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How State Governments Can Target Job Opportunities to Distressed Places

Timothy J. Bartik

W.E. Upjohn Institute for Employment Research, bartik@upjohn.org

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Authors

Timothy J. Bartik, *W.E. Upjohn Institute for Employment Research*

Upjohn Author(s) ORCID Identifier

 <https://orcid.org/0000-0002-6238-8181>

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ABSTRACT

The United States has two types of “place-based” jobs problems: low employment rates in 1) local labor markets and 2) neighborhoods. The local labor market problem can be dealt with by targeting distressed local labor markets for job creation. The neighborhood problem can be dealt with by targeting distressed neighborhoods with programs to improve residents’ job access. This report describes the magnitude of these place-based jobs problems and reviews research on the most cost-effective programs to address these problems. The report also reviews current state government efforts to target job opportunities to distressed places, pointing out that such targeting is frequently too modest and poorly designed. As an alternative, this report proposes that state governments adopt two targeted block grant programs: a “Local Job Creation” block grant; a “Neighborhood Employment Opportunities” block grant. The costs, benefits, and distributional effects of these block grants are described.

JEL Classification Codes: R23, H76, R28

Key Words: Local labor market distress; neighborhood distress; state and local economic development policies; employment rates

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INTRODUCTION

Many distressed places in the United States need more job opportunities. Currently, place-targeted job creation in the United States is mainly pursued by state governments, through economic development programs. But state economic development programs do not significantly target a state's distressed places. Instead, states seek to boost the state's job growth overall. As this report will argue, greater targeting of places that are distressed, with cost-effective programs to both create jobs and link residents with jobs, would advance both economic equity and economic efficiency. Such targeted state programs can be designed to be evaluable, so that the nation can learn from our states, our "laboratories of democracy."

What is a distressed "place"? In this report, two types of distressed places are considered: 1) local labor markets and 2) neighborhoods. Local labor markets are multicounty areas in which labor market trends, in both employment rates and wages, tend to be closely integrated. This integration occurs because of two forces: 1) extensive commuting within the local labor market and 2) strong multiplier spillovers of job growth in one employer in one county on other employers in nearby counties.

In this report, local labor markets are empirically measured based on "commuting zones." Commuting zones (CZs) are multicounty areas that encompass most local commuting flows, and that also encompass some of the stronger multiplier effects of one industry's jobs in spurring job growth in other industries nearby. CZs are one definition of a local labor market; unlike other definitions, such as metropolitan areas, every county in the United States, including rural counties, is included in a CZ. In the total United States, there are 625 commuting zones. Because this report focuses on state government policies, these 625 commuting zones are further divided

at state boundaries, resulting in “state commuting zones” (SCZs), whose number in the United States totals 764.

As will be described, local labor markets have major effects on many residents’ economic fortunes and social problems. Local job creation has larger benefits for residents in local labor markets that are more distressed, so it makes sense to target more distressed local labor markets.¹

Neighborhoods are smaller residentially defined places, with residents experiencing frequent casual visual and social interactions. Neighborhood residents share similar environmental influences such as crime level, school quality, and physical conditions of housing and local infrastructure. Furthermore, with their behavior, neighborhood residents in part shape their mutual local environment, by decisions about whether and how to intervene in crime, whether their children attend the local school as well as whether the parent/guardian seeks to affect the local school, and whether local homeowners invest in home improvements.

In this report, neighborhoods are empirically measured as census tracts: county subdivisions whose population ranges from 1,200 to 8,000, with an average population of around 4,000. Within densely populated areas, census tracts will frequently be areas that encompass an easy walking distance. In practice, what people define as their “neighborhood” may be larger or smaller than what the U.S. Census Bureau defines as a census tract. However, census tracts will frequently be internally similar enough that they likely have similar relevant neighborhood conditions, such as crime rates. In this report, calculations are done on 71,518 census tracts, which cover the entire U.S. population.²

¹ This is discussed extensively later in this paper, but references supporting this finding include Austin, Glaeser, and Summers (2018); Bartik (2020a, 2021).

² Because we focus on the prime-age population, as explained below, that is persons ages 25–54, we only include tracts with non-zero persons in this age range.

Neighborhood conditions also affect local residents' economic fortunes, but in a different way than local labor markets. Based on research, the strongest causal effects of neighborhoods are on the neighborhood's children, not the neighborhood's adult residents. As will be discussed, neighborhoods affect a child's development and thereby that child's future outcomes, such as earnings. Neighborhoods are not local labor markets: most people do not live and work in the same neighborhood. Creating more jobs in a neighborhood, by itself, does not do much to help get jobs to a neighborhood's residents. But whether a neighborhood's adults have jobs is correlated with the future adult earnings of neighborhood children, through role-model effects or job networking effects or through affecting the relative attractiveness of jobs versus crime. Increasing employment rates for a neighborhood's residents is likely to have stronger effects on a neighborhood's children in more distressed neighborhoods—that is, neighborhoods that currently have low adult employment rates.³ Low employment rates for a neighborhood's residents may not be due primarily to whether there are jobs in the neighborhood, but rather to whether neighborhood residents have access to jobs: do residents have access to the information, training, transportation, child care, and other services that help residents obtain and retain jobs throughout the local labor market? Therefore, it makes sense to have programs that target a distressed neighborhood's residents, to better link them to jobs.

In this report, the main proxy for measuring both place distress and place improvements is the employment-to-population ratio, or “employment rate,” for what are commonly called prime-age workers—workers aged 25–54. The employment rate is a focus for three reasons:

- 1) The employment rate is a key driver of individual and social well-being, both directly and indirectly.

³ The evidence for this is discussed more extensively later on, based in part on Chyn and Katz (2021).

2) The employment rate is readily measurable.

3) A lower prior employment rate of a place suggests that place-based policies will have higher benefits for both economic equity and economic efficiency.

The focus is on the employment rate for prime-age workers, rather than for other age groups, because prime-age persons in today's society are generally expected to work. Focusing on prime-age workers partially controls for the age structure of the local population; if we instead included everyone aged 16 and above, differences across places in the proportion of workers who are in school or retired might distort the meaning of place differentials in employment rates.

As will be discussed, other measures of individual well-being, such as real wages, are also important, but those are harder to objectively measure. Higher employment rates both directly increase earnings per capita, and also indirectly increase earnings per capita by putting upward pressure on real wages. Boosting employment rates via development policies may be usefully complemented by changes in labor market institutions (e.g., higher minimum wages) to directly boost wages. Boosting local employment rates through policies is easier to do in places whose prior employment rates are lower, that is start out more distressed.

As will be described in this report, prime-age employment rates show wide disparities across places. Highly distressed CZs, at the 10th percentile of the nationwide employment-rate distribution, have a prime-age employment rate of 72.8 percent or less, or at least 5.6 percentage points below the national average of 78.4 percent.⁴ Some of the highest employment-rate CZs, those at the 90th percentile of the population distribution, have a prime-age employment rate of 82.8 percent or more, or at least 4.4 percentage points above the national average. The 10–90

⁴ These statistics are presented in more detail later, but it should be noted that these percentiles are weighted percentiles, for which the weights are the CZ's number of prime-age persons.

differential is 10 percentage points. These commuting-zone disparities are particularly large in Kentucky, South Dakota, West Virginia, Virginia, and Arkansas.

Differentials in prime-age employment rates are even larger across neighborhoods. Ten percent of the U.S. population live in census tracts that have a prime-age employment rate of at least 9.8 percentage points below their commuting zone's average, while 10 percent live in tracts whose prime-age employment rate exceeds their commuting zone's average by at least 9.1 percentage points. The 10–90 differential for census tracts is 18.9 percentage points, almost twice the 10–90 differential for commuting zones. These neighborhood or census-tract disparities are particularly large in the following states (the District of Columbia is counted as a state for the purposes of this report): Arizona, Mississippi, Louisiana, DC, and Alabama. Both commuting-zone and census-tract disparities tend to be larger in states that have lower prime-age employment rates.

So, low employment rates in particular local labor markets, or particular neighborhoods, present an important economic and social problem. Can this problem be significantly alleviated at an affordable cost? Yes—based on research, some job-creation policies work well enough that benefits exceed costs. Business tax incentives and other business cash incentives are costly per job created but can have net benefits in highly distressed local labor markets. Public services to improve business inputs—such as infrastructure, customized job training, or business advice services (e.g., manufacturing extension)—are more cost effective, with a cost per job created that is less than one-third the cost per job of incentives. For neighborhoods, programs that target public services to help neighborhood job seekers, when combined with hiring credits, have been shown to boost neighborhood residents' employment rates at a reasonable cost.

If place distress is a problem, why look for solutions from state governments, rather than from the federal government? The needs of different places are diverse, which suggests allowing for more variation in policy responses than might occur in a federally controlled place-based policy. Furthermore, although we know something about what works in place-based policies, state experimentation might provide better empirical evidence, enabling us over time to improve place-based policies. Finally, although targeting distressed places is always politically challenging, the political barriers at the federal level seem greater than those for state governments.

What should state governments be doing to target distressed places? As I will outline, based on current research, we have estimates of the costs to the government of creating sufficient jobs to significantly increase employment rates in distressed local labor markets. Based on these estimates, state government financing of such programs is feasible. The proposal here is for a state block grant for local economic development, provided to a democratically accountable body that represents the residents of a local labor market. Most local labor markets in the state would be included, but there would be much higher levels of funding for more distressed local labor markets. The “Local Job Creation” (LJC) block grant would fund the most cost-effective job-creation programs, which are public services to enhance business inputs, such as by providing improved infrastructure or better business advice. With a variety of states following different funding formulas for targeting distressed local labor markets, national evaluations would shed light on what programs work best.

As a proof of concept on how such an LJC block grant might be designed and what it might cost, this report provides specific illustrative calculations using data on state commuting zones (SCZs). Separate calculations are provided for each state. The illustrative calculations

would seek, over 10 years, to move each SCZ one-quarter of the way toward achieving a prime-age employment rate at the 90th percentile of the national distribution. Therefore, the more distressed an SCZ—that is, the lower its baseline prime-age employment rate—the higher the SCZ’s awarded block grant per capita. Based on plausible estimates of the costs of job creation and the effects of job creation on prime-age employment rates, this LJC program would have a total national cost of around \$21 billion a year, and after 10 years would increase the number of adults with jobs by around 2.2 million. Block grants would vary widely by SCZ, with some low-employment-rate CZs receiving block grants of more than \$300 per year per prime-age person, and an average CZ receiving a block grant of less than half as much per prime-age person. Thirty percent of the block grant funds would go to the 10 percent of SCZs with the lowest prime-age employment rates.

In the real political world, each state government would have to determine how “local labor markets” are to be defined, and what goals for improved employment rates would be set. For example, some states may decide to set local labor market boundaries using existing elected government institutions such as counties, or using existing administrative units such as the job training areas defined for operating federally funded training grants, or the multicounty areas defined for doing regional transportation planning. But the SCZ calculations presented here still provide an illustration of the net benefits and distributional benefits of targeting, by state, distressed local labor markets for such job creation grants. The level and geographic distribution of prime-age employment rates across local labor markets will be at least somewhat correlated across different plausible local-labor-market definitions, so the level and distribution of spending will also be correlated for possible Local Job Creation grants.

For distressed neighborhoods, the goal is to help redistribute job opportunities so they are more equal across neighborhoods. This requires targeting neighborhoods that are below the local labor market's overall prime-age employment rate, with more aid going to those furthest below the rate. As we will describe, based on past evidence from the Empowerment Zone program, we have some plausible estimates of what it would cost to help residents of below-average neighborhoods gain improved job opportunities. A competitive block grant program for such neighborhoods could do so by providing services to better link neighborhood residents with jobs—for example job training, job placement information, job retention supports, child-care help, or transportation assistance. A local government would propose a program of such services for neighborhoods that include eligible census tracts. State governments would use a quantitative scoring process to select the applications that have the best combination of good strategic design and accurate targeting of distressed neighborhoods. In addition to making the neighborhood selection process less political and more objective, such scoring would allow for rigorous evaluations: studies could compare neighborhoods just above or just below the funding selection cutoff.

Using census tract data, the report provides illustrative calculations for a program that targeted distressed tracts, those whose prime-age employment rate is at least 3 percentage points below the SCZ's average. The goal of program, called "Neighborhood Employment Opportunity" (NEO), would be to fund activities that, over a 10-year period, would close about one-third of the gap between these distressed neighborhoods' current employment rate and an employment rate of at least 3 percentage points below the SCZ's overall average. Based on plausible estimates of the costs of increasing neighborhood residents' employment rates, this NEO program's total national costs, if all eligible census tracts were assisted, would be about

\$10 billion annually. The NEO program’s grants are highly targeted, with 78 percent of the grants going to help increase employment rates for residents of the 10 percent of tracts in the nation that are most distressed.⁵

Again, obviously any state will have to adjust its definitions of *local labor market* and *neighborhood*, as well as its goals, to state and local political and economic conditions. But neighborhood disparities within local labor markets in employment rates will be correlated across different labor market and neighborhood definitions. Therefore, these illustrative NEO program calculations, based on particular definitions, will help indicate the likely levels and distribution within states, and within SCZs, of plausible programs that seek to make major improvements in employment rates for distressed neighborhoods.

This report is divided into three major sections. Section 1 presents the case for why it might make sense for states to target distressed places for higher employment rates. Section 2 describes what states do in economic development, documenting that it rarely involves much meaningful targeting. Section 3 explores my specific proposal for how states can target distressed places through block grants.⁶

SECTION 1: WHY IT MAKES SENSE FOR STATES TO TARGET DISTRESSED PLACES FOR HIGHER EMPLOYMENT RATES

The first major section of this report makes the case for states targeting local labor markets and neighborhoods that are economically distressed, in order to increase these places’ employment rates. The case includes the following three things: 1) explanations for why it

⁵ As explained later, “tract distress” is measured in this report as the differential of the tract prime-age employment rate from its SCZ’s average prime-age employment rate.

⁶ The current report was largely researched and written before the publication of another recent report, by Pew Charitable Trusts (2021), on state government’s targeting of economic development programs.

makes sense to focus on local labor markets and neighborhoods, and on improving their employment rates, and to do so more aggressively in distressed local labor markets and neighborhoods; 2) empirical evidence that distressed places are a big problem, which can be significantly addressed by affordable policies; and 3) an argument for why states can and should address the problem of distressed places, rather than leaving this problem to the federal government.

A key point in this discussion, and throughout this report, is to distinguish between two different types of employment problems: 1) the employment problems of *local labor markets* versus 2) the employment problems of *neighborhoods*. In local labor markets, the employment problem is due mainly to a lack of local jobs, and may be solved by job creation. In neighborhoods, the employment problem is usually due mainly to problems impeding residents' job access, and may be solved by programs that improve such job access.

Why Focus on Local Labor Markets and Neighborhoods?

Why might policymakers want to focus on increasing employment rates for local labor markets and neighborhoods?

Local labor markets

Research evidence shows that changes in job availability at the local-labor-market level make a big difference in providing numerous individual and social benefits. But before getting into why and how such effects occur, we must first define what we mean by local labor markets.

Local labor markets are multicounty areas in which wages and employment rates of similar individuals show similar trends. Within a local labor market, trends in different counties' labor market conditions are influenced to be similar by two mechanisms: 1) widespread intercounty commuting and 2) large employment multipliers across counties. To understand why

widespread commuting has these effects, consider what happens if one county, which has widespread commuting with nearby counties, experiences an improvement in labor market conditions, such as employment rates or wages. This county improvement could occur, for example, if the county's demand for labor increased relative to its supply. Because of this county's improvement, some persons in the local labor market who had previously worked in other counties will switch to jobs in the improved county. This change in commuting patterns will lead to job vacancies in these nearby counties. As a result, these nearby counties will also experience labor market improvements, in both employment rates and wages.

To understand why large employment-multiplier spillovers lead to similar trends in labor market conditions within a local labor market, suppose that some firm that sells outside the local labor market increases its employment in a particular county. This higher employment leads this firm to buy more from suppliers, and in many cases the stronger effects will take place with suppliers in nearby counties, because transport and communication costs are lower with such nearby suppliers. In addition, higher employment in both the original firm and its suppliers leads to higher earnings for these firms' workers. These workers will spend their increased earnings in part on locally produced goods, in counties throughout a local labor market area. The range of these employment spillovers depends in part on how much firms value "just in time" local supply, and in part on how far workers travel to buy goods and services. These employment spillovers throughout the multicounty local labor market area will in turn lead to increases in workers' employment rates and wages throughout the area.

These intercounty relations are stronger in counties linked by commuting, consumer shopping behavior, or frequent business trips to purchase from suppliers than they are in counties whose links necessitate longer-distance transportation by workers, consumers, or businesses. As

one example, there are *some* spillover effects of labor market conditions in one county with counties that may be many hundreds or thousands of miles away; these are due to migration behavior or longer-distance business trips, vacation trips, and shipping. But these distant spillover effects are weaker than if frequent interpersonal interaction across county boundaries can readily occur from worker commuting, consumer shopping, or frequent business trips to interact with a supplier.

Greater job availability anywhere within a local labor market will quickly affect employment rates throughout the local labor market because of these intercounty spillovers from commuting and employment multipliers. Greater job availability has been shown to not only affect local labor market employment rates in the short run but also increase the local labor market's employment rates in the long run.⁷ These long-run employment-rate effects can be explained by short-run job experience increasing long-run job skills. Greater local job availability brings social benefits by reducing substance abuse, crime, and family breakups.⁸ Local improvements in job availability provide local fiscal benefits—tax-revenue gains greater than public-service costs—because state and local revenue will tend to scale with local employment, and state and local needs for public-services spending will tend to scale with local population. Fiscal benefits make it easier for local governments to maintain public-service quality.

Based on research, job availability makes the most difference at the local labor market level—that is, at the level of jobs in a multicounty area—and not so much at smaller geographic

⁷ See Amior and Manning (2018) or Beaudry, Green, and Sand (2014) for two good recent estimates of the long-term effects of job creation on local employment rates. Bartik (2020a) provides a review of the research literature.

⁸ Evidence on these social costs is provided by Autor, Dorn, and Hanson (2013); Diette et al. (2018); and Pierce and Schott (2017). Bartik (2020a) and Austin, Glaeser, and Summers (2018) review the literature on the social costs of a place having low employment rates.

scales. What matters most to local employment rates is what happens to job growth in the overall local labor market, not how local labor market jobs are distributed across smaller geographic areas within the local labor market.

For example, research has found that labor demand shocks at the commuting-zone level have about three times the economic and social benefits of labor demand shocks at the county level (Bartik 2021). Presumably, job growth or destruction would matter even less if we move from the county level to the city level or the neighborhood level.

Therefore, policies that seek to increase local employment rates by creating jobs should target commuting zones or metro areas: multicounty areas that are local labor markets. Job-creation policies cannot be analyzed accurately using the perspective of smaller geographic areas at the county, city, or neighborhood level. At these smaller geographic levels, an increase in jobs in one smaller geographic unit—an increase in jobs in a single county, city, or neighborhood—will spread labor market benefits to workers throughout the local labor market. Furthermore, a redistribution of jobs within the local labor market—from one county/city/neighborhood to another—will have small effects. Because local benefits of job creation are due to total job creation in the entire local labor market, not to where the jobs are within the local labor market, and because the benefits of job creation are spread throughout the local labor market, analyzing job creation and its benefits at the neighborhood level makes no sense. Instead, job creation and its benefits should be analyzed using a local labor market framework.

