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Job Creation Policies Can Raise Local Employment Rates, Especially for Distressed Communities

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POLICY BRIEF

Job Creation Policies Can Raise Local Employment Rates, Especially for Distressed Communities

Timothy J. Bartik

BRIEF HIGHLIGHTS

- *Local job creation has greater benefits when it increases local employment rates. Higher employment rates increase job skills, boost mental health, and reduce substance abuse.*
- *Local employment rates are affected more by overall job creation in the local labor market, typically a multicounty area, and not by which county or neighborhood gets the jobs.*
- *Local employment rates increase three times as much if jobs are targeted at local labor markets that were initially more distressed.*
- *Job creation anywhere in a local labor market produces the largest employment rate boosts in relatively distressed counties within that labor market.*

For additional details, see the two working papers at https://research.upjohn.org/up_workingpapers/335 and https://research.upjohn.org/up_workingpapers/339.

Many places in the United States lack enough jobs: the share of their working-age population with jobs—their employment rate—is low. These distressed areas are sometimes small neighborhoods, sometimes a county, and sometimes a multicounty area tied together by commuting that constitutes a local labor market.

Low employment rates impose costs not just for individuals who lack jobs but for all residents of these places. For jobless individuals, lack of employment can lead to loss of job skills, family stress, and substance abuse. These problems spill over to others in the community, for example by harming child development, depressing local tax bases, and increasing crime.

Communities with low employment rates would benefit from job creation policies. But what kinds of places should these policies target: neighborhoods or broader labor markets? And even if an area is selected for job creation assistance, what determines the extent to which this area's job creation translates into increased employment rates? Local job creation could increase the share of the population with jobs, but it could also increase the local population if new workers move in. The social benefits of job creation are much higher if job creation policies boost local employment rates more and in-migration less.

In two recent working papers, I argue that job creation policies should target multicounty areas that are local labor markets, encompassing most local commuting flows. Creating jobs in these local labor market areas can raise employment rates, but which specific neighborhood gets the jobs is less important. Furthermore, the local labor markets targeted for job creation should be distressed, with low preexisting employment rates. Effective job creation policies can raise employment rates three times as much in more-distressed labor markets as in less-distressed labor markets. This contrast occurs because, in more distressed areas, job creation benefits flow more to existing jobless residents than to workers migrating in.

For federal and state policymakers the lessons are twofold:

- 1) Job creation efforts, such as economic development incentives and services, should be targeted at the most distressed local labor market areas.
- 2) Although disadvantaged neighborhoods also deserve help, they are not best helped by creating jobs in these neighborhoods, as neighborhoods are not local labor markets. Rather, policymakers should explore how these neighborhoods' residents can be linked to jobs throughout the local labor market, for example via job information, job training, and transportation.

Job Creation Policies Can Raise Local Employment Rates, Especially for Distressed Communities

Jump-starting an area's employment rate in the short run boosts its employment rate in the long run.

Employment Rate Effects Key for Place-Based Policy

Many areas throughout the country suffer from low employment rates. Joblessness reduces earnings not only in the present but also in the future, because reduced work experience erodes skills. Low employment rates also lead to increased substance abuse, crime, and family dissolution, and they reduce tax revenues, diminishing the quality of local public services. These problems persist: low employment rates today lead to low employment rates a decade later.

Can local job creation policies overcome these problems and boost long-run employment rates? The theory is that by jump-starting employment rates in the short run, local job creation may increase skills and reduce social problems, leading to higher employment rates and lower social problems in the long run. But how large are such employment rate impacts? Are they the same everywhere, and do they last into the future?

Local Labor Markets Are Multicounty Areas, Not Neighborhoods

What is a local labor market? If we're targeting jobs at "places" where employment rates are low, do we need to target neighborhoods, counties, or larger multicounty areas such as metropolitan areas or rural "commuting zones"?

Much of the immediate effect of job creation is quite localized. If a job is created, about 50 percent of the effect on unemployment exits occurs within nine miles. A nine-mile radius encompasses an area less than half the geographic size of a median U.S. county. But local job creation has multiplier and job chain effects that are geographically broader. Newly created jobs, for example, can induce additional upstream and downstream jobs at local suppliers and retailers, who may be further away. Geographic spreading of effects also occurs due to job vacancy chains: If a new job is filled by an employed worker nine miles away, this leads to a job vacancy at the worker's old job, which may be filled by an individual who lives another nine miles further away, and so on. Are the overall impacts from job creation dominated by the more nearby immediate effects, or by the more geographically broad effects due to multipliers and job chains?

