How place-based policies can help American workers thrive

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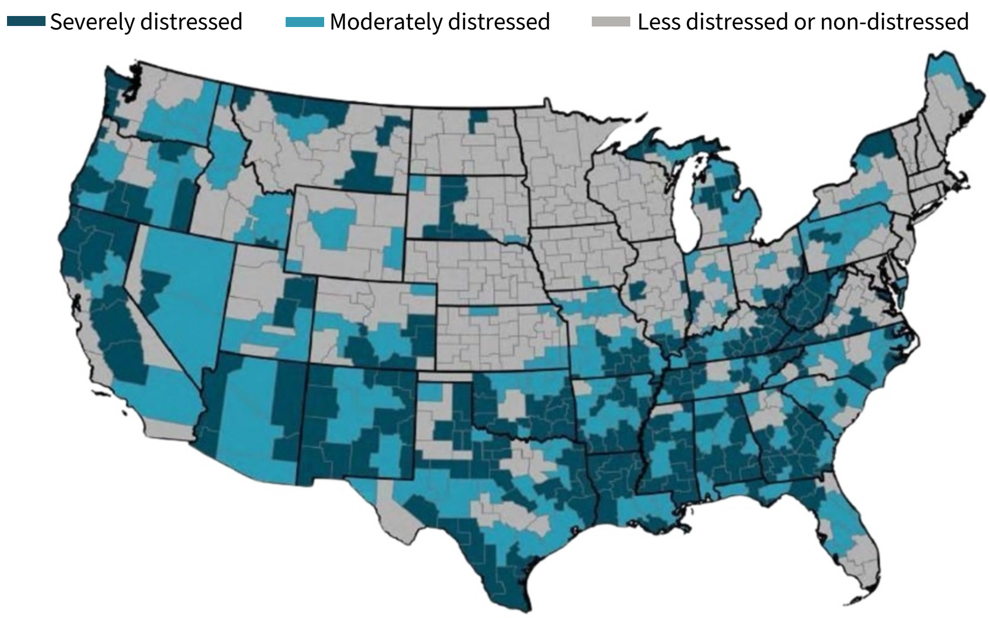
The typical American worker has enjoyed substantial increases in earnings over the past several decades. But this national success story misses widespread local variation, the deep and persistent disparities by place.

If we look at the below map of local labor market performance, employment distress is geographically widespread, including much of the rural South and Southwest and Appalachia, as well as urban areas such as Flint and Detroit in the Midwest, upstate New York, and much of the West Coast outside the booming coastal cities.

Map 1: Distressed local labor markets



Source: [Bartik (2022)](). Public access to this data is at [Economic Distress Database](). Local labor markets here are defined as commuting zones broken at state borders. "Severely distressed" and "moderately distressed" local labor markets are defined as those in the bottom 10 percent and bottom 40 percent of local labor markets in prime-age employment rates (employment to population ratio for persons ages 25–54). As discussed below, these are local areas that benefit significantly from boosting job growth.

People don't find work in a single national labor market. They find it in their local one—and the health of these labor markets differs dramatically.

Even within a single state or county, employment distress varies widely. Consider two different counties within California. In Fresno County, 71 percent of prime-age workers (ages 25–54) have jobs, while in San Francisco County the share is 85 percent.

To zoom in even closer, the prime-age employment rate in my home county of Kalamazoo, Michigan, is 82 percent. But there's a Census tract within the county, just north of downtown Kalamazoo, that has a prime-age employment rate of just 52 percent.[1]

As I will argue in this essay, these disparities are best dealt with by a policy mix that includes place-based policies—specifically policies that help residents of distressed places to get more and better jobs. Place-based policies are a key plank in a pro-worker American policy agenda.

Why American workers need place-based policies

Most policies to help American workers target individual workers or individual firms without regard to place. Job training goes to any individual in need, wherever they live. Business incentives typically assist the firm at whatever location it chooses.

Why should "place-based policies"—policies that target particular places—also be used to help people?

The answer: Place-based policies, if well designed, can deliver a bigger return on investment. The social benefits of job creation are higher in distressed, low-employment places than in places where jobs are plentiful. Place-based policies also result in large and persistent spillover benefits.

As a result, the best way to help many people on the periphery of the labor market is often to target the economically distressed places where they reside. As not all distressed places are alike, the most effective policies are also tailored to local needs.

