Looking Ahead

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Letter from the Director

Dear Readers,

I am very pleased to present the seventh issue of Looking Ahead: The Cornell Roosevelt Institute Policy Journal from the Center for Economic Policy and Development. As the Policy Director and Editor of this journal since Spring 2014, I have had the amazing experience of producing this journal for the past two semesters, and the talent and innovation of each analyst never ceases to amaze me. I have also had the pleasure of welcoming many new analysts to the Center this semester and am very excited to display their work in this issue.

Each analyst has combined creativity and passion with careful research and hard work to produce the policy proposals that comprise this publication. I have found each piece to be enjoyable to read and incredibly thought provoking and I hope you will as well.

Sincerely,

Hilary Gelfond

Policy Analysis and Management (Human Ecology '16)

Director, Center for Economic Policy amd Development

Incentivizing Urbanization to Reduce Rural Poverty

By Hunter Bosson, Major: Economics, (A&S '18) Email: hb387@cornell.edu

Oregon has seen a dramatic increasing in rural poverty over the last few decades with the decline of the logging industry such that rural communities are being suffocated by unemployment, child poverty, and an insufficient poverty alleviation infrastructure to combat them. The cyclic poverty could best be broken by introducing a state tax credit incentivizing rural Oregonian to move to urban communities.

History:

Oregon's rural communities are in dire economic straits. Following environmental activism in the 1960s and 1970s, federal policy has increasingly restricted use of federal forests for logging, particularly in areas home to endangered species.1 The logging industry, that even now accounts for up to 20% of economic output in some rural areas, has been on the decline, leading to widespread unemployment and poverty.2 Most troublingly, the effects are beginning to trickle down; ten counties have child poverty rates over 29%.3 The downward trend has been apparent for decades, but it has become more apparent following the Great Recession, as unemployment has stayed well above the state and national averages.4 Property values have suffered accordingly, reducing school funding and trapping many communities in cycles of poverty. Lacking the resources and the geographic location to become viable centers of commerce, resource production, or anything else for that matter, the best policy response would be to offer a state tax credit to families under a set income threshold who move to one of Oregon's urban counties, thereby better providing for the needs of low-income families and improving the economic viability of rural communities. Urban communities have better resources to fight poverty, and centralizing poverty relief would dramatically improve logistical efficiency. State grants to the Oregon Food Bank should then be increased to help urban centers increase their capacity.

Key Facts:

- All 9 of Oregon's counties with unemployment rates over 9% are rural. Urban Multnomah county's is 6.1%, but maintains the infrastructure to provide poverty relief after handling a 10.5% unemployment rate in 2010.4
- Mechanization, environmental regulations, and the falling price of lumber products has cause lumber and Wood product employment to drop by two thirds over the past thirty five years, causing job loss of over fifty thousand.5
- Oregon has ten counties with child poverty rates over 29%, and they are all predominantly rural.3

Analysis:

The change to the Oregon state tax code would improve the well-being of rural families and the Oregon economy. Portland's economy has been growing at a significantly greater rate than the rest of the state, and its unemployment rate has dropped significantly since the depths of the Great Recession.4 Its low unemployment rate coupled with its size provide the labor market flexibility to absorb new entrants into the job market much more easily than in Oregon's rural communities. Particularly important is that the Portland area has a significantly greater food bank network, giving them a greater capacity to provide basic necessities, particularly to alleviate child poverty. All families who last filed a tax return in a county other than Washington, Multnomah, or Clackamas would be eligible for a tax credit for each individual in a family (dependents included) if they file the next year's tax return in one of the three aforementioned counties. It would be a one-time credit, doubling as both an incentive to move towards the cities and as a means of directly combatting poverty. Although some might worry about a potential "brain drain" as more people move to the cities, the opportunity cost of leaving would be great enough for most high skill laborers that they would wish to stay, and even a modest exodus of unskilled labor would merely decrease its supply, thus increasing the equilibrium wage and improving living standards anyways. Other forms of rural development would be limited in impact; many former logging communities are too geographically isolated to foster industry and have too small a local consumer base (especially without incomes derived from logging) to support an expansion of commerce. Because Oregon cannot run a budget deficit, the expenditures associated with this policy would have to be offset by tax increases or spending cuts, but given the relatively small cost of this program, the budget should be flexible enough to afford it.

