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W.E. UPJOHN INSTITUTE
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ABSTRACT

Many places in the United States are distressed in that they have low "employment rates" (employment to population ratios). In my recent report for the Brookings Metro Policy program (Bartik 2020b), I proposed helping the most distressed local labor markets, comprising 15 percent of the U.S. population, by a federal block grant of $11 billion annually to provide public services to create local jobs. The present policy paper outlines how this block grant can be broadened, while remaining targeted. The block grant is broadened by adding $3 billion for more moderately distressed local labor markets, comprising an additional 15 percent of the U.S. population. In addition, the block grant is broadened by adding $4.8 billion for distressed neighborhoods, with about 10 percent of the U.S. population, to better link neighborhood residents with jobs.

JEL Classification Codes: R23, H77

Key Words: Local labor markets; neighborhoods; unemployment; job creation; federal block grants

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In a recent report for the Brookings Metropolitan Policy Program (Bartik 2020b), I proposed to aid distressed places with a new federal block grant that would target distressed local labor markets (groups of counties linked by commuting). With funding from the block grant, these distressed areas could create jobs through more funding for improving infrastructure and business services (e.g., small business development centers); in addition, funds could be used to help workers get better access to jobs (e.g., job training services).

Areas eligible to receive the block grant, which would initially have an annual federal cost of $11 billion, include local labor markets with the lowest employment rates, encompassing about 15 percent of the U.S. population.[1] Based on empirical research, after 10 years the block grant could significantly narrow the employment rate gap between distressed areas and the U.S. average, cutting the gap by about half (Bartik 2020b).

My conversations with the policy community have raised concerns that the block grant program does not help a sufficiently broad range of distressed places. In addition to the most distressed local labor markets targeted in my Brookings proposal, many other local labor markets have employment rates below the U.S. average and need jobs. In addition, in a wide variety of local labor markets, including booming local labor markets, certain neighborhoods may have very low employment rates, well below the market average. These neighborhoods' residents need to be provided better job access.

Another concern is political feasibility. Given gridlock in the federal government, does a program allocating significant aid to distressed places have any chance?

[1] The Brookings proposal also has a second round of assistance for areas made newly distressed because of the pandemic. For the sake of simplicity, I leave this second round out of this current policy paper. This second round of assistance lowers the net cost increase of the proposal, as some of these areas added in the second round are in the moderately distressed portion of the proposal described here and thus would immediately receive funds under this revised proposal.

This policy paper argues that it is economically feasible to broaden aid to distressed places to include additional local labor markets and neighborhoods. This broadening can be accomplished with additional annual funding of $7.8 billion and would be sufficient to include over 30 percent of the U.S. population. Funding formulas would direct higher per capita funding at the most distressed local labor markets and neighborhoods. At an affordable cost, the block grant would significantly help the residents of many distressed places by increasing job availability.

Such an aid program might be politically feasible. At the federal level, the program provides significant aid to red as well as blue states, to rural America as well as distressed cities such as Flint, Michigan. If federal action does not occur, state governments could undertake similar efforts at a manageable cost of less than 3 percent of state tax revenue. Greater equity for residents of diverse places is within our grasp, if we have the political will.

THE ORIGINAL BROOKINGS PROPOSAL

In my Brookings report (Bartik 2020b), I consider local labor markets as distressed if their prime-age employment rate (the share of the population aged 25 to 54 with a job) during the 2014–2018 time period is at least five percentage points below the national average. As mentioned above, these distressed places account for 15 percent of the U.S. population.

Local distress has both individual and social costs. Joblessness leads to earnings losses both immediately and, by eroding job skills, in the future. For society, low employment rates increase problems with substance abuse and family breakdowns. Low employment rates also reduce local tax revenues and hence public services. Because of the persistence of these

problems, local places that were distressed in 2000 were mostly still distressed during 2014–2018.

Moving people out of distressed places is not a solution. Not only is it hard to get people to move out, but also out-migration does not help those left behind. Out-migration lowers population and employment by the same proportion, because out-migration reduces demand for local goods and services; consequently, out-migration leaves the place's employment rate unchanged (Bartik 2020c).