The social costs of geographic disparities

Place disparities have large and persistent spillover costs. Low employment rates are not only bad for the individuals who lack jobs, but also for other residents. Lower employment tends to reduce local real wages (that is, wages adjusted for the local cost of living). Substance abuse, crime, and family problems increase—all of which make it harder still for residents to earn a decent income, resulting in a horrific spiral.

The resulting stresses such as family breakups and lower family income also have long-run costs for children. And because lower incomes mean less tax revenues for local governments to collect, the fiscal capacity to deal with these problems shrinks. Finally, the resulting fiscal problems facing local government will worsen local public services and infrastructure, harming a place's long-run competitiveness.

It is therefore not hard to understand why these social costs persist in the long term, helping to explain why place disparities themselves also persist. At the neighborhood level, many distressed neighborhoods deteriorate further. Without outside investment, distressed places can become trapped in a cycle of stagnation.

Why not just encourage people to move out of distressed places?

Improving distressed places is challenging, it is therefore tempting to propose an alternative strategy of subsidizing migration out of troubled areas. But there are two problems with this idea. The first is that it is simply hard to do on a big enough scale, and the second is that it does nothing to help those left behind.

Most people have strong local ties. The average person would have to be offered more than a year's income to move to a different city. Subsidizing large-scale out-migration from distressed labor markets would therefore be prohibitively expensive.

Perhaps even more important, out-migration does not help those left behind. The people who are most likely to move are younger, more educated, and have better earnings prospects. The outflow of such residents hurts neighborhood businesses, lowers the number of local adults who might provide role models for the neighborhood's youth, and results in abandoned houses.

For a distressed local labor market, the population loss from out-migration leads to local job loss of about the same percentage. (If five percent of the population leaves, five percent of existing jobs will be lost.) Population decline reduces demand for retail jobs and construction jobs. Local housing wealth declines. With the loss of younger and more educated workers, the place becomes less competitive for new jobs. Fiscal problems for local government may lead to deteriorating public services and infrastructure, perhaps further reducing job growth.

The bottom-line: Encouraging out-migration from distressed places may help a few individuals, but it does not reduce the social costs of distressed places.

Why targeting places helps people

A key argument for targeting distressed places is that this can be a more effective way of helping people. The benefits of new job opportunities are greater in distressed places because that's where their marginal value is higher.

Research suggests that improvements in job opportunities in the most distressed 25 percent of American neighborhoods have large impacts on the future earnings prospects of the neighborhood's children.

In another recent study, job creation in the most distressed 40 percent of all local labor markets led to a rise in employment rates that increased the present value of earnings by more than $250,000 per job created. In contrast, in the top 60 percent of local labor markets, local job creation didn't increase local employment rates at all; it just led more new people to move into the area. Local inflation went up, but workers were not helped.

In other words, even when the overall U.S. economy is supposedly at full employment, the bottom 40 percent of all U.S. labor markets are short of jobs. Using budget deficits or lower interest rates to increase jobs everywhere would fuel national inflation. Targeting distressed places is a better strategy to help American workers.

Distressed places are diverse and need diverse strategies

Policies that work to boost employment rates vary across distressed places.

For starters, the size of the area that is targeted for new jobs growth matters. Workers in distressed local labor markets (places the size of metro areas) can be helped when new jobs are added throughout that labor market. By contrast, narrowly plopping jobs down in a particular neighborhood is often ineffective in helping its residents, because many of those new jobs will go to workers outside the neighborhood.

What residents of distressed neighborhoods need is better *access* to jobs located throughout the wider, local labor market. Access should be broadly defined to include not only better transit or reliable used cars, but also greater availability of affordable childcare, well-designed training programs, and job coaches to help neighborhood residents retain jobs.

Strategies to boost local workers' employment prospects should also vary in different local labor markets and different neighborhoods.

Places that retain many manufacturers, such as Grand Rapids, Michigan, may be able to benefit from strategies that help local manufacturers find trained workers and sell to new markets. But other former manufacturing centers no longer have sufficient manufacturing for this to be a viable strategy.

A rural community such as Crosby-Ironton in Minnesota, with attractive local lakes and hills, may be able to benefit from putting in mountain biking trails and thus attracting tourists and remote workers. Other distressed rural areas lack sufficient amenities for a tourism and remote worker strategy to make sense.

Some distressed neighborhoods in Washington, D.C. may have good public transit access. In other distressed neighborhoods, helping residents get their cars quickly repaired may greatly aid job retention.

