



CONSEQUENCES AND SOLUTIONS OF TRENTON STRUCTURAL UNEMPLOYMENT

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Trenton Overview

Over the past several decades, Trenton has experienced severe economic and social decay, the most integral cause of which is unemployment. Unemployment has numerous negative economic, including employment leakage, when Trenton residents leave the city for work. Conversely, a majority of Trenton's employment is state employment, catering to high-skilled labor from outside of Trenton. Trenton's unemployment can be alleviated through structural employment reform, and strengthening Trenton's private sector infrastructure.

"The City of Trenton is a dense urban community made up of five planning districts" – North, South, East, West, and Downtown. Each district has its own "distinct demographics, housing, and retail needs." Trenton has a population of 85,104 with a projected growth rate of .15%, .8% less than Mercer County. "The median household income in Trenton is \$34,458, about \$37,000 lower than that of Mercer County, of \$71,592." Additionally, Trenton's high school graduation rate is 11% higher than that of Mercer County, but 14% lower in Bachelor's Degree attainment. ¹

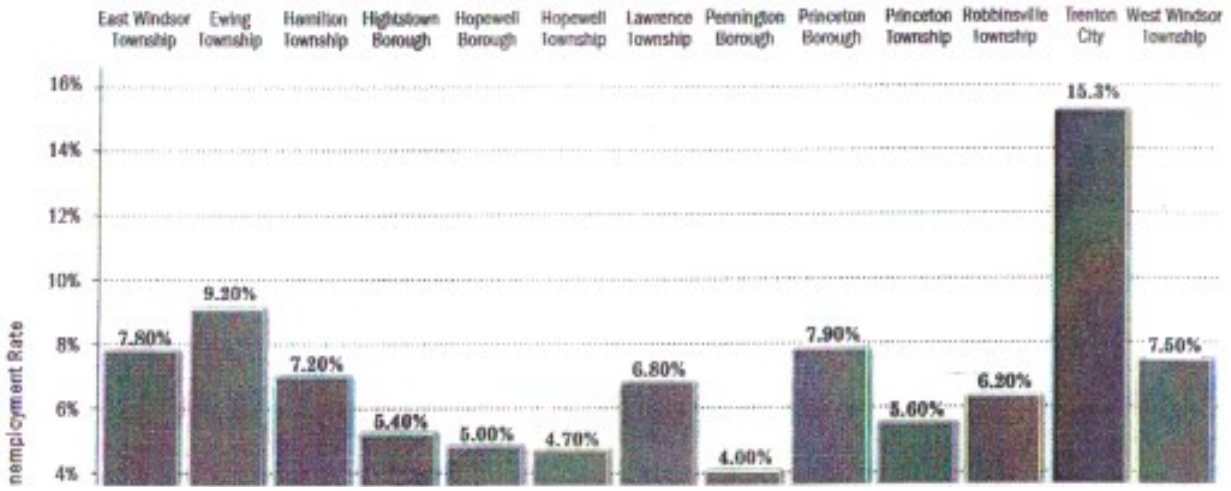
Employment Assessment

Over the past several decades, Trenton has experienced increased unemployment rates and negative employment flows, relative to Mercer County. "While the majority of Mercer County municipalities gained jobs, Trenton saw a small decline (2.4%) in available jobs between 2003 and 2011." Additionally, Trenton's five-year average unemployment is significantly higher than other Mercer County Municipalities, at 15.3%. Ewing Township has the second highest unemployment in the county at over 6% less than Trenton. ²

¹ *Trenton Citywide Market Study*. Rep. Trenton: Urbanomics and Larisa Ortiz Associates, 2014. Print.