In contrast, moving jobs to distressed places can increase employment rates. Residents will get jobs in the short run, which provides long-term benefits—for example, by improving workers' skills and earnings.

But do the benefits of bringing jobs to distressed places outweigh the costs? This depends upon whether policies have sufficiently high benefits per job created, and/or sufficiently low costs. Benefits per job are higher for distressed places. In an average local labor market, for every 10 jobs created, the local nonemployed get 2, whereas in a distressed area, 3 out of 10 jobs go to the local nonemployed (Bartik 2020c). The other jobs created go to in-migrants. Benefits to creating jobs in distressed places can be increased if we target jobs to the local nonemployed through job training or placement programs.

Costs per job are lower if we rely less on business tax incentives and more on public services to business. Incentives often don't affect business location decisions, and their cost per job created is around $200,000. Job creation costs are lower, about $50,000, when providing businesses with services: infrastructure, business advice such as manufacturing extension programs, customized job training, and land development such as brownfield cleanup (Bartik 2020b).

With my original proposed federal block grant, distressed places could provide services to business to create jobs. Over 10 years, the grant formula would be sufficient, at a cost per job of $50,000, to close half the gap between an area's employment rate and the national average.[2] Block grants could also be used for training programs to better link local residents with jobs. The federal government would pay two-thirds of the needed funds, with one-third coming from local cost sharing. The federal cost would amount to $11.0 billion annually, and after 10 years, I estimate 3.3 million jobs would be created in these distressed places.

THE NARROWNESS CRITIQUE

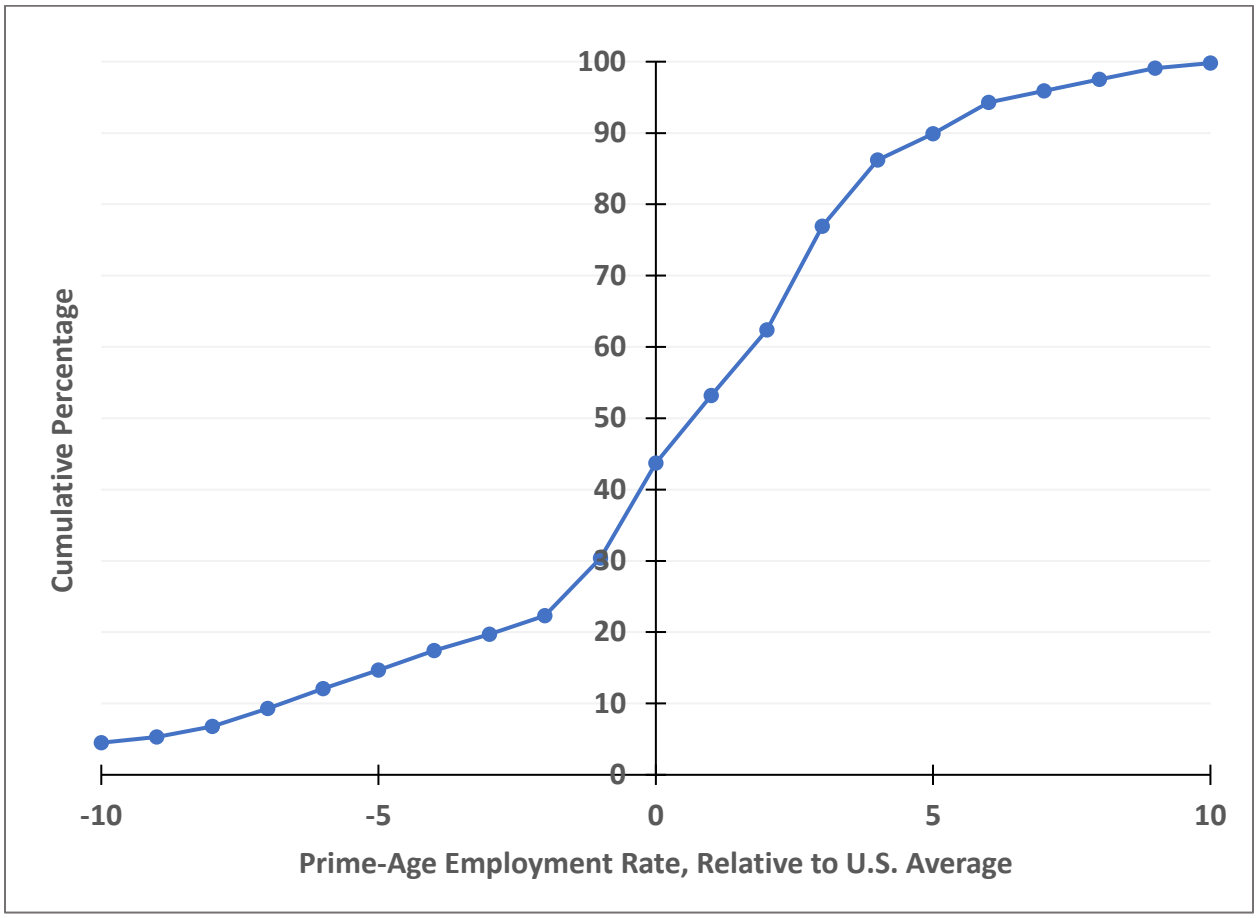
However**,** this federal block grant may be too narrow: the grant fails to aid places that need help in raising their employment rate and that could see a large benefit/cost ratio from programs to increase their employment rate. Two types of places are left out of my Brookings proposal: 1) local labor markets that are not as severely distressed but still need jobs, and 2) neighborhoods with low employment rates that are located in local labor markets with a wide variety of labor market conditions, including labor markets that are booming overall.

