Escape Velocity:

How elite communities are pulling away in the 21st century race for jobs, businesses, and human capital

Part of EIG’s Distressed Communities Index Series

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I. About the Distressed Communities Index

EIG’s Distressed Communities Index (DCI) provides a comprehensive assessment of community economic well-being. It ranks every U.S. zip code with at least 500 people on seven equally-weighted variables:

- **No high school diploma**
  Percent of the adult population (25+) without a high school diploma or equivalent

- **Housing vacancy rate**
  Percent of habitable housing that is unoccupied, excluding for seasonal, recreational, or occasional use

- **Adults not working**
  Percent of the prime-age population (25-64) not currently in work

- **Poverty rate**
  Percent of the population in households below the poverty line

- **Median income ratio**
  Median income relative to state

- **Change in employment**
  Percent change in the number of jobs from 2011 to 2015

- **Change in business establishments**
  Percent change in the number of business establishments from 2011 to 2015

Data for the DCI is derived from the U.S. Census Bureau’s American Community Survey 2011-2015 5-Year Estimates and Zip Code Business Patterns datasets for 2011 and 2015.

Distress scores represent the percentile into which a community falls on the index: A distress score of 1.0 or less means that a community is in the top 1 percent of all American communities.
in terms of economic well-being. The DCI generally groups zip codes into quintiles to evaluate trends among similarly-situated communities. The top-performing quintile is considered “prosperous,” followed by “comfortable,” “mid-tier,” and “at-risk,” with the bottom quintile being considered “distressed.”

Americans clearly gravitate towards prosperous zip codes, which further reinforces the economic edge of well-off places. In total, 84.8 million Americans live in prosperous zip codes, compared with 52.3 million in distressed communities.

Distressed communities lag especially far behind their peers on the component metrics of the DCI, from poverty to educational attainment to worklessness. The growth gap may be the starkest feature of the index, with more than 30 percentage points separating the rate of outright job losses of distressed communities from the post-recession boom in prosperous ones.

To learn more about these communities, read the 2017 DCI and explore the online data interactive available at eig.org/dci.

Average performance of zip codes in each quintile across the seven component indicators of the DCI.

![Regional Average Performance](image-url)
II. Introduction

Geographic inequality, spatial inequality, left-behind communities: These terms have entered the public lexicon in recent years as popular understanding of the place-based economic disparities that traverse the U.S. landscape has improved. Underneath national headline statistics, local economies are on steeply divergent trajectories. Growth and opportunity surround dwellers of favored zip codes, while both seem to elude less advantaged communities. A nation that as recently as the 1990s grew together is now pulling apart.¹

This development is new and appears to be accelerating. Convergence in incomes and living standards across regions used to be taken as given. For much of the post-war period in the United States and other developed countries, most regions grew, and poor ones grew even faster than wealthy ones.² Convergence slowly began reversing in the 1980s and 1990s. Today, incomes are rising fastest in the places that have amassed the largest number of highly-educated workers.³ Wealthy regions are pulling ever farther ahead of the pack—a reversal of past trends and a challenge for our democracy. With migration rates mired near historical lows and the forces of agglomeration growing stronger, the natural adjustment mechanisms that used to smooth the geography of economic growth no longer function as efficiently as they once did.

1. For a comparison of recent growth eras, see EIG’s “New Map of Economic Growth and Recovery.”
Responding to these trends, a recent paper by Austin, Glaeser, and Summers heralds an important milestone: the acknowledgement that place-based policymaking’s time has come.4

EIG’s Distressed Communities Index (DCI) (see page 5) baselines the diverging fates of American communities. The DCI scores and ranks nearly every U.S. zip code on seven complementary metrics of well-being before assigning them into quintiles of prosperity. The index looks beyond the state and metropolitan scales to examine disparities within regions, as well as across them.

Two of the DCI’s metrics capture the direction of the local economy: changes in the number of jobs and business establishments over the past five years. The retrospective analysis presented here builds on those two components of the DCI to trace the employment and establishment growth histories of zip codes and quintiles back to the year 2000 using the Census Bureau’s annual Business Patterns datasets. Doing so allows us to place the country’s prosperous, distressed, and in-between communities along historical trajectories that explain, in part, some of the differences the DCI documents today. While some communities have fared spectacularly well in the new century, the pages that follow will document that recent U.S. economic growth—measured here in terms of jobs and business establishments—has consistently failed to reach the communities most in need of a boost.

This analysis is divided into three sections. The first establishes baseline trends across quintiles, confirming that today’s prosperous communities have been ascendant for quite some time. The second hones in on the very elite—the top 10 percent of zip codes on the DCI—and finds that they have grown twice as quickly as even the second-best decile of communities since 2000. We will also explore whether, in retrospect, these elite communities exhibited any tell-tale characteristics at the turn of the century that could have predicted their subsequent flourishing. Finally, the third section finds that the basic patterns uncovered here replayed themselves in state after state, suggesting that the analysis sheds light on dynamics that are woven deeply into the fabric of our economy and society.

