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How State Governments Can Help Distressed Places

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POLICY BRIEF

How State Governments Can Help Distressed Places

Timothy J. Bartik

BRIEF HIGHLIGHTS

- *Distressed places are of two types: 1)* local labor markets *that lack jobs and 2)* neighborhoods *with lower employment rates than their local labor market.*
- *Distressed local labor markets are helped by local job creation, which is best done through customized business services, such as customized training or manufacturing extension services.*
- *Distressed neighborhoods are* not *best helped by neighborhood jobs, as most such jobs will not go to residents. Residents need services to increase job access: better transport, training, and child care.*
- *Significantly helping distressed places would cost $21 billion annually for distressed local labor markets and $9 billion for distressed neighborhoods, with that funding level maintained for at least 10 years.*
- *Because $30 billion is less than 3 percent of state taxes, most states can afford to address this problem.*
- *Geographic targeting is more politically feasible if aid includes most of a state and funds are targeted based on the jobs needed to boost the employment rate to full employment.*

For additional details, see Upjohn Intitute Technical Report No. 22-044 at https://research.upjohn.org/up_technicalreports/44.

Distressed places, which have low employment-to-population ratios (employment rates), are a big problem in America. Consider local labor markets: multicounty areas that contain most commuting flows, such as metro areas or rural commuting zones. About two-fifths of all Americans live in local labor markets whose employment rate for prime-age workers (ages 25–54) is more than 5 percentage points below full employment.

For neighborhoods, about one-fifth of all Americans live in census tracts whose prime-age employment rate is more than 5 percentage points below their local labor market's average.

These low employment rates cause major social problems: substance abuse, crime, and family stress.

Helping distressed local labor markets requires different policies than helping distressed neighborhoods. In a distressed local labor market, job creation will raise employment rates, with plausibly half of the jobs going to local nonemployed residents.

Local job creation is most cost-effectively accomplished by providing businesses with "customized services" such as infrastructure, customized job training, and business advice programs—including manufacturing extension services. Such customized services have less than one-third the cost-per-job-created of business tax incentives.

In contrast, in a distressed neighborhood, more neighborhood jobs will not much help the neighborhood's residents, as most neighborhood jobs are not held by residents.

Residents of distressed neighborhoods can best be helped by services to increase job access, including better transportation, job training, and child care.

Significantly boosting employment rates in distressed local labor markets and neighborhoods requires spending tens of billions of dollars per year and maintaining that level of spending for 10 years. In Bartik (2022), I outline a proposal for how such "place-based jobs policies" can be pursued by state governments. Annual costs over all states would amount to $30 billion.

State governments can afford a combined $30 billion a year for distressed places. Such costs are less than 3 percent of state taxes and could be paid for by replacing business tax incentives.

However, these reforms to state economic development policies require state governments to embrace targeting, which has proven to be politically difficult. To overcome the political difficulties of targeting, one approach is to aid most places—but to target them by allocating per capita funds based on how many jobs a place is short of full employment.

Nature and Scope of the Distressed Places Problem

To begin with, some definitions:

- *Local labor markets* are one or more counties that together contain most local commuting flows. These commuting flows spread changes in labor market conditions throughout the market.

Bringing up all distressed places to full employment requires more than 11 million added jobs.

- *Neighborhoods* are one or more census tracts that make up the area that is most relevant to a child's development.
- *The prime-age employment rate* is the employment-to-population ratio of persons aged 25–54. This rate avoids biases in comparing places with different shares of students or retirees.
- *Full employment* is the maximum employment rate achievable without incurring significant adverse consequences. In this brief, full employment is defined as a prime-age employment rate of 82.8 percent; 10 percent of the U.S. population lives in local labor markets that exceed this employment rate.

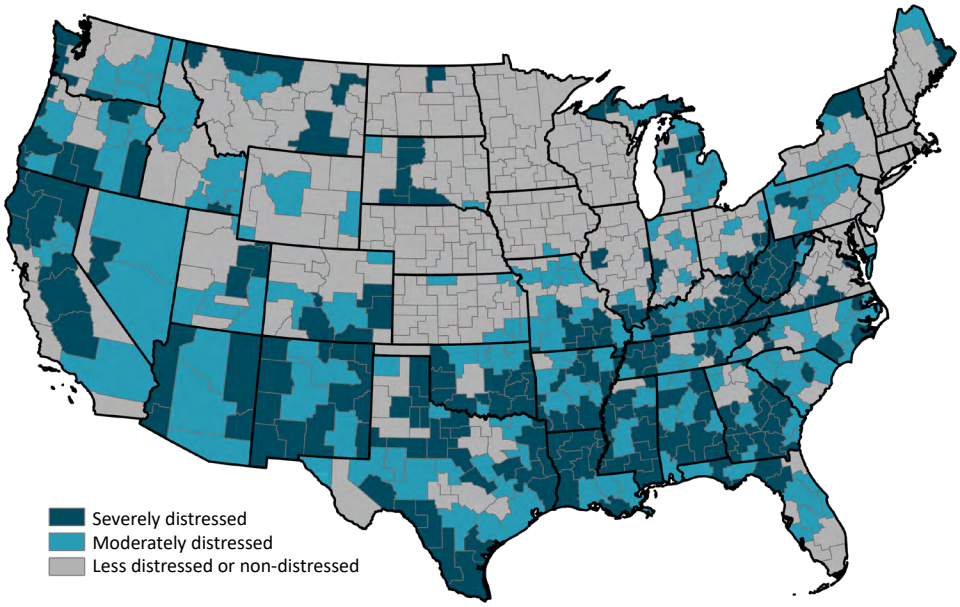
About 10 percent of all Americans live in severely distressed local labor markets, defined as those whose prime-age employment rate is at least 10 percentage points below full employment. Another 30 percent live in moderately distressed local labor markets, which are at least 5 percentage points below full employment (see Map 1).