Next Steps:

The state of Oregon has multiple avenues by which it could implement this policy. The first approach would be to contact states legislators and organize awareness events to promote support for a bill to be introduced by one of the key legislators. Because Democrats control the state House of Representatives and Senate, bills that would aim to alleviate poverty and spur growth in blue regions of the state (particularly urban counties) could receive strong backing in spite of the current movement against additions to the tax code. Should that fail, a strong alternative would be to gather the ninety thousand signatures necessary to put an initiative on the ballot, so that the electorate could vote for it directly. Such a venture would be much more costly and require significantly more community awareness, including tapping into the financial concerns of rural Oregonians. The process would be significantly more likely to succeed with adequate campaign advertising (which would require even more fundraising) and the support of influential administrators, particularly Ted Wheeler, the Oregon Secretary of the Treasury.

Talking Points:

- Rural Oregon communities are entering into cycles of poverty with the decline of the logging industry, with little prospect for local economic development to provide additional employment.
- Rural poverty is causing undo stress on rural relief organizations, particularly the Oregon Food Bank, which could be partially alleviated by encouraging migration to urban or suburban communities.

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On The Highway of Corporate Tax Reform: Lowering Repatriation Taxes

By Nicole Feibelman, Major: Economics (A&S '16), Email: nif5@cornell.edu

Heavy reaptriation taxes and legality of of deferral are incentivizing multinational corporations to hold trillions in revenue in foreign subsidiaries, rather than investing in the U.S. economy. Congress should temporarily lower such taxes to encourage firms to repatriate funds back home.

Background:

Under the immense burden of U.S corporate taxes on repatriated profits, multinational corporations are employing evasive schemes to sequester money in tax-haven countries. In 2011, Google reported $10 billion in profits stashed in Bermuda1, and earlier this year, Apple built an Irish subsidiary to legally evade corporate taxes on its $30 billion of overseas profits1. Under the U.S. system of taxation, multinational corporations are required to pay a 35% federal corporate tax rate on income, regardless of where it is earned, in addition to a tax credit to the foreign country in which they earn revenue. Because the U.S. corporate tax rate is one of the world's steepest, multinational corporations are reluctant to bring foreign profits back into the domestic economy. Rather, they are incentivized to employ colluding tax planning schemes to exploit more profitable tax advantages. Further, by deferral, firms legally delay paying corporate taxes on foreign profits until they repatriate it, and are therefore motivated to hoard profits outside the U.S. indefinitely. As estimated by the Joint Committee on Taxation, the government loses $50 billion per year deferral, and its projected cost from 2013 to 2017 is approximately $265 billion2. Corporations are more willing to accept a lower pre-tax rate of return and create jobs overseas than to pay a steep repatriation tax and create jobs at home. As a result, trillions of dollars of U.S. corporate earnings continue to accumulate in offshore tax havens, rather than circulating the domestic economy3.

Key Facts:

- Multinational U.S. corporations devote extensive resources to abusive tax-avoidance schemes due to America's steep repatriation rate of 35%2.
- 307 U.S.-based corporations hold $41.95 trillion in profits overseas2.
- Deferral and this immense tax burden incentivize firms to shift income to the balance sheets of their foreign subsidiaries in low-tax jurisdictions and leave them there, rather than investing in the U.S. economy.

To address this problem, the Bush administration implemented a tax holiday in 2004, lowering the tax rate on repatriated funds from 35% to 5.25%4. As expected, U.S. corporations shifted profits back onto the books of their domestic parent corporation, but used the repatriated cash for dividends and payouts to investors, rather than investment. As this investment was the intended goal of the holiday, the holiday failed massively in producing economic benefits in employment and investment. It further sent corporations off on the hastening trend of moving more income and operations abroad, with the hopes of another tax holiday. Therefore, despite rising corporate profits, a growing global economy, and growing foreign earnings and tax bills of U.S. companies, corporate tax receipts have been falling as a proportion of total revenue. Congress' momentum to reform the tax code is consequently burgeoning, with hope of encouraging U.S. based multinational corporations to bring the $41.95 trillion in profits held overseas back into the U.S. economy5.

Policy Idea:

The most promising solution to encourage the repatriation of offshore revenues, thus increasing domestic investment, is a reduction to the federal corporate tax rate. Congress could use the incrementalism phenomenon and gradually lower the tax rate to ensure that the economy is reaping the policy's intended benefits. As the issue of accumulating offshore profits has already been highlighted as a priority on the national agenda, the tax reform will receive attention and urgency of the legislative and executive branches.

Policy Analysis:

Granting another tax holiday, eliminating deferral, and reducing the corporation tax rate to encourage the repatriation of offshore profits are all in the spotlight of Congressional consideration as possible solutions to this economic issue.