All figures presented here are estimates. Zip code boundaries can and do change frequently. The contours of a zip code in 2015 may not match that of the same zip code in 2014, let alone in the year 2000.

EIG took a variety of steps to control for the most significant boundary changes, namely by: 1) eliminating any zip codes that did not exist already in 2000 or that had incomplete records; 2) identifying and subsequently removing outliers and suspicious records; and 3) manually examining records that exhibited large or random swings in any given year or over a set of years. In all, we eliminated nearly 600 records from the DCI’s starting 26,100, resulting in a universe of approximately 25,500 zip codes that covers 97 percent of the U.S. population. The final dataset ultimately produces conservative estimates of the growth achieved in high-performing areas because new zip codes are more likely to emerge and boundaries are more likely to be significantly redrawn in burgeoning locales. In fact, over 43 percent of the zip codes we eliminated from the DCI for this analysis were from the “prosperous” top quintile.

These steps and considerations notwithstanding, the U.S. Census Bureau advises against using the annual snapshots of Zip Code Business Patterns data as a time series. We nevertheless feel confident that our methods produce reasonable approximations of geographies that can be used to provide meaningful, if estimated, aggregate insights into the long-term trajectories of U.S. communities for three primary reasons. First, our adjustments addressed both significant boundary changes and any egregious errors embedded in the underlying administrative records. Second, our analysis groups zip codes together by the thousands of communities, which should mitigate the impact of any individual errors on aggregate totals. Third, the results speak for themselves. The trends are clear, robust, and consistent across every state. What is more, the insights captured here clearly demonstrate the value of providing such estimates for public consideration.

Finally, the reader should note that the Census Bureau does not provide any data to the public for the approximately 250,000 business establishments that have their own dedicated zip code. These establishments (often large plants or campuses) and their approximately 2.2 million workers are not considered here. Their exclusion, combined with our elimination of certain records, explain why totals across all zip codes may not match national-level figures.
III. National trends in jobs and businesses:
Tracking 15 years of growth across U.S. communities

Key Findings

• Prosperous zip codes added 6.5 million jobs on net between 2000 and 2015. Factoring in the losses from lower quintiles, total employment increased by only 6.8 million across all zip codes over the same period.

• Prosperous zip codes added three times as many jobs as comfortable zip codes and 10 times as many as mid-tier ones over the period.

• Distressed zip codes lost 1 in 8 of their jobs over the period, for a total of 2.2 million. Roughly 40 percent of these losses were incurred prior to the Great Recession.

• Prosperity and distress each tend to cluster together, limiting access to opportunity. Only 3 percent of the zip codes neighboring distressed communities are prosperous.

• Prosperity and resiliency seem to go hand in hand: Prosperous zip codes experienced the shortest and shallowest recession before proceeding to dominate the national jobs recovery.

• Prosperous communities were the only group to contain more places of business in 2015 than they did prior to the recession.

• Distressed zip codes have lost 84,000 places of business and employment since 2000.

• Distressed zip codes were less likely to see any economic expansion over the past 15 years, and even when they did, their expansions were generally much more muted than other communities.'
Prosperous communities have claimed the overwhelming majority of net job growth since 2000.

The United States entered the 21st century riding a wave of remarkable job growth. From 1990 to 2000, the U.S. economy added 20.6 million jobs broadly distributed across the map. But over the 15 years that followed, employment expanded by only 10 million jobs. What can explain the stark slowdown? Certainly, we can point to the interruption of the Great Recession. This analysis dives deeper to uncover something additional and more nuanced, though. We find that the geography of growth from 2000 to 2015 was extremely concentrated in a relatively well-off subset of U.S. communities, and that the Great Recession exacerbated the geographic disparities that had already begun emerging at the turn of the century.

The United States simply saw relatively few local and regional economies perform strongly over the period studied here. A narrow geography of growth, combined with limited mobility across regions, translated into lower headline growth rates at the national level.

Total employment in the 25,500 zip codes analyzed here increased by 6.8 million from 2000 to 2015. Zip codes in the nation’s top quintile of community well-being—ones that register as “prosperous” on the latest

5. Calculated from the U.S. Census Bureau’s Business Patterns national estimates. Figures here and throughout include full-time and part-time employees and are tabulated at the establishment (rather than individual) level, which means some part-time workers with multiple employers may be counted multiple times. More details are available online in the dataset’s technical documentation. The Bureau of Labor Statistics (BLS) provides slightly different estimates for jobs created during each period but a similar gap between them: an increase of 22.0 million jobs from 1990 to 2000 and an increase of 9.3 million from 2000 to 2015. Reasons for the discrepancy include BLS capturing civilian government employees and some household and agricultural workers that Business Patterns do not.