In these two papers, I show that local labor markets are best defined as multicounty areas, called commuting zones (or CZs), which are groups of counties that each encompass most commuting flows in an area. (CZs divide the 3,141 U.S. counties into 625 multicounty areas.) I consider how a county is affected by its own job creation relative to job creation in its parent CZ. Specifically, I estimate how employment rates in a county are affected by simulated job growth for the overall CZ relative to simulated job growth that redistributes jobs in the CZ toward the county.¹ These simulated job growth measures represent changes in the demand for a CZ's or county's labor based on how their specific industries of employment are growing nationally. Based on these estimates, I find that a percent shock to jobs at the CZ level is 3–5 times as important in affecting a county's employment rate as a percent shock to jobs at the county level. Consequently, the overall CZ benefits of local job creation result from CZ-level job growth, not growth that reallocates jobs within the CZ.

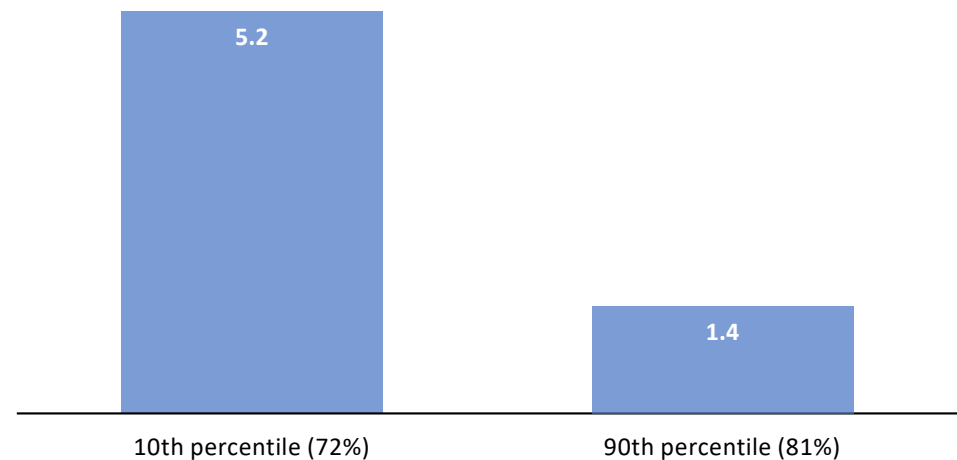
Job Creation Has Much Larger Benefits in More-Distressed Commuting Zones

I find that local job creation increases employment rates more over the long run in CZs that initially have lower employment rates. Figure 1 estimates the sizes of these

¹ Because of measurement problems with data for smaller counties or CZs, I focus on a sample of 609 counties that each have a population of at least 65,000 and are located in one of 205 CZs of population 200,000 or greater. These counties and CZs respectively cover 79 percent and 88 percent of the U.S. population. I calculate local employment rates using data from the 2000 census and several waves of the American Community Survey, covering years 2000–2018. I construct simulated job growth measures using industry employment data at the county level from the Upjohn Institute's WholeData, which is derived from the Census Bureau's County Business Patterns.

Job growth in a county's larger commuting zone increases employment rates more than does job growth in the county itself.

Figure 1 Predicted Job Growth Boosts Long-Term Employment Rates Substantially More in Commuting Zones (CZs) with Initially Low Employment Rates



NOTE: The figure plots the estimated increase in prime-age employment rates over an approximately 15-year period from a simulated “shock” of 10% higher job growth over the same time period, allowing for interactions between commuting zones (CZs) and their constituent counties as well as interactions with initial employment rates. The left bar shows the estimated employment rate increase for a CZ at the 10th percentile of initial prime-age employment rates (72%), while the right bar shows the estimated employment rate increase for a CZ at the 90th percentile of initial prime-age employment rates (81%).

employment rate increases for CZs that started out with different prime-age employment rates (the share of residents aged 25–54 with jobs). Increasing the number of jobs by 10 percent in a CZ at the 10th percentile of the initial employment rate distribution (a starting rate of 72 percent) will increase the long-run local employment rate by 5.2 percent. In contrast, for a more prosperous CZ at the 90th percentile, where an additional 9 percent of the prime-age population is already employed, a job boost of 10 percent increases the employment rate by only 1.4 percent. This greater-than-threefold differential far exceeds estimates from prior research, which finds differences of 30–70 percent. Other things equal, a job creation program in a CZ that is highly distressed will have a benefit-cost ratio more than three times as great as a similar policy in a booming CZ.²

Why does job creation have greater employment rate effects when the initial employment rate is lower? When jobs are created in a local labor market, the jobs are immediately filled by three sources: 1) residents who were already employed, 2) residents who were not employed, and 3) in-migrants. But when jobs are filled by already-employed residents, the resulting job vacancies are filled in the same three ways. These job vacancy chains are terminated only when the local jobs created are filled by residents who were not employed or by in-migrants. If more nonemployed residents are available, due to a low employment rate, then firms will tend to hire more of the local nonemployed.