As evidenced in 2004, a tax holiday would decrease government revenue with little positive effect on the economy. Between the use of repatriated cash to repurchase stock, raising expectations for future tax holidays, and incentive to hoard even more cash offshore, the Committee on Taxation estimates that a second repatriation tax holiday could cost as much as $96 billion over ten years6.

If the government did not revise the way it taxed profits, but rather repealed corporations' ability to defer their tax payments, corporate tax revenue would increase. This would reduce incentive to move assets to low-tax jurisdictions and stop unproductive profit shifting, but decrease corporations' capital. Multinationals would likely reduce investment and dividends to shareholders as a result, reducing consumer and investment spending and possibly even coercing corporations into bankruptcy.

Talking points:

- Large multinationals would make significant job-creating investments in the U.S. if they were incentivized to have access to their overseas earnings.
- The repatriation of the trillions revenue held in offshore accounts is promises to boost struggling U.S. consumer spending and create jobs for the 12 million unemployed.
- Reducing the repatriation tax rate would increase repatriation of foreign subsidiary earnings, corporate tax revenues by $36 billion, consumption spending by shareholders, investment spending by capital-constrained firms, increase GDP by $178-336 billion, and create 1.3-2.5 billion jobs7.

Therefore, the most viable solution to enacting a widespread tax reduction for large corporations (who lose the largest fraction of their profits to these taxes). Firms would be incentivized to increase their level of new investment. Further, with a reduction in the cost of using capital stockpiled abroad to invest in the domestic economy, multinationals would be incentivized to repatriate revenues back into the U.S. economy. Studies predict that between $96 billion and $191 billion of repatriated foreign subsidiary earnings will be spent on new business investment spending7. The estimated attribution of $581 billion in dividends to shareholders will increase purchases of financial securities, enact an additional wealth effect on consumption, and directly stimulate consumption spending7. Studies show that 1.3-2.5 billion new jobs will be created, corporate tax revenues will increase by $36 billion, and between the increases in spending, aggregate demand, and employment, GDP will increase by $178-336 billion7.

Next Steps:

First and foremost, a further investigation on the percent reduction and time span across which lowering the corporate tax rate would promise the greatest return must be conducted. The Congressional Research Service estimates that a one-year tax reduction would sufficiently encourage firms to repatriate an additional $300 billion from overseas. This would adequately increase domestic investment, increase economic growth, and enable firms to pay off debt to reduce risk of bankruptcy8.

Then, Congress should call for legislative action to propose this tax reduction. The policy proposal should include specific provisions to ensure that the repatriated funds are used in the intended manner so the consequences of the tax holiday of 2004 are not replicated. Corporations should be required to specific adopt domestic investment plans and enforce a cap to limit repatriations. The bill must prevent companies from using the money for executive compensation and stock investments in order for the earnings to create more American jobs and expand U.S. operations to the fullest extend.

The direct beneficiaries of such provisions will be technology and pharmaceutical companies, as they are the firms that most aggressively shifted income overseas. As these are the companies that earn the greatest foreign revenue, they will also comprise the bulk of funds repatriated into the domestic economy. Such a policy will promote international efficiency in the allocation of capital by forcing firms to rely on economic considerations, rather than tax considerations3.

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Erasing the Motherhood Penalty: Using Childcare and Leave Policies

By Abigail Hiller, Major: Government (A&S '17) Email: ah869@cornell.edu

Mother-workers face workplace disadvantages, including lessened wages. Through various policies, it is possible to mitigate these inequalities.

Background and Context:

The issue I am addressing is the motherhood penalty. The motherhood penalty refers to the workplace disadvantages faced by mothers. These disadvantages are in areas such as wage, as well as the perception of a worker's efficiency and effectiveness on the job.

In 2013 the Bureau of labor statistics showed that the median weekly earnings for mothers of children under the age of 18 was $680, while the median for women without children under 18 was $697.

In 2007 Shelley J. Correll and Stephen Bernard published a seminal study on the motherhood penalty. The results for their laboratory study were as follows: Competence ratings were 10 percent lower for mothers than for non-mothers. Commitment ratings were 15 percent lower. Mothers were held to harsher standards in regards to both punctuality and performance. The recommended starting salary for a mother was $11,000, 7.4 percent less than for a non-mother. Additionally, the mothers were perceived as less promotable, and were less likely than the non-mothers to be recommended for a management position. In the end, the participants recommended that 47 percent of the mothers be hired, and 84 percent of the non-mothers be hired. The audit study of real hiring scenarios yielded similar results. Non-mothers received callbacks 2.1 times as often as equally-qualified mothers. (In the lab experiment, non-mothers were recommended 1.8 times more often.) Correll and Bernard held the qualifications of the potential-workers constant which led them Correll and Bernard to conclude that the statistical discrepancies between mothers and non-mothers were due to discrimination.