Many local labor markets that are not severely distressed could still achieve higher employment rates. Using the same data as the Brookings report, Figure 1 looks at the distribution of prime-age employment rates across local labor markets during 2014–2018. Each dot represents the cumulative share of the population that live in a local labor market; the employment rate, relative to the U.S average, is indicated by the horizontal axis. The distribution of prime-age employment rates is wide. Nearly one-tenth of the population live in an area where

[2] See the Brookings report for more details on the calculations. These calculations also assume that in distressed local labor markets, by creating programs to link jobs to nonemployment, the proportion of created jobs going to the local nonemployed will be 0.4.

the employment rate is 7 or more percentage points below the national average. Only at about 4 percentage points *above* the national average employment rate (which is 78 percent) does the curve begin to flatten, suggesting an "upper limit" to feasible prime-age employment rates of perhaps 82 percent.[3]

Figure 1 Cumulative Percentage of U.S. Population in Local Labor Markets, by Prime-Age Employment Rate Relative to U.S. Average



SOURCE: Author's calculations using data from the American Community Survey.

[3]In the U.S. Census Bureau's American Community Survey data, the average prime-age employment rate for the 2014–2018 period is 77.7 percent. For the same time period, the Bureau of Labor Statistics reports 78.0 percent. The BLS estimates are probably more accurate, because BLS asks more questions than the census to probe employment status.

Even in less distressed local labor markets, job creation can have important effects in raising the employment rate. For example, in most local labor markets, at least 2 out of every 10 new jobs will go to the nonemployed (Bartik 2020c). If costs per job can be kept at a moderate level, then job-creation policies may pass a benefit-cost test in many local labor markets (Bartik 2019).

As do local labor markets, many neighborhoods also have low employment rates. For example, the recent Opportunity Zone program identified high-poverty and low-income census tracts for a federal capital gains tax break for new investment. These targeted census tracts have a prime-age employment rate that is 8.8 percentage points below the U.S. average (Economic Innovation Group 2020).

Increasing employment rates in such distressed neighborhoods may have substantial social benefits. For example, the Opportunity Insights project at Harvard has found that a child's future earnings are significantly associated with the employment rate in his or her childhood neighborhood (Chetty et al. 2020).

For neighborhoods, increasing employment rates is not best achieved by boosting jobs located in the neighborhood. Neighborhoods are not local labor markets; most Americans do not live and work in the same neighborhood. But a neighborhood's employment rates may be boosted if job training, job placement, transportation, or other programs help in better linking neighborhood residents to jobs, throughout the local labor market.

Broadening aid to additional local labor markets or neighborhoods also has political appeal. But this political argument is backed by a good policy argument: many places can benefit from higher employment rates.