Within Commuting Zones, Job Creation Has Larger Effects in More-Distressed Subareas

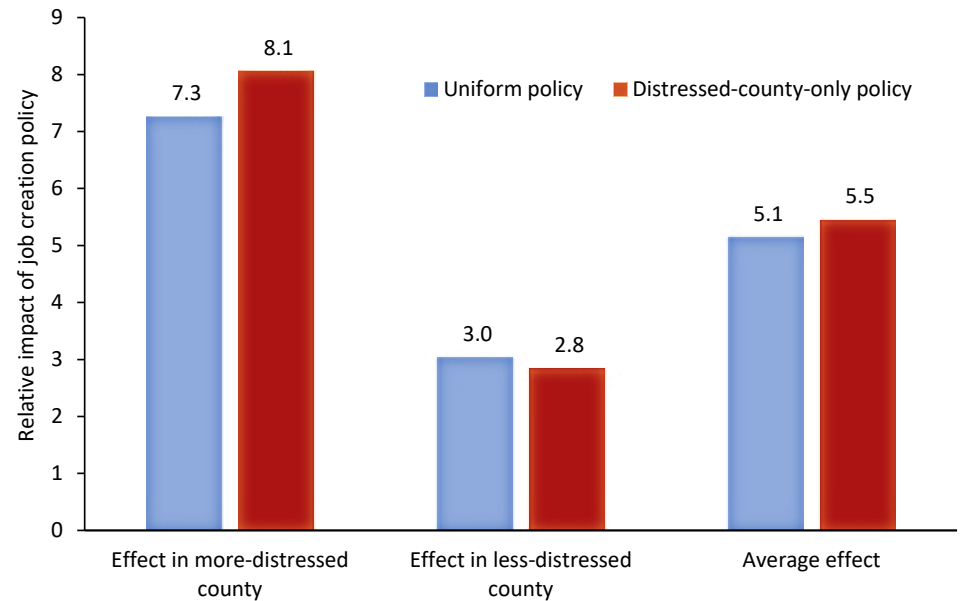
Imagine a distressed CZ that is equally divided between a highly distressed county and a less distressed county. (The distressed county has an initial employment rate several percentage points lower than the less distressed county.) Based on my estimates, a policy of uniform job creation in both counties would have over two-thirds of its employment rate benefits in the distressed county (Figure 2). With a 10 percent job increase in each of

² As shown in the two papers, it is the percentage effect of job shocks that will drive the benefit-cost ratio.

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A job creation program in a distressed commuting zone has three times the benefits of a similar policy in a booming commuting zone.

Figure 2 Job Creation Has Stronger Benefits in More-Distressed Counties within a Commuting Zone



NOTE: The figure plots estimated employment rate increases of a simulated 10% job creation policy in a commuting zone at the 10th percentile of the initial prime-age employment rate distribution. Impacts are allowed to vary by relative distress of counties within the CZ and are shown separately for a uniform job creation policy across all counties in the CZ (blue) as well as a job creation policy targeting only the more distressed county (orange). The more distressed county in this example has an employment rate 3.3 percentage points lower than the CZ average, which is the 10th percentile of county-CZ employment rate differentials in the data.

the two counties, for example, the employment rate would rise by 7.3 percent in the more distressed county and 3.0 percent in the less distressed county.

If the job creation policy wholly targets the more-distressed county (that is, 20 percent job growth in that county, and no job growth in the other county), employment rate benefits are slightly higher than before in the more distressed county (8.1 percent versus 7.3 percent) and slightly less in the less distressed county (2.8 percent versus 3.0 percent). This county-level targeting slightly increases average benefits over the entire CZ: the average employment rate in the CZ goes up by 5.5 percent rather than 5.1 percent. Thus, once job creation policies focus on distressed CZs, additional benefits of targeting areas within a CZ are modest.

Toward More-Effective Place-Based Jobs Policies

The attractiveness of local job creation policies depends on costs as well as benefits. As argued in Bartik (2020), policymakers should focus on local job creation policies that are more cost-effective. Business tax incentives tend to be more costly per job created, whereas services to improve inputs to business, such as manufacturing extension services, have lower costs per job created.

But as my research shows, better targeting of distressed areas matters a great deal. This targeting matters most at the local labor market, or commuting zone, level. Targeting the most distressed CZs can have over three times the employment rate benefits of trying to subsidize job creation everywhere. State economic development policies, or any federal interventions, should strongly encourage such job creation targeting.

Research should also consider how to better link the nonemployed, particularly those in distressed neighborhoods, with job creation throughout the local labor market. Job creation policies might boost employment rates even further if residents of distressed neighborhoods had greater job access, such as through neighborhood-targeted programs

The benefits of job creation in a commuting zone concentrate among its more economically distressed counties.

to improve transportation, job information, and job training. A focus on neighborhoods for job-linking makes sense, but focusing on neighborhoods for job creation makes less sense, as neighborhoods are not local labor markets.

Reference

Bartik, Timothy J. 2020. "Using Place-Based Jobs Policies to Help Distressed Communities." *Journal of Economic Perspectives* 34(3): 99–127.



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