There have been numerous qualitative, more subjective studies on women in the workplace that expose the motherhood penalty. A 2004 study by Amy J.C. Cuddy, Susan T. Fiske, and Peter Glick showed that describing a consultant as a mother leads evaluators to rate her as less competent than when she is described as a non-mother. Another 2006 study by Jane A. Halpert, Midge L. Wilson, and Julia L. Hickman revealed that when a manager is visibly pregnant, she is judged as being less committed to her job, less authoritative, and less de-

Key Facts:

- When Family and Medical Leave Act in place all disadvantages experienced by mothers eliminated in study.
- Legal mandates have the power to upend norms about what an "ideal worker" is, which will eliminate motherhood penalty
- Wages that are not based on face time at work have extensive benefits for not just mothers.

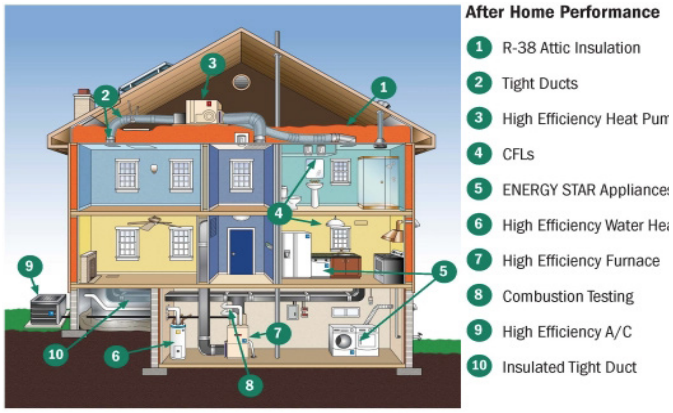
Policy Idea:

My policy idea is to set forth a legal mandate that will change the norms that govern that workplace. This can be done by making a law that prohibits stereotypic biases in hiring, promotion, and performance evaluations. These biases are that motherhood is at odds with being an effective employee.

The policies I look to enact are:

Making high quality and affordable childcare universally available.

Requiring progressive parental leave programs in workplaces. These leave programs will include a defined period of leave, a "use it or lose it" paternity leave for fathers, and will be paid at a rate that makes them a feasible and attractive option for families.



Policy Analysis:

Social physiological research suggests that legislation can change norms. Laws are seen as representing the majority opinion, and law and society scholars argue that this allows them to change judgements about various behaviors . Laws imply a social consensus about whether certain conduct is wrong or right. This consensus influences the moral judgements and behaviors of individuals. Thus, if law changes the meaning of a behavior, and individuals' evaluations of that behavior, then laws that prohibit discrimination against mothers should improve their outcomes in the workplace.

Publically funded, high quality child care care would effectively shrink the motherhood penalty. Childcare allows mothers to enter/reenter the workforce. Low wage women with children under six, when they need the most care, have a wage penalty that is five times as great as the penalty for more higher wage women with young children. This policy would allow for this demographic to have access to quality childcare, and thus lessen this wage gap. These care programs also serve to offer children a positive start in their education, tackle consequences of child poverty, and offer better living standards.

Taking Points:

- Equal pay for the women that do it all
- Face time does not equal productivity
- Law to change the norm

Parental leave policies contribute to women staying in work. Differing leave policies across countries allow for investigation of their effectiveness. In Germany, mothers are expected to take more than a year off of work, in the form of unpaid leave. There, the motherhood pernalty is especially high. Constrastingly, countries like Sweden are characterized by more progressive policies, and fathers are incentivized to take advantage of paid leave. These countries have a smaller motherhood penalty. Progressive parental leave has positive effects on the family, in areas such as attachment and bonding, and also retains the mother's link to the workforce, which could otherwise be lost to her leave. Fatherhood leave enables fathers to spend more time with their children, and challenges the gendered assumptions of work and care.

Next Steps:

I think that before this policy be proposed, further investigation is necessary. The next logical step is a study where my legal mandate is tested against a control for discrimination against mothers.The results of this study would be used when the legal mandate is proposed to become legislation.