Jobs matter more at the local labor market level than for smaller geographic scales, even for workers who are less mobile—for example, city residents who lack cars. Suppose jobs are created in the suburbs. This suburban change will affect residents of the central city, even for those central city residents who do not have access to ready transportation to get them to the

suburban jobs. First, the new suburban jobs will have some multiplier effects on central city jobs, thereby benefiting central city residents without cars. Second, even if only suburban job creation occurred, with zero central-city job creation, some of the new suburban jobs will be taken by persons who are currently central city workers. As a result, central-city job vacancies are created. This will put some upward pressure on employment rates and wage rates, even for central city residents who cannot directly access the new suburban jobs.

Why might jobs matter at the local labor market level, even though people can and do move to other local labor markets? People have valuable ties to home areas. To illustrate the strength of ties to local places, there is this: about half of all Americans live within 30 miles of their birthplace (Zabek 2019).⁹ This surprising degree of persistence in where people live is hard to explain except by local ties to the familiar people, places, and institutions of their home area. If there were no such ties, presumably almost everyone would live outside their birthplace's local labor market; absent such ties, it seems unlikely that one's original home offers the "objectively" best combination of labor market conditions and amenities.

Because of these ties to local places, people are reluctant to move, as moving would make them forgo the familiar people, places, and institutions of their home, all of which provide social networks that have both an intrinsic value and an instrumental value in helping people access jobs as well as goods and services. As a result, short-term shifts in jobs can have major short-term effects on local employment rates; not many people will move in the short run to offset the job shifts.¹⁰ Based on research, the short-run effect of employment shocks on local

⁹ Of course, people who were not born in a local labor market often later develop strong ties to that market, and these ties should also be valued. The statistic on residential location versus birthplace is meant to illustrate the strength of local ties, not to imply that only those born in a place have such ties.

¹⁰ Even if people do move, such mobility may not significantly alter local employment rates. A local population shock of x percent seems to bring about a local employment change of x percent and of the same sign,

employment rates is around 0.6: 60 percent of the local jobs created go to local residents (Bartik 2020a).¹¹ These short-term effects on employment rates affect many residents' job skills, self-confidence, mental health, substance abuse, and willingness to resort to crime, all of which affect residents' long-run outcomes, including their long-run employment rates and earnings.

As mentioned, this report uses *commuting zones* to operationalize this concept of local labor markets. Why use commuting zones rather than other measures of local labor markets? For example, local labor markets are also measured by *metropolitan areas* and *micropolitan areas*, both of which are also groups of counties that are linked by commuting flows and employment multiplier spillovers. The problem is that metro and micro areas do not include many rural counties. Given that much of the current concern about local labor market disparities is about depressed rural areas, we need a measure of local labor markets that includes all U.S. counties. "Commuting zones" are the main viable alternative, or at least are the main viable alternative for any analysis that looks at local labor markets throughout the United States. The commuting-zone alternative was explicitly developed by researchers at the U.S. Department of Agriculture to include all U.S. counties, and in particular rural areas.

Individual states can of course customize their definition of *local labor markets* to the state's culture, economy, and politics. What multicounty areas have a viable regional identity for a given state might not correspond to any federal definition, including the commuting-zone and metropolitan-area definitions. States could also decide to base their local labor market definitions on multicounty groupings used for managing regionwide programs. For example, federal and

implying that out-migration and in-migration have little effect on employment rates (Bartik 2020a). Population shock effects on local employment may stem from population's effects on labor demand through effects on retail sales, housing prices, and construction demand.

¹¹ The remaining effect is on local population, as employment is by definition equal to the employment rate times the population.

state job-training programs are frequently delivered through local regions, many of which are multicounty. As another example, states have multicounty planning organizations that do regional transportation planning.

Using a customized definition of local labor markets that is suitable to the state's political culture is probably the best option for most states. However, for this research study, in which we use national data on each and every state, we are forced to rely on some nationally consistent option, derived from federal definitions. We therefore use the existing 625 commuting zones but divide them at state borders to yield 764 "state commuting zones," or SCZs. Although these state commuting zones might not be exactly what most states would choose to use to define local labor markets, the variation in labor market conditions across SCZs within a state should roughly indicate what variation in labor market conditions would occur in most plausible alternative local labor market definitions. These SCZ areas will also enable us to roughly estimate what it would cost to meet the job needs for distressed local labor markets, in state grant programs that seek to meet such needs, using the state's own local labor market definitions.

Neighborhoods

If job availability in the local labor market is more important than how jobs are distributed by neighborhood, why should we also focus on employment rates in neighborhoods? Few people live and work in the same neighborhood. Plopping more jobs down in a neighborhood will not necessarily boost employment rates for neighborhood residents. Why not ignore neighborhoods and let job creation at the local labor market level trickle down to residents of the various neighborhoods? The brief answer: how a local labor market's job opportunities are distributed to the residents of different neighborhoods has strong spillover effects in some

neighborhoods, and the distribution of job access across neighborhoods can be influenced by public policy.

Spillover effects of neighborhood job access may affect the economic future of a neighborhood's children. Although neighborhood jobs do not much affect the *demand* for neighborhood residents' labor, neighborhood residents' employment rates and other neighborhood characteristics may affect the future quality and quantity of the labor *supply* of the neighborhood's children. For children who grow up in a neighborhood, improvements in neighborhood characteristics will improve their future adult labor market–related outcomes: reducing involvement in crime and teenage pregnancy, increasing educational attainment, and increasing adult employment rates and earnings. In contrast, although adults often tend to have worse labor market outcomes, holding observable personal characteristics constant, in more distressed neighborhoods much of this appears to be a “selection effect”: adults whose “unobserved” characteristics predict less labor market success tend to locate in more distressed neighborhoods—again, holding observable characteristics constant (Chyn and Katz 2021).¹²

Child effects are probably large because children tend to stay closer to home and are thereby more affected by neighborhood conditions compared to adults. In addition, obviously children cannot choose their neighborhood's conditions. In contrast, in many cases adults have at least some options for moving to a better neighborhood, or moving to a slightly better subneighborhood within the current neighborhood.

Therefore, if we can improve a neighborhood's employment rates or otherwise improve neighborhood conditions, we can help the neighborhood's children by increasing their future

¹² Further complicating the picture: it does appear that neighborhood distress does have a true causal effect on adults' *health* outcomes, even though the correlation of neighborhood distress with adult labor market outcomes is not causal.

earnings when they become adults. These benefits occur whether or not the children of the neighborhood live or work in that specific neighborhood as adults.

How do these neighborhood effects occur? We have some knowledge of this: as we will discuss a bit later, higher neighborhood employment rates are correlated with better outcomes for the neighborhood's children (Chetty et al. 2020). But we do not have proof that this correlation reflects the causal effects of higher neighborhood employment rates on children's outcomes. Our research is uncertain: the mechanism for neighborhood effects on children's future labor market outcomes is not well understood. One possible mechanism: neighborhood effects may occur in part through role-model effects and opportunity effects. If a neighborhood has higher employment rates, children observe more persons working, including not only older adults but the children's peers as they become teenagers. These older adults and peers provide role models, helping to guide children's choices. Employed older adults and peers also may provide information about job openings. In addition, as argued by Chyn and Katz (2021), neighborhood crime may be an important transmission mechanism for neighborhood effects. Just as neighborhood residents' employment in regular employment may provide positive role model effects and information about regular job opportunities, higher neighborhood crime may provide negative role model and peer effects and information about illegal job opportunities.

How can we improve neighborhood employment rates? If plopping jobs down in the neighborhood is not a solution, what is? As will be detailed later in the report, neighborhood employment rates can be improved by interventions to help neighborhood residents gain greater access to jobs throughout the local labor market. These interventions might include job training, job information, child care, and transportation assistance. All of these interventions help overcome barriers to employment, which might be particularly acute in distressed

neighborhoods. Residents of distressed neighborhoods may have inadequate job credentials or skills, lack information on job openings, lack access to affordable childcare, and lack reliable transportation. By eliminating or reducing barriers to employment that face residents of distressed neighborhoods, we help these residents gain access to the local labor market's existing jobs base, even without new job creation. Furthermore, eliminating or reducing such barriers to employment for a distressed neighborhood's residents increases the benefits from boosting a local labor market's overall job creation, by increasing the share of jobs that go to the local nonemployed.

Because the major neighborhood effects are on children, we might expect the relevant “neighborhood” to be quite local, reflecting places near enough for the child to frequently experience social interactions, or interactions with local amenities (parks, etc.) And the evidence suggests that the strongest neighborhood effects occur within the same census tract (Chetty et al. 2020). Therefore, we proxy for “neighborhoods” with census tracts.¹³

Why Focus on Employment Rates?

Why focus on employment rates and not, for example, on wage rates? Shouldn't state development policies pay at least equal attention to wage rates? Or pay attention also to other features of local labor markets or neighborhoods, such as the place's crime rate or school quality or environmental health?¹⁴

¹³ For example, Chetty et al. (2020) find that the effects on a child's upward mobility as an adult of the poverty rate of the child's own census tract are almost three times the overall effect of the 10 neighboring census tracts. What about smaller levels? We could also have obtained ACS data on block groups. On average, a census tract will include about three block groups, and each block group might contain four blocks. Chetty et al. find that at the block level, nearby blocks have statistically significant effects up to about the 40th nearest block, which would generally include several block groups. Therefore, analysis at the tract level seems superior to analysis at the block-group level.

¹⁴ Why focus on employment rates, rather than unemployment rates? In part, because unemployment rates, particularly in lower-income neighborhoods, can understate employment problems stemming from disadvantaged workers dropping out of the labor force. We understate the need for added jobs if we do not recognize that many of these so-called “discouraged workers” also need jobs.

Employment rates should be a focus because they have large direct and indirect benefits. Directly, jobs brought to a local labor market by economic development policies have effects on employment rates that provide large benefits in dollar terms and make up over half of economic development's gross benefits.

Employment benefits of local job creation are large because they are both short-run and long-run. When jobs are created in the short run, some local residents who otherwise would be nonemployed gain jobs. From being employed, these local residents gain job experience and self-confidence and have fewer problems with mental health, substance abuse, and crime. This increased "human capital" for residents enhances their long-run employment rates and earnings. As a result, if policy can increase a local labor market's employment by x percent, the long-run employment rate in the local labor market is estimated to increase by at least 0.2 times x percent. In other words, out of every 10 new jobs created, in the long run 2 of those jobs increase the employment rate of local residents, and the other eight new jobs increase the local population by 8 persons because of changing migration patterns.

Empirically, the direct effects on earnings due to a higher employment rate from local job growth amount on average to a present value of around a \$280K increase per local job created.¹⁵ Local job growth also provides other local benefits. One is higher real wage rates per hour from increased demand for labor relative to labor supply; this puts upward pressure on what employers must pay in the market. Another is higher property values due to higher population, which puts upward demand pressure on the housing market and land market. And a third is the fiscal

¹⁵ All dollar figures in this report are in 2020 dollars. This estimated \$280K benefit is from the incentives simulation model described in Bartik (2018a), adjusted to a net CZ multiplier of 1.605, as described in Bartik and Sotherland (2019). This \$280K means that if we permanently increase the number of jobs in a CZ by one, the short-run and long-run employment-rate increases due to this one extra job will, over time, boost local earnings per capita, when discounted back to the present in present-value terms, by \$280K.

benefits that spring from state and local tax revenues going up faster than the budgetary needs for additional spending for an expanded population. If we simulate all these local benefits of local job growth, the higher earnings per capita that directly result from higher employment rates amount to 53.6 percent of the gross benefits of some economic development policy.¹⁶

Indirectly, higher employment rates also lead to some of these other benefits by putting upward pressures on real wage rates, providing fiscal benefits, and improving future outcomes for children. As already mentioned, in a local labor market, higher employment rates will force employers to raise wage rates to attract and retain workers. These higher wage effects tend to fade somewhat over time but are still considerable. Per job created, these higher wage effects amount to a present value of \$67K, which is large but less than one-fourth of the direct-employment-rate effects on earnings per capita.¹⁷ These indirect real wage effects are around 12.8 percent of the total gross benefits from some form of job-creating economic development policy. Together, the direct effects on earnings per capita from higher employment rates (53.6 percent) and the indirect effects from higher employment rates increasing real wage rates (12.8 percent) amount to 66.4 percent, or almost two-thirds, of the gross benefits from local job creation policies.

For local labor markets, higher employment rates also bring about fiscal benefits. State and local tax revenues tend to go up with employment and wages, while spending needs tend to go up with population. Employment and wages describe the size of the local economy and therefore how much revenue comes from income and sales taxes and other taxes. On the other

¹⁶ In terms of the model used in Bartik (2018a), the gross benefits of job creation include the labor market benefits, the fiscal benefits, and the property-value benefits. I exclude not only the costs of inducing the job growth, but the loss to local businesses from higher prices, and the benefits and costs from paying for the incentives.

¹⁷ These are increases in average real wage rates per hour, aggregated over the entire local working population.

hand, the need for services is determined in large part by population. If population increases, to maintain public school quality we will have to hire more teachers and build more schools; to keep road and transit congestion the same, we will have to invest in more road and transit capacity; to keep police and fire response time the same, we will have to hire more policemen and firemen. Therefore, pushing up the employment rate will tend to increase state and local revenues relative to service needs, as long as tax rates and service quality are held constant. That's what a higher employment rate means: employment goes up by a greater percentage than does population. Per job created, these fiscal benefits amount to a present value of \$78,000.¹⁸ Fiscal benefits amount to 15.0 percent of total gross benefits from job creation. Combining the labor market benefits of 66.4 percent with the fiscal benefits of 15.0 percent, the direct and indirect benefits of higher employment rates add up to 81.4 percent—over four-fifths of the gross benefits of job growth.¹⁹

In a neighborhood, higher employment rates also appear to be correlated with better child outcomes, which may (as mentioned before) be due to role-model and information effects. Higher neighborhood employment rates explain about 12 percent of the variance in a child's future adult income (Chetty et al. 2020).²⁰

State development policies should also pay attention to wage rates. Economic developers should seek to attract a mix of firms that will provide higher wage opportunities. Workforce developers should seek to train and place workers in higher-wage jobs.

¹⁸ This \$78,000 encompasses all state and local tax revenue.

¹⁹ The remainder is capital gains from higher property values.

²⁰ This squares the correlation coefficient in Chetty et al. (2020). This calculation is for children whose parents are at the 25th percentile of the income distribution, and it controls for race and commuting-zone fixed effects.

But what constitutes a “better real wage opportunity” can be challenging to determine, or to summarize in a single measure. Higher employment rates are straightforward to measure. But wage rates must adjust for local prices, including housing prices, which are not reliably and regularly measured for all local economies. Any wage measure must also adjust for local “amenities” such as safety from crime, lack of traffic congestion, and higher school quality. Finally, what makes a good wage is always relative to the person getting the job: it is influenced by how the wage rate of this job compares with the range of wage rates that this person could generally expect to get in this local labor market. High-wage job creation in a local labor market will not help residents much if few of them qualify for those job opportunities.

Any economic development or workforce development agency setting overall real-wage-rate goals must adjust for local prices, amenities, and the characteristics of workers getting the jobs. Pursuing such higher real-wage goals on an operational basis for individual workers and jobs in a real-world economic or workforce development program is also challenging. In contrast, higher employment rates will tend to put upward pressure on wage rates after adjusting for local prices, amenities, and worker characteristics.

Furthermore, better local real wage rates are probably better pursued by broader state policies, compared to development policies. Economic and workforce development policies can target higher real wages, but only for the jobs they create or the workers they train and place. But state policies such as higher minimum wages, greater support for unions, or wage standards for occupations, can target higher real wages throughout the local labor market. If these broader workforce institutions are setting higher real wage standards, then development policies can play a supportive role by targeting jobs that meet those standards. In contrast, higher employment

rates are a natural consequence of state development policies that create jobs and link people to jobs. Those higher employment rates will broadly affect the entire local labor market.

A final point: another reason for focusing on employment rates, rather than wage rates, is that there is some evidence—although sparse—that increasing employment rates will carry more individual and social benefits than increasing wage rates. For example, local suicide rates are more closely associated with declines in local employment rates than they are with declines in local income (Blakely, Collings, and Atkinson 2003). As an example of the greater political salience of employment than of overall earnings, places that in 2016 or 2020 experienced increased support for Donald Trump tended to be places with long-run declines in employment and population, rather than declining earnings or wages (Rodriguez-Pose, Lee, and Lipp 2021).

Why Target Places with Lower Employment Rates?

So, higher employment rates provide important benefits, either at the local labor market level or at the neighborhood level. But why target local labor markets or neighborhoods that have lower employment rates? There are two broad classes of reasons: first, targeting these distressed places promotes greater equity; and second, targeting these distressed places promotes greater economic efficiency.

The equity case is based on the reasonable belief that persons in a distressed local labor market or distressed neighborhood are worse off, compared to similar persons in a nondistressed local labor market or neighborhood, and that they are worse off through no fault of their own. Being “worse off” is a utilitarian rationale for targeting persons in distressed places for help: total social well-being will increase more by helping persons who are worse off, according to most standard utilitarian theories. Being worse off, with the fault of one’s condition lying to a large extent outside one’s control, provides a case for helping from an ethical, “fairness”

perspective: it is unfair for some persons to be worse off just because of where they happen to live, which is highly correlated with where they were born.

Places, whether local labor markets or neighborhoods, that have lower employment rates will also tend to have higher substance abuse and crime. Schools in these places will be worse. Holding the person's current employment and income constant, higher crime and worse schools will lower a person's well-being, which means that knowing whether someone lives in a distressed place should influence one's judgment as to how badly off they are, and how much they deserve help. Distressed neighborhoods and local labor markets also tend to have a higher likelihood of being chosen as the site for highly polluting industries or other detrimental activities, which further lowers well-being, holding constant the individual residents' circumstances. Finally, knowing a person lives in a distressed place means that whatever that individual's current circumstances, her *future* employment and earnings are predicted to be lower, so her lifetime well-being may be lower than her current characteristics would suggest.

These arguments seem to explain why a significant share of Americans are willing to consider targeting distressed places for economic assistance. According to one survey, about half of respondents prefer helping poor families in distressed neighborhoods or regions, compared to fewer who favor an equal-cost program that would help poor families regardless of place (Gaubert, Kline, and Yagan 2021).²¹ For those who want to target persons in distressed places for aid, the most popular option chosen by survey respondents was this one: "Poor families in the distressed area are worse off, since they deal with high poverty, high crime, high pollution, struggling schools, and a history of job losses" (78 percent). The second most widely chosen option for targeting persons in distressed places: "Poor families in distressed areas are more

²¹ About a quarter of respondents want to help poor families equally in all places, whereas a quarter want to target poor families in "thriving areas" (Gaubert, Kline, and Yagan 2021).

deserving, since they are more likely to be poor due to circumstances beyond their control” (44 percent).