² *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

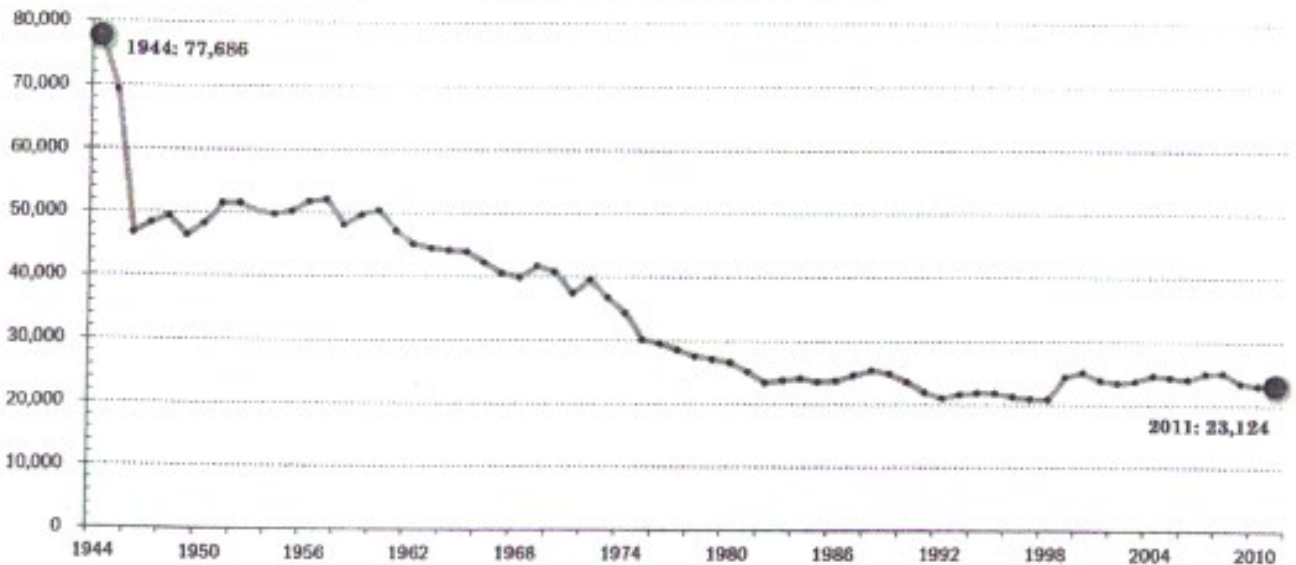
Figure 1
Average Unemployment Rate by Municipality, Mercer County



Source: Trenton250: City Profile Report

More specifically, from 1944 to 2011, private sector annual employment levels have declined 70%, from 77,686 to 23,124. Moreover, Trenton’s private sector jobs make up only one-third of total jobs in the city.

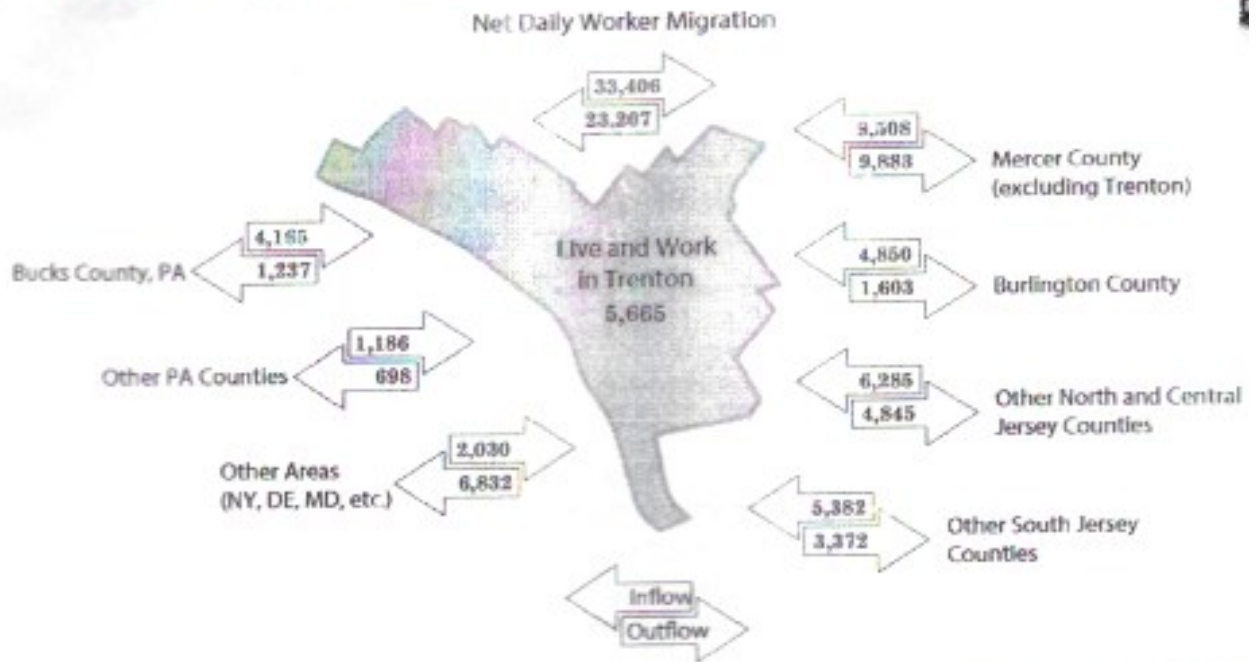
Figure 2
Private Sector Annual Employment Levels, City of Trenton, 1944 - 2011