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Righting the Hand that Feeds: Subsidizing Salaries of Federal Student Loan Holders

ByAlex Pundyk, Major: Government (A&S '17) Email: amp334@cornell.edu

The Federal Government should subsidize in part the Social Security tax paid by employers who have hired students with federal student aid loans, in order to incentivize their employment and reduce rates of default.

History:

Federal student loans work in two ways: the student as borrower is offered financial support in either the form of a grant- which requires no repayment- or a loan which can incur various interest rates, and ultimately must be repaid within a contractual timeframe. In the wake of the international financial crisis and ensuing recession of 2008, the federal student loan, among dozens of other federally funded programs, experienced severe turmoil. Federal student aid debt now exceeds $1 trillion dollars, and accounts for 6% of the overall national debt ; this comes from an estimated two-thirds of students graduating from American colleges and universities with some level of debt. When paired with the constricted job market and escalated prices of tuition, recent graduates and recipients of federal student loans face unprecedentedly severe obstacles of unemployment and default: as of May 2014, the unemployment rate of recent college graduates reached 8.5%, and marked the highest in 24-year history; as of September 2014, the national student loan default rate was condemned a dangerous 13.7%. The financial cost of default and the opportunity cost of unemployment weigh heavy on students and the domestic economy alike.

Key Facts:

- The abandonment or reduction of a water right legally occurs after 3-5 years of reduced water use
- The original water rights allocations for many farmers were determined over 100 years ago
- Scared of losing water rights that they might potentially need later, many farmers will refuse to take water conservation measures

Analysis:

Analysis: Federal student loans unquestionably afford a significant number of students the higher education that prepares them for a crowded labor market. Yet in order to utilize the expensive academic legwork of university study in the labor force, while providing a more fluid transition to the job market, the Federal Government should offer financial incentive for the employment of students with federal student loan debts. The financial benefit for private sector employers would be slight, but influential. Subsidized pay would target the payroll tax, and the Federal Government would cover half the cost of the Social Security tax in particular— 3.1%, of the total 6.2% Social Security Tax, as of 2014. The purpose of the subsidy is not to distort the job market or incentivize the employment of unqualified candidates. Rather, the small incentive may encourage an employer presented with two very equally qualified applicants to hire the candidate with student loans as a significant though not unfair benefit to the student, as well as employer.

Precedents: Developments in aid program "Pay As You Earn" announced by President Obama in June 2014, and more similarly the "Pay and Leave" repayment program of the United States Office of Personal Management are two methods of alleviating student loans that lay the foundation for an improved system. The former increases the eligibility for an income-based monthly federal-student-loan repayment program by approximately 5 million individuals, and limits the monthly payments to 10% of one's discretionary income. The latter known as "Pay and Leave" incentivizes the employment of student loan holders by allowing organizations to set their own repayment terms, and covering up to $10,000 in payments for an employee in a calendar year. These programs are effective in mitigating the financial difficulties associated with repaying student loans under harsh terms, as well as inviting employees to join companies that partially assume the financial responsibility of student loans. But the more effective way of drawing student loan holders is in a way that benefits employee, employer and the growth of the job market calls upon the continued financial assistance of the Federal Government.

Stakeholders: The essence of the incentive for hiring student loan holders comes from the reduction in Social Security payroll taxes on the part of the employer. This however, also requires escaping the complex economic quagmire of Social Security debt. Following the Social Security Act of 1935 and the establishment of the Social Security Trust Fund two years later, the United States for decades has able to run a healthy budget due to the

greater number of employees providing Social Security taxes, and fewer retired workers depending on the funding; the ratio that has historically contributed to the Social Security surplus is 2.9 workers to each beneficiary. However, given the aging workforce and constriction of the job market in recent years in tandem with decreased payroll taxes and increased dependency on government benefits, the Social Security Fund has been running a dangerous deficit for several years. In order to balance the indebted Social Security Fund, American workforces must grow and payroll taxes must increase by an estimated 2.22%. The government coverage of a portion of Social Security Funds would help promote the hiring of indebted students who not only pose the financial risk of defaulting on loans but also the opportunity cost of unemployment. In a sense, the policy does encounter the risk of growing the Social Security debt by paying for itself. However, with assumed job market growth, increased national productivity, and measures to increase payroll tax foreseeable in coming years, the small percentage of Social Security taxes covered by the Federal Government can be expected to be exceeded by that paid by new hires, and address the equally critical student loan debt crisis.