About 10 percent of Americans live in neighborhoods whose employment rates are at least 10 percentage points below the rate in their local labor market. The distressed neighborhood share is much higher in some cities: 20 percent in Philadelphia, 49 percent in Detroit.

Bringing all neighborhoods and local labor markets up to full employment would require adding 11.3 million jobs.

Low employment rates cause many social problems. This brief's map is similar to maps showing the prevalence of "deaths of despair"—for example, fatalities resulting from substance abuse (Case and Deaton 2020). The map also bears a likeness to maps of neighborhoods that predispose their child residents to lower odds of adult success (Chetty et al. 2020).

Map 1 Distressed Local Labor Markets



NOTE: See Bartik (2022) for a discussion of how local labor markets are defined.
SOURCE: Author's calculations.

State governments can significantly increase employment rates in their distressed places at an annual cost of less than 3 percent of state taxes.

The Cost and Size of the Solution

To help distressed local labor markets, the most cost-effective solution is to create local jobs by providing individual businesses with *customized business services*: infrastructure; business real estate such as business parks, brownfield redevelopment, or business incubators; customized job training that local community colleges provide for individual businesses' needs; and business advice programs—manufacturing extension or small business development centers—that help businesses adopt better practices or find new markets.

Customized business services can create jobs at a cost of less than $55,000 per job—less than one-third the cost per job of business tax incentives (Bartik 2022). These services provide needed help for many small businesses. Conversely, incentives often go to large businesses that would have made the same location decision without the incentives.

In distressed local labor markets, it is feasible for more than half of new jobs to go to residents, so the cost per extra job for residents is less than $110,000. This is far less than the social benefits of a new job—such benefits comprise not only the worker's future earnings but also societal benefits such as lower crime and stronger families.

One means of helping residents of distressed neighborhoods obtain jobs throughout the local labor market is by providing *job access services*: better public transit, reliable used cars, job information and training, child-care information and subsidies, and caseworkers to increase job retention.

Job access services are more effective than tax breaks for stimulating neighborhood investment and job creation. Plopping jobs down in a neighborhood does not much help residents. Most jobs in any neighborhood are not held by residents, and most residents find jobs outside their neighborhood.

Job access services can help residents get jobs at less than $70,000 per extra job opportunity (Bartik 2022). Higher neighborhood employment rates provide children with better role models and job contacts.

Using these cost-effective policies to help distressed places, the annual costs of any policy solution depend on the ambitiousness of the goals. In Bartik (2022), I outline a program for each state government that includes all local labor markets below full employment and most neighborhoods below their local labor market average, but it targets per capita aid based on a place's distress.

Specifically, the program provides state block grants to local labor markets based on their distress levels, as well as discretionary state grants to local governments to help distressed neighborhoods. After 10 years, the program would increase local employment rates enough to provide 3.6 million jobs, or about one-third the number needed to bring distressed places up to full employment. Some 2.4 million of these jobs would be due to local labor market grants, and 1.3 million to neighborhood grants.

Total annual costs for all states would come to $30 billion annually—$21 billion for local labor markets and $9 billion for neighborhoods. This $30 billion cost is affordable, as it is less than 3 percent of overall state taxes. Many states could cover the required costs by replacing their business tax incentives.

While it is affordable, the effort to significantly increase employment rates in a distressed place is not cheap. If it costs $70,000 or $110,000 to get one resident into a job, a big boost in employment rates in a distressed place will often have annual costs of more than $100 per capita.

State Targeting of Distressed Places: Why and How

But why involve state governments rather than the federal government? State government involvement can be argued for pragmatically: waiting for federal action at scale is a fool's gambit. State control allows for greater flexibility. Local needs should shape the design of business services and resident services.

State government targeting of jobs for residents of distressed places will significantly boost state tax revenues and lower crime costs.

But state geographic targeting is politically difficult. At the state level, ostensibly targeted programs often allocate most aid to nondistressed places, and initially targeted programs are then extended statewide.

The political problem is partly that most state targeting formulas are arbitrary "price subsidies": for example, this would include job-creation credits that are higher dollar amounts per job in distressed places. Because the variation in such subsidies has no obvious relationship with need, it is easy to rationalize extending generous subsidies to favored projects in nondistressed places.

In contrast, the state block grants proposed here use targeting formulas directly tied to the number of persons in each area needing jobs. For each distressed neighborhood or local labor market, the formula calculates how many jobs the place is short of full employment by, and then it funds filling some percentage of that employment rate "gap."

Such needs-based targeting formulas have been successful for other policy areas in making geographic targeting politically feasible. For example, tying state aid for K–12 schools to the number of students eligible for free or reduced-price lunch has been done by many states, resulting in significant targeting of funds to needier school districts.

The block grants also combine targeting with universalism. Most local labor markets would be eligible for some level of block grant, as would most local governments for neighborhood grants. The targeting is accomplished by making higher per-capita grants to places where more people need jobs. Because "everyone" gets something, the block grants have a stronger political constituency.

The strongest policy rationale for state targeting of distressed places is embodied in the spillover benefits that accrue statewide. Boosting employment rates in distressed places will boost the state's average employment rate, which will boost the state's tax base more than it will the public service demands from expanded population. Higher state employment rates will also lower crime and Medicaid costs and their consequent burden on state budgets.

Therefore, state targeting of distressed places is in a state's overall interests. If pursued through cost-effective public services rather than costly tax breaks, such targeting can be accomplished at affordable costs. A new approach to economic development is within the reach of state governments, if they have the political will to rethink their economic development policies.

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