Source: Trenton250: City Profile Report

Trenton’s lack of private sector jobs has direct causation to the city’s high unemployment. The city’s lack of private sector employers leaves many Trenton residents without work. Additionally, poor private sector infrastructure causes many Trenton residents to commute beyond the city for employment opportunities. “Of the nearly 29,000 members of Trenton’s workforce, only about 20% live and work in the city. The biggest destinations for Trenton residents are Ewing Township (3,300 jobs), Hamilton Township (2,880 jobs) and Lawrence Township (1,257 jobs).” Although Trenton does receive 33,000 daily commuters (10,000 more than outgoing commuters), most jobs are concentrated in the state and public sectors.³

Figure 3
Daily Worker Migration, by County (2011)



Source: Trenton250: City Profile Report

Employment Leakage

³ *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

“Leakage is the amount of residential discretionary income that is lost to other communities”. Employment leakage is when residents of a community work outside of the community, and presents a particularly pressing issue for Trenton. Consumer and employment leakage create a significant hindrance for economic growth in Trenton. Trenton’s high unemployment and human capital leakage are both caused by the lack of private sector employers in the city. In 2014, Trenton’s leakage totaled \$271,484,128 for all retail and food and drink categories.

Structural Unemployment

Trenton’s high unemployment and human capital leakage are, in essence, both issues of structural unemployment. Therefore, decreasing structural unemployment in Trenton will repair both unemployment and human capital leakage. Structural unemployment is unemployment caused by supply-side deficit, meaning there are not enough job opportunities in the city for residents to take advantage of. Trenton’s high structural unemployment is traceable to disinvestment during the 1970’s, when industrial and manufacturing jobs severely declined in the city. The primary foundations of Trenton’s economy were suddenly removed, causing economic instability. Additionally, a market of low labor mobility was created because of non-transferable employee skills, and poor transportation infrastructure. Trenton’s economy was dependent upon industrial and manufacturing employers, and with their sudden absence, thousands of Trenton residents became unemployed in a low labor-mobility market. Without jobs for thousands of Trenton’s residents, the economy quickly downturned. High structural unemployment in Trenton persists to today.

Economic Consequences

Structural unemployment in Trenton has a multitude of local negative economic consequences:

- Spending power - The spending power of the unemployed decreases dramatically, causing a higher rate of savings, and decreased capital flows to local businesses.

- Skill erosion – “prolonged unemployment can lead to greater skepticism and pessimism about the value of education and training” and discourage workers to invest in long-term job training and education, for themselves and their children. Thus, depriving the economy of a skilled workforce. Additionally, deadweight loss is created when workers need to be retrained in the future.
- Discouraged investors – Investment is essential to the economic growth of a developing region. High structural unemployment creates skepticism, and therefore, deters capital and portfolio investments.⁴

Furthermore, employment leakage acts as a symptom of structural unemployment, and causes millions of dollars of potential income to leave the city of Trenton annually. Because of the lack of private sector employers in Trenton, residents are forced to seek employment beyond the city. Employment leakage has three primary effects on Trenton’s economy:

- Tax revenue – Without developing private sector businesses, property taxes cannot be collected by the City, thus limiting Trenton’s income for development projects.
- Consumer spending – As stated, \$271,484,128 of consumer spending was leaked from Trenton in 2014. A significant portion of consumer leakage was due to the Trenton residents who work outside of the City, and spending their income with close to where they work. Thus, workers’ capital is earned and spent outside of Trenton.
- Private sector growth – As human capital leaves Trenton, demand for jobs by Trenton residents decreases, leaving private sector employers without a viable trained workforce to grow their businesses. Thus, stagnating private sector business growth.

Conversely, if human capital were instead invested in private sector businesses located in Trenton, Trenton businesses would further develop, increased property taxes would be collected, and consumer spending would be concentrated in the City. Therefore, private sector

⁴ Simpson, Stephen D. "The Cost Of Unemployment To The Economy." *Investopedia.com*. Investopedia, LLC. Web.

job creation will act as an impetus for lowering structural unemployment, and subsequently, employment leakage.