6. In addition to any jobs in zip codes that were removed from the dataset (see methodological notes above), national figures include employment in zip codes that belong to a single company, which are omitted from the local data for privacy reasons. Those are two significant factors behind the gap of 3.2 million jobs over the period between the national figures and the totals across zip codes discussed here.
Prosperous zip codes added three times as many jobs as comfortable zip codes over the 15 year period.

DCI—generated the lion’s share of that growth, adding 6.5 million new jobs over the period. Meanwhile, the second quintile—"comfortable" zip codes—generated a net increase of 2.1 million jobs, and "mid-tier" ones eked out a modest gain of 623,000 jobs.

Today’s prosperous zip codes started the time series with more jobs than any other quintile, but the ensuing distribution of new jobs was far from proportionate. Prosperous zip codes contained only 26 percent more jobs than comfortable zip codes in the year 2000, for example, but went on to add *three times* as many jobs over the next 15 years.

Distressed zip codes shed jobs even faster than they did population, and evidence suggests that remaining residents struggle to access opportunities elsewhere.

The situation was much bleaker in the bottom two-fifths of the nation’s zip codes. Home to 108 million people, the number of jobs in these communities fell by 2.3 million between 2000 and 2015. The tepid recovery in the nation’s “at risk” communities accounted for 135,000 of those jobs lost, but most of the losses were racked up by “distressed” zip codes—those in the bottom quintile. These communities shed a total of 2.2 million jobs over the period, or 1 in 8.

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2. Cumulative Change in Employment by Quintile

![Graph showing cumulative change in employment by quintile from 2000 to 2015.](image-url)
Roughly 40 percent of those losses were incurred prior to the Great Recession. Indeed, the number of jobs in distressed communities fell in 11 of the 15 years examined here—including in 2015 itself. Hit by two recessions and bypassed by two recoveries, these communities have experienced nothing short of a hollowing out this century.

The sustained retreat of job opportunities from distressed zip codes placed a huge drag on U.S. economic performance as a whole. Had distressed communities merely stagnated, the U.S. economy would have added one-third more jobs over the past 15 years than it actually did.

Unsurprisingly, trends in population and job growth track each other. Prosperous zip codes added the largest number of residents over the period—14.8 million, more than twice comfortable zip codes’ 6.6 million—just as the population of distressed zip codes declined alongside employment. Yet population dynamics alone were insufficient to explain job gains and losses: Prosperous and comfortable zip codes added jobs faster than they did population (either overall or working age), while job growth failed to keep up with population growth in mid-tier and at risk communities (see Figure 10 in later sections for more). Distressed zip codes, for their part, shed 1 million more jobs than they did residents from 2000 to 2015.7

**Hit by two recessions and bypassed by two recoveries, distressed communities have experienced nothing short of a hollowing out this century.**

People can and do find work outside of their home zip code, making it

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7. Note that 2015 population figures, in addition to the demographic insights provided in Part IV, are pulled from the American Community Survey’s 2015 5-Year Estimates, which provide a single point estimate for a full five-year window, in this case 2011-2015. The time period aligns imperfectly with the complete annual Business Patterns dataset, so comparisons across the two datasets should be interpreted as rough and illustrative only.
difficult to determine who exactly fills which jobs where with available data. Nevertheless, the DCI provides considerable evidence that geography severely limits access to opportunity: Prime-age adults in distressed zip codes are twice as likely to be out of work as those in prosperous ones. And forthcoming research from EIG will show that zip codes with similar states of economic well-being tend to cluster together. Only 3 percent of zip codes neighboring distressed communities are prosperous, while nearly half are also distressed. Meanwhile 1 in 10 distressed zip codes are surrounded exclusively by other distressed places. Only 14 percent of them have any prosperous neighbors.

**Prosperous communities powered the national jobs recovery from the Great Recession.**

The U.S. economy shed nearly 9 million jobs between 2008 and 2010. Although the country as a whole officially recouped those losses by 2014, only prosperous and comfortable zip codes had themselves reached the full employment recovery milestone even by 2015. Prosperous zip codes in fact met it in late 2012—two years prior to the country as a whole. Meanwhile, mid-tier, at risk, and distressed communities still contained fewer jobs in 2015 than they did prior to the recession.

Prosperity and resiliency seem to go hand in hand. Today’s prosperous zip codes experienced the shallowest recession before proceeding to dominate the national recovery. Top-quintile communities shed only 6.1 percent of their jobs from 2008 to 2010, compared to 7.4 percent nationally. They then proceeded to outstrip the national rebound with 15.7 percent job growth from 2010 to 2015, compared to 9.2 percent across all zip codes. Most U.S. communities exited the Great Recession with a severely impaired capacity to create jobs. Not so for prosperous zip codes.
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5. Change in Business Establishments from 2000 to 2015 by Quintile

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Percent Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prosperous</td>
<td>+24%</td>
</tr>
<tr>
<td>Comfortable</td>
<td>+12%</td>
</tr>
<tr>
<td>Mid-tier</td>
<td>+6%</td>
</tr>
<tr>
<td>At risk</td>
<td>+1%</td>
</tr>
<tr>
<td>Distressed</td>
<td>-8%</td>
</tr>
<tr>
<td>Total</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Prosperous, which emerged stronger than ever—partly explaining how they rose to the top of the rankings on the DCI. In fact, these zip codes pulled away from their peers faster in the post-recession period than they did in the pre-recession one. By 2015, prosperous zip codes contained 2.7 million more jobs than they did in 2008 (peak employment nationally before the recession). Were it not for growth in these communities, the U.S. economy would still have been 1.5 million jobs short of a full employment recovery in 2015.