Talking Points:

- By making legislation in Western states water conservation-friendly, we can take an important first step in encouraging responsible water-use practices

Next Steps:

To begin implementing the policy, an analyst team from the United States Department of Treasury would evaluate private sector companies and determine which would be best for a trial-period and whether the policy is cost-effective for employer and employee over a two-year period. Further research would calculate the large-scale effects of increased employment on the domestic economy in comparison to the cost of supporting the Social Security tax. If the program is run successfully over a five-year period, the Department of Treasury will extend the same federal funding toward other companies before eventually instituting the funding as available to all private sector companies.

End Notes:

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Closing Ithaca's Income Gap: Implementing the Living Wage

By Jacob Barnes, Major: Industrial & Labor Relations ('15) Email: jrb458@cornell.edu

The city of Ithaca suffers from arguably the worst income inequality among metro areas in Upstate New York. The city should implement a citywide living wage policy to begin to close this income gap and ensure the economic well-being of all residents.

Background & Context:

With its unique economic composition defined by high percentages of workers in both higher education and retail, the city of Ithaca has become one of the most unequal metropolitan areas in terms of median income in the country. A recent breakdown of US Census Bureau data showed Ithaca to have the highest percentage of total income held by the top twenty percent of households of any metropolitan area in Upstate New York, with just under 58 percent of income held. The median household income for Ithaca between 2008-2012 was just $29,230, just over half of the median household income for the state during the same time period. Almost half of Ithacans were living below the poverty line during the same period (45.4%). In a study recently released by the US Conference of Mayors, Ithaca was found to be one of only four metro areas in the country whose gap between growth in average income and median income was greater than fifteen percentage points since 2005.

Key Facts:

- The top 20% of households by income in Ithaca hold 57.87% of total income, the highest among metro areas in Upstate New York
- Since 2005, the gap between Ithaca's growth in average income and median income was over fifteen percentage points, the second highest among US metro areas
- Over 45% of Ithacans were living below the poverty line when measured between 2008 and 2012.

Policy Idea:

The idea of the living wage is simple. While inflation and increased cost of living over recent decades has rendered the current federal minimum wage unsuccessful in supporting one's self in today's society, the living wage seeks to provide the working class with what one requires to live comfortably. The Tompkins County Workers' Center has in recent years successfully certified 88 employers in the Ithaca area as "living wage employers." These employers have agreed to pay their workers at least the hourly rate determined to be the living wage for the city based on average rates for rent, food, transportation, communication, health care, recreation, savings, etc. ($12.62 with health insurance, compared with the New York State minimum wage of $8.00 an hour). However, this list is dominated by both local government agencies and local, small, progressive employers. The retail and manufacturing sectors in which a significant percentage of city residents work have remained unaffected by these local attempts to raise the bottom line, leaving many with the struggle of supporting a family off of often only eight dollars an hour.

Analysis:

Implementing a living wage ordinance for Ithaca's residents has the potential to increase the quality of life for thousands of the city's working class citizens in several regards. In a straightforward sense, the potential increase of close to five dollars an hour for many workers would aid in reducing poverty levels and subsequently increasing the standard of living for a significant portion of the city's population. Moreover, the increase would decrease reliance on government programs such as social security for many who rely on these additional sources of income. While the costs of these increases may be significant for some employers, the increased buying power of many residents will bring more cash flow into the local economy, likely decreasing the effects of added wages for many of these employers. While the economic benefits are significant alone, the social benefits resulting from a living wage would be undeniable, including the numerous benefits brought to children no longer having to grow up in or close to poverty.

Next Steps:

While the Tompkins County Workers' Center has been fighting for local businesses' implementation of the living wage since 2006, greater action will need to be taken to ensure a living wage for all Ithacans. The local government has already proved to be in support of the living wage; three of the TCWC's 88 certified living wage employers are the town of Ithaca, city of Ithaca, and Tompkins County. As Ithaca is often defined by its liberalism and progressiveness, a local rally for a living wage in a central location such as the Commons or Stewart Park would not only be very well attended, but would show local policy makers the support by the community and local business leaders. This call for a living wage could be followed by a more formal public hearing, in which both local business leaders and government officials address the issue and its potential for government action.