Boosting the benefit-cost ratio of place-based policies

Place-based policies can be expensive per job created, but targeting distressed places has significant social benefits. If the costs can be kept low enough, the benefit-cost ratio can be large.

The most widely used state and local job creation policies are business tax incentives. These incentives mostly do not target distressed places, although they are place-based in nature, attached to a specific location. These business tax incentives also typically have a high cost per job actually induced—that is, a job that would not have been created locally "but for" the incentive—of around $200,000.

Such incentives are unlikely to have net benefits in booming places, but in a distressed local economy the costs might be exceeded by the benefits per job. Still, they are expensive, and divert resources from other place-based policies that could be more cost-effective.

Providing infrastructure and services in a place-based manner offers a lower-cost way to create new jobs. These services can have a cost per local job created in the range of $30,000 to $100,000—less than half the cost of business tax incentives.

Furthermore, some place-based services, such as customized job training, can help make new jobs more accessible to local residents.

As an example of the potential of large-scale investment in infrastructure and services, there is good evidence that regional policies such as the Tennessee Valley Authority (TVA) have had large benefits. TVA's investments in electrification and human services are estimated to have created 250,000 manufacturing jobs. When we include multiplier effects (additional jobs in local suppliers and retailers), the costs per job are less than $100,000.

Another example is the Appalachian Regional Commission (ARC). When ARC built highways in remote counties, such counties experienced a growth in jobs of 5 percent and a growth of per capita incomes of 1 percent. The resulting income boosts were many times greater than the highway costs.

Rigorous evidence that neighborhood programs can boost employment prospects is sparser, but it is there. The Clinton-era program of Empowerment Zones combined tax subsidies for hiring neighborhood residents with a $100 million block grant per zone to provide better zone services, such as job training and small business assistance. This program boosted employment rates enough to have a cost of about $70,000 per extra job opportunity. Because it produced long-lasting earnings increases, this was an investment that paid off.

Building political will to target distressed places

Investing in distressed places requires political will. The federal government has some programs that target distressed places, but Congress finds it easier to fund programs with a broader constituency. The CHIPS Act provided far greater funding for incentives for semiconductor firms, regardless of location, than for programs that target distressed places, which were funded at pilot levels.

Targeting is also uncommon for state governments. Less than 15 percent of state economic development resources have any distressed place targeting.

Effective help for distressed places requires a willingness to fund a comprehensive strategy. Most federal and state government grants to local communities focus on narrower categories such as a job training program, an affordable housing project, or a business park in isolation. Comprehensive strategies are better because distressed places have many needs, which must all be addressed. Job creation is not enough. Residents of distressed local labor markets also benefit from training programs, transportation, and childcare that help them get and keep the new jobs.

All these needs must be addressed at more or less the same time. On the one hand, if local improvements in infrastructure, lower crime, and better schools do not go hand in hand with helping residents get the skills and support they need to improve their earnings, the resulting neighborhood improvements may lead to gentrification rather than helping the original residents. On the other hand, helping some residents into better jobs may just lead them to move to other neighborhoods unless policymakers simultaneously improve neighborhood amenities.

Finally, we should recognize that significant progress on helping distressed places is affordable even if it is not cheap. My estimates suggest that if the federal government invested between $19 billion to $30 billion per year for at least 10 years, we would significantly improve employment opportunities for people who live in distressed places.

The exact cost depends in part on how ambitious the program goals are. If we want to create 2 million added job opportunities in distressed places at a cost of $100,000 per extra job opportunity, the total cost is $200 billion. Over 10 years—which is a realistic timetable for implementing a complex strategy—the annual cost is $20 billion. While not cheap, $20 billion is only 0.4 percent of federal tax revenue and 1.6 percent of state government tax revenue.

The prospects of millions of American workers are intricately wound up in the health of their local labor markets. Targeting comprehensive solutions to help American workers in distressed places can be done, with the right political will. We need to recognize that spreading employment opportunities to more workers throughout the United States will boost our country's overall earnings.

Broadening economic opportunities will not overcome all our American divisions, but it might help. Both our overall economy and our society can benefit from place-based strategies to help the millions of American workers—active and potential—who reside in distressed places.

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Explore the Economic Innovation Group's American Worker Project here.

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[1] These statistics use pooled 2015–2019 data, which is available at all geographic levels and avoids complications due to the pandemic. The data are in the "Economic Distress Database" of the Upjohn Institute's Policies for Place initiative.