Solutions to Structural Unemployment

Non-economic factors aside, private sector businesses can be developed by fostering an entrepreneur-friendly environment. Most often, “job creation” economic policies target large established businesses, which will relocate their operations from outside or elsewhere in the state to the desired location. However, business relocation simply moves jobs, while not actually contributing to aggregate economic growth. In fact, data reveals that “the vast majority of jobs are created by businesses that start up or are already present in a state — not by the relocation or branching into a state by out-of-state firms. “Home-grown” jobs contribute more than 80 percent of total job creation in every state.” Furthermore, “startups and young, fast-growing firms are the fundamental drivers of job creation when the U.S. economy is performing well.” For example, “during late 1990’s and early 2000’s”, startup and high growth firms “accounted for about 70 percent of all new jobs in the U.S. economy.”

Moreover, among small businesses, one-fifth close within five years, and those that do survive often stay small. However, startups serve as valuable “incubators” of rapidly growing firms. Between 1980 and 2010, “Startups on average created roughly 3 million jobs per year. While half of those jobs were gone within five years because the companies that created them did not survive, the other 1.5 million jobs remained. The average surviving firm grew an astonishing 60 percent over the first five years, adding another 900,000 jobs to the economy. As a result, at the end of the five-year period a given year’s batch of startups created 2.4 million jobs”.

Therefore, Trenton should tackle structural unemployment by fostering a business environment conducive to startups businesses.⁵

⁵ Mazerov, Michael, and Michael Leechman. "State Job Creation Strategies Often Off Base." *Cbpp.org*. Center on Budget and Policy Priorities, 3 Feb. 2016. Web.

Fostering Entrepreneurship

The old top-down model of entrepreneurial growth placed the government as the primary catalyst for development. However, the new model of entrepreneurial growth emphasizes the symbiotic combination of government, venture funds, and incubators. Two policy strategies spur entrepreneurial growth – “business support programs that address the mainstream population or target groups, and structural policies that aim to create an environment conducive to entrepreneurship and innovation.”

file:///C:/Users/holzertyler/Downloads/TCM_Cities_Entrepreneurship-FINALWEB.pdf

Business-Support Programs

“Business-support programs aim to empower entrepreneurs by fostering their human, social, and financial capital.” Business-support programs are most effective when initiated by a variety of stakeholders, including local government, NGO’s, “private businesses, credit union, banks, and philanthropic foundations and trusts.” Business-support services include:

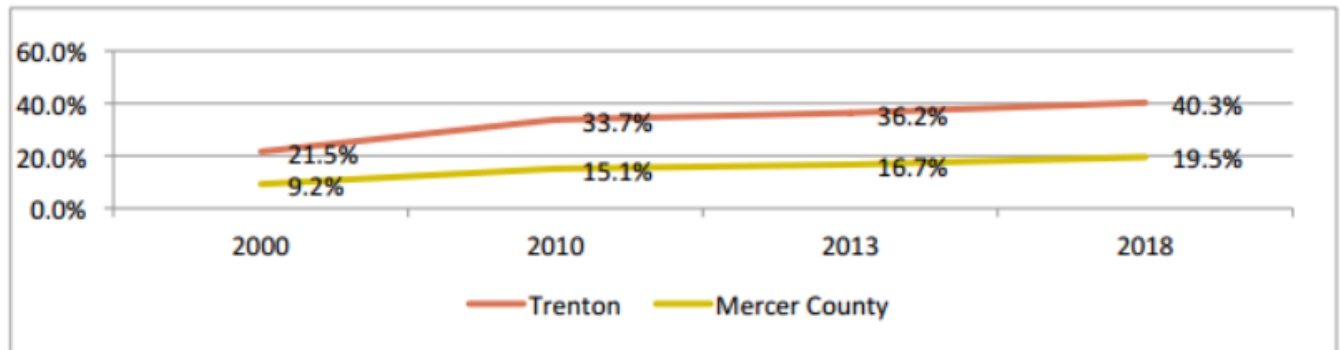
- Entrepreneurship training emphasizing hard business skills, such financial literacy, information technology, and marketing.
- “Help with the fulfillment of administrative procedures, including business registration”
- Legal advice on licensing and intellectual property.
- Offering entrepreneurial networking events that foster the three stages of business growth – “inspiration, startup, and scale-growth.”
- “Help in increasing “start-up or expansion capital” through facilitated access to bank loans and unconventional finance such as microcredit instruments, and equity investments by venture capitalists.”⁶

In addition to broad business-support programs, targeted programs can benefit specific industry sectors or demographics in order to spur economic development. Trenton, for example, which experiences mass influxes of Hispanic and Latino immigrants, should target immigrants

⁶ Desiderio, Maria Vincenza. "Policies to Support Immigrant Entrepreneurship." Transatlantic Council on Immigration. Web.

for business-support programs. Already, Trenton’s Hispanic and Latino immigrant populations are rapidly growing. ⁷From 2000 to 2010, Trenton’s Hispanic population grew 56.7%, “and is expected to grow another 8.3% from 2010 to 2018. By 2018, Trenton’s Hispanic and Latino population is projected to be about 20% greater than that of Mercer County.