ADDING MODERATELY DISTRESSED LOCAL LABOR MARKETS TO THE BARGAIN

To help other distressed local labor markets, my block grant proposal could be extended to local labor markets that are between 1 and 5 percentage points below the national average. This includes an additional 15 percent of the U.S. population, for a total of 30 percent.

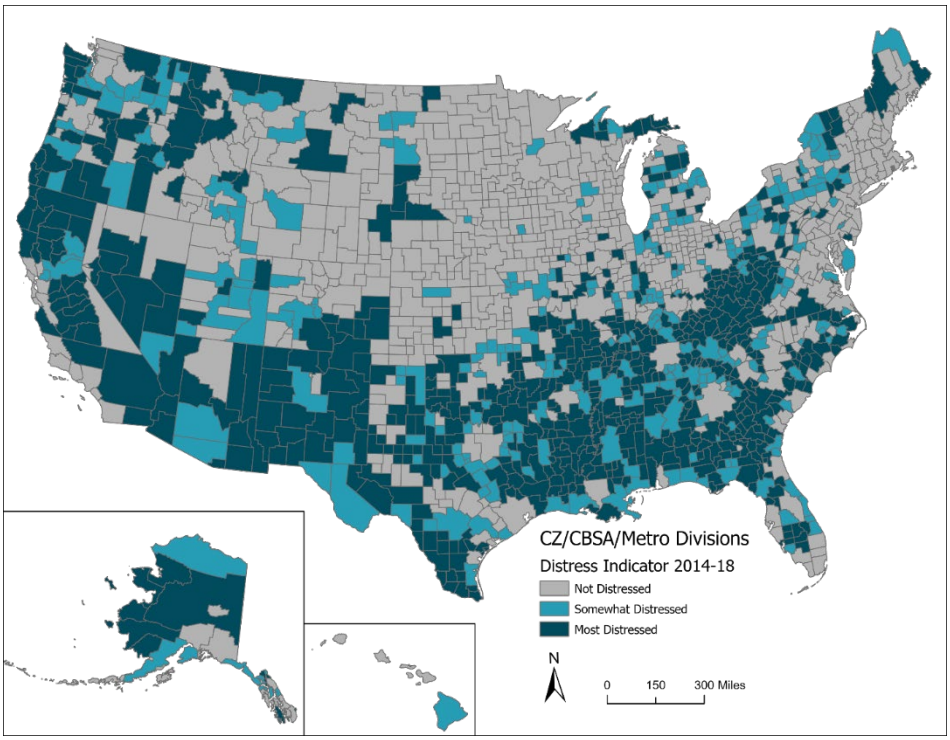
Why this cutoff? One reason for not making the cutoff higher is that this would imply helping most of the United States with local job-creation grants. Higher overall employment rates throughout the U.S. might be better achieved by macroeconomic policies promoting full employment rather than geographically targeted grants. In addition, the benefit-cost ratio will be higher for job creation in moderately distressed places than in average or above-average places.

The block grant would rely on the same formula for all distressed places: enough funds to create jobs that would cut the employment rate gap between the area and the nation in half after 10 years. This formula implies much higher per capita grants for the most distressed places. For example, among the Brookings-identified distressed local labor markets, the average annual block grant per capita would be $231; in the moderately distressed places added within this updated proposal, the average annual block grant per capita would be $60. The most distressed places receive a block grant similar in size to the most ambitious federal regional development program of all time, the Tennessee Valley Authority, which in the early 1950s distributed in annual grants about $310 per capita (in 2019 dollars). The newly added less-distressed places would receive a block grant similar in size to the second-most ambitious federal regional development program, the Appalachian Regional Commission, which in the early 1970s distributed in annual grants roughly $85 per capita. In sum, this modification to the program doubles the population assisted but is still highly targeted.

This expanded block grant program would cost an additional $3 billion per year, for a total of $14 billion per year, for a program that doubles the included population. The expansion would create an additional 900,000 jobs in the newly added areas, bringing total jobs created in distressed areas from 3.3 million to 4.2 million. (See the Excel data appendix for calculations for specific local labor markets.)