Today’s prosperous zip codes experienced the shallowest recession before proceeding to dominate the national recovery.

The recession was not only deeper in communities that are less well-off today, but it also started earlier. The bottom three quintiles of zip codes all started to lose jobs in 2006—two years prior to the national downturn. If measured from their own respective peaks, the jobs deficits depicted in Figure 3 (see page 13) would be even steeper for these cohorts.

New businesses overwhelmingly gravitate towards prosperous zip codes—a trend that the recovery has amplified.

Business establishments are the locations where economic activity takes place—offices, storefronts, and manufacturing plants, for example. They serve as physical manifestations of the economy’s growth and development, and, given that entirely new companies account for more than three out of every five new business establishments in most years, they also serve as a reasonable proxy for entrepreneurial activity. Establishment openings and closings provide concrete, local gauges of the broader health of the economy.

8. Establishments are defined as single physical locations, with employees and owned by companies, where business is conducted or services and operations are performed. Establishments are owned by firms, and a single firm can have one or many business establishments.

In total, the U.S. economy added approximately 600,000 new business establishments on net between 2000 and 2015 (a 9 percent rise over the period), with the powerhouse top quintile again generating a larger net increase than all other quintiles combined. Prosperous zip codes added 446,000 businesses on net (a 24 percent rise) and comfortable ones netted a 166,000 increase (a 12 percent rise). Mid-tier places registered a 6 percent increase and at risk zip codes a mere 1 percent increase. Distressed zip codes, by contrast, shed 8 percent of their business establishments over the period—losing 84,000 places of work and commerce since 2000.

Three distinct eras are discernible on this metric: The real estate-driven boom of the early- to mid-2000s, the subsequent bust and recession, and finally the geographically uneven recovery through 2015. The expansion of the early 2000s buoyed all groups of communities and even reached distressed zip codes, which added 18,500 business establishments from 2001 to 2007. Yet while the Great Recession also hit every quintile, its aftermath saw a profound shift in the geography of new business openings in favor of well-off communities.

Prosperous zip codes welcomed more than half of the national rise in business establishments from 2011 to 2015—far above their 30 percent starting share of the national stock of places of business. Thanks to that growth, prosperous communities were the only category to contain more business establishments in 2015 than they did before the recession. In other words, the physical landscape of prosperous zip codes looked just as vibrant and populated with stores, restaurants, and offices by 2015 as it did prior to the crash. The landscape in all other quintiles, by contrast, still displayed the scars from the recession.

There were fewer places of business nationwide in 2015 than in 2006 due to the weak recovery in the bottom four quintiles.

Remarkably, there were fewer places of business nationwide in 2015 than in 2006 due to the weak recovery in the bottom four quintiles.

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2006 due to the weak recovery on this measure in the bottom four quintiles, even though the economy stood nearly $2 trillion larger in real terms.

**The frequency and intensity of job and business growth increases with a zip code’s overall level of well-being.**

Thus far, we have examined each of today’s zip code quintiles as a cohort. At a more granular level, it is of course the case that an individual zip code may have lost jobs or businesses (or both) while still retaining its “prosperous” status, even as a “distressed” zip code could nevertheless have experienced some growth over the period.

Accordingly, it is instructive to examine the frequency of job or business gains within each quintile and to evaluate the size of typical gains or losses in each when they occur. We find a strong relationship between the magnitude of gains and the well-being of the zip code generating them.

New business establishments were not only more likely to proliferate in top-quintile zip codes, but such communities tended to add far more of them as well. Over three-quarters of today’s prosperous zip codes added business establishments on net between 2000 and 2015. An expanding zip code in the top quintile added an average of 125 businesses over the period. That was nearly double the increase registered by the average expanding comfortable zip code and more than five times the number in the average

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**Zip codes in the bottom quintile were less likely to see any economic expansion over the past 15 years.**

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7. Distribution of 2000 to 2015 Establishment Gains and Losses Across Types of Communities

<table>
<thead>
<tr>
<th>Universe of Zip Codes that Added Establishments</th>
<th>Universe of Zip Codes that Lost Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prosperous</strong></td>
<td><strong>Prosperous</strong></td>
</tr>
<tr>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Comfortable</strong></td>
<td><strong>Comfortable</strong></td>
</tr>
<tr>
<td>23%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Mid-tier</strong></td>
<td><strong>Mid-tier</strong></td>
</tr>
<tr>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>At risk</strong></td>
<td><strong>At risk</strong></td>
</tr>
<tr>
<td>9%</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Distressed</strong></td>
<td><strong>Distressed</strong></td>
</tr>
<tr>
<td>4%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Total Increase of 948,840**

**Total Loss of 326,330**
expanding distressed zip code (See Figure 8). The much more intense growth at the top allowed prosperous zip codes to garner half of the total increase in business establishments among expanding zip codes.