Figure 4



Source: Trenton Citywide Economic Market Study

Recent data has shown that “immigrants have been nearly twice as likely as native-born Americans to start businesses”, specifically in “high-skill, high-tech sectors.” In fact, “52 percent of key founders of high-tech firms in Silicon Valley were immigrants.” However, although immigrant populations are more likely to begin startups, increased barriers to entry cause greater business closure rates. Therefore, Trenton should target its entrepreneurial development strategies toward immigrant populations, in order to attract greater immigrant populations and to sustain startups.

Trenton can target immigrant populations by garnering public-private partnerships in order to:

- Provide “knowledge-based” services to help develop human capital and business skills, including language courses, financial literacy training modules, and an introduction to the host-country’s business culture.”
- Provide “counseling and assistance on local administrative procedures, recruitment practices, tax regulations, labor laws, and social security obligations.”

⁷ *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

- Facilitate access to credit by improving “the creditworthiness of immigrant enterprises”, encouraging credit institutions to partner with immigrant-owned businesses, “and enhancing microcredit opportunities.”⁸

Targeted immigrant business-support programs will encourage further immigration, (which is positive for an entrepreneurial environment), and decrease barriers to entry for potential immigrant entrepreneurs. Furthermore, Trenton should target the South and East Districts, which have the highest concentration of Hispanic residents at 56% and 50%, respectively.⁹

Structural Policies

In addition to business-support services, local structural policies can strengthen an environment conducive to entrepreneurship and innovation. Such examples include:

- Institutionalizing permanent income tax reductions to small businesses with low income and employee qualifications for entry, and as a cap.
- Institutionalizing phase-out property tax reductions.
- “Enhancing labor market flexibility” by developing flexible working agreements, and “facilitating apprenticeships and traineeships.”

Furthermore, Trenton can utilize targeting in order to strategically develop specific industrial sectors. Targeting high-growth and high-income sectors through structural policies essentially ensures resource maximization for public and private stakeholders. Additionally, business-support programs can emphasize these specific industries in training programs, in order to encourage the growth of the respective sector. Sectors that should specifically be targeted for expansion include:

- Health care and social assistance
- Professional and technical services
- Finance and insurance

⁸ Desiderio, Maria Vincenza. "Policies to Support Immigrant Entrepreneurship." Transatlantic Council on Immigration. Web.

⁹ *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

- Information
- Transportation and warehousing

All of the aforementioned sectors (except transportation and warehousing) are statistically within the highest earning sectors in Trenton, with finance and insurance grossing the greatest average of \$77,774. Additionally, health care and social services, and professional and technical services are the largest employers of any sector.