Figure 2 shows a map of the original set of most-distressed areas (darker blue) and the newly added areas (lighter blue). The additional areas include parts of upstate New York, Pennsylvania, Ohio, and Indiana; some representation in the Great Plains; and fills in more of the South and West. We are left with a map that includes much of the South and Appalachia outside of booming areas such as Nashville and Atlanta, much of the West Coast outside the booming coastal cities, many rural areas more generally, and many troubled urban areas in the Northeast and Midwest.

Figure 2 Distressed Local Labor Markets



SOURCE: Author's calculations; for more details, see Bartik (2020b).

To illustrate that the newly added areas are diverse, consider that these new areas include large and small communities in both the South and North, such as the following:

- New Orleans, Louisiana, with a population of 1.264 million people and a proposed annual block grant of $63.6 million
- Youngstown, Ohio, with a population of 0.545 million and a proposed annual block grant of $32.1 million
- Stillwater, Oklahoma, with a population of 0.082 million and an a proposed annual block grant of $7.8 million

ADDING DISTRESSED NEIGHBORHOODS

To address the needs of jobless residents in distressed neighborhoods, additional block grants would go to neighborhoods with low prime-age employment rates. As done with the Opportunity Zone program, states would be given an opportunity to choose some percentage (the Opportunity Zone program used 25 percent) of such low-employment-rate neighborhoods to receive grants.

Why not choose all low-employment-rate neighborhoods? Because state and local governments would have to judge it feasible to turn such neighborhoods' employment rates around, and they would have to have a plan to do so. Why not choose the same census tracts that were chosen for Opportunity Zones? Because Opportunity Zones were frequently chosen as sparsely populated areas with a potential for real estate development, and here we are trying to increase employment rates of neighborhood residents, not necessarily spur real estate development.

The Opportunity Zone program allowed state governments to use whatever procedure they wished to select participant zones. This process ended up being highly subjective. This means that the nonselected candidate zones are not a good comparison group for the selected

Opportunity Zones. Opportunity Zones may have been selected because they were already prime candidates for development, which would bias comparisons toward finding that the Opportunity Zone program "succeeded."

I recommend that the neighborhood block grant program require states to use a quantitative scoring system to select neighborhoods to be assisted. Part of the score would be the neighborhood's prime-age employment rate. But the score would also include a ranking by state government officials of each local government's plan for turning around the neighborhood's employment rate. Such a scoring system would permit rigorous evaluation of the program through comparisons of neighborhoods scoring just above or just below the cutoff for receiving assistance.

The local government (a city or county, for example) that encompassed a selected neighborhood would receive the federal grant, which could be used to enhance neighborhood employment rates through a variety of services, all designed to link neighborhood residents with job opportunities both inside and outside the neighborhood:

- Neighborhood-based job training and job placement services (such as Neighborhood Employment Hubs—see Bartik [2020d])
- Job retention services to help neighborhood residents retain jobs (such as success coaches who would provide casework services—see Bartik [2020d])
- Improved transportation links to jobs throughout the local labor market, not only through mass transit, but also through loans for buying used cars or for car repair
- Improved availability of neighborhood-based child-care services
- Entrepreneurial training programs to help residents start and expand their own businesses

In addition, the federal grant could be used to provide on-the-job training subsidies to encourage employers throughout the local labor market to hire and train nonemployed neighborhood residents. This wage subsidy option would be similar to the MEED program used by Minnesota during the 1980s (Bartik 2009). This wage subsidy would not be an entitlement

available to all employers, but rather would be awarded selectively by local job-training agencies to get harder-to-employ persons into promising job opportunities. The local job-training agencies would screen out employers that sometimes abuse wage subsidy programs, and they would screen job applicants to increase the odds that they would be a good match for the specific job.

Why do we think that such block grants to distressed neighborhoods would be effective? The best evidence is from the federal Empowerment Zone program, which began in the 1990s. A thorough evaluation found that the program increased jobs and job opportunities in distressed neighborhoods (Busso, Gregory, and Kline 2013).

The federal Empowerment Zone program's success stands in contrast to the lack of impact found for most state government–sponsored enterprise zone programs. Why the difference? Both the federal Empowerment Zone program and state enterprise zone programs provided various subsidies for activities in the zone—in the federal program's case, tax subsidies for creating jobs in the zone for zone residents. But the federal Empowerment Zone program also provided a $100 million block grant for each zone, which could be used for a wide variety of services there, including job training and business development. It is plausible that these block grants, which addressed the economic and social problems of the zones, made the federal Empowerment Zone program more successful than the state programs, which relied heavily on tax subsidies.

