Vulnerable Communities: Automation, Trade and the Future of Public Policy

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Michael J. Hicks, Ph.D.
George & Frances Ball Distinguished Professor
Director, Center for Business and Economic Research
Research: economics, sociology, political science, public administration and planning

Policy: former agency heads, elected officials and legislative services veterans

Practice: former economic and community development officials
A Puzzle . . .

The impulse-response of a one-std. dev. shock of technology and cost of capital on the unemployment rate

Labor is complement to capital

Technology shocks reduce unemployment
Robots are Complements to Workers? But not necessarily in the same factory.

Mfg employment growth vs. total industrial robots 2010 to 2015 at MSA's

\[ y = 0.0186x + 0.0781 \]

\[ R^2 = 0.3475 \]
US Relative Offshorability Risk to Employment

Source: Blinder, 2009 in Devaraj, Hicks, Wornell and Faulk, 2017
US Relative Automation Risk to Employment Source: Frey and Osborne, 2017 in Devaraj, Hicks, Wornell and Faulk, 2017
Change in Trade Exposure (2000-2010)
Source: Hicks and Devaraj
Automation Risk in Own County and Average of Adjacent Counties

Source: Frey and Osborne (2017), reported in Devaraj, Hicks, Wornell and Faulk, 2017

Offshoring Risk in Own County and Average of Adjacent Counties

Source: Blinder (2009), reported in Devaraj, Hicks, Wornell and Faulk, 2017
Automation and Offshoring Risk by Income Decile

Policies on Trade, People and Places

- What is the problem/welfare impacts?
- Trade and Technology Policies
- People-Based Policies
- Place-Based Policies
- Place-Based People Policies
Source of pain isn’t just labor income?

log-log change in home prices and manufacturing employment 2000-2010 (non-metro counties)

- Just this estimate implies a nearly $500 billion loss of wealth concentrated in manufacturing intensive communities
Muncie’s Experience
(Hicks, 2017)
Skepticism on Trade Policy

- Pure Productivity, 47.0%
- Pure Trade, 13.0%
- Trade induced Productivity, 40.0%

This implies an elasticity of productivity with respect to trade pressure of roughly 3.5 (assuming circa 2000 technology)

- We can re-shore manufacturing production, just not manufacturing jobs

- See Pierce and Schott; Autor, Dorn, and Hanson; Hicks and Devaraj
Traditional People Based Policies

- $1,000 increase in trade exposure per worker leads to a $57.73 increase in public spending (Autor, Dorn and Hanson)

- Change in EITC due to trade exposure in US Counties (Hicks and Devaraj)

![Pie chart showing the percentage of different government programs.](chart.png)

- Medical: 33%
- UI and TAA: 7%
- SSA Disability: 15%
- SSA Retirement: 18%
- Other Gov’t: 27%

![Scatter plot showing the relationship between change in trade exposure and change in EITC.](scatter.png)

The equation for the line of best fit is $y = 0.0548x + 0.435$.
Place-Based Policies

- Traditional local economic development policies have been poorly conceived (chasing smokestacks), with fairly dismal empirical support.

- Regional based Federal and state policies (e.g. enterprise or empowerment zones) have a highly heterogeneous effect, difficult to assess effectively, and costly to deploy broadly.

- Not at all clear existing agglomeration economies wouldn’t swamp even ambitious (TVA scale) place based policies. Poor places are moving against trend.
Place-Based People Policies

• Small scale place-based people policies (Moving to Opportunity) show promise, but may not be scalable.

• Heterogeneity of federal and state programs may be linked to local capacity.

• Indiana’s Regional Cities and Stellar Communities are capacity building programs with infrastructure (link capacity to program eligibility)

• Not clear this will reduce regional growth differences, and may exacerbate it (even if welfare enhancing)
Summary

• Trade, automation and agglomeration are generating significant regional differences in economic outcomes.

• These differences are visible, persistent and generate both social and political consequences.

• People and place based policies aren’t clearly reducing regional inequality or the persistence of shocks.

• Persistence of effects is generational in people, may be multi-generational for places.
cberdirector@bsu.edu

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