By contrast, fewer than 3 in 10 distressed zip codes added establishments on net over the 15-year period, and together those zip codes garnered only 4 percent of the growth pie. Similar patterns hold for employment, where the average growing distressed zip code added only 560 jobs to its prosperous counterpart’s 2,200 over the period. This disparity holds across rural and urban communities alike and is not simply a function of population. In sum, zip codes in the bottom quintile were less likely to see any economic expansion over the past 15 years, and when they did, it was a generally a much more muted expansion than one experienced in a better-off community.

Interestingly, while job and establishment losses were more prevalent in distressed communities than any other cohort, the magnitude of losses within the universe of zip codes losing jobs or establishments was generally more equal across types of places. It seems that a distressed zip code is more likely to be in active decline, but that, once decline sets in, the rate of job losses and business closures differs little from place to place. This is an intriguing area for future research: Decline appears to be a relatively uniform process and growth much more of a rapid, uneven, self-reinforcing one. In creative destruction terms, the geography of the economy’s creative forces looks much more unequal than the geography of its destructive ones.
IV. The view from the top:
Comparing the highest-performing zip codes to the rest

Key Findings

• The top 10 percent of zip codes on the DCI are coming out of a 15 year stretch during which the number of jobs increased by 35 percent, compared to only 9 percent nationally.

• Rates of growth were twice as high in the top decile as they were in the second-highest one. Similarly, rates of decline were twice as steep in the tenth decile as they were in the ninth.

• Due to persistently and structurally unequal access to opportunity, whites in 2000 represented 85 percent of the population in communities that would be most prosperous in 2015.

• The minority share of the population increased fastest in top-decile communities thanks in part to an influx of foreign-born residents.

• In 2000, 43 percent of adults in top-decile communities had at least a bachelor’s degree, compared to only 11 percent in tenth-decile ones.

• Top-decile zip codes stood out for their relatively large construction and professional services sectors in 2000; distressed ones for over-sized retail and under-sized professional services sectors.

• Today’s top-decile zip codes already had the highest median household incomes in 2000. They would go on to rack up the highest income growth rates as well.

• Top-decile zip codes are present in every state, while bottom-decile ones are more concentrated in lagging regions.
Zip codes in the top decile of well-being have dominated U.S. economic growth since 2000, expanding more than twice as quickly as even the next best-performing decile.

So far, we have established the extreme and accelerating concentration of employment and establishment gains since 2000 into the prosperous top quintile of communities. But the true degree to which the country’s most well-off communities have dominated national growth over the past 15 years comes into starkest focus when looking at deciles rather than quintiles of performance on the DCI. The top 10 percent of U.S. zip codes on the index—home to 41 million residents, more than any other decile—are coming off a 15-year period in which employment expanded by 35 percent (compared to 9 percent nationally), the number of business establishments rose by 34 percent (compared to 8 percent nationally), population increased by 29 percent (compared to 12 percent nationally), and the working age population grew by 14 percent (compared to 4 percent nationally).\(^\text{10}\)

It is worth reiterating that these rates are not based on averages across zip codes but rather the estimated absolute difference between the stock of jobs, businesses, and people in these communities at the start of the period and its end.

Across the four different metrics in Figure 10, the rate of growth in the top decile of zip codes is more

\(^{10}\) American Community Survey 2011-2015 5-Year Estimates (referred to as “2015”) provide the most recent zip code-level population figures available. Working age is defined as ages 25 to 54.
than two times higher than that in the second-best decile. From there, growth becomes progressively more muted as communities move down the spectrum of well-being until it turns into outright decline for the bottom two deciles. Paralleling dynamics at the top of the distribution, the rates of losses across jobs, establishments, and working age population are more than twice as steep in the tenth decile as they are in the ninth.

There is of course an element of endogeneity to the analysis here: As underlying variables in the DCI—rates of 2011-2015 employment growth and establishment increases factor in as two of the seven indicators determining where a zip code lands on the index. Despite that, the patterns in Figure 10 imply that growth is not incrementally better for thriving places but significantly better than for everyone else, and vice versa for the country’s most struggling locales. Furthermore, this analysis extends the trendlines back to 2000—more than a decade before the start of the DCI—and finds unmistakable and long-running patterns that provide important historical context for the DCI’s more recent rankings.