In today's economy, what might such a neighborhood assistance program cost? Suppose the assisted neighborhoods ended up having a similar total population to the Opportunity Zone program, which includes census tracts with 31.5 million people. And suppose the selected neighborhoods were similar to Opportunity Zones in having a prime-age employment rate roughly 9 percentage points below the U.S. average. Suppose, furthermore, that the total funding

supporting these distressed neighborhoods was similar in size to that provided by the Empowerment Zone program, and that the federal share of this funding was two-thirds, with a one-third match by state and/or local governments. Then the program would have a federal cost of $154 per capita annually, for a total cost of $4.8 billion per year. If the program could create job opportunities with similar effectiveness to the Empowerment Zone program, then over a decade or so it would close the employment-rate gap between these neighborhoods and the national average by about three-fifths.[4]

CONCLUSION

Would this expanded program work politically? The expanded program would have an annual cost of $18.8 billion ($11.0 billion for the most distressed local labor markets, $3.0 billion for moderately distressed local labor markets, and $4.8 billion for distressed neighborhoods). As a comparison, such a federal cost would be about 80 percent of the cost of Pell grants, and less than one quarter of the cost of the Supplemental Nutrition Assistance Program (food stamps). The local labor market areas total 30 percent of the U.S. population, and the neighborhood program would include additional population. The areas assisted would include red states as well as blue states, and rural areas as well as cities.

If such a program is politically infeasible at the federal level, perhaps the program could be feasible for an individual state. Including state and local cost sharing, the total program cost is $28.2 billion (equaling $18.8 billion plus the state/local cost share of $9.4 billion). This total program cost of $28.2 billion is less than 3 percent of annual state government tax revenue. Therefore, state governments should find such a targeted program to be fiscally feasible. For

[4] An appendix gives more detail on some of these calculations.

example, state and local governments currently devote about $47 billion annually to tax incentives and other cash incentives for businesses, of which almost three-quarters comes from state governments (Bartik 2020c). A significant program of aid to promote higher employment rates in distressed areas could be financed by state and local governments by cutting back on incentives, which have a high cost per job and are often untargeted. State governments, if they so choose, can significantly improve employment rates in their distressed places.

APPENDIX ON EMPOWERMENT ZONE/NEIGHBORHOOD ASSISTANCE CALCULATIONS

The initial Empowerment Zone program allocated $500 million to five zones with a total population of 682,000. If we adjust from 1997 (assumed average year in which Empowerment Zone block grant spending occurred) to 2019 using the CPI research series, and if we assume these funds were mostly spent over five years, we get annual per capita spending of $230.49.

If we then multiply $230.49 by an assumed 31.5 million population in the assisted areas under this new neighborhood assistance proposal, and we assume a two-thirds federal share, we get an annual federal cost of $4.8 billion.

What impact might this new program have? I assume an impact on the *log percentage change* in the local employment rate similar to the Empowerment Zone estimated effects of Busso, Gregory, and Kline (2013). Their propensity-weighted estimate for the effect on ln(jobs) of residents living and working in the zone was 0.176. The effect on ln(jobs) of residents working outside the zone was 0.123. The baseline quantities for zone residents working in the zone versus outside it were 38,331 and 140,708. Hence the overall estimate of effects on jobs of zone residents was a log percentage increase of 0.135. The estimated effect on ln(zone population) was 0.060, which implies an increase in the ln(employment rate) of 0.075.

Based on data from the Economic Innovation Group (2020), the baseline prime-age employment rate of Opportunity Zones in the 2014–2018 period was 68.9 percent. The national average from the American Community Survey (ACS) during that time period was 77.7 percent (Bartik 2020b). Applying the Empowerment Zone ln percentage shock gives an estimated effect of increasing the log employment rate to 74.2 percent, a 5.3 percentage point increase from 68.9. This 5.3 percentage point increase is 61 percent of the initial 8.8 percentage point gap.

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