Figure 5

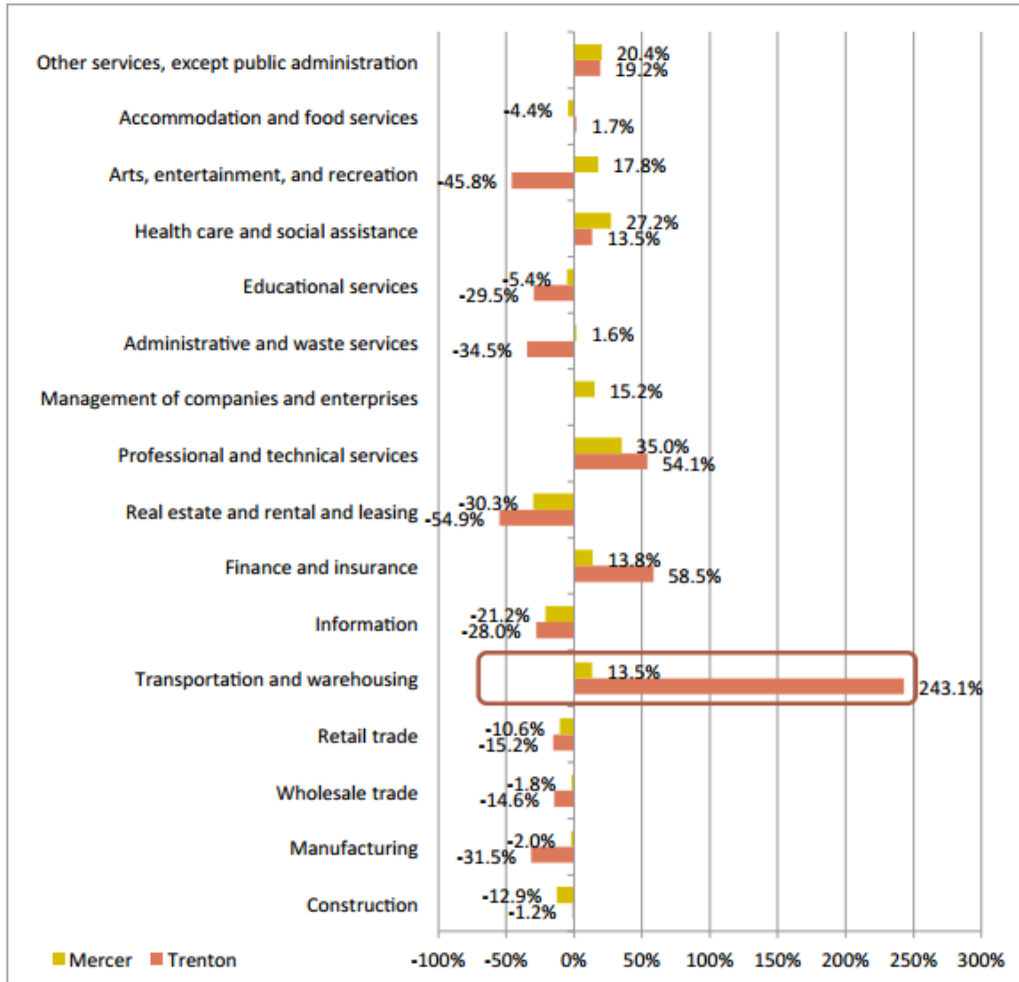
	Jobs	Average Wage
Total Jobs	23,456	\$50,172
Health care and social assistance	8,574	\$54,824
Professional and technical services	2,392	\$73,965
Retail trade	1,646	\$25,224
Other services, except public administration	1,607	\$38,318
Construction	1,297	\$65,139
Administrative and waste services	1,247	\$32,714
Information	1,167	\$52,039
Accommodation and food services	1,158	\$16,883
Manufacturing	1,002	\$49,161
Wholesale trade	936	\$52,600
Finance and insurance	889	\$77,774
Transportation and warehousing	666	\$33,684
Real estate and rental and leasing	352	\$34,162
Educational services	296	\$41,771
Arts, entertainment, and recreation	189	\$26,310
Unclassified entities	39	\$45,661

Source: Trenton Citywide Economic Market Study

In order to mitigate employment leakage, Trenton must develop industrial sectors in which it has comparative advantage, relative to Mercer County. Between 2003 and 2012, Trenton experienced higher growth rates in transportation and warehousing, finance and insurance, and professional and technical services relative to Mercer County, with margins of 229.6%, 23.5%, and 19.1%, respectively. Between 2009 and 2012, Trenton experienced higher growth rates in finance and insurance, information, and professional and technical services relative to Mercer

County, with margins of 72%, 32%, and 17.5%, respectively. This data does “not yet include any changes to Trenton employment due to the recent expansion of the Trenton-Mercer Airport with the relocation of Frontier Airlines. This expansion supports further opportunities in Transportation and Warehousing in Trenton.”¹⁰