A counter to this equity argument is that people choose the places where they live. This counterargument would go on to say that if a place’s higher crime or worse schools or more unhealthy pollution levels or poorer future employment prospects make you worse off, it is your responsibility to move to a better place. But what is the “counter counterargument”? For neighborhoods, recall that the major neighborhood effects are on children growing up in the neighborhood. Obviously, children do not choose their neighborhood. For local labor markets, yes, people can move, leaving their distressed home local labor market for a more booming area. But this requires leaving the familiar people and memories of their home area and forgoing the advantages of already-developed social networks. These developed home social networks directly increase well-being, and they may also help long-time residents do better economically and socially. In a wealthy country such as the United States, we would hope that economic and social conditions would be such that most people would have the option of remaining in their home area, retaining its valuable social ties, and still be able to get a good job. Human beings are diverse in their preferences: some prefer novel places; others, familiar places. The option of being able to choose the familiar is valuable, and for those who prefer the familiar, it is more equitable.²²

The case for targeting distressed places because it is a more efficient use of resources can be divided into three possible types of efficiency rationales: 1) a cost-effectiveness rationale, 2) a

²² This equity argument—people shouldn’t be *required* to move to get good jobs—is explicitly made in a book by Congressman Ro Khanna of California (Khanna 2022).

jobs-multiplier rationale, and 3) a social-multiplier rationale.²³ For local labor markets, we can elaborate on three-part efficiency rationale as follows:

- 1) Perhaps the cost of creating jobs is lower per job created in distressed local labor markets (cost-effectiveness rationale).
- 2) Perhaps the effects of jobs created on raising local employment rates would be greater in more distressed local labor markets (job-multiplier rationale).
- 3) Perhaps a given increase in local employment rates would have greater social benefits—e.g., more anticrime effects—in distressed local labor markets (social multiplier rationale).

For neighborhoods, this three-part efficiency rationale would be as follows:

- 1) Perhaps the costs of increasing the employment rates of a neighborhood's adult residents is lower in distressed neighborhoods (cost-effectiveness rationale).
- 2) Perhaps the effects of higher employment and earnings for a neighborhood's adults on the future employment and earnings of children raised in the neighborhood are higher in distressed neighborhoods (job-multiplier rationale).
- 3) Perhaps the social benefits (e.g., lower crime) of improving the future labor market outcomes of a neighborhood's children are greater in more distressed neighborhoods (social-multiplier rationale).

If any of these types of efficiency rationales are valid, then reallocating resources to helping distressed places will increase net social benefits.

Of these three types of rationales, little evidence exists for the cost-effectiveness rationale or the social-multiplier rationale. With respect to cost effectiveness, it is unclear whether it is cheaper or more expensive to create jobs in a distressed local labor market, or to boost adult residents' employment rates in a more distressed neighborhood. With respect to social multipliers, it is similarly unclear whether the effect of higher local employment rates on reducing crime and other social ills is greater in more distressed places.

²³ To avoid confusion, we should specify that this “jobs multiplier” is not the same as the regular input-output multiplier which relates effects on direct export-base jobs to “multiplier” effects on supplier jobs and worker-demand-induced retail jobs. Rather, this jobs multiplier is simply the quantifiable effect of these interventions in the labor market on other labor market variables, as outlined below: for local labor markets, how jobs affect employment rates; for neighborhoods, how employment rate and earnings shocks to the neighborhood's adults affect such variables for the neighborhood's children.

But for the jobs multiplier, there is evidence to suggest that this multiplier increases in distressed places. This evidence is strongest in distressed local labor markets as opposed to distressed neighborhoods.

For local labor markets, the empirical evidence suggests that job creation policies will increase local employment rates by more if the local labor market initially has a lower employment rate (Austin, Glaeser, and Summers 2018; Bartik 2021). For example, consider the long-run effects on local rates of employment creation in a local labor market that starts out at the 10th population percentile of the preexisting employment rate; that is, 10 percent of the U.S. population lives in local labor markets that are at that employment rate or lower, and 90 percent live in local labor markets with higher employment rates. Compare this distressed local labor market with an “average” local labor market—one having an employment rate at the population median for all local labor markets, and also compare it with a “booming” local labor market, whose preexisting local employment rate exceeds the employment rate experienced by 90 percent of the U.S. population. In the depressed local labor market, a x percent increase in jobs will increase the local employment rate, in the long run, by 0.38 times x percent, compared to 0.21 times x percent in the average local labor market, and 0.10 times x percent in the booming local labor market. The employment-rate effects of increasing jobs are four-fifths higher in the distressed local labor market than in the average local area ($0.38/0.21$), and nearly four times greater than in the booming area ($0.38/0.10$).²⁴

²⁴ These empirical results are based on Bartik (2021), which reported “demand shock” effects on local employment rates of 0.52 in distressed areas, 0.29 in average areas, and 0.14 in booming areas. These demand-shock effects combine some multiplier effects of the demand shock with the proportion of jobs that go to local residents. For these unweighted regressions for larger areas, the most appropriate multipliers from Bartik and Sotherland (2019) are probably the unweighted multipliers for CZs with employment of more than 50,000. This long-run multiplier is 1.375. Dividing demand-shock effects on local employment rates in Bartik (2021) by this multiplier yields proportions of jobs that go to increasing employment rates of residents: in most distressed CZs, 0.38 ($0.52/1.375$); in average CZs, 0.21 ($0.29/1.375$); in booming CZs, 0.10 ($0.14/1.375$).

These greater long-run employment-rate effects are due to more local nonemployed persons being hired as job creation leads to a local “job vacancy chain.” A local job vacancy chain works as follows: As jobs are created, they are directly filled by hiring one of three types: 1) previously employed residents, 2) previously nonemployed residents, and 3) in-migrants. But hiring in the first category leads to a job vacancy, which is filled in the same three ways. Ultimately this job vacancy chain is only terminated when all created jobs lead to a job opportunity either for a nonemployed resident or for an in-migrant. Along these job vacancy chains, a lower preexisting local employment rate means that it is more likely that hires will come from the local nonemployed. Why? Because more local nonemployed workers are available, which increases the odds that someone from the pool of nonemployed residents will be hired for the vacancy. As a result, the immediate effects of job creation on the employment rate will be higher. These greater immediate effects build more job skills in the local population and reduce local social problems—both of which serve to increase job creation’s effects on the local employment rate in the long run.

From a national perspective, targeting job creation at distressed local labor markets is reallocating labor demand to areas that have a more elastic labor supply, where a demand shock will cause a greater employment boost. Targeting areas with more elastic supply of factors of production will raise both the supply of production factors and the overall national output. National employment and GDP will increase.²⁵

As discussed in Bartik (2021), these long-run effects are consistent with the short-run effects estimated in Austin, Glaeser, and Summers (2018). The differentials across areas with different distress levels are similar in the short run to what they are in the long run. What is different in the long run is that the average employment rate effects go down, so the percentage differences increase.

²⁵ What about national effects due to effects of job growth in distressed local labor markets on in-migrants to the distressed local labor markets, or to spillover effects of induced out-migration on nondistressed local labor markets? A nonmarginal change in a distressed local labor market represents a large change to those in that local labor market—who have special ties to that local labor market—but does not much change opportunities facing in-

To put it another way, reallocating labor demand to areas with higher nonemployment will raise the national employment rate that is sustainable, without accelerating inflation. Empirical evidence suggests that if nonemployment or unemployment differs across local labor markets, an equal reduction in nonemployment or unemployment everywhere will have higher upward pressure on national prices, compared to a reduction in nonemployment and unemployment that is targeted at the more distressed local labor markets—those with the highest nonemployment or unemployment rates (Bartik 2001, Appendix 9).

For neighborhood programs, there is some slight evidence of a greater jobs multiplier. This evidence is correlational, and so may not be causal. The evidence is also from only one study. The evidence is based on the relationship between the income of a neighborhood's adults and the future income of the neighborhood's children. On average, increasing the median household income of a neighborhood's adults by \$ x is associated with the future median household income of the neighborhood's children being higher by 43 percent of \$ x . But for neighborhoods in the 5th to 25th percentile of median adult household income, an increase in these neighborhoods' median adult household income by \$ x is associated with an increase to the future income of the children in these neighborhoods of perhaps 60 percent of \$ x (see Figure B1 of Chyn and Daruich 2021).

But why target *places* with higher nonemployment rates? Why not just directly target the nonemployed in distressed place? One key point is that directly targeting the nonemployed is not

migrants among different local areas: this distressed local labor market has no special appeal for them, as they could have just as easily found a comparable job that is equally attractive elsewhere. As for spillover effects, the available evidence suggests that a percent shock to population from migration causes an equal percent shock to employment (see Bartik 2021, and particularly Howard 2020). Therefore, inducing out-migration from a nondistressed local labor market will have few direct benefits or costs for residents of nondistressed local labor markets.

necessarily simple. Once one looks into what it takes to target the nonemployed, policymakers are likely to end up with a policy program that has a prominent place-based component.

Consider the following example. As is well known, simply subsidizing the employment of the nonemployed is likely to be counterproductive because of stigma effects. One experimental wage-subsidy program gave welfare recipients vouchers that they could give to employers, offering the employer a subsidy for hiring them (Burtless 1985). The welfare recipients, who were randomly chosen to be given the vouchers, were *less* likely to be hired than the control group. Many employers “stigmatized” the voucher holders, regarding the voucher as a signal that this person was a welfare recipient and therefore would be less productive.

To overcome stigma effects, wage subsidy programs have tried screening both employers and the nonemployed, seeking to create better matches.²⁶ Employers are screened to eliminate those who are most prone to stigmatizing the nonemployed. And the nonemployed are trained and screened to identify persons who are more likely to be a good match for the employer’s skill requirements. Such a program is likely to benefit from being embedded in an economic development program and/or workforce development program that has strong connections with local employers and with local neighborhoods. In other words, effective programs to target the nonemployed end up having to be a place-based program.

In addition, it will be easier to overcome stigma effects if we raise the overall employment rate throughout the local labor market. When local employment rates are increased, such employment rate increases disproportionately benefit persons of color, persons with lower educational backgrounds, and persons from lower income groups (Bartik 2001). Therefore, a place-based job creation program in local labor markets with low employment rates will

²⁶ See discussion of the MEED program in Bartik (2001). MEED is also discussed later in the current paper.

generally lead to considerable hiring of the nonemployed, particularly from more marginalized groups. Furthermore, it seems likely that such a place-based program will make it easier to run additional programs that more directly target opening up job opportunities to the nonemployed.

Description of Disparities

To analyze disparities across local labor markets, we use commuting zones, but subdivided by state. As mentioned, commuting zones have an advantage over metropolitan areas in that they include all counties in the United States, both urban and rural. Dividing the commuting zones that extend across state boundaries into separate areas in each state makes the commuting zone definition more relevant to state policymakers.

The commuting zone definition used is that developed by researchers at Penn State, following procedures originated by researchers at the U.S. Department of Agriculture (Fowler and Jensen 2020). The Penn State definitions are based on commuting patterns in the 2010 census. They cluster all U.S. counties into different commuting zones based on trying to maximize commuting within each zone and minimize commuting across zones. This approach ends up with 625 commuting zones. Further subdividing these zones at state boundaries yields 764 areas, which I will call “state-delimited commuting zones,” or SCZs.

As shown in Table 1, many of these SCZs are relatively small, with few inhabitants. Out of the 764 SCZs, 159 have a prime-age population of less than 10,000, but only 0.6 percent of the U.S. population lives in these small SCZs. But 25 percent of the U.S. population lives in one of the 10 largest SCZs. For subsequent work, descriptive statistics are generally population weighted, by prime-age population of the geographic unit.

Using these SCZ definitions, the American Community Survey is used to measure each SCZ’s prime-age employment rate—that is, the employment-to-population ratio for those aged

Table 1 Distribution of Civilian Prime-Age Population across 764 “State-Delimited Commuting Zones” (SCZs)

	Mean	Standard deviation	10th percentile	25th percentile	Median	75th percentile	90th percentile
Unweighted	166,795	479,419	4,079	13,543	39,673	114,329	361,114
Weighted by population	1,542,980	1,973,119	73,629	241,616	876,581	1,981,620	3,560,702

NOTE: See text for more on these SCZs. These are “commuting zones,” which are multicounty areas that contain most commuting flows, but further subdivided at state boundaries. Population statistics are for civilian population of “prime age,” ages 25–54. Population weighting is by prime-age population.

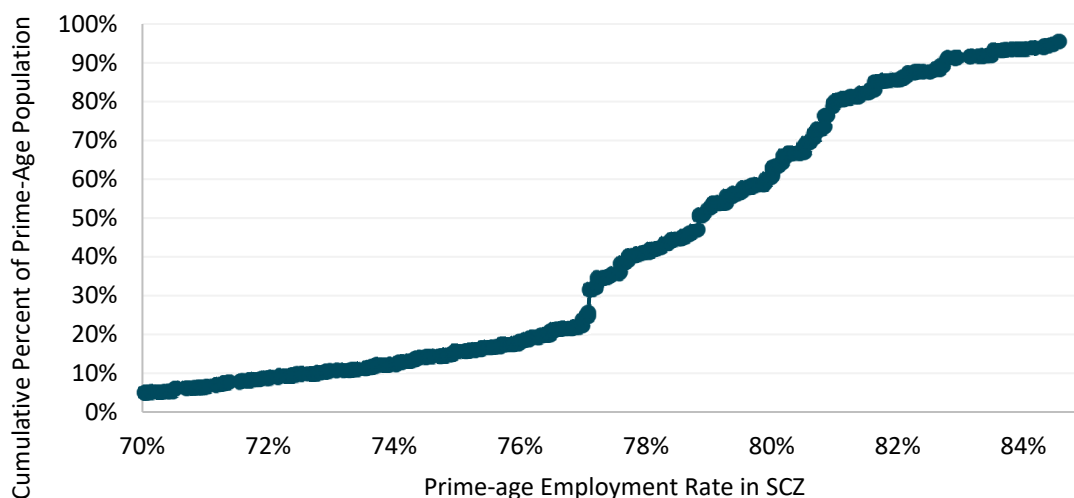
SOURCE: Statistics are from the American Community Survey, 2015–2019.

25–54. These employment rates are based on aggregated data from the Census Bureau, which reports five-year averages from 2015–2019. This time period is chosen in part because it is the most recent period prior to the pandemic, and also because it is close to a macroeconomic peak. The five-year aggregated data are chosen primarily because, unlike ACS microdata, these data are available for all geographic units, including smaller SCZs or census tracts, without biases due to census geographic disclosure rules.²⁷ Aggregated data also has larger sample sizes than the microdata; in addition, the five-year sample increases the sample size to about 7.5 percent of the U.S. population, which will increase data precision, particularly for smaller areas.

Using this 2015–2019 ACS data, Figure 1 and Table 2 describe the distribution of SCZ prime-age employment rates. The weighted mean prime-age employment rate in these data is 78.4 percent, and the median is 78.9 percent. As the figure and table show, the 10–90 disparity in SCZ prime-age employment rates, the gap between the 10th and 90th population percentiles of the SCZ employment rate distribution, is about 10 percentage points. The distribution of SCZ prime-age employment rates is somewhat skewed, in that there is more population in SCZs that is farther below the national mean or median prime-age employment rate, whereas the SCZs above the mean or median prime-age employment rate tend to be a bit closer to the mean and

²⁷ Public-use ACS microdata only identify geographies down to the level of Public Use Microdata Areas (PUMAs). PUMAs are areas of approximately 100,000 people; —hence, much too large to be neighborhoods. In addition, for smaller SCZs, those under 100,000 in population, any calculated prime-age employment rates from ACS microdata would be assigning statistics from a larger geographic unit to smaller SCZs.

Figure 1 Cumulative Percentage of SCZ Prime-Age Population with Prime-Age Employment Rate below Different Rates



NOTE: Figure takes prime-age employment rates for 764 SCZs and calculates percentage of total prime-age population in SCZs below different employment rates. Figure starts at 5 percent of prime-age population and goes to 95 percent.

SOURCE: Author's calculations.

Table 2 Distribution of Prime-Age Employment Rate across 764 SCZs

Mean	Standard deviation	10th percentile	25th percentile	Median	75th percentile	90th percentile
78.4%	4.4%	72.8%	77.1%	78.9%	80.8%	82.8%

NOTE: Statistics are for 764 “commuting zones,” further divided at state boundaries. Statistics are weighted by each SCZ’s prime-age population.

SOURCE: Statistics are from the 2015–2019 American Community Survey.

median. For example, the 10th percentile is at 72.8 percent, 5.6 percent below the mean and 6.1 percent below the median, whereas the 90th percentile is at 82.8 percent, 4.4 percent above the mean and 3.9 percent above the median. As one goes above the mean and median, many SCZs appear to be concentrated at an 81 percent employment rate or below, suggesting that increasing the prime-age employment rate too much above 81 percent is more challenging.

Obviously much of this SCZ disparity occurs across different states. But as Table 3 shows, there is substantial variation in SCZ prime-age employment rates. Fifteen states have weighted standard deviations of SCZ employment rates that exceed the national weighted standard deviation of 4.4 percent. The five states with the highest SCZ deviations are Kentucky,

Table 3 States Ranked by Weighted Standard Deviation of Prime-Age Employment Rates across SCZs

State	Mean overall prime-age employment rate (%)	Weighted standard deviation of prime-age employment rate across SCZs (%)	Prime-age population (000s)
United States	78.4	4.4	127,432
Kentucky	73.7	8.3	1,708
South Dakota	83.8	8.0	313
West Virginia	69.6	6.0	672
Virginia	80.3	5.6	3,336
Arkansas	74.1	5.3	1,129
Montana	80.6	5.3	379
New Mexico	71.9	5.1	771
Arizona	75.6	4.9	2,667
Georgia	77.1	4.9	4,191
Louisiana	73.1	4.9	1,814
Tennessee	76.1	4.8	2,623
Missouri	79.3	4.8	2,312
Mississippi	71.6	4.8	1,125
Alaska	76.6	4.6	293
Oklahoma	75.2	4.5	1,489
Colorado	81.6	4.4	2,329
Texas	77.2	4.2	11,448
Oregon	78.6	4.1	1,644
Alabama	73.1	4.1	1,856
North Carolina	77.8	3.9	3,988
North Dakota	85.6	3.7	284
California	77.1	3.7	16,203
Hawaii	80.2	3.4	532
Maine	80.5	3.4	495
Wyoming	81.7	3.3	217
Ohio	78.8	3.2	4,421
South Carolina	76.9	3.0	1,900
Maryland	82.2	3.0	2,412
Kansas	81.7	2.9	1,071
Florida	77.2	2.9	7,945
Washington	78.8	2.6	3,002
Indiana	78.9	2.6	2,536
Illinois	79.9	2.5	5,078
Vermont	83.0	2.5	226
Iowa	84.3	2.4	1,150
Michigan	77.4	2.4	3,748
New Hampshire	83.6	2.3	514
Pennsylvania	79.3	2.3	4,862
Wisconsin	83.7	2.2	2,187
Nevada	77.6	2.0	1,214
Idaho	78.1	1.9	636
Massachusetts	82.1	1.7	2,744
Minnesota	85.7	1.6	2,160
Utah	79.5	1.6	1,193
New York	78.9	1.5	7,899
Nebraska	84.8	1.3	711
New Jersey	80.5	1.2	3,529
Delaware	79.7	0.4	360
Connecticut	80.7	0.0	1,370
District of Columbia	82.3	0.0	338
Rhode Island	80.1	0.0	409

NOTE: States are ranked by prime-age population—weighted standard deviation of prime-age employment rates for the various state-delimited commuting zones (SCZs) in the state.

SOURCE: Author's calculations.

South Dakota, West Virginia, Virginia, and Arkansas. Twenty-five other states have considerable SCZ variation, a weighted standard deviation between 2.0 percent and 4.4 percent. Finally, 11 states have very low variation in SCZ employment rates, below a 2.0 percent weighted standard deviation. Some low-variation states are small states with only a single SCZ: Connecticut, DC, and Rhode Island.²⁸ Some small states with more than one SCZ, such as Delaware, also have low SCZ variation. But some large states have modest SCZ variation, such as New York and Minnesota.