Talking Points:

- A living wage ordinance for the city of Ithaca would help to alleviate the serious income inequality among residents
- A living wage would reduce poverty levels, decrease dependence on government programs for sources of income, and would bring significant social benefits
- Local business leaders and policy makers must work together while garnering the attention and support of the community to create this change

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Creating Energy Jobs: Shale Extraction in Pennsylvania's Least Developed Counties

By Alison Schonberg, Major: Economics & Government (A&S '16) Email: ars283@cornell.edu

Pennsylvania's Marcellus Shale is a critical source of employment in hydraulic fracturing, (shale gas extraction), chemical development, and transportation, but uneven development across counties, and inefficient production costs limit profit and job growth for shale gas companies. To create cost-savings, and stimulate job growth across Pennsylvania's Marcellus Shale region, the state government should subsidize land acquisition and leasing costs in counties with limited well development, encouraging more equitable job growth.

Background & Context:

Hydraulic fracturing is a four-step process in which energy companies pump highly pressurized sand, chemicals, and water through a gas well, create fractures in shale deposits, and collect shale gas that flows to the surface . Pennsylvania's Marcellus region accounts for 55% of total shale gas reserves in the Northeast, Gulf Coast, and Southwest , and is one of the fastest growing sources of well development, with a projected 7,996 new wells per rig by December 2014 . Over the past ten years, however, development has been concentrated in Pennsylvania's northeast and southwest , specifically in Susquehanna and Bradford counties. In 2013, Susquehanna alone contained eight out of ten of the state's top-producing wells .

The number of job opportunities in Marcellus Shale grew 259.3% between 2007 and 2012 , and currently supports 240,000 jobs in the state's refining industry . Because job growth is so concentrated, however, many counties have experienced little shale development. In particular, within the shale-rich region, Luzerne, Cameron, and Monroe counties have few to no wells, and are in critical need of energy jobs. In 2014, they held the region's highest unemployment rates – 6.1%, 6.1%, and 6.3% - and lagged behind shale-developed counties like Susquehanna and Bradford, which have 4.0% and 4.1% unemployment rates respectively .

In 2013, Governor Corbett considered alternative strategies to address unemployment in these underdeveloped counties, but his efforts have only targeted a select few municipalities. In particular, his City Revitalization Improvement Program, in which municipal governments can apply for state-tax-funded "development projects," only provides enough funding for three municipalities before 2016, and two each subsequent year . This is clearly insufficient to address structural unemployment on the county level.

Key Facts:

- - As of September 2014, Luzerne, Cameron, and Monroe have the highest unemployment rates in the Marcellus Shale region, and in an October 2014 ranking of 40 counties by number of wells-drilled, Luzerne ranked 37, Cameron 22; Monroe was not included, as it currently has no shale gas wells
- - Land acquisition, leasing, mineral rights, and royalties account for 28% of total cost to build a single well in the Marcellus Shale region; apart from hydraulic fracturing costs, this is the largest expense
- - Funding though Governor Corbett's City Revitalization and Improvement Zone plan has already designated $12.5 million as a state tax baseline for funding development projects in Lancaster, and is financially equipped to satisfy county shale development subsidies

Policy Idea:

In order to incentivize shale development in those counties with highest levels of unemployment, Pennsylvania's state government must substantially lower production costs in Luzerne, Cameron, and Monroe counties by subsidizing land acquisition, leasing, royalties, and mineral rights . In particular, the state government should use tax funding previously allocated for municipal development, and instead subsidize mineral rights, royalty rates, and land-lease agreements for shale-rich areas within each of the three counties.

Policy Analysis:

Subsidizing land acquisition and lease requirements substantially reduces the costs of production for shale gas companies. On average, shale companies in the Marcellus region spend approximately $7.6 million to build one well . Of that total cost, the two largest components are lease payments, (28%), and fracturing costs, (33%). If state subsidies cover 28% of operating costs, companies will have a substantial incentive to develop more wells in the three Marcellus Shale counties with highest levels of unemployment, as they will have higher profit margins, and more funding available to hire workers.

In contrast to Governor Corbett's City Revitalization and Improvement Zone plan, which is projected to create 2,900 construction jobs per chosen municipality, shale well subsidies will create more long-lasting, structural changes in employment, and potentially inspire a greater number and variety of jobs vii. According to a case study of shale gas development in Greene County Pennsylvania, which began hydraulic fracturing projects in 2006, employment increased 40% between 2005 and 2012 . Not only did the construction industry benefit, as with Governor Corbett's intended plan, but also "natural resources and mining" jobs, with a 68.9% increase, and "leisure and hospitality" jobs, with a 40.9% increasex. Looking at the county's unemployment rate over time, and its ranking relative to other counties, this shale-inspired growth was significant. In September 2005, Greene County had the state's fifth highest level of unemployment at 5.4% but after building over 500 wells, boasted the second lowest unemployment level at 3.8% . With Greene as Pennsylvania's model for shale-related job growth, and existent funding from Pennsylvania's Department of Community and Economic Development grants , other underdeveloped counties can experience comparable transformations.