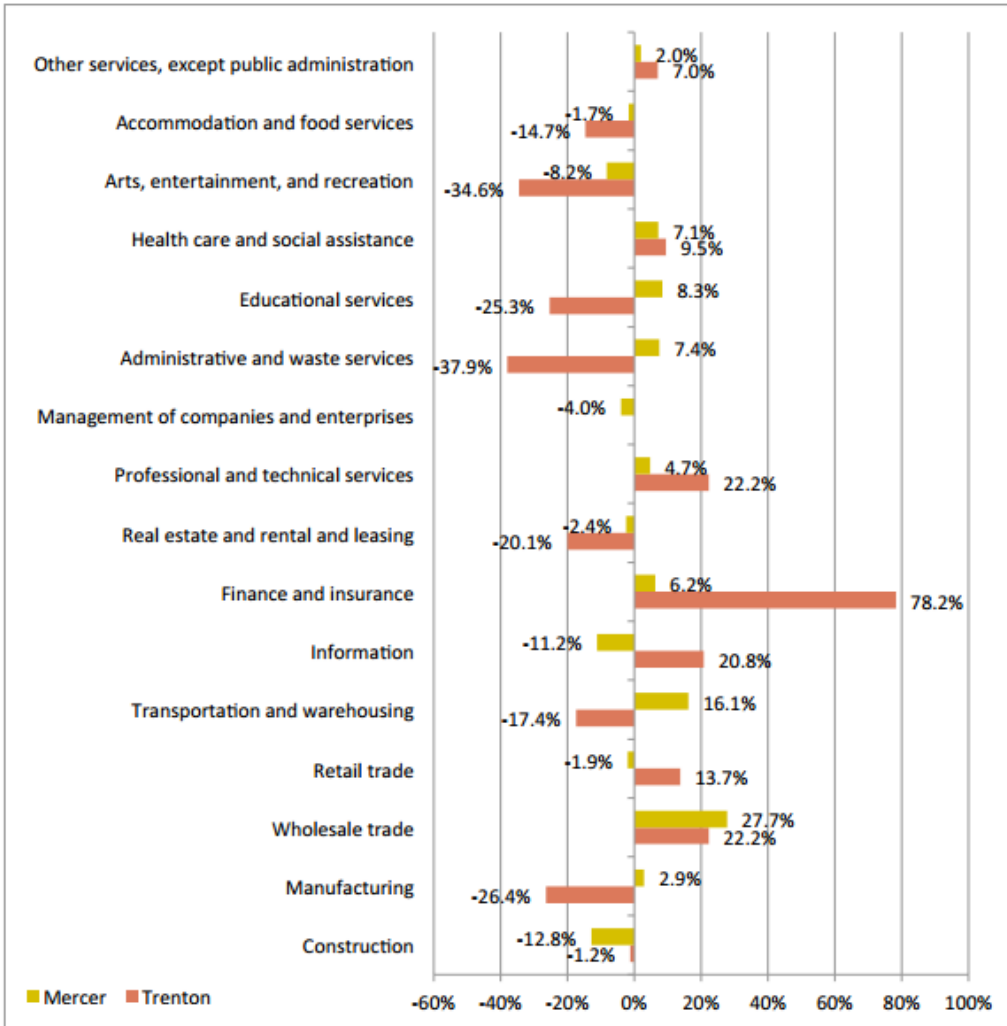
Figure 6



Source: Trenton Citywide Economic Market Study

¹⁰ *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

Figure 7

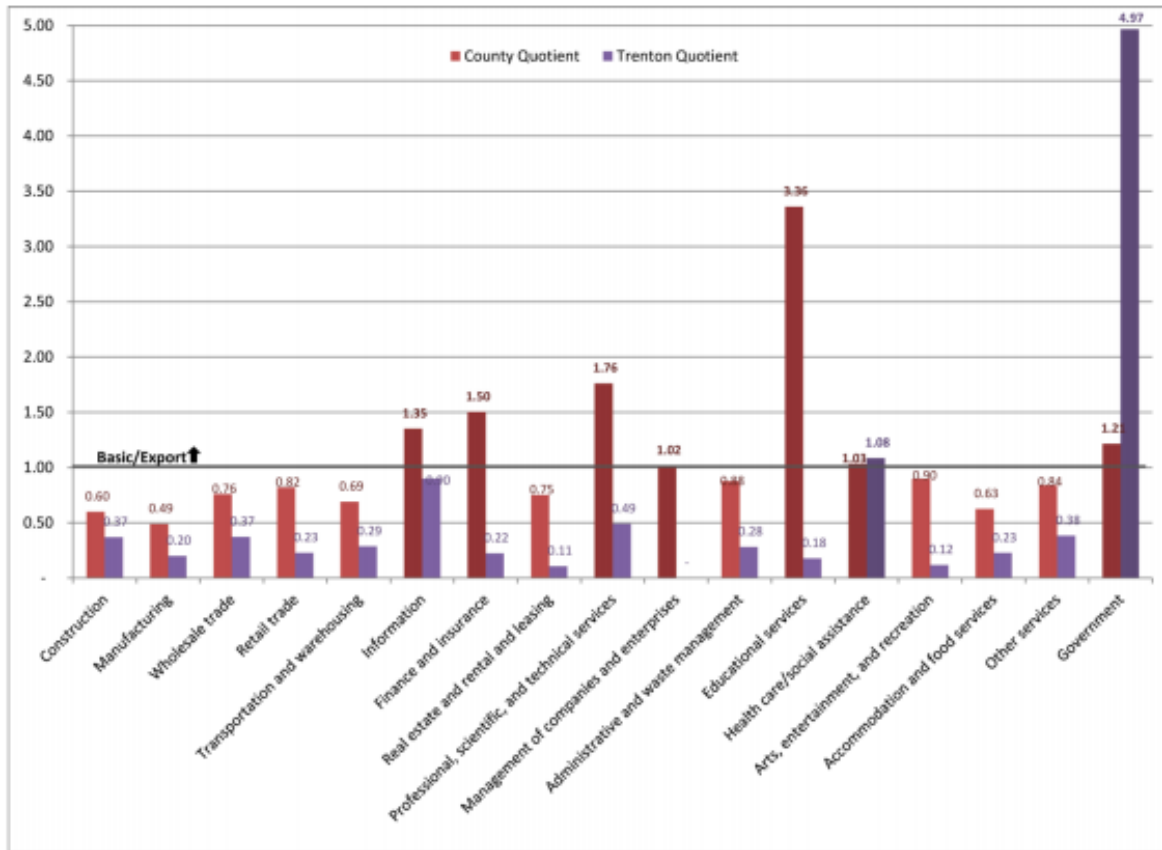


Source: Trenton Citywide Economic Market Study

Finally, the location quotient of Trenton non-governmental industries appears to be favorable for health care and social assistance and information sectors, at 1.03 and .9, respectively. The location quotient indicates sectors which act as exporters local borders. The growth of these industries can be leveraged to encourage economic development.¹¹

¹¹ *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

Figure 8



Source: Trenton Citywide Economic Market Study

Therefore, Trenton public-private partnerships should target the aforementioned sectors in order to create entrepreneurs that are skilled in the appropriate sectors. Consequently, high-growth and high-income trade industries will develop in Trenton, effectively decreasing structural unemployment and employment leakage.¹²

Education and Employment

Like all facets of the economy, unemployment has significant interplay with other economic factors. In particular, data reveals strong correlation between education and employment. A stable well-trained employment force is vital to the economic growth of a community.

“Research has shown that education has substantial impacts on labor market outcomes such as earnings

¹² *Jobs and Employment*. Rep. Trenton: Trenton250: City Profile Report. Print.

and employment as well as non-market outcomes such as health, longevity, civic participation and criminal activity. Data suggests that the probability of reemployment conditional on being unemployed one year earlier is about 40 percentage points higher for high-school graduates than for those who did not complete high school, with each additional year of schooling leading to a 4.7-percentage-point increase in the probability of re-employment. Additionally, an additional year of schooling increases the probability of full-time re-employment by 6 to 7 percentage points. Finally, data reveals a negative correlation between formal education and the incidence of unemployment.