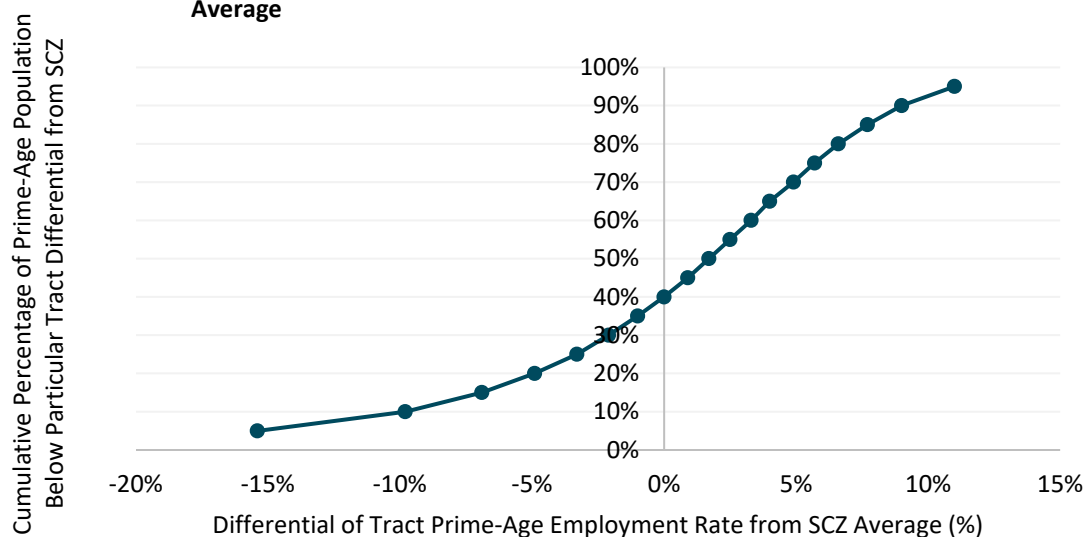
In addition to analyzing cross-SCZ disparities, this report analyzes within-SCZ disparities across neighborhoods. Neighborhood disparities are analyzed by considering prime-age employment-rate differences between census tracts and their SCZs.

Over the entire U.S., differences between census-tract employment rates and their SCZs are often large (Figure 2 and Table 4). The difference between the 10th and 90th percentiles of the employment-rate distribution is 18.9 percentage points. This differential is almost twice the 10–90 differentials in the nation in SCZ employment rates. More low-employment rate extremes are found in tracts than high-employment rate extremes.

In all states, there are large within-SCZ differentials in tract employment rates. As shown in Table 5, all states have a weighted standard deviation of this differential of at least 6 percentage points. However, some states are much higher than others. The five highest states, ranked by weighted standard deviation of tract differentials, are Arizona, Mississippi, Louisiana, DC, and Alabama. The five states with the lowest weighted standard deviation of tract employment rate differentials are Vermont, Utah, Wyoming, Minnesota, and North Dakota.

²⁸ As mentioned above, each state will have to decide whether the SCZ definition of “local labor markets” meets its needs. Connecticut, for example, might decide it wants a narrower definition. But across the nation, SCZs provide a rough guide to local labor market variation.

Figure 2 Cumulative Percentage of Population, by Tract Differentials from SCZ Average



NOTE: What is reported is cumulative distribution of tract prime-age population by the tract differential from the prime-age employment rate for the SCZ the tract is in.

SOURCE: Data from 2015–2019 American Community Survey on all census tracts.

Table 4 Census Tract Differentials of Prime-Age Employment Rates from SCZ Average, Weighted by Tract Prime-Age Population

Mean	Standard deviation	10th percentile	25th percentile	Median	75th percentile	90th percentile
0.2%	9.0%	−9.8%	−3.3%	1.7%	5.7%	9.1%

NOTE: Data from 2015–2019 American Community Survey. Unit of observation is 71,518 census tracts with prime-age population in the United States. Variable analyzed is difference between tract prime-age employment rate and the prime-age employment rate of the SCZ the tract is in.

SOURCE: Author’s calculations.

If we look together across states at these various employment-rate measures—at state employment rates, cross-SCZ differentials, and within-SCZ differentials—we find that overall state employment rates are highly negatively correlated with both cross-SCZ variation and tract differentials. Higher state prime-age employment rates are negatively correlated with the weighted standard deviation of a state’s SCZ prime-age employment rates, as well as with the weighted standard deviation of a state’s tract differentials from SCZ employment rates.²⁹ What

²⁹ The correlation of a state’s employment rate with the state’s weighted standard deviation of SCZ employment rates is -0.471 , and the correlation of a state’s employment rate with the state’s weighted standard deviation of tract differentials from SCZ employment rates is -0.710 . The SCZ weighted standard deviation and the tract-weighted standard deviation are modestly positively correlated at 0.227 .

Table 5 States, Sorted by Weighted Standard Deviation of Tract Differentials from the SCZ

State	Prime-age population (000s)	Weighted mean prime- age employment rate (%)	Weighted standard deviation of prime-age employment rate across SCZs (%)	Weighted standard deviation of tract differentials of prime-age employment rate from SCZ (%)
United States	127,432	78.4	4.4	9.0
Arizona	2,667	75.6	4.9	11.8
Mississippi	1,125	71.6	4.8	11.7
Louisiana	1,814	73.1	4.9	11.3
DC	338	82.3	0.0	10.8
Alabama	1,856	73.1	4.1	10.6
West Virginia	672	69.6	6.0	10.4
Pennsylvania	4,862	79.3	2.3	10.4
Ohio	4,421	78.8	3.2	10.3
Michigan	3,748	77.4	2.4	10.2
Kentucky	1,708	73.7	8.4	10.1
South Carolina	1,900	76.9	3.0	10.0
Nevada	1,214	77.6	2.0	9.8
Arkansas	1,129	74.1	5.3	9.8
New Mexico	771	71.9	5.1	9.8
Delaware	360	79.7	0.4	9.7
Oklahoma	1,489	75.2	4.5	9.6
Illinois	5,078	79.9	2.5	9.5
Florida	7,945	77.2	2.9	9.4
Indiana	2,536	78.9	2.6	9.4
Alaska	293	76.6	4.6	9.3
Texas	11,448	77.2	4.2	9.3
Tennessee	2,623	76.1	4.8	9.2
Hawaii	532	80.2	3.4	9.2
Missouri	2,312	79.3	4.8	9.2
Rhode Island	409	80.1	0.0	9.0
New York	7,899	78.9	1.5	9.0
Georgia	4,191	77.1	4.9	9.0
Kansas	1,071	81.7	2.9	8.6
Connecticut	1,370	80.7	0.0	8.6
Wisconsin	2,187	83.7	2.2	8.5
Idaho	636	78.1	1.9	8.5
South Dakota	313	83.8	8.0	8.4
North Carolina	3,988	77.8	3.9	8.2
Virginia	3,336	80.3	5.6	8.2
New Jersey	3,529	80.5	1.2	8.1
California	16,203	77.1	3.7	8.0
Massachusetts	2,744	82.1	1.7	8.0
New Hampshire	514	83.6	2.3	7.9
Washington	3,002	78.8	2.6	7.9
Maine	495	80.5	3.4	7.9
Oregon	1,644	78.6	4.1	7.8
Montana	379	80.6	5.3	7.7
Maryland	2,412	82.2	3.0	7.6
Iowa	1,150	84.3	2.4	7.3
Colorado	2,329	81.6	4.4	7.3
Nebraska	711	84.8	1.3	7.2
North Dakota	284	85.6	3.7	6.9
Minnesota	2,160	85.7	1.6	6.6
Wyoming	217	81.7	3.3	6.6
Utah	1,193	79.5	1.6	6.4
Vermont	226	83.0	2.5	6.0

SOURCE: Author's calculations.

causes these negative correlations? The most likely explanation is that whether employment rates are affected by forces at the state level (e.g., state policies), SCZ level (local labor market conditions affecting the supply of business inputs or demand for the area's specialized industries), or tract level (changes in neighborhood crime, school quality, or real estate development), employment rates that are low are far easier to affect. For example, if for some reason there is an increase in demand for a local SCZ's specialized industries, this change is going to have more effect in SCZs that have lower prior employment rates, and thus the change will lower SCZ differentials while increasing the overall state employment rate. This improvement in the SCZ's overall economic conditions will also probably have greater effects on employment rates in tracts with lower prior employment rates, so tract differentials will go down as well.³⁰

What Are the Most Cost-Effective Policies to Increase Local Employment Rates?

Disparities in places' employment rates are therefore a large problem. But does this problem have a good solution? Can we create jobs in distressed local labor markets at a low-enough cost per job? Can we link residents of distressed neighborhoods to jobs at a low-enough cost per job placement?

Local labor markets

Business tax incentives can create jobs, but the cost of doing so is high. Based on research, business tax incentives have an estimated present-value cost per job created of at least \$296,000, and even more if we account for the costs of financing the incentive.

³⁰ There also is an explanation that is partly economic and partly statistical. As mentioned, it is easier for an SCZ to have an unusually low employment rate than an unusually high employment rate. A random shock that lowers an SCZ's employment rate to a very low level will tend to both lower the state mean employment rate and raise the standard deviation of the employment rate across SCZs.

This estimate is mostly derived from the research literature on how business location and expansion decisions are affected by state and local business taxes.³¹ As business-tax incentives can be viewed as a reduction in state and local business taxes, these business-tax effects can be used to infer the effects of incentives. The sparser research that has directly looked at business-tax incentives finds effects consistent with the notion that a business cost reduction of a given size, whether brought about by tax cuts or incentives, will have similar effects on local job creation.

Why are incentive costs of creating jobs so expensive? The average business incentive package in the U.S. has a present-value cost of around \$56,000 per job. But although this cost is considerable, it is roughly equivalent to less than a 3 percent wage subsidy. Given the large variations in other location determinants across state and local areas—labor productivity, wages, access to supplies, access to buyers, research spillovers from agglomeration economies—a cost subsidy of this magnitude will not tip many location or expansion decisions. The available estimates suggest that such an incentive package will probably tip around 12 percent of incented firms’ decisions about creating or expanding jobs (Bartik 2018c). This multiplies the \$56,000 cost by around 8, which would raise costs per directly induced job to more than \$450,000. The cost per net jobs created comes down somewhat then, due to multiplier effects, which at the local level will be a multiplier of around 1.6. We end up with a net cost of around \$296,000 per job created.³²

³¹ More specifically, this estimate is derived from using the model of incentive effects described in Bartik (2018a). It adjusts the model to an effective SCZ multiplier of 1.605, and to 2020 prices.

³² What if the incentive is larger than average, or smaller? This will not much change the true cost per job actually created, as the percentage of decisions “tipped” by the incentive will tend to scale with the incentive. For example, if we imagine an incentive of double the average, or \$112,000 per job rather than \$56,000, then the probability of tipping the location or expansion decision will probably roughly double, going up from 12 percent to 24 percent. Net costs per job will not change much.

Incentive costs are even higher if we also add in possible negative effects due to the government paying for the incentives. Paying for an incentive program requires either tax increases or spending cuts. Many tax increases and spending cuts will destroy some jobs. The net cost per job created depends on the details of how the incentive package is financed, but this incentive financing could easily increase the cost per job created by 15 percent or more.³³

As has already been mentioned, the benefits per job are also high. In an average local labor market, these benefits might be \$411,000 per job, so business tax incentives would then only modestly pass a benefit-cost test.³⁴ In a distressed local labor market, benefits might go up by 50 to 100 percent, as more jobs will go to the local nonemployed. On the other hand, in a booming labor market, benefits might be cut in half, as there are fewer local nonemployed persons available to be hired, and more jobs will go to in-migrants. As a result, whether business tax incentives in practice pass a benefit-cost test depends very much on the details of where they are offered.

But costs per job created will be much lower for programs that seek to encourage business job creation by providing public services that enhance the quality of business inputs. Examples of such public services include the following:

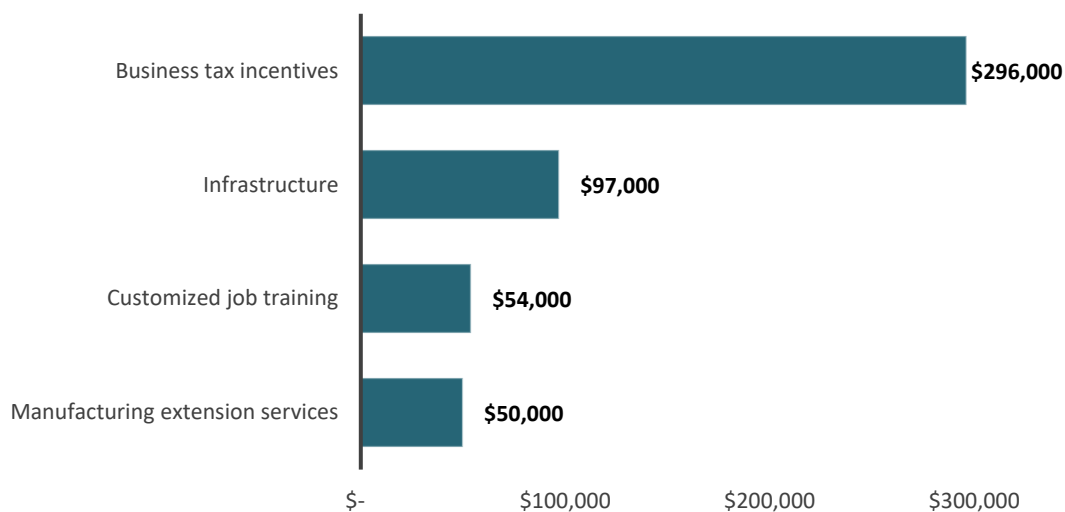
³³ For example, if we use the model of Bartik (2018a, 2019) and assume 50 percent tax financing, 50 percent public-service-cut financing, with taxes imposed on businesses and households in the same proportion they are usually, and public spending cuts falling proportionately on all spending areas, then the net cost per job increases to \$344,000, an increase of \$48,000, or about 16 percent over the \$296,000 figure. Why not use this figure? Two reasons: First, in most of this paper, we are looking at block grants financed outside the place being helped, by the state, so any job losses from financing the incentives would be mostly outside the place. Second, the exact cost of financing incentives is sensitive to the method of financing. Some methods have far greater costs, such as cutting K–12 school funding. On the other hand, financing by imposing higher taxes on the households in the state with the top 10 percent of income would have few or no job-destruction costs. See Bartik (2019).

³⁴ This benefit figure subtracts out costs due to paying for the incentives with a mix of a 50 percent tax increase and a 50 percent public-service cut, with all tax increases and spending cuts done in a uniform percentage across all types of taxes and public spending. This financing will adversely affect school funding and wages, lowering benefits per job. This calculation also subtracts some much smaller adverse effects on local businesses from higher prices. This \$411,000-per-job figure should be compared with the \$344,000-cost-per-job figure from a prior footnote.

- public infrastructure
- customized job training programs, in which local community colleges provide locating or expanding firms with free training, customized to the firm's skill needs
- business advice programs, which provide small and medium-sized businesses with information and advice on new technology and new markets

Estimated costs per job created for such public services, compared to business incentives, are less than one-third as great. As shown in Figure 3, infrastructure costs have an estimated cost per job created of \$97,000; customized job training's cost per job created is \$54,000; manufacturing extension services, which are one type of business advice program, have a cost per job created of \$50,000.³⁵

Figure 3 Cost Per Job Created



NOTE: Cost is present-value cost, in 2020 dollars, of creating a job in a local commuting zone through that type of policy. Cost assumes outside financing or financing with no job destruction costs.

SOURCE: Author's estimates based on prior research; see text.

³⁵ The cost-per-job-created figures here are larger than those cited in Bartik (2020b) because these figures use the smaller commuting-zone multiplier, not the larger state multiplier, and because figures here are in 2020 dollars. References for the research supporting these job-creation figures are in Bartik (2018a, 2018b, 2020b). Below, I further describe the methods used. In addition, it should be noted that these costs per job created use similar methods as the cost per job created for tax incentives. Specifically, I do not subtract out job destruction from financing the incentives, for three reasons. First, as previously noted, we are here looking at costs per job of policies with outside financing from the state government. Second, it is possible to arrange financing so that jobs are not destroyed—for example, by financing policies through taxes on the income of the state's wealthy. Third, for these public service programs such as infrastructure, customized training, and business advice, any job destruction due to financing by cuts in other public services is offset, perhaps in total, by job creation in these services.

These estimates for the job-creation effects of public services to business come from studies with reasonable methodologies, as follows. Infrastructure effects are estimated from studies of the Tennessee Valley Authority (TVA), which focused on providing electrification infrastructure. The TVA study compares the TVA region with similar regions that were unsuccessfully proposed for such assistance (Kline and Moretti 2013).³⁶ Customized job training's effects are estimated from looking at businesses that successfully applied for training assistance, versus similar businesses that applied later but received no assistance. In such cases, they were denied because training-grant funds had been allocated on a first-come, first-served basis and had run out (Holzer et al. 1993).³⁷ Manufacturing extension's effects are estimated from comparing similar businesses that were closer or farther in distance from the nearest manufacturing extension office, and that therefore were more or less likely to be assisted (Jarmin 1999).³⁸ Other studies also provide support for these low costs per job created.³⁹

³⁶ More specifically, I take Kline and Moretti's figures for the effects of TVA on manufacturing job growth by decade, along with actual manufacturing employment in the TVA region, to figure out year-by-year effects on manufacturing jobs, 1940–2000. I then apply the CZ multiplier of around 1.605 from Bartik and Sotheland (2019) to these TVA figures. The actual multiplier in the TVA region will be larger, but here I want to capture how infrastructure will affect a local labor market, not a huge multistate region. I assume the jobs created as of 2000 continue forever, and I discount job-years created back to 1940. I also discount TVA spending back to 1940. I figure out the present value of job-years and the present value of TVA dollars as of 1940, but I adjust dollar figures to 2020 dollars based on inflation. I then recalculate based on how much one job persisting forever provides in job years to get a cost per job created of \$97,000.

³⁷ More specifically, I use Holzer et al. (1993) to estimate that each dollar of customized job training reduces firm costs by 4.85. This is entered into the incentive model as an extra job-creation effect of these in-kind services, whose impact is also increased because these services are provided upfront, which is more effective, as shown in Bartik (2019).

³⁸ More specifically, I use Jarmin (1999) to calculate that each dollar of manufacturing extension yields productivity benefits that are 5.40 times as great. This is entered into the incentive model as an extra job-creation effect of these in-kind services, whose impact is also increased by being provided upfront (Bartik 2019).

³⁹ Other research on the local economic benefits of infrastructure includes Jaworski and Kitchens (2019), showing large benefits of Appalachian highways. Survey evidence showing large job-creation effects of customized job training per dollar of program costs is found in Hollenbeck (2008, 2013). Survey evidence showing large job-creation effects of manufacturing extension per dollar of program costs include Ehlen (2001) and Robey et al. (2018). This survey evidence would yield much lower costs per job created of customized training or manufacturing extension. To be conservative, I instead use the figures derived from the econometric studies of Holzer et al. (1993) and Jarmin (1999).

Why might job creation costs be lower for providing public services to business, rather than from providing businesses with cash via tax cuts or incentives? Such public services might have a higher value to the business than their cost to the government. Public infrastructure is hard for businesses to provide on their own; in other words, it is what economists call a public good. Community colleges have expertise in training that not all businesses have, particularly small and medium-sized businesses. As for business advice, such advice is cheap to provide, yet is very valuable if the advice is of high quality. But small and medium-sized businesses may have difficulty in identifying reliable sources of advice on their own; thus, government intervention to directly provide such advice or subsidize advice from college professors or reliable consultants may be helpful.