Winning communities were primed to take advantage of the pending upsides of economic change and less exposed to the downsides.

American communities seem to now fall into three categories: The top 10 percent—again, home to 41 million people—are truly flourishing, with high levels of growth and high overall degrees of economic well-being measured across metrics, from educational attainment to housing, incomes, and more. The next 70 percent are muddling along with varying degrees of success. Finally, the bottom 20 percent—home to 52 million people—are struggling to escape a nexus of compounding forces: disappearing jobs and active disinvestment on top of high poverty rates, low levels of educational attainment, weak labor force attachment, and market-depressing supplies of vacant homes.

The educational attainment, industry structure, and demographic composition of zip codes in 2000 meaningfully predicted community economic well-being in 2015.

Looking back to 2000, could we have predicted which places would rise to (or stay at) the top echelons of growth and well-being over the next decade and a half? What about those that fell to (or remained at) the bottom?

The communities that have thrived since the turn of the century were distinctive at its start. Educational attainment within a community in 2000 meaningfully predicted its well-being in 2015, for example. Starting differences in industry makeup meant that winning communities were primed to take advantage of the pending upsides of economic change and less exposed to the downsides looming over the horizon. More troubling are the racial disparities in economic outcomes that the geography and nature of 21st century growth has done little to overcome.

Let’s begin with demographics. The pernicious legacy of past public policy failures has left the country with a map
on which education, incomes, and opportunity too often sort along racial lines. That troubled history provides important context for the finding that, in 2000, non-Hispanic whites represented 85 percent of the population in communities that would proceed to achieve the highest levels of economic well-being in 2015. By comparison, whites represented 69 percent of the population across all zip codes and only 43 percent in bottom-decile ones in 2000.

As the country grew more diverse from 2000 to 2015, the minority share of the population increased in every decile, and it increased fastest in the top one—by 9 percentage points compared to 7 percentage points nationally. Nevertheless, minorities began and ended the period underrepresented in prosperous and growing areas and overrepresented in distressed and declining ones. To the extent that this basic relationship is slowly unwinding, it is happening because prosperous communities have become more diverse in the 21st century and not because the prospects for mainly minority communities have improved relative to others. The increasing diversity of the country’s elite communities is due in part to a large influx of foreign-born individuals—over 2 million of them—during the period. The number of foreign-born residents in elite zip codes increased by nearly 75 percent, five times the rate in the bottom decile and more than twice the rate of all zip codes. Top decile zip codes had one of the smallest foreign-born populations in 2000; by 2015 they had the second largest.

Educational attainment levels in 2000 powerfully predicted subsequent growth and prosperity—little surprise given the knowledge- and technology-driven nature of modern growth.

11. Demographic Characteristics of Deciles in 2000 and 2015
In 2000, 43 percent of the adult population in top-decile zip codes had at least a bachelor’s degree, compared to 37 percent in second-decile zip codes and only 11 percent in tenth-decile ones. In top zip codes, 7 percent of adults lacked a high school diploma or equivalent in 2000; in bottom-decile ones, the figure was over one-third. And just over half of the country’s net increase in advanced degree holders from 2000 to 2015 clustered in the top two deciles of well-being, further bolstering the human capital advantage that these communities already enjoyed at the turn of the century.

Key differences in industry structure were also stark and predictive. The relative size of some sectors is fairly constant across types of communities: healthcare or accommodation and food services, for example. Others vary significantly. In relative terms, prosperous communities had the largest construction sectors in 2000—an indication that these places were already growing faster than others. Today’s distressed communities, for their part, were relatively more exposed to manufacturing than others in 2000—and accordingly more exposed to the sector’s subsequent travails.

Some of the most significant structural differences lie in the services sector. Zip codes that are worse-off today generally had larger retail sectors in 2000, while those that are best-off had larger professional, scientific, and technical services sectors. The disparities still hold today. What is more, while the number of business establishments in the high-wage professional services sector increased by half in the top tier of communities and by nearly a quarter nationwide between 2000 and 2015, the bottom-tier of zip codes

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11. All figures pertain to establishments, not employment or output, due to data availability. The industry analysis excludes establishments in the NAICS 9X (public administration) sectors.
saw no increase in the presence of this industry at all—entirely bypassed by the economy’s most important growth sector. The evolution was similarly dramatic and uneven in other white-collar industries such as information, finance, and management.

Incomes have grown twice as quickly in top-decile communities as they have in bottom-decile ones since the turn of the century.

Trends in median household income over the period demonstrate the cumulative impact of these differences. Top-decile communities in 2015 already had the highest average incomes in 2000. Yet they proceeded to post the highest growth rates over the years following as well. Thus far in the 21st century, incomes have grown twice as quickly in top-decile communities as they have in bottom-decile ones. By 2015, the median household in the average top-decile zip code earned $90,200 annually, compared to $76,900 in the second-highest decile and $31,100 in a bottom-decile zip code.

