning and other challenges. States are selective on who receives this assistance. Advent of CCTC *could* mean that state uses CCTC as part of screening process in who receives zoning & permitting help. But if number of jobs in firms receiving such help does not change after CCTC, zero effect on aggregate job growth in state; effect is on *who* adds jobs, not on job growth.