Because costs per job created are much lower for these public services to business, the benefit-cost ratio for these services can be quite high. As mentioned, benefits per job created can be \$411,000 in an average local labor market, and 50 to 100 percent higher in a distressed local labor market. So it is easy for benefit-cost ratios for such services to be four-to-one or even higher.

One key distinction of customized services to business, compared to cash incentives, is that the services tend to be especially useful to small businesses, whereas cash incentives tend to go to large firms. For cash incentives that are nonrefundable tax breaks, many small businesses will have insufficient tax liability for such tax breaks to be useful. In addition, we know that the largest cash incentives tend to go to large firms. For example, we know that firms with more than 100 employees get more than 90 percent of cash incentives, even though they constitute only 66 percent of private jobs (Chatterji 2018; U.S. Census Bureau 2018). This disproportionate awarding of firms is even more exacerbated for the largest firms, which are the firms that get the

billion-dollar incentive deals. For example, for new establishments with more than 1,000 employees, over 36 percent receive incentives, whereas the percentage is less than 2 percent for new establishments of less than 500 employees (Slattery and Zidar 2020).

In contrast, many customized services to business will be most useful to smaller businesses. Large corporations can afford dedicated training staff, and thus are less in need of training help. Large corporations may have plenty of expertise and access to reliable consultants, and thus are less in need of free or low-cost business advice. But small businesses may lack the resources to design or pay for the training they need for their workers. Small businesses may also quite rationally fear that trained workers may be more likely to leave a smaller business, reducing the private-business payoff to paying for training, although not necessarily the social payoff to training. Small businesses may also find it harder to identify high-quality business-advice providers, and to pay for the needed advice. Finally, small businesses may find it more difficult to endure the red tape and delays associated with infrastructure and business real estate development, and may therefore benefit from public interventions that seek to facilitate making business real estate more readily available, such as business incubators, business parks, or brownfield redevelopment.

Promoting small-business growth over branch plant growth may have important economic and social benefits, both locally and nationally. At the local level, job growth in locally owned small businesses will tend to have higher traditional “input-output” job multipliers. Locally owned small businesses will tend to use more local suppliers than will branch operations of big businesses. For example, a locally owned bookstore may use a local tax accountant, whereas the local branch of a bookstore chain is unlikely to do so. In addition, for locally owned small businesses, the profits go to income of local residents, not out-of-state stockholders. This

increased income of local owners will be in part locally spent, which will increase sales of other businesses in the local economy, further increasing local jobs. Based on research, it seems likely that the local multiplier is about 0.25 greater for locally owned businesses. In other words, for every 100 jobs created in local businesses, compared to non–locally owned businesses, the spillover or multiplier jobs will be 25 jobs greater (Civic Economics 2007, 2013). In addition, providing help to locally owned firms directly increases benefits for one group of local residents: the firms’ owners. Overall, a simulation model of the benefits and costs of incentives suggests that providing assistance to locally owned firms—even with no reduction in the cost per truly induced job—will raise the gross benefits of economic development assistance by about two-thirds. This reflects both the higher multiplier and the direct benefits for local residents, as well as further feedback benefits of these initial benefits.⁴⁰

Promoting locally owned businesses may also have important local political and social benefits. Locally owned businesses will tend to give more local charitable contributions. Perhaps more importantly, locally owned businesses may be more likely to help provide local civic leadership. Branch plants are simply less engaged in the success of their local community.

From a national perspective, promoting small businesses over large businesses may promote greater market competition. It is a competitive advantage for large U.S. corporations that they are likely to receive far larger incentive offers per job, or as a percentage of investment, than is true for small firms. Promoting market competition is one reason the European Union

⁴⁰ For more details, see Bartik (2019) or Bartik (2018a) for the model. In general, in this simulation model of a local economy, and the resulting benefits and costs of different types of incentives and other customized business assistance, any change that directly increases some model benefit relative to costs will have some positive effects on other benefits as the initial benefits feed back into the local economy. For example, aiding locally owned businesses increases the multiplier, which directly increases employment. This will directly increase the employment rate, boosting earnings. But the rise in the employment rate will also increase fiscal benefits, by increasing revenues relative to costs. These fiscal benefits allow for reduced taxes or increased public spending, which then further expands the local economy.

gives for its restrictions on the size of cash incentives, as the EU knows that cash incentives tend to subsidize the largest firms over smaller ones.

Despite these advantages of customized services over cash incentives—a lower cost per job created, and higher benefits per job created—state and local economic development strategies currently overwhelmingly emphasize cash incentives. Out of about \$50 billion annually in state and local business aid to promote economic development, about \$47 billion of that goes to cash incentives, and only \$3 billion to customized services (Bartik 2020a).

Why do states devote over 90 percent of economic development program costs to cash incentives and less than 10 percent to customized services? There are both defensible reasons and reasons that are less defensible and due more to political expediency. Among the defensible reasons: the low costs per job created of customized services are based on the assumption that the infrastructure, training, and advice are both high-quality and needed. For example, infrastructure that is a “bridge to nowhere”—i.e., some pork-barrel project that links two politically favored small communities—will not effectively spur local job creation. Customized training must be designed well enough to meet business’s skill needs. Not all business advice is helpful. Ensuring that such services are of high quality and useful in creating jobs is crucial.

Furthermore, such public services to business may have a scale that is limited. Infrastructure is subject to diminishing returns as infrastructure spending increases. Not all businesses need customized training or advice, and even businesses that do need such services have some limits to those needs. In contrast, business incentives are easier to scale up, as more cash is always useful. Therefore, it could be argued that in highly distressed areas, after we have fully funded infrastructure needs, training needs, and business advice needs, there may still be some role for incentives.

But there are also less defensible reasons for favoring cash incentives over business services. Offering cash incentives to a large firm for a prominent location or expansion decision is politically popular. Voters like to see governors and mayors “doing something” about jobs. However, voters may not fully understand the incentive costs. Economic development policymakers frequently argue that many tax breaks *have* no costs, as the firm would not have located in the community “but for” the incentive. This argument is fallacious, as incentives on average probably tip the location or expansion decision in 12 percent of the cases where incentives are offered (see above). So, 88 percent of the time, incentives are all costs and no benefits. Furthermore, even if the location decision *is* induced, the net revenue gained, net of the forgone tax break, is an overstatement of fiscal benefits, as the increased employment will attract population, which will require increased public spending to keep public-service quality constant. On net, fiscal benefits probably offset less than 20 percent of cash incentives’ gross costs. But voters may not understand that fiscal benefits are so limited, because economic development officials often over-claim fiscal benefits.

Furthermore, governors and mayors can more easily design cash incentives than services to pass on costs to the next governor and mayor. It is common for property-tax abatements, or job-creation tax credits, to extend for 10 or 15 years. Services will generally need to be paid for upfront, with the exception of infrastructure, which can be paid for over time. As a result, it is politically very tempting for governors and mayors to offer cash incentives that are quite large but spread over the next 15 years or more. The current elected official receives political credit *now* for “doing something about jobs,” and the next governor or mayor will have to figure out how to pay for these incentive promises.

All of this is an argument for greater evaluation of all economic development programs, both cash incentives and customized services. Cash incentives should be more thoroughly evaluated so that policymakers and the public more fully understand their long-run costs. Customized services must be evaluated to make sure they are of high quality and needed.

Neighborhoods

For neighborhoods, most studies suggest that simply handing out tax breaks for neighborhood capital investment or even local hiring is not particularly effective in boosting the job prospects of a neighborhood's residents. Enterprise Zones, which typically provide automatic incentives for investing in a neighborhood, creating jobs in a neighborhood, or hiring a neighborhood's residents, have generally been found to be ineffective.⁴¹ In contrast, the federal Empowerment Zone program of the Clinton administration has been found to be effective.⁴² This Empowerment Zone program combined tax breaks for employing a neighborhood's residents with a \$100 million block grant per zone that could be used to enhance a wide variety of neighborhood public services. The employment rate of Empowerment Zone residents went up sufficiently to have a cost per extra job for neighborhood residents of around \$69,000.⁴³

⁴¹ Bartik (2010a) provides a review. What about the more recent Opportunity Zone program? So far, the program has not existed long enough for empirical research to yield precise estimates.

⁴² Why isn't the Empowerment Zone program still around today? The program did exist in *some* form for a long time, with some tax breaks continuing to 2013. However, over time the block grant per zone was dramatically reduced, and eventually appropriations for such block grants were discontinued; all that the program provided was tax breaks (Congressional Research Service 2011). The most plausible interpretation is that it was difficult to mobilize continued political support for appropriations that explicitly targeted only a few places. Tax breaks were easier to continue.

⁴³ This calculation combines estimates from Tables 5, 8, and 10 of Busso, Gregory, and Kline (2013). Empowerment zones have estimated effects, in their "PW estimates," of 0.176 on log of zone jobs held by zone residents, 0.123 on nonzone jobs held by zone residents, and 0.060 on zone population. When this is combined with estimates that 38,000 zone residents work inside the zone and 142,000 zone residents work outside the zone (Table 10), the zones increased the employment-to-population ratio over all zone residents from 23.0 percent to 24.7 percent. This is combined with estimates that the cost of the program by 2000 was \$883 million in year 2020 dollars, which works out to a little over \$1,200 in year 2020 dollars per year 2000 resident.

An alternative calculation could rely on Neumark and Young (2019). Their estimates using rejected and future Empowerment Zones (EMPZs) as a comparison group found an effect of 4.563 percentage points on the

These neighborhood studies typically rely on comparing selected zones with nonselected zones that are similar in observable preselection characteristics. The Empowerment Zone evaluation had a particularly strong methodology, in that the similar zones were those that either applied unsuccessfully for the program, or were selected in later rounds of the program. This increases the odds that the comparison zones were similar in not just observed characteristics but in unobserved characteristics.

Why were Empowerment Zones more effective than Enterprise Zones? A natural hypothesis is that it was due to the block grant assistance, which came in the form of a \$100 million block grant (in 1990s dollars) for each zone.⁴⁴ This block grant was the main feature of Empowerment Zones that differed from most state Enterprise Zones. Both Enterprise Zones and Empowerment Zones used tax breaks, but Empowerment Zones were unusual in adding the block grant. This block grant could be used for a wide variety of neighborhood services, including local infrastructure, small-business incubators, small-business assistance, and job training and placement assistance. Directly addressing a distressed neighborhood's problems through services may be more effective than simply trying to offset the problems with subsidies for local investment or hiring.

On the other hand, hiring subsidies for neighborhood residents, if properly designed and combined with screening and placement services, might be a useful supplement to enhancing neighborhood services such as job training. Based on prior research, providing hiring subsidies to firms might be particularly effective if tied to discretionary wage subsidies that are selective,

employment rate, which appears to be about a 6 percent log percentage increase in the employment rate relative to a base rate of around 74 percent. When this is combined with data on overall zone employment, we get that the zones created around 10,400 jobs for zone residents, which translates into an \$85,000 cost per job created for neighborhood residents, about 23 percent greater than that estimated by Busso, Gregory, and Kline (2013).

⁴⁴ The Empowerment Zone program was created in 1993, but the \$100 million block grant program was spent over multiple later years. Inflating from 1993 to 2020 dollars yields a value in 2020 dollars of \$180 million; inflating from 2000 to 2020 dollars yields \$151 million.

Box 1 Minnesota's MEED Program: A Large-Scale Job Creation/Matching Program of the 1980s

From 1983 to 1989, Minnesota ran an innovative job-creation and job-matching program for the long-term unemployed. The Minnesota program used the acronym MEED, which originally stood for Minnesota Emergency Employment Development program, and later for Minnesota Employment and Economic Development program. The MEED program was run at a large scale, equivalent to a national program that would place over one million participants per year.

MEED was a discretionary wage-subsidy program for both public and private jobs. Wage subsidies were provided up to the equivalent of \$13 per hour, for up to six months. Funds were controlled by local job-training agencies. These agencies decided which long-term unemployed and employers would be approved for the program; no unemployed persons or employers had an "entitlement" to have a wage subsidy paid on their behalf or to receive a wage subsidy. Eligible job seekers were unemployed persons who had exhausted their unemployment benefits or who were receiving welfare benefits. Employers could only be subsidized for newly created jobs. Job training agencies were supposed to give preference to small businesses or small nonprofits, and to employers that were "export-based" businesses, selling their goods and services outside Minnesota. Employers were expected in general to retain subsidized workers for at least one year after the subsidy period. If the worker quit or was fired, the employer was expected to hire another worker from the program or repay most of the subsidy.

The discretionary nature of the program allowed the local job-training agency to reduce the impact of potential stigma effects. As mentioned in the main text, past wage-subsidy programs for welfare recipients have sometimes found that a wage subsidy for employers that identifies the person as receiving welfare may actually reduce the odds of employers being willing to hire the welfare recipient (Burtless 1985), presumably because of the "stigma effect" of the employer viewing welfare receipt as a signal of a less productive worker. But the local job-training agencies in Minnesota could screen the long-term unemployed persons eligible for the program to try to identify persons who would be a reasonably good match for a variety of eligible jobs, in that they had the right soft skills and hard skills for these openings. Furthermore, the local training agency would not send workers out with a wage-subsidy voucher to random local employers, but rather would recruit employers who were willing to hire welfare recipients or other long-term unemployed persons. In addition, based on past experience with a particular employer who abused the program, the local job-training agency could refuse to place other subsidized workers with that employer.

MEED was never studied with a rigorous research design, for example a random-assignment experiment or quasi-experiment. However, survey evidence on MEED suggests that the program may have been effective. Surveys of private employers using MEED found that over 55 percent of private employers said they would not have expanded "but for" the MEED subsidy. The program did not require that the jobs would not have been created "but for" MEED, so employers had no direct reason to give misleading responses to this survey. One would certainly expect a wage subsidy of \$13 per hour to have some considerable effect on job creation.

Based on this survey evidence, Bartik (2010b) estimated that MEED's costs per extra job opportunity created was about \$50,000 in 2020 dollars. Even if the employer survey responses somewhat exaggerated the effects of the wage subsidies, it seems plausible that costs per extra job opportunity for the long-term unemployed might be \$100,000 or less.

in which firms and workers are chosen to participate, and that seek to match the right worker to the right firm. Because some firms might stigmatize disadvantaged workers identified through a hiring subsidy, these firms should not be part of a hiring subsidy program. And firms are more likely to do new and different hiring in response to a subsidy if the subsidized workers are screened and trained by a local training provider, to reassure the firm that the hired worker will

be productive. One example of such a discretionary hiring subsidy is the MEED subsidy, carried out by Minnesota in the 1980s. As shown in Box 1, MEED may have created additional job opportunities at a cost per extra job opportunity of around \$50,000.⁴⁵

The employment of neighborhood residents might also be usefully promoted by providing neighborhood residents with supports to help them retain jobs. Many nonemployed or underemployed neighborhood residents may face challenges in arranging for consistent and reliable child care, transportation, or housing.⁴⁶ Programs such as Employer Resource Networks use “success coaches” to provide casework services to help newly hired neighborhood residents retain their jobs (see Box 2).⁴⁷

From this discussion, neighborhood-based services and hiring subsidies might be able to create additional job opportunities for neighborhood residents at a cost of \$50,000 to \$69,000.

Box 2 Employer Resource Networks (ERNs)

Employer Resource Networks (ERNs) are consortia that use both public and private funding to provide case management services that help improve job retention and advance the career trajectories of entry-level workers. An employer contracts with a “success coach” to work with entry-level workers. The success coach’s goal is to overcome problems that might impede job retention, whatever those might be, and to help improve the upward mobility of workers.

Success coaches can link workers with various community services, such as child care, housing, mental health, health care, and family support and counseling. The program also includes arrangements with local financial institutions to provide hardship loans to these entry-level workers, for example emergency loans for car repair. Success coaches also help workers repair their credit and improve their budgeting, saving, and financial planning. Coaches can also encourage workers to identify training opportunities to upgrade their career advancement prospects.

Employers pay a fee for these services, which they recoup through lower costs of employee absenteeism and turnover and higher employee productivity. However, in many ERN programs, there is some explicit or implicit public subsidy. Part of the ERN success coaches’ salaries may be publicly provided, and many of the connected services have considerable public subsidies.

⁴⁵ Bartik (2001, pp. 216–217) also provides more information on the MEED program.

⁴⁶ But to what degree should the focus be on directly funding these support services versus facilitating their use? This will be discussed later, when this report discusses solutions. Child care, transportation, and housing are all very expensive to provide directly to all neighborhood residents. In contrast, casework services to help residents access these services in order to be placed into jobs, combined with some temporary subsidies, may help keep the focus of any solutions on increasing employment rates.

⁴⁷ For more on ERNs, see Miller-Adams et al. (2019). My employer, the Upjohn Institute, manages job training programs in southwest Michigan, and these services include an ERN.

This seems similar to the cost per job created of job-creation programs at the local labor-market level, which, as stated above, could be \$50,000 (manufacturing extension) or \$54,000 (customized job training).

However, this comparison is comparing apples with oranges. At the local labor-market level, not all of these jobs created go to increasing the employment rate of local residents. As mentioned, in a typical local labor market, perhaps 21 percent of the jobs created will go to local residents, so the cost per actual job opportunity for a local resident would be \$50,000 to \$54,000 divided by 0.21, or \$238,000 to \$257,000. In a more distressed local labor market, 38 percent of the jobs created might go to local residents, so the cost per extra local-resident job opportunity would be \$50,000 to \$54,000 divided by 0.38, or \$131,000 to \$142,000.

On the other hand, the job opportunities created for neighborhood residents by these neighborhood programs come, to some unknown extent, at the expense of non-neighborhood residents. The programs are encouraging employers to hire and retain workers from distressed neighborhoods. All employers are included in such programs, including employers who sell to local labor markets (e.g., restaurants). Some of the employers involved in these programs would have otherwise allocated more of their hiring to non-neighborhood residents. Even for jobs for neighborhood residents that would not otherwise have been created, if this business sells its goods and services locally, some of these created jobs will reduce jobs at other businesses within the same local labor market—e.g., the restaurant's hiring of neighborhood residents may reduce jobs at other restaurants within the overall local labor market.

In other words, the benefits of local labor market job-creation programs, and those of neighborhood employment opportunity programs, are by their nature different. The former program is actually adding jobs and increasing the overall employment rate in the local labor

market. The latter program is reallocating jobs to neighborhoods where they are most needed. Both types of programs can have net social benefits, but they are of different sorts.

Why Focus on State Governments, Rather Than the Federal Government?

If targeting distressed places with job opportunities is desirable, why focus on state governments? Why shouldn't the federal government be the main focus for bringing about greater targeting of distressed places?

To clarify: this report's focus on state targeting of distressed places is not meant to disparage possible federal targeting. But state-level targeting has some substantive advantages: state governments are more likely to be adaptable to the varied needs of distressed places. State experimentation also may provide better evidence on "what works." Politically, because targeting is difficult at all levels of government, pursuing it wherever the political opportunity occurs, at either the federal or state level, seems a pragmatic strategy. The structure of political representation at the state level potentially makes targeting more feasible.

Distressed places with low employment rates do not all need the same policy intervention. At the local labor-market level, as outlined above, various public services to enhance business inputs are the most cost-effective way to create jobs. But not all local labor markets need exactly the same services. Some places may need a road or transit infrastructure project; other areas may not. Manufacturing extension services are obviously far more relevant for manufacturing-intensive areas. Local labor markets with different industry mixes, and different preexisting skills of local workers, will need different levels of spending and different design of customized training programs. Rural areas have different needs from urban areas: for example, many distressed rural areas may need more assistance in improving governmental capacity to apply for and conduct effective economic development programs.