The gap between elite communities and the rest of the country has widened every year since 2000.

In absolute terms, the top decile of zip codes added well over twice as many jobs between 2000 and 2015 as even the second highest decile (4.5 million to 2.0 million) and greater than 150,000 more new business establishments. In every year, these top zip codes added more jobs and business establishments (or lost fewer in times of recession) than
any other tier of community. Yet they widened their lead by posting higher growth rates than their peers, as well. In 13 out of 15 years, job growth was fastest in the top decile, and in every year those zip codes topped establishment growth rates. Such consistent performance clearly contributed to these zip codes’ ascent into the top tier of overall economic well-being by 2015.

Just as the recovery from the Great Recession added fuel to the expansion of top-decile zip codes, it further sapped distressed ones of economic activity. After an incipient recovery in 2011 failed to take hold, the bottom 10 percent of communities fell back into decline for the remainder of the period. In the end, the most struggling 10 percent of communities shed 1.5 million jobs and 59,000 places of business between 2000 and 2015, spending the first 15 years of the new century in a near continuous state of decline.

Elite zip codes are far more geographically distributed than popularly assumed.

Prosperous zip codes are not simply confined to the coasts, as popular commentary might lead one to expect. California, Texas, New York, and Massachusetts lead with the largest number, but Minnesota, Pennsylvania, and Wisconsin each contain over 100 of these elite zip codes, followed by Ohio with 89 of them. They can be found in every state and every region of the country. Clusters do of course exist around the coastal metropoles of the Bay Area, Boston, Los Angeles, New York, and Washington, but together these regions contain only 17 percent of residents in the category. Austin, Boulder, Indianapolis,
Madison, and Minneapolis also have high concentrations. Only 15 percent of top-decile zip codes are urban, while 41 percent are suburban. The remaining 44 percent are rural. More than half of the communities that combine rurality with prosperity are located in the Great Lakes, Plains, and Mountain regions—areas where most metrics of social capital run high as well.12

The bottom 10 percent of zip codes, by contrast, are more concentrated in Appalachia, the Southeast, and sparsely populated parts of the Southwest. Fully 72 percent of them are rural, 16 percent urban, and 12 percent suburban. Two-thirds of highly distressed urban zip codes are located in Rust Belt cities in the Northeast and Midwest. Minorities are disproportionately concentrated in the country’s most distressed communities: 42 percent of zip codes at the bottom tenth of the distribution are majority-minority compared to only 5 percent in the top decile, with Black and Native American populations most affected.

Sometimes, these two tails of American communities lie side by side: Compare Colorado’s Front Range to its struggling Southeast, or the major metro areas of the Texas Triangle to the rural regions in between. In the Southeast, the nation-leading prosperity of metropolitan Atlanta or Nashville fades quickly into deeply distressed hinterlands of smaller cities and rural towns. In the Midwest, scales can be even more compressed, with mere miles separating large clusters of struggling urban zip codes from burgeoning suburban ones. In metropolitan Milwaukee, for example, 460,000 residents of top-decile communities live just a few highway exits away from 200,000 residents of bottom-decile communities.

12. See “The Geography of Social Capital in America” by the Joint Economic Committee’s Social Capital Project.
15. The Top Performing 10 Percent of Zip Codes on the DCI

16. The Bottom Performing 10 Percent of Zip Codes on the DCI
V. A nationwide phenomenon:
The economy’s new divides transcend state and regional boundaries

Key Findings

- These broad national patterns are remarkably consistent across states: the top decile of zip codes in every state added jobs between 2000 and 2015.

- Texas exemplifies a group of booming mostly western states combining extraordinary growth in the top decile of zip codes with relatively muted losses in less well-off communities.

- North Carolina presents a dramatic example of just how much community fates can diverge within the same state. Employment in its top decile of zip codes increased by 85 percent from 2000 to 2015 while the bottom decile shed more than a quarter of its jobs.

- There is great variation underneath the prevailing Rust Belt narrative, with prosperous zip codes growing rapidly in otherwise-struggling states like Ohio, and Michigan emerging as one of the few states where trend lines for all tiers of communities moved mostly in tandem.

These broad national patterns are remarkably consistent across states.

These national trends carry down to the state level with remarkable consistency. Every state has zip codes in the top decile nationally, and those zip codes universally added jobs between 2000 and 2015. In the reverse, zip codes in the bottom decile shed jobs in 42 and business establishments in 47 of the 49 states that contained them.

Yet underneath that general pattern of consistency, a few telling archetypes emerge.

For example, Texas’ recent growth “miracle” is really a two-part story of a small number of extremely fast-growing, prosperous zip codes on the one hand, and relatively muted losses among its most distressed zip codes on the other. Texas’ elite zip codes—those that fall into the top 10 percent nationally on the DCI and nine out of 10 of which were located in one of the state’s four largest metro areas—added 895,000 jobs from 2000 to 2015, out of a total net increase of 1.9 million in the state. Their meteoric
Texas’ recent growth “miracle” is a two-part story of a small number of extremely fast-growing, prosperous zip codes, and relatively muted losses among its most distressed zip codes.