<http://ftp.iza.org/dp5572.pdf> Moreover, employers are seeking to hire well-educated employees without criminal backgrounds. Educated candidates are also more likely to be motivated to seek employment or become entrepreneurs. Investing in education is the foundation for human capital investment, and gives greater return to society than any other factor.¹³

Although Trenton's high school graduation rate is 11% higher than that of Mercer County, their Bachelor's Degree attainment is 14% lower. Therefore, in addition to business-support programs and economic structural policies, efforts to increase Bachelor's Degree attainment rates will enforce Trenton as an entrepreneurship incubator, and thus lower structural unemployment.

Conclusion

In summary, structural unemployment is one of the critical factors to Trenton's economic development. Unemployment negatively affects Trenton's economy by reducing consumer spending power, causing skill erosion, and discouraging investors. Additionally, Trenton's supply-side employment shortage causes employment leakage, in which Trenton residents leave the city to work elsewhere. Employment leakage negatively affects Trenton's economy by decreasing tax revenue, consumer spending, and private sector business growth.

Structural unemployment is properly solved by encouraging private sector business growth and fostering entrepreneurship. Two policy strategies spur entrepreneurial growth – “business support programs that address the mainstream population or target groups, and structural policies that aim to create an

¹³ Riddell, W. Craig, and Xueda Song. "The Impact of Education on Unemployment Incidence and Re-employment Success: Evidence from the U.S. Labour Market." Forschungsinstitut Zur Zukunft Der Arbeit Institute for the Study of Labor. Web.

environment conducive to entrepreneurship and innovation.” Proper partnerships between the public and private sectors can achieve such goals. Structural policies should be target high-growth and high-income sectors, and Hispanic and Latino immigrant populations. Strategies for encouraging private sector growth will reduce structural unemployment, and thus mitigate employment leakage, effectively promoting Trenton economic development and social growth.