At the neighborhood level, services can help residents with jobs, but which services are most needed will depend upon what the neighborhood already has and what the key barriers are to accessing the local labor market's jobs. Some neighborhoods may need better mass transit links, whereas in other neighborhoods, services may be needed to help residents get reliable used cars. Available jobs may require a lot of training for neighborhood residents, or they may simply require better information on job availability. Child-care availability will also vary across neighborhoods (Davis, Lee, and Sojourner 2019).

Which level of government, federal or state, is more likely to offer the needed flexibility to local labor markets and neighborhoods to respond to low employment rates with diverse solutions? Probably state governments, as they are closer to the people and more attuned to the particularities of local needs.

State action is also desirable for evaluation purposes. Although we know something about what policies best increase job availability, we would like to increase our knowledge. A federal one-size-fits-all policy may not permit sufficient local experimentation to allow for needed evaluation. But if states experiment with diverse policies to help local labor markets create jobs, or to help the residents of distressed neighborhoods access jobs, this diversity potentially can be evaluated to see what works. A little later, I will make specific suggestions on how to improve state-level evaluations.

Politically, neither federal nor state governments have a good track record on targeting distressed places. Targeting places at any level of government is politically difficult.

At the federal level, distressed local labor markets have only occasionally been seriously targeted, in politically unusual circumstances. The Tennessee Valley Authority was a large-scale and serious local development policy, which at its peak provided annual funding of more than

\$300 per capita (in 2020 dollars). It was adopted during the New Deal as a demonstration project, but a demonstration project that led to no similarly scaled projects in other regions. The Appalachian Regional Commission, begun in the 1960s, was also a serious development program, with peak annual funding in the early 1970s of around \$85 per capita (again, in 2020 dollars). But it, again, was adopted during an unusual political period, the Great Society era, and has not led to similar assistance for other distressed areas.

Distressed neighborhoods have sometimes been federally targeted: by urban renewal in the 1950s, by Empowerment Zones during the Clinton administration in the 1990s, and by Opportunity Zones during the Trump administration. But with the exception of Empowerment Zones, this targeting mostly focused on increasing public or private real-estate investments in these neighborhoods, not on job opportunities for neighborhood residents.

State governments have seldom done much targeting. Below, I present some discussion of the imperfect targeting efforts of the 10 most populous states. (Appendix A presents more-detailed case studies). As I will discuss, even when programs are targeted, they frequently get diverted to spreading their activities much more widely.

Part of the trouble in targeting distressed places is that such places have little clout. At the federal level, the president has political reasons to attend to swing states, not so much to distressed places. The Senate wants to disperse funds from any federal program to small states—again, not necessarily to distressed places. And congresspersons represent very large districts—now over 700,000 people. Many distressed neighborhoods are far smaller.

The same problems occur at the state level, although less acutely. Governors have some political reason to pay attention to distressed places, as the votes of people in these places count. State legislative districts are much smaller, which increases the odds that a particular distressed

place will have an advocate. Still, the political tendency is to spread out a program to all places, rather than target only distressed places. Targeting is often working against the main political current. After discussing specific states' experiences, I will outline the design of a pair of targeted state programs that might be more politically feasible. The key is designing the programs so that they are broad enough to meet universal needs, yet have formulas that target within that universalism. Programs that provide some benefits to most places, but provide more aid to some places that have more people with need, can sometimes generate substantial targeting.

SECTION 2: WHAT STATES DO IN ECONOMIC DEVELOPMENT—AND HOW IT RARELY TARGETS DISTRESSED PLACES

In this section, I turn to discussing how economic development—including the targeting of distressed places—is handled by different state governments. As we will see, states do little to consistently target more job opportunities to distressed places and their residents.

To keep the discussion to a manageable size, the state governments considered are those of the largest 10 states, based on population. These largest states have 54 percent of the U.S. population.

The appendix presents mini “case studies” looking at what each of these states do in economic development. These case studies include discussions of the practical extent to which each of these states do geographic targeting favoring distressed places.

Based on these case studies, Table 6 provides a summary of state economic development programs in these states, and the percentage of economic development resources that target distressed places.

Table 6 Summary Description of Economic Development Programs and Their Targeting, 10 Most Populous States

State	Population (in millions)	Annual econ. dev. \$ per cap (\$)	Percent cash (vs. services) (%)	Percent w/ at least modest targeting (%)	Share of targeted programs in distressed areas
California	39.4	69	96	8	Less than one-fifth
Texas	29.4	37	98	5	Less than one-third
Florida	21.7	11	94	5	100 percent
New York	19.3	124	63	38	Less than one-third
Pennsylvania	12.8	39	88	24	Less than one-half
Illinois	12.6	40	75	60	Less than one-quarter
Ohio	11.7	68	93	7	100 percent
Georgia	10.7	159	95	11	Less than one-half
North Carolina	10.6	13	66	57	Less than one-half
Michigan	10.0	141	92	0	

NOTE: Dollar figures in today's dollars.

SOURCE: Based on case studies in appendix.

As can be seen in Table 6, above, there is wide variation in economic development resources (either tax breaks or spending) per capita, with the range stretching from \$11 to \$159 annually. Even nearby states (New York vs. Pennsylvania; Florida vs. Georgia vs. North Carolina) often vary greatly.

Most economic development resources go to cash provided to firms, either through tax breaks or cash grants. In most states, this is close to 90 percent or even over. However, sometimes a quarter to a third of economic development resources go to providing customized services to business.

Out of total economic development resources, in most states the percentage of resources in programs with at least *some* targeting is small, 11 percent or less. In some states, more than one-quarter or even over one-half of economic development resources go to programs with some geographic targeting based on distress. However, even if a program has *some* geographic targeting, in practice the eligibility criteria are broad enough that funds are spread quite widely. In most states, even for those programs that are targeted, less than one half of the program's funds go to distressed places. Programs that are 100 percent targeted at distressed places tend to

be a small share of economic development budgets. Furthermore, many of these highly targeted programs tend to be Enterprise Zone programs, or similar programs that use tax breaks to target investments in particular census tracts (or other similar neighborhood definitions). As noted previously, the research evidence suggests that such Enterprise Zone programs are not an effective way to spur job growth in neighborhoods and may not help neighborhood residents much (Bartik 2010a, 2021; Neumark and Young 2019). In sum, state governments' targeting of economic development programs is infrequent, low-intensity, and ineffective.

Here are some highlights from each state on the limits of “targeting” even in programs that are supposedly “targeted.” (See the appendix case studies for more details.)

California. The main two programs that are somewhat targeted are 1) the California Competes tax credit program and 2) the Employment Training Panel grant program for customized job training. For California Competes, out of \$436 million in credits awarded during a two-year period, only \$53 million went to designated high-poverty or high-unemployment areas. For the ETP customized training grants, out of \$109 million in annual funds, only \$15 million went to designated high-unemployment areas.

Texas. The only program that is targeted is the Texas Enterprise Zone program. In the most recent two-year period with data, only 40 out of 107 projects were in designated distressed zones, as nonzones are also eligible for assistance but with slightly more restrictive criteria on who must be hired for project jobs.

Florida. The main program that is targeted is the state's New Markets Development Program tax credit program.⁴⁸ This program is 100 percent targeted at distressed census tracts, but is a small share of the state's economic development resources.

⁴⁸ To avoid confusion, it should be said that this program is funded with the state's own tax preferences, not the federal credits under the federal New Markets Tax Credit program.

New York. New York's main targeting is in its spending on job creation and retention grants and on infrastructure. Out of \$911 million in spending for these purposes, \$170 million goes to Buffalo and other places in upstate New York, and \$110 million goes to broadband infrastructure in underserved places, most of which are probably distressed.

The history of New York's Empire Zone program—now defunct, but formerly the state's biggest economic development program—illustrates how a state's economic development targeting is often broadened over time. Empire Zones started out in 1986 as a small program for 10 small areas. The program gradually expanded to more areas, but still only cost about \$30 million annually as of 2000. But in 2001, Empire Zones were expanded almost statewide and their benefits sweetened. By 2008, the program cost almost \$600 million. These exploding costs eventually led to a backlash, and the program was replaced with a somewhat less generous incentive program in 2010.

Pennsylvania. Two of the state's economic development programs are at least somewhat targeted: 1) Keystone Opportunity Zones (*not* an add-on to the federal program, KOZ long preceded the federal program) and 2) the Neighborhood Assistance Program. But the place eligibility criteria are far broader than whether a place is distressed. For example, a place can be eligible if it has "real property with adequate infrastructure and energy to support new or expanded development," or if "at least 20 percent of all real property within a five-mile radius of the proposed zone in a non-urban area (one-mile radius in urban area) is deteriorated or underutilized." A little local creativity can make most places eligible.

Illinois. Three Illinois programs are modestly targeted: 1) the EDGE program (refundable tax credits for job creation), 2) the Illinois Enterprise Zone program, and 3) a broadband infrastructure targeted. EDGE credits are more generous in high-poverty or high-unemployment

tracts, but only \$16 million out of \$77 million in EDGE credits go to such tracts. The broadband program is not explicitly targeted, but probably tends to go to distressed rural areas. The Illinois Enterprise Zone program has multiple possible ways for neighborhoods to be eligible, which include high unemployment or high poverty, but also include the quality of the plan for the zone or the potential of the project to generate jobs or tax base.

Ohio. Almost none of the state programs are explicitly targeted. Programs are supposed to give special consideration to “priority investment areas” with a lot of unemployment, but it is unclear whether this makes any difference. The state does have an add-on to the federal Opportunity Zone program that is targeted at high-poverty census tracts. Ohio also has a special job-training program in Appalachia and some programs to promote “clean coal” research (research on less-polluting usage of coal), which may particularly help this state’s distressed areas in Appalachia.

Georgia. The program that has the most targeting, although it is modest in practice, is the Jobs Tax Credit. The credit per job varies across counties, based on what “distress tier” the county is in, out of four different tiers. In the most distressed tier, the credit is \$4,000 per job; in the least distressed tier, the credit is \$1,250 per job. Because studies have not found these credits to have any effect on job growth, it seems likely that overall job creation is far greater in the least distressed counties, and that, therefore, a high percentage of the program ends up benefiting firms in booming areas.

North Carolina. North Carolina has long had a program under which some economic development assistance is awarded based in part on a county’s annually determined distress level. Currently, this targeting is quite modest, mostly requiring that county distress be “considered” in making incentive awards. For example, the Job Development Investment Grant

(JDIG) cash grant program for job creation, although it is supposed to “consider” distress, only awarded 19 percent of JDIG dollars to the most distressed counties, which have 23 percent of the state’s population.

North Carolina’s history illustrates the problem of maintaining highly differential cash credit or grant rates over time. For example, from 2007 to 2013, the state had a job creation credit rate of \$12,500 per job in the most distressed counties, versus \$750 per job in the least distressed counties. Even such differential credits did not always target most credit dollars in total to the most distressed counties, as their job creation rates were much lower. But since 2014, the targeting is even less, presumably because these high credit differentials did not necessarily have broad political support.

Michigan. Michigan, a state with high economic development incentives per capita, has never had much explicit geographic targeting.

Summary Comments on States

Based on these 10 largest states, it appears that the states do relatively little geographic targeting. When this targeting does occur, it is mostly at the level of small neighborhoods.

Some states do targeting at the county level, such as Georgia and North Carolina, as mentioned above.⁴⁹ However, state targeting rarely if ever seems to take place at the level of the local labor market, which would generally be a multicounty area. The lack of local labor market targeting might be explained by local labor markets not constituting governmental units with power and political influence.

⁴⁹ According to the North Carolina General Assembly, Program Evaluation Division (2016), other states that do county tiers include Arkansas, Mississippi, South Carolina, Tennessee, and Wisconsin.

The neighborhood targeting that is most popular frequently focuses on providing tax incentives for real estate projects. Such real estate incentives have a political constituency—real estate developers—but do not necessarily do much to help neighborhood residents. As previously noted, even if these real estate projects create jobs in a neighborhood, these jobs may not benefit neighborhood residents.

Targeting on a neighborhood or county frequently has exceptions or loopholes that weaken its impact. A program may have easier eligibility or more generous terms for projects in distressed places. But outside of distressed places, projects may be eligible, sometimes even on equally generous terms, if they are larger, or pay higher wages, or are in particular desired industries, such as high-tech.

Targeting distressed places sometimes involves providing higher credit amounts per job, or other more generous terms. Although this favors distressed places, less distressed places may end up collecting higher dollar support from state governments, because these less distressed places may have more growth and hence more eligible projects. In addition, because the distress criterion is often a “zero-one” classification variable, among the designated distressed places, those with better preexisting growth prospects will tend to be favored over designated distressed places with more persistent problems.

Distress criteria often seem arbitrary. What places are classified as distressed changes frequently, sometimes annually.

Distress criteria often expand over time to include more places. The scenario goes as follows: a state creates a program that is highly targeted at a few places. Over time, more places are added. Eventually, the program ends up expanding to most or all of the state. Part of the problem is that the original targeting formula had no clear and defensible rationale. If the

formula for targeting is arbitrary, then it is hard to argue against political pressures that replace this arbitrary formula with another formula that is equally arbitrary and less targeted. In other words, even when states do pursue targeting, they do not know how to target in a way that is politically defensible and hence sustainable.

SECTION 3: STATE GOVERNMENT TARGETING OF DISTRESSED PLACES WITH BLOCK GRANTS

To improve state government targeting of distressed places, this section makes a specific proposal: two types of state government block grants—one for distressed local labor markets and the other for neighborhoods—aimed at expanding these places’ job opportunities for residents. This section analyzes the rationale behind these block grants. Specific designs and distribution formulas are proposed for the two block grants. These distribution formulas have a clear rationale related to local needs. Furthermore, while the distribution is highly targeted, it also includes to some degree a wide variety of places: it is “targeting within universalism.” Analysis is done of the impact and distribution of these block grants. This analysis considers distributional impact by place distress levels, by state and local area, and by race and ethnicity. As examples, some further information is presented for this proposal’s implications for Michigan and Detroit, and for Pennsylvania and Philadelphia.

Why Target Distressed Places with Block Grants Rather Than with Higher Subsidies per Job Created?

Below, this report will outline proposals for states to promote local economic development using two different but complementary block grants:

- 1) an entitlement block grant to promote job creation and higher employment rates in local labor markets, with the block grant per capita allocation varying with the local labor market’s baseline prime-age employment-to-population ratio;

- 2) a competitive discretionary block grant to distressed neighborhoods, which could help neighborhood residents gain higher employment rates by training, job information, job supports such as child care, and job retention services, with the possible discretionary grant award per capita being tied to the neighborhood's baseline prime-age employment rate.

These block grants would both be designed to achieve particular “quantity goals”—that is, to increase prime-age employment rates in distressed local labor markets and neighborhoods by some fraction of their gap from norms for higher employment rates.

Why aim at particular quantitative goals for prime-age employment rates? Why seek to achieve those goals through block grants that focus on providing particular spending levels for public services that promote higher prime-age employment rates? For most economists, an analysis of the problems of distressed places would suggest a quite different policy approach: *price subsidies* for job creation in a place or for hiring residents of that place. As this report will describe, block grants are preferable to price subsidies for two reasons: 1) *uncertainty* about measuring how much different places are distressed and need targeting and 2) the *political economy* of targeting.

In the economist's view of the world, the most natural way to solve almost any policy problem is to “get the prices right.” Therefore, if the problem is a lack of jobs or too low of employment rates in particular places, economists would look to solve the problem through price subsidies. Rather than providing fixed block grants to achieve quantitative goals for employment rates, the state or federal government would provide place-varying “price subsidies” for jobs. This is the type of place-based policy that was endorsed by prominent Harvard urban economist Ed Glaeser and by well-known economist Larry Summers in a Brookings journal article (Austin, Glaeser, and Summers 2018) and an op-ed in the *New York Times* (Glaeser, Summers, and Austin 2018).

The idea of these job-creation price subsidies, from the viewpoint of economists, is this: there is a market failure, due to job creation providing social benefits to others, which causes particular social benefits to not be considered by firms when they make job-creation decisions. These social benefits include benefits for the rest of the family, and benefits for the rest of society, from reduced crime, reduced substance abuse, reduced need for health-care expenditures, reduced welfare expenditures, increased tax revenue, and increased productivity spillovers if the average worker is more skilled because of more job experience. These social benefits justify a subsidy for job creation. If these social benefits are higher in distressed places, as seems likely, then the job creation subsidy should be higher.

Such price subsidies could be applied to private firms' job creation: the more distressed a community, the higher subsidy per job created. Price subsidies could also be applied to aid to distressed communities to support local job-creation strategies: a state government could provide a place-varying subsidy for helping local communities with infrastructure, customized job training, manufacturing extension services, job placement services, and other services to promote higher employment rates, with such subsidies being higher in distressed places.

As described above, some states have at times had such a place-varying price subsidy for job creation, at least at the county or neighborhood level. (As already stated, almost no state policies target the local labor market level.) States also sometimes have price subsidies for local grants, in which the required local match is lower for distressed communities. On the other hand, states often have place-sensitive "quantity subsidies," in which distressed counties or neighborhoods are eligible for more or larger grants for economic development and community development purposes. Therefore, politically, it would seem that both "price subsidies" and "quantity subsidies" are feasible. Which design should be preferred?

A preference for quantity subsidies over price subsidies in this case can be justified on very traditional economic grounds. Price subsidies to deal with “social spillovers” are well known to be problematic when we are uncertain about the needed price subsidy—that is, uncertain about the magnitude of the social benefit spillover (Weitzman 1974). In the current case, any criteria for identifying distressed places will end up being quite uncertain about not only the needed magnitude of the desired job-creation subsidy, but how it should vary across places.

Here is the problem: we have some scheme for classifying places by distress, such as North Carolina’s system of dividing counties into tiers. In practice, this ends up being quite imprecise. The net effect is that more subsidy dollars go to communities in any distress category that would have had high job growth anyway, without any job creation subsidy, by giving them high price subsidies for that high job growth. These communities were thought to be distressed but were rapidly improving. So, the price subsidy scheme oversubsidizes places that end up booming, and undersubsidizes areas in the same distress category that end up doing worse than expected. If we had perfect knowledge, we would have fine-tuned our price subsidies to adjust them downward for the communities that ended up doing well and to adjust them upward for the communities that ended up lagging behind. But our knowledge is imperfect, so it is difficult to design optimal price subsidies.

Even if we do accurately divide places (local labor markets, counties, neighborhoods) into the right distress category, we easily can fail to equalize economic conditions if the less-distressed places continue to boom relative to the distressed places. For example, suppose we divide places into two equally sized groups by prior distress, and we provide job-creation subsidies per job that are twice as great in the distressed group. But suppose the nondistressed

places have four times the percentage job growth and four times the job-creation projects of the distressed places. Then the subsidy dollars will end up being twice as great in the nondistressed places compared to the distressed places. The job-creation effects per dollar could well be similar in the two places. (Half the subsidy might imply half the job-creation effects, but the effects per dollar of subsidy would plausibly be similar.)⁵⁰ In that case, the policy would actually tend to encourage more divergent economic growth across distress classification. The problem is that we underestimated the relative social benefits of job-creation subsidies in distressed versus nondistressed places, and as a result our relative job-creation subsidies were insufficient to help even out job growth trends.