Consistently nearly every year and distressed zip codes losing them in an almost mirror-image magnitude. Employment in North Carolina’s elite (top decile) zip codes, clustered around Charlotte and Raleigh, increased by 85 percent (approximately 156,000 jobs) over the period, nearly as fast as in Texas. At the same time, the state’s severely distressed zip codes (bottom decile) shed over a quarter of the jobs they had in 2000 (132,000 positions). This complete divergence in fates reflects the rise of the knowledge-intensive and business services sectors in the state’s largest and most prosperous metro areas on the one hand, and the travails of rural, Appalachian, farming,
and manufacturing communities that specialized in industries vulnerable to international competition or automation such as furniture or textiles on the other. While other states in the Southeast registered similarly dramatic and sustained losses in their distressed communities, few states either inside or outside the region combined the dual experiences of prosperity and distress so starkly.

Ohio and Michigan, for their parts, show just how much variation lies beneath the prevailing “Rust Belt” narrative.

All communities in Ohio apart from the most prosperous have either flirted with or experienced stagnation and decline for much of the past 15 years. By 2015, only Ohio zip codes in the top two deciles contained more jobs than they did in 2000. Most of the rest were lucky to report even tepid recoveries from the Great Recession.

Connecticut and Illinois were among the states to register similar patterns.

Michigan, by contrast, is one of the few states in which the prospects of prosperous, distressed, and in-between communities appear to be closely tied. The state’s elite zip codes enjoyed growth in the 2000s while all other tiers suffered job losses. Since then, however, the employment trend lines for all tiers of communities have moved in tandem: falling together in the late 2000s and then rising together in the 2010s. Nine out of 10 tiers of communities still host fewer jobs than they did at the turn of the century, but the rebound from the Great Recession did meaningfully begin to lift even the most distressed communities in this state—making Michigan the only state apart from, on smaller scales, Nevada and Rhode Island, to accomplish this feat.
19. Cumulative Change in Employment for Ohio Zip Codes by Decile

20. Cumulative Change in Employment for Michigan Zip Codes by Decile
VI. Conclusion

The clustering of high-performing individuals, companies, and institutions is the most powerful known recipe for prosperity. The exceptionally high levels of well-being in elite communities documented here attest to what is possible when the recipe is perfected. The U.S. economy, at its best, is rightly the envy of the world.

The problem highlighted in this report is not the mere fact of unevenly distributed prosperity. Indeed, no one should expect uniformity across people or places in a market economy as vast as the United States. Some degree of inequality is both intrinsic to the system and necessary to its basic functioning.

However, elite communities are performing so well as to obscure a deeply troubling picture beneath the aggregate statistics, allowing us to avoid truly reckoning with the hollowing out of the bottom tier. The extent to which the direct benefits of national growth are concentrating while broad swaths of the country wrestle with persistent decline poses serious social, economic, and political challenges for the country.

The social ramifications are profound. Growing up in areas of concentrated distress often has long-lasting negative effects on an all aspects of residents’ lives, from physical and mental health to earnings to family and financial stability. Even setting the moral implications aside, the financial costs of having the economy fail thousands of communities and tens of millions of people falls on everyone in the forms of lower growth and increased social outlays.

Elite communities are performing so well as to obscure a deeply troubling picture beneath the aggregate statistics, allowing us to avoid truly reckoning with the hollowing out of the bottom tier.

Economically, too many places are performing below their potential, making the nation as a whole less productive, innovative, and resilient. As the United States increasingly depends on a relatively small number of regional pistons to power its economy forward,
individuals and communities that could be contributing productively instead linger underutilized on the sidelines.

Politically, the diverging fates of communities risks fraying our civic fabric. Trendlines like the ones presented here make it harder to convince people that we are all in this together, and that our economic and political systems give everyone a fair shot at the American Dream.

The findings presented here underscore the need for a new embrace of localism and a place-based lens for our national policymaking. These trends and challenges show little sign of reversing on their own. To meet them head-on will require a radical connectivity agenda that forges stronger linkages between thriving places and lagging ones—be it improved housing and transit access within metropolitan areas or new broadband investments in rural ones. We must reinvest in our citizens and in the productive capacity of our communities, equipping them to better engage in the modern economy instead of leaving them to manage local decline. And we must be more aggressive in removing barriers to mobility and entrepreneurship—both intentional and inadvertent—that are too often found at every level of policymaking.

Each region and every community is a node in the vast neural network that is the U.S. economy. The healthier that network and the more robust the connections among its nodes, the stronger the foundations of American prosperity. Our task now is to harness the immense power and energy of our strongest communities to help revitalize the network as a whole.
Explore the online interactive tools at EIG.org/DCI/Escape-Velocity
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