Tallking Points:

- Pennsylvania's Luzerne, Monroe, and Cameron counties have critically high levels of unemployment, and require state attention
- Subsidizing lease agreements is the most efficient way to attract shale gas companies, and promote shale extraction in these counties
- Shale refinement will have the greatest effect on local employment, with new construction, hydraulic fracturing, transportation, chemical treatment, and site management jobs

Next Steps:

To implement this plan, Governor Corbett will first organize parallel committees on the state and county level to coordinate planning and funding for land acquisition and leasing subsidies in Luzerne, Cameron, and Monroe. Next, the state government will commission investigative teams to survey most promising acreage for well construction in each of these three counties. After investigative teams return to the state government with results, and prospective lease costs, funding committees will arrange meetings with local corporate communications representatives from Range Resources Appalachia, Chesapeake Appalachia, and Talisman Energy USA Inc., (the three largest shale-gas operators in Pennsylvania), and advertise subsidized production costs in shale-rich, but underdeveloped counties . While advertising and discussing development plans with top operating representatives, committees responsible for planning and funding will allocate approximately $2.1 million per intended well, drawing from Department of Community and Economic Development block grants. Afterwards, representatives from these development committees on both the state and county level will draft contracts with interested companies, and guarantee funding of royalties and lease payments for each well built (up to $2.1 million per well).

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Meet Our Economic Policy Center

Jacob Barnes

Jake Barnes is a senior in the Cornell University ILR School from Syracuse, NY, with minors in business and inequality studies. Last summer, Jake was a fellow in the ILR School High Road Fellowship program in Buffalo, NY, completing research on education inequality within Western New York public schools, among other policy-oriented topics. At Cornell, Jake is a member of the National Society of Collegiate Scholars. His academic interests revolve greatly around the topic of human rights, including workers' rights, inequality, and social stratification. Jake also holds a passion for community service and fundraising. In high school, Jake was the head of public relations and member of the executive committee for the Fayetteville Memory Garden Project, a $160,000 initiative to build a public space of reflection for those whose lives have been affected by cancer.

Abigail Hiller

Abby is a Sophomore government major in the College of Arts in Sciences. She enjoys writing, and has a strong passion for social issues. Abby is also an avid runner, volunteers at the local animal shelter, and works with a program that helps to distribute bicycles to underprivileged youths.

Nicole Feibelman

Nicole is an Economics major in the College of Arts and sciences. She also works as a business analyst in Cornell Consulting Club, and is a member of the Cornell running club. Nicole is interestrf in interested in finance, marketing and consulting.

Alison Schonberg

Alison Schonberg is a junior majoring in Economics and Government, with a minor in China and Asia Pacific Studies. Aside from the Roosevelt Institute, she studies Chinese, and is actively involved in CIAS (Cornell International Affairs Society), Model UN, and Rainy Day, a Cornell literary magazine. After graduating from Cornell, she plans to attend International Affairs school, and work in China.

Alex Pundyck

My name is Alex Pundyk. I'm from Rye, New York and am a Sophomore studying Government in the College of Arts and Sciences. Outside of the Roosevelt Institute, I play guitar in a Cornell University Jazz Ensemble and am a member of the Sigma Phi Society. My career interests include strategic consulting, venture capital, and of course, the dream of one day becoming a rock star. For now, I deeply enjoy what I study, my involvement in the Roosevelt Institute, and life at Cornell.

Hilary Gelfond, Director

Hilary is a junior in the College of Human Ecology, majoring in Policy Analysis and Management and minoring in Business and Law and Society. Hilary works as a Teaching Assistant for the class Introduction to Policy Analysis and is the Vice President of Programs in her sorority, Alpha Xi Delta. Hilary has previously interned on Capital Hill under Senator Barbara Milulski's economic policy advisor. She also worked as an economic policy intern focusing on tax and budgetary issues at the Center for American Progress think tank. Hilary's main policy interests include tax and budget policy, social insurance and welfare policy. After graduating Cornell, Hilary hopes to return to Washington DC and aid in the creation of smart, pragmatic policy.

"A nation that destroys it's soils destroys itself. Forests are the lungs of our land, purifying the air and giving fresh strength to our people."

- Franklin D. Roosevelt