In contrast, if we provide a block grant, which can be used to provide a variety of services to create jobs, this does not ratchet up to artificially aid areas that end up being booming. If we have two areas with the same preexisting employment rate, they will end up getting the same block grant per capita. The community that ends up booming may get too big of a block grant, but the block-grant amount will not expand because of the boom, which is what happens with a price subsidy. The booming community will have a fixed-dollar block grant that can be used to provide supportive services for many possible projects, so the dollars that can be used per project job will be lower than in the community that ends up lagging behind. The lagging community will have fewer prospective projects, but the fixed block grant gives them more funds per project to work with. If the cost per job created is the same in the two communities, then the higher per capita grant in the distressed community will create more jobs per capita, helping to alleviate relative distress. In contrast, the price subsidy automatically ratchets down the aid if the community is lagging.

⁵⁰ More plausibly, there would be some diminishing returns to subsidies. Providing an incentive twice as great per job probably has less than twice the effect on the probability of inducing the decision.

In other words, the quantity subsidy is more resilient to policy mistakes than the price subsidies. In either case, if we erroneously identify as distressed a place that ends up booming, then either a quantity subsidy or a price subsidy provides this booming place with too much funding. But the price subsidy compounds this error by automatically further increasing funding due to the boom. In the other direction, if we identify an area as modestly depressed, but we are in error because it ends up being severely distressed and has almost no job growth, both the quantity-subsidy and price-subsidy approaches will end up providing too little funding for an area that ends up with more job creation problems than expected. But the price-subsidy approach compounds the error by further reducing funding, as funding is based on job growth.

The other reason the price subsidy is problematic has to do with a political economy point: the likely required cash subsidies are too big to be administered and targeted as a price subsidy, especially because of the politics of trying to target a large price subsidy. In my view, in distressed places, the social spillover benefits of job creation likely exceed the earnings increase due to the job creation, maybe by a factor of two. That is, when we consider how job creation and higher employment rates affect a community—lower substance abuse, lower crime, stronger families and child development, better job skills, better fiscal conditions and public services, and so forth—the required social benefit measure might be twice the wage bill in a distressed community, and would be pretty sizable even in a less distressed community that is not at a maximum feasible employment rate. This implies the following: the desired price subsidies for public services to create jobs and improve employment rates would probably be over 100 percent. As such, the state government (or the federal government) should simply fund the public services rather than matching local funds. Furthermore, the desired public subsidies for *private* job creation might require that the marginally created jobs be more than 100 percent paid for by

the government. Essentially, we’re saying that job creation is likely so valuable in highly distressed local labor markets and neighborhoods that the government should be willing to either provide public-service jobs or pay private employers a 100 percent subsidy.

Public subsidies for private job creation at this level in distressed communities are not a sustainable political strategy. First, it would be extremely expensive—essentially it involves socializing marginal job creation in distressed communities and making enormous wealth transfers to private firms.⁵¹ Second, because there is unlimited demand by private firms for such large cash subsidies, the result is enormous political pressure to expand the subsidies from distressed communities to “key projects” throughout the state. If we’re willing to provide a large cash subsidy for private job creation in Flint, Michigan, because it is distressed, political pressures will lead to also supporting an innovative biotech job project in Ann Arbor that might help enhance a biotech job cluster.⁵²

Unlike a public subsidy for private job creation, the quantity of grants for public services to support job creation are inherently limited, in at least two ways. First, such grants go through the appropriations budget process, whereas public subsidies for private job creation frequently go through the tax system and are not subject to annual appropriation limits. Second, the demand by private firms for public services to support job creation is more limited—firms only value such

⁵¹ From an economist’s traditional strict “efficiency” criteria, the wealth transfer by these subsidies to private firms is not a net social cost, but rather a transfer from the general taxpayer to owners of capital, who in turn may pass on some of these subsidy benefits to workers or consumers. But for any voter—or economist—who also cares about distributional equity, these wealth transfers to owners of capital are of concern, given that owners of capital will tend to be wealthier than the average taxpayer.

Furthermore, this expense of these “ideal price subsidies” would be far greater than typical tax incentives or services to create jobs. Such incentives or services rarely if ever pay close to 100 percent of labor costs. The highest incentives per job tend to be film tax credits, which often are 20 to 30 percent of production costs (Button 2019).

⁵² It could be argued that targeting high-tech clusters over distressed places could be justified if agglomeration economies lead to high-tech job creation having very high multipliers. However, as shown in Bartik and Sotherland (2019), although high-tech job multipliers are greater than multipliers for non-high-tech industries, the difference in multipliers is not as great as sometimes claimed. Furthermore, as Bartik and Sotherland discuss, many local labor markets have a potential for high-tech job growth, not just Silicon Valley or Ann Arbor.

programs to the extent that such services are useful to the business, and there are some natural limits (decreasing returns to scale) in how useful infrastructure, customized job training, or business advice is to the firm. At some point, the business has plenty of infrastructure support, adequately trained workers, and good business advice, and no more is needed.

Quantity subsidies also can be designed to be based on a clear need that individuals have, which demonstrably varies by place. This allows all places to be included in a universal program, yet also allows for the quantity subsidy to vary with place needs. For example, as will be outlined below, the proposed block grants essentially provide funds to a place proportional to some measure of the place's number of prime-age nonemployed. There is a clear rationale for why each place's grant per capita differs: each has different numbers of nonemployed persons, and that is the problem the grant is trying to solve. In contrast, because we do not know exactly how the external benefits of job creation vary by place, the precise formulas for how price subsidies vary by place are not well-founded on a clear quantitative rationale. This lack of a firm foundation makes the price subsidy more vulnerable to political lobbying for spreading it out. All places feel they need jobs and have external benefits, so why not provide a similar subsidy everywhere?

For example, in the case of quantity subsidies, it is clear that states have the capability of using quantity subsidies to provide targeted K–12 school funding. Numerous states provide a certain dollar amount in state aid per student and then further vary the state aid so that more dollars are received for low-income students. These extra dollars for low-income students implicitly target by place, so that places with more low-income students end up getting significantly higher per-student funding. Some states have substantial “need-based” per-student policies: as a percentage of total K–12 instructional expenditures, Maryland provides extra aid

per low-income student of 75 percent; New Hampshire, 59 percent; New Jersey, 51 percent; Pennsylvania, 47 percent; Indiana, 40 percent; and Massachusetts, 30 percent (Hollenbeck et al. 2015). If we consider a district that is close to 100 percent low-income, versus a district that is close to 0 percent low-income, such policies would result in substantial place-based targeting.

The precedent of school funding suggests we can do something similar for place-based job-creation funding. Just as states often find it feasible to target places for educational assistance based on their numbers of low-income students, states may often find it feasible to target places for job-creation assistance based on their number of prime-age nonemployed persons.

Block Grant Proposal: Basic Logic and Key Design Elements

To help deal with the problems of low employment rates in particular local labor markets or neighborhoods, I propose that states adopt two types of block grant programs:

- 1) The first is a **Local Job Creation (LJC) Block Grant**, which would provide public services to business to encourage job creation and higher employment rates in most local labor markets in the state, but would target more funds per capita at more distressed local labor markets;
- 2) The second is a **Neighborhood Employment Opportunity (NEO) Block Grant**, which would provide neighborhood-based services to support access and retention of jobs by residents of the most highly distressed neighborhoods only.

The LJC proposal is meant as a substitute for most of the state's economic development programs. Therefore, eligibility is defined broadly to include any local labor market that is below maximum attainable employment rates, but it provides more funds if the local labor market is further below "full employment." In contrast to most state economic development programs, the program is not primarily made up of tax incentives or other cash incentives, but rather consists of public services meant to create jobs: infrastructure (roads, transit, utilities); customized job training carried out by community colleges or local job training programs to meet the needs of firms creating jobs; manufacturing extension services and other business advice programs (small

business development centers); and brownfield redevelopment, research parks, and other land development to support business growth. The public services to support job creation would be coupled with programs to make sure that a high proportion of created jobs go to local residents; more details on this a bit later.⁵³

The focus is on services that help the export-based businesses in each local economy be more competitive in national and international markets. Therefore, it does not hurt the more distressed local labor markets for the state to provide some help to local labor markets that are somewhat better off. The job creation in nondistressed areas will increase the state's overall share in the national market—yet, largely, will not come from reducing the national market share of the state's own nondistressed areas. In addition, the targeting means that more help per capita is provided to the distressed areas.⁵⁴

The NEO proposal is meant as a substitute for Enterprise Zones and other programs that seek to target neighborhoods for help based on their residents' having low employment, earnings, and income. But it is distinct in that, rather than providing tax incentives or grants for plopping real estate developments or jobs in a neighborhood, the program would provide public services to promote neighborhood residents' employability. Services would be provided to neighborhood residents at neighborhood facilities and would include the following five aspects:

1) information on job openings throughout the local labor market; 2) training funds to prepare

⁵³ What if some states follow this report's advice in substituting LJC grants for traditional incentives, and other states stick with their current tax incentive regime? A full analysis lies outside the scope of this report, but in brief, the states that substituted LJC for conventional tax incentives would have better job creation and would also allocate more jobs to distressed local labor markets. The better overall job creation would occur because of the much lower job-creation costs of customized public services compared to business tax incentives.

⁵⁴ The help to nondistressed areas does come to some extent at the cost of reduced jobs in distressed areas somewhere in the nation. However, as argued previously, the higher per capita aid to distressed areas in all states will tend to redistribute jobs to distressed areas, which will promote overall national job growth in two ways: 1) expanding demand where there is more excess labor supply and 2) expanding demand where there are less likely to be upward inflationary pressures.

residents for job openings throughout the local labor market; 3) help in finding high-quality child care, and some financial assistance in paying for such care; 4) funding for better transportation, whether through mass transit or helping neighborhood residents obtain reliable used cars; and 5) success coaches who could work with neighborhood residents both in obtaining jobs and retaining those jobs, similar to the previously described Employer Resource Networks. The NEO program also could use a portion of funds to provide training funds for private employers hiring nonemployed or underemployed neighborhood residents. This is similar to the MEED program, also previously described, but limits the employer subsidies to training services rather than cash subsidies.⁵⁵ For reasons already outlined, cash subsidies are subject to too much political pressure to expand.

The NEO program does not create jobs. Instead, it increases the odds of neighborhood residents getting access to the jobs already available. Hence, in the short run, the program probably helps the assisted neighborhoods' residents, while hurting somewhat the residents of other neighborhoods in the local labor market. Therefore, it is important that the NEO program be tightly targeted at the most distressed neighborhoods, rather than being more broadly available in any neighborhood. In the long run, the program's effort to help residents of distressed neighborhoods get jobs will improve social conditions and child development in such neighborhoods. These social benefits are likely to spill over and benefit residents throughout the local labor market. But in the short run, the program is mostly redistributing jobs more evenly across neighborhoods.

The LJC and NEO programs complement one another. The LJC program helps create jobs, particularly in the most distressed local labor markets. The NEO program helps ensure that

⁵⁵ This proposal also has similarities to a place-based subsidized jobs proposal by Neumark (2018).

the jobs created throughout the local labor market are accessible to residents of all neighborhoods, including the most distressed neighborhoods. This also helps the LJC program achieve better results in allocating created jobs to local residents.

Local Job Creation Block Grant: Design Features

The proposed “Local Job Creation (LJC) Block Grant” program, supported by state governments, would provide assistance to create jobs in the state’s local labor market areas, targeted to direct more funds to distressed areas. The assistance would be provided in the form of an entitlement block grant, with the per capita annual grant going up if the area’s prime-age employment rate starts out lower. The entitlement feature provides each local labor market area with steady funding it can depend on in carrying out a long-range program.

The eligible entity to be funded would represent the residents of a multicounty area. Economic development programs at the state and local levels have sometimes had limited democratic accountability. Often, economic development programs have been partly privatized, with local economic development groups being in part controlled by local business interests, along with some public funding support but insufficient public control. Ideally, the eligible entity would be democratically elected by the multicounty area’s residents. The optimal way to do this would be for states to set up new regional governments or special-purpose districts, with an elected board and adequate power and staff to plan and administer the various job-creation programs. If setting up a new elected body is too politically difficult, an alternative is to have the board be appointed by some consortium of elected local officials.

Using baseline data on prime-age employment rates, each local labor market area would be guaranteed a particular level of per capita funding for a 10-year period, with the level set

according to the base period's prime-age employment rate for that area.⁵⁶ Why 10 years? First, a 10-year period would seem to be the shortest time period that is still long enough to implement programs and to create enough jobs to significantly increase employment rates. Second, differences in prime-age employment rates do tend to persist from year to year, but after a decade or so they do show some change. For example, across local labor markets, the correlation of the prime-age employment rate over a 16-year period is 0.88 when we do not weight the data, and 0.79 when the data are population weighted (Bartik 2020b).⁵⁷ Over such a period, most local labor markets do not change much in prime-age employment rates, but some larger ones do show significant relative improvement or deterioration. Ten years seems a reasonable time period for keeping aid amounts constant, as during that length of time the prime-age employment rate will not change very much in most areas, but after 10 years, some readjustment of aid amounts seems warranted. Therefore, at the end of each 10 years, the needed per capita funding would be recalculated, with funds redirected to the areas whose prime-age employment rates are now the lowest.

The funding would specifically be designed so that over 10 years, the amount would be sufficient to close some significant portion of the “prime-age employment gap” between the base year prime-age employment rate of the local labor market area and some high but achievable employment rate for the state. The required funding would be based on assumptions as to how many jobs would need to be created to achieve that goal, and the cost of creating those jobs. In

⁵⁶ For purposes of more accurate measurement, the prime-age employment rate should probably be measured using multiple years of data. For example, the Census Bureau provides five-year average data from which the prime-age employment rate can be obtained for all counties, and for that matter, for all census tracts. The five-year data is more universally available than for shorter time spans and will be more accurate because of larger sample sizes. The five-year census data from the American Community Survey is about a 7.5 percent sample of the U.S. population, which makes the figures for prime-age employment rates reasonably accurate, even for small areas.

⁵⁷ This is for 1,471 areas that either are “core-based statistical areas” (metro areas or micro areas) or are the remaining portions of commuting zones that are *not* in a CBSA. The period considered is from the 2000 census to the 2014–2018 pooled American Community Survey.

the next section, this funding structure is shown through an illustrative example. But the overall idea is to have a formula in which funding directly depends on the number of prime-age nonemployed persons relative to some level that represents an achievable goal for lowering nonemployment.

Eligible uses include the public services outlined above—public services that improve various business inputs to create jobs. These would include everything from infrastructure to manufacturing extension to customized job training to research parks to brownfield redevelopment, and more. Some of these public services are quite general in business usage, whereas other services (manufacturing extension, job training) would be customized to the needs of individual businesses. As already mentioned, many of these services are of the most use to smaller businesses. Each package of assistance to an individual small business might create relatively few jobs, but because such services to small businesses create a relatively high number of jobs per dollar (see Figure 3, above), the total assistance package could create a high aggregate number of jobs. In addition to helping smaller businesses, funds could also go to sway business location decisions or expansion decisions by offering customized job-training contracts or agreements to provide access roads. Funds could also indirectly create jobs by helping firms become more competitive—for example, by helping a firm adopt new technology, get expert advice from faculty at a nearby college, or locate new markets in different industries or in different countries.

The Local Job Creation block grant could also include provisions to increase the proportion of new jobs that go to nonemployed local residents. Such provisions include community benefit agreements, first-source hiring agreements, and customized job training. Under community benefit agreements, assisted firms would be required, for newly created jobs,

to hire some minimum proportion of local residents. Under first-source hiring agreements, assisted firms would be required to at least consider, for entry-level jobs, local residents referred to the firm by local job-training agencies.⁵⁸ Finally, new job creation would be encouraged in some cases by customized job-training programs, under which the firm is assisted by a local community college or job-training agency that provides trained workers, with the training customized to the individual firm's needs. In such customized training programs, the community college or job-training agency is typically closely involved in recruiting and screening new hires. This close involvement in the hiring process allows these local training entities to get more local residents, and in particular nonemployed residents, into the firm's hiring queue.⁵⁹

The economic development program envisioned is similar to the type of economic development program carried out in Grand Rapids, Michigan (see Box 3). Grand Rapids has sought to make its manufacturers more competitive by a long-term program of assistance, both to clusters of firms and to individual firms, to help those firms be more competitive and able to expand. As outlined in the box, this program seeks to address some key business inputs such as trained workers, information on new markets and technology, and the need for suitable sites. The economic development strategy in Grand Rapids has been associated with the area doing much better in manufacturing job creation than the national economy: from 1990 to 2019, Grand Rapids had manufacturing job *growth* of 16 percent, while during the same period manufacturing in the United States had a job *decline* of 27 percent.

⁵⁸ More discussion of first-source hiring agreements can be found in Pew Charitable Trusts (2021) and in Schrock (2015).

⁵⁹ In addition, as mentioned above, the Neighborhood Employment Opportunities Block Grant, by helping improve the job access of residents of distressed neighborhood, would tend to increase the proportion of jobs created through the LJC block grant that would go to local residents.

Box 3 Grand Rapids, Michigan: Success by Doubling Down on Manufacturing with a Range of Business Services

Despite the problems faced by U.S. manufacturing, Grand Rapids, Michigan, has been economically successful by helping support the competitiveness and evolution of its specialization in many manufacturing industries. Grand Rapids is much more specialized in manufacturing than the nation as a whole, as the manufacturing share of total employment in Grand Rapids is about twice the U.S. average. From 1990 to 2019, a period during which U.S. manufacturing jobs declined by 27 percent, Grand Rapids' manufacturing jobs expanded by 16 percent.

How did Grand Rapids do it? It's not due to any peculiarities of the particular manufacturing industries in which Grand Rapids specializes. Almost none of Grand Rapids' superior manufacturing performance is due to industrial mix. Rather, Grand Rapids' individual manufacturing industries grew faster than their national counterparts (Bartik 2018b).

This faster growth in Grand Rapids is due in part to local economic development policies. The local economic development organization, The Right Place program, convened cluster groups within individual manufacturing industries to discuss common competitive needs, such as upgrading relevant job training programs at local community colleges. The Right Place recruited Michigan's manufacturing extension organization to establish a branch office in Grand Rapids, and that office worked with smaller manufacturers to improve their competitiveness. The Right Place also recruited successor owners for local family-owned businesses, to increase the odds of these businesses remaining and expanding in Grand Rapids.

Grand Rapids has also sought to move its economy, including local manufacturers, into the growing health-care sector. Local leaders convinced Michigan State University to move a large part of its medical school to Grand Rapids. Other local leaders set up a medical research center, the Van Andel Research Institute. The Grand Rapids area developed a Medical Mile corridor that included a variety of health-related organizations and associated businesses. One of the local cluster efforts, the Michigan Medical Device Consortium, helped facilitate the ability of local manufacturers to move into health-related manufacturing. For example, MMDC helped one auto-parts supplier diversify into making orthopedic products.

Finally, in addition to encouraging customized training for particular manufacturing industries, Grand Rapids has an initiative, Talent 2025, that is seeking to improve the local area's skills development from early childhood through adulthood.

Because the proposed LJC block program is a universal program within a state, a rigorous evaluation of the program's overall effectiveness is difficult to do. Funding within a particular state is directly tied by a formula determined by the baseline prime-age employment rate. But even without this program, the baseline prime-age employment rate might be a predictor of subsequent job creation or changes in the prime-age employment rate. Local labor markets below the state average prime-age employment rate might tend to improve over time, or get worse. State-specific evaluations could look at whether the prime-age employment rate tended to improve more in the high per-capita grant areas, which are also low baseline prime-age

employment-rate areas, and compare the trends under this new program with what happened in the state during past 10-year periods.

In addition, from a national perspective, if many states tried such targeted economic development programs, the specific formulas and funding levels would differ. For example, even if all states focused on the prime-age employment rate as an appropriate distress indicator, state funding formulas would probably differ dramatically in two ways: 1) what prime-age employment rate goal was set for determining job-creation and funding needs, and 2) what timetable for achieving that prime-age employment rate goal was set, and therefore what annual funding levels were provided.⁶⁰ These different formulas in multiple states could be used to generate a program evaluation that would be more rigorous. One could identify grant differences for local labor markets that are due to state formula differences rather than local labor market differentials in prime-age employment rates. This identification would allow a researcher to see the effects of block-grant dollars on job creation and improvements in employment rates, versus the influence of baseline employment rates.

Even if the overall program is hard to rigorously evaluate for an individual state, state policymakers should evaluate specific components. Programs that provide services to individual firms, such as customized training or manufacturing extension, can be evaluated by surveys of client firms. Economists are suspicious of using surveys to evaluate programs because of concerns that clients might provide biased responses to favor a program they benefit from. However, if a program is providing services, it is unclear why the surveyed firm would wish to

⁶⁰ In addition, although I recommend that the goal and funding formula be related to the prime-age employment rate and hence related to the number of prime-age non-employed, states may decide on other formulas—for example, formulas based on the number of unemployed, or the number of long-term unemployed, or the number of prime-age nonemployed with less than a four-year college degree. These funding-formula variants will also generate exogenous variation in funding per capita levels for local labor markets that have similar distress levels but happen to be located in different states.

bias its response if the service was useless. In addition, with limited program budgets, services to individual firms might sometimes be allocated through grant competitions. For example, customized job-training grants to firms might be allocated through periodic grant competitions. If applicants are chosen using a documented quantitative scoring system, these scores can be used to do what econometricians call a “regression discontinuity” evaluation of the grants. The basic idea of regression discontinuity in this instance is that we would compare the performance of firms whose score was just above the cutoff for receiving assistance, versus those just below the funding cutoff. This comparison is almost as good as a randomized control trial in measuring the effects of the program, at least for firms in the vicinity of the funding cutoff.⁶¹

Local Job Creation Block Grants: An Illustrative Proposal

To illustrate the impact of Local Job Creation block grants, consider one possible design. The proposal’s goal is to move each local labor market in a state—defined as a “state delimited commuting zone,” or SCZ—toward the 90th percentile of the prime-age employment rate distribution in the U.S., which was a prime-age employment rate of 82.8 percent in the 2015–2019 period. As shown earlier, it appears difficult to move much beyond that goal in almost all SCZs. The specific goal would be to move each SCZ in a state, over a 10-year period, by one-quarter of the way toward that goal. For example, if an SCZ was at a prime-age employment rate of 70.8 in 2015–2019, or 12 percentage points below the goal, the block grant would seek to increase that area’s prime-age employment rate by 3 percentage points over 10 years, to 73.8 percent. This 10-year goal of closing one-quarter of the gap is meant to be achievable at a reasonable cost, but also to represent a significant improvement. Furthermore, the goal being set in this way makes the prime-age employment rate improvement significantly greater in more-

⁶¹ For more on evaluation techniques for assistance to individual firms, see Chapter 5 of Bartik (2019).

distressed SCZs than in less-distressed SCZs. An SCZ that is 12 percentage points below the goal would receive a grant designed to help them improve the prime-age employment rate by 3 percentage points over 10 years, whereas an SCZ that is 4 percentage points below would receive a grant designed to improve the prime-age employment rate by 1 percentage point.

The calculations assume that when jobs are created in an SCZ, 60 percent of them go toward increasing the employment rate. This level of resident benefits would not occur automatically. Rather, it would require the added policies previously mentioned, such as community-benefit agreements, first-source hiring agreements, customized job training, or NEO block grants. As mentioned above, in a distressed SCZ, even without these programs, about 38 percent of new jobs would go to increasing the employment rate, and the other 62 percent would go to increasing the local population. The calculations assume that these added policies that target nonemployed local residents for hiring can increase the 38 percent of local hires to 60 percent.⁶²

Another assumption: the cost per job created is \$55,000. This seems feasible based on costs per job of business services such as customized training and manufacturing extension (as discussed above, \$54,000 and \$50,000 per job, respectively).

All these elements determine the dollar amount needed to reach the prime-age employment-rate goal. Because the goal is reached over 10 years, this total dollar amount is divided by 10 to yield the annual grant.

These assumptions result in a formula in which the dollar grant per prime-age worker in the SCZ depends on the difference between the SCZ's baseline prime-age employment rate

⁶² These policies to encourage hiring of the resident nonemployed would need to be even more aggressive in their targeting of more modestly distressed local economies.

versus the 90th percentile goal.⁶³ If an SCZ is three times as far below the goal, the block grant per prime-age person is three times as great. The formula allows for calculations of block-grant amounts for each SCZ and effects on prime-age employment rates for each SCZ.

The formula also can be restated as a particular dollar amount times the number of prime-age nonemployed persons above the nonemployment rate at the 90th percentile goal rate.⁶⁴ Therefore, the program can be framed as universal, but proportional to the number of people “needing” assistance to get a job. But the program ends up being place-targeted, because the number of people in need of a job varies by SCZ. As argued above, this type of targeting may be easier for the state political system to sustain over time, as it has a clear rationale and includes all SCZs in proportion to their need.

This “thought experiment” program might differ from what states would do. For example, in a state with overall high prime-age employment rates, many SCZs would not be eligible for any funding under this hypothetical program, as their prime-age employment rate exceeds the 90th percentile goal. For political reasons, such a state might want to *increase* its employment-rate goal slightly beyond the state’s highest employment-rate SCZ, so that all SCZs “get something.” For somewhat different reasons, a state with overall low prime-age employment rates might want to do something similar: *lower* its employment-rate goal from the national 90th percentile to a goal just above the employment rate in the state’s highest

⁶³ The annual allocation per prime-age person is \$35.58 times each percentage point the area is below the 90th percentile goal: $\$35.58 = \$55,000 \times (1.552) \times (1/0.6) \times 0.25 \times (1/10) \times \text{GAP}$ in rate terms. \$55,000 is cost of creating one job, 1.552 is the ratio of total jobs to prime-age jobs, (1/0.6) adjusts for only 60 percent of jobs increasing the employment rate, 0.25 reflects only closing 1/4th of the gap, and (1/10) adjusts the annual amount to reflect that we are achieving this goal over 10 years.

⁶⁴ Thus, the total annual dollar grant will be \$3,558 times the number of prime-age nonemployed in excess of the number that would occur if the SCZ was at the 90th percentile of the U.S. prime-age employment rate.

employment-rate SCZ. This lower goal would target more funds to the most distressed SCZs. These different options may also make some type of targeting more politically sustainable.⁶⁵

However, there is some argument for using these national targets. These national data suggest that it is hard, using job-creation programs, to move employment rates above the 90th percentile of the U.S. employment rate. Therefore, whatever economic development problems a state or its SCZs may have, if their employment rate is above this target, providing more funds for job creation would not seem to be the first priority.⁶⁶ Perhaps a state needs to improve wages, which can be done in more comprehensive fashion through higher minimum wages, easier unionization, or sectoral wage bargaining than through simply creating jobs, even high-wage jobs. Or wages can be improved through improved education. But funding for a Local Job Creation Block Grant does not seem like the first priority.

In addition, as previously noted, states might seek to define local labor markets differently and not use the SCZ concept. States could use job training regions, regional transportation planning areas, or even counties. Other definitions of local labor markets would yield different results in quantitative details, but the qualitative pattern should be similar to this hypothetical program.

The hypothetical program, if implemented in all states, would have a total national cost of \$20.8 billion. The overall prime-age employment rate would go up by 1.1 percentage points, from 78.4 percent to 79.5 percent.⁶⁷ The number of extra jobs held by prime-age workers would

⁶⁵ If the 90th percentile target is 5 percentage points above the highest-employment-rate SCZ in a state, and 20 percentage points above the lowest-employment-rate SCZ in a state, then the lowest-employment-rate SCZs receive four times as much per capita in funding. If we lower the target to 1 percentage point above the highest-employment-rate SCZ, the lowest-employment-rate SCZs receive 16 times as much per capita in funding.

⁶⁶ In the other direction, if all of a state's SCZs are well below the 90th percentile of U.S. employment rates, setting a state-specific goal just above the highest-employment-rate SCZ in the state might be setting the goal too low, in that all SCZs in the state can feasibly do better than that over time.

⁶⁷ All of these calculations for each state and for the nation assume that each state exactly hits its targets. Of course, in the real world, some states may undershoot, and others may overshoot.

be 1.464 million. If employment rates went up similarly overall, overall extra jobs held by all working-age adults would go up by 2.274 million. These employment-rate improvements would require job creation that summed over all states to 3.789 million.⁶⁸

As shown in Table 7, the per capita Local Job Creation Block Grant program would be of dramatically different sizes—as measured by block grants per prime-age person—in different states. States such as West Virginia, Mississippi, New Mexico, Alabama, and Louisiana would be advised to have large Local Job Creation Block Grant programs to achieve employment rate goals. The District of Columbia and states such as Nebraska, Minnesota, Wisconsin, and Iowa would be advised that they needed only modestly sized Local Job Creation Block Grant programs. Alternatively, these recommended state grant levels could be viewed as guidance for federal assistance to help state and local areas reach their economic development goals.

The grant amounts are similar to the level of resources that states currently devote to economic development programs. This is appropriate, as this program is meant as a replacement for a state’s economic development program. To see the similarity, in aggregate, state and local economic development spending or tax breaks total about \$50 billion a year, versus the \$21 billion in Table 6. Another way of seeing the resemblance: the total prime-age population is about 39.2 percent of the U.S. population as of 2019 (U.S. Census Bureau 2021). Therefore, the \$164 per prime-age-person LJC average in the U.S. implies a per capita average of \$64 (\$164 times 39.2 percent). This is similar to the state funding levels for economic development in Table 6, above.

⁶⁸ As expected, 3.789 million equals 2.274 million divided by 0.60. The 3.789 figure is gross jobs created by states, often coming from other states. In equilibrium, one would expect extra macro job creation to be approximated by the 2.274 million, which reflects the implicit extra effective labor supply due to higher employment rates. This extra labor supply is matched by increased labor demand, so one would not expect any upward or downward pressure on wages or prices.

Table 7 States Ranked by Average Local Job Creation Grant per Prime-Age Person

	Block grant per prime-age person (\$)	Weighted standard deviation of block grant per p.a. person across CZs (\$)	Total block grant in millions (\$)	Block grant as % of state taxes	Prime-age persons in thousands	Prime-age employment rate (%)	Weighted standard deviation of prime-age employment rate across CZs (%)
West Virginia	469	215	315	5.3	672	69.6	6.0
Mississippi	397	170	447	5.3	1,125	71.6	4.8
New Mexico	386	182	297	3.9	771	71.9	5.1
Alabama	344	145	639	5.4	1,856	73.1	4.1
Louisiana	342	173	621	5.2	1,814	73.1	4.9
Kentucky	322	297	550	4.1	1,708	73.7	8.4
Arkansas	308	189	347	3.3	1,129	74.1	5.3
Oklahoma	268	161	398	3.6	1,489	75.2	4.5
Arizona	256	175	683	3.7	2,667	75.6	4.9
Tennessee	238	170	623	3.7	2,623	76.1	4.8
Alaska	223	157	65	3.6	293	76.6	4.6
South Carolina	209	108	397	3.5	1,900	76.9	3.0
Georgia	203	174	849	3.4	4,191	77.1	4.9
California	202	130	3,267	1.7	16,203	77.1	3.7
Texas	198	148	2,270	3.5	11,448	77.2	4.2
Florida	197	104	1,567	3.4	7,945	77.2	2.9
Michigan	189	84	708	2.3	3,748	77.4	2.4
Nevada	183	72	222	2.2	1,214	77.6	2.0
North Carolina	176	138	700	2.3	3,988	77.8	3.9
Idaho	166	67	106	2.1	636	78.1	1.9
Oregon	149	147	244	1.7	1,644	78.6	4.1
Ohio	140	113	619	2.0	4,421	78.8	3.2
Washington	139	93	418	1.5	3,002	78.8	2.6
New York	138	52	1,093	1.3	7,899	78.9	1.5
Indiana	137	91	348	1.5	2,536	78.9	2.6
Missouri	124	170	287	2.1	2,312	79.3	4.8
Pennsylvania	124	80	602	1.4	4,862	79.3	2.3
Virginia	115	178	385	1.4	3,336	80.3	5.6
Utah	115	58	138	1.4	1,193	79.5	1.6
Delaware	110	15	40	0.8	360	79.7	0.4
Montana	103	165	39	1.2	379	80.6	5.3
Illinois	101	88	514	1.1	5,078	79.9	2.5
Rhode Island	96	-	39	1.1	409	80.1	0.0
Hawaii	90	120	48	0.6	532	80.2	3.4
Maine	86	115	43	0.9	495	80.5	3.4
New Jersey	79	44	279	0.7	3,529	80.5	1.2
Connecticut	74	-	101	0.5	1,370	80.7	0.0
South Dakota	71	241	22	1.1	313	83.8	8.0
Colorado	67	140	156	1.0	2,329	81.6	4.4
Wyoming	65	68	14	0.7	217	81.7	3.3
Kansas	63	80	68	0.7	1,071	81.7	2.9
Maryland	46	86	110	0.5	2,412	82.2	3.0
Vermont	33	48	7	0.2	226	83.0	2.5
Massachusetts	25	59	68	0.2	2,744	82.1	1.7
North Dakota	19	64	5	0.1	284	85.6	3.7
New Hampshire	18	61	9	0.3	514	83.6	2.3
Iowa	17	-	19	0.2	1,150	84.3	2.4
District of Columbia	17	42	6	0.1	338	82.3	0.0
Wisconsin	16	26	34	0.2	2,187	83.7	2.2
Minnesota	5	17	11	0.0	2,160	85.7	1.6
Nebraska	1	6	1	0.0	711	84.8	1.3
U.S. Total	164	147	20,841	1.9	127,432	78.4	4.4

NOTE: Weighting is by prime-age population. Dollar figures in 2020 dollars.

SOURCE: Author's calculations.

To further gauge the financial feasibility of states funding these LJC grants, Table 7 also includes calculations of the LJC grants as a percentage of state taxes. For most states, the proposed grants are under 3 percent of state taxes, which seems financially feasible, given enough political will. For four states (West Virginia, Mississippi, Alabama, Louisiana), the proposed block grant is slightly above 5 percent of state taxes. This still seems financially feasible, but obviously would take more of a major budget readjustment. But these states are ones with a great need for jobs, so one would think that a high budget priority would be economic development. If such a budget adjustment did not seem feasible, of course, some states could stretch out the grants to achieve job creation goals over a longer period than 10 years—say, 15 or 20 years.

The state variation reflects which states most need local job creation to meet employment-rate goals. A state's needs go up if its average employment rate is lower, or if it has more variation across SCZs, which will drive up the proportion of the population in distress. As Table 8 shows, the block grant per prime-age person in a state can be accurately predicted by its average employment rate and its cross-SCZ variation. Of these two factors, the average employment rate is more important.

Table 8 Determinants of a State's per Prime-Age Person LJC Grants

	Determinants of state block grant per prime-age person
State mean employment rate	-28.02 (0.82)
State weighted standard deviation of employment rate across CZs	7.93 (1.67)

NOTE: Regression estimate effects on a state's dollar average of LJC block grants per prime-age person, as a function of the state's employment rate and of the weighted standard deviation of the employment rate across SCZs. *R* squared with 51 observations is 0.9728. Standard errors are in parentheses below estimated coefficient. Units are defined so that employment rates and weighted standard deviations are measured so that 1 percent is 1.00, not 0.01. Therefore, -28.02 implies that a 10-percentage-point-lower state employment rate will increase per prime-age-person LJC program need by \$280.20. SOURCE: Author's calculations.

Table 7 also shows the weighted standard deviation of the LJC grant per prime-age person across the state's SCZs. Roughly 16 percent of the state's population will tend to be in SCZs whose LJC grant per prime-age person is at least one standard deviation above the state mean, 16 percent will live in SCZs whose LJC grant per prime-age person is at least one standard deviation below the mean, and the remaining 68 percent will be within one standard deviation of the weighted mean LJC grant per prime-age person.⁶⁹ The national mean is a weighted standard deviation of \$147 per prime-age person, and many states have similar or higher-weighted standard deviations. With a national mean of \$164 per prime-age person, and state grants of the same order of magnitude, in many cases an appreciable portion of the state's population will live in distressed SCZs that have grants per prime-age person that are two or three times the grants per prime-age person that go to better-off SCZs, which also include an appreciable portion of the state's population. In sum: the SCZ grants often vary a lot within states.

The variation of grants across SCZs within a state tends to be greater in states with overall higher LJC grants.⁷⁰ This grant variation across SCZs is tightly correlated with the variation of the prime-age employment rate across the state's SCZs.⁷¹

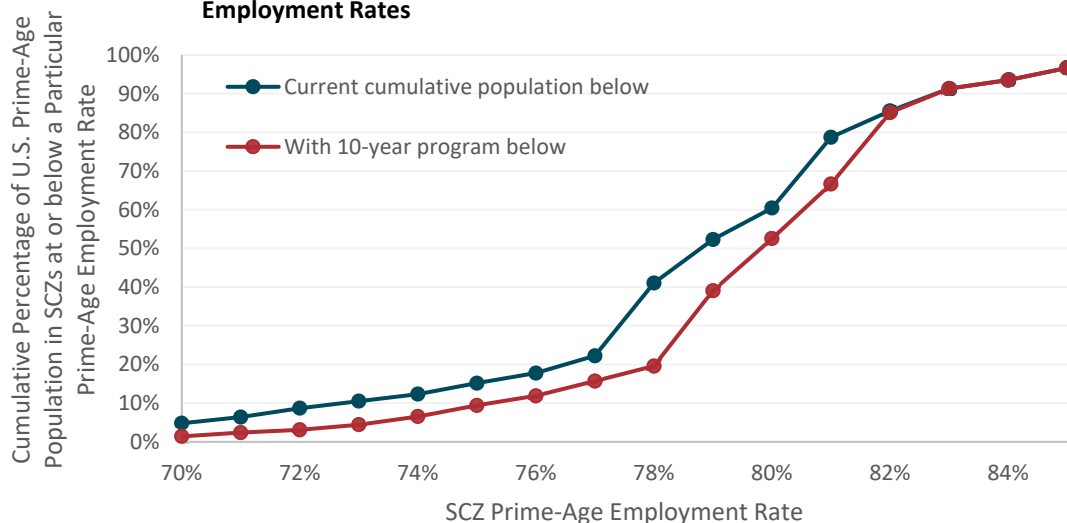
The proposed program, if implemented in all states, would not only increase employment rates in most SCZs but would do the most in the SCZs with the lowest baseline prime-age employment rate. As Figure 4 shows, the program after 10 years significantly reduces the proportion of SCZs below various employment rates, with the change largest for the lower-employment-rate categories.

⁶⁹ I do not report state-specific percentiles of the grants, such as the 10th or 90th percentile, because of the modest numbers of SCZs in many states. With a modest number of SCZs, the accidents of where large SCZs are in the distribution will distort interstate comparisons.

⁷⁰ The state's average grant per prime-age person, and the weighted standard deviation across SCZs of the grant per prime-age person, have a correlation of 0.69.

⁷¹ The correlation is 0.95. Why not 1.00? In part, because there is no variation in LJC grants across high prime-age employment-rate SCZs with zero grants.

Figure 4 10-Year Effect of LJC Program on Cumulative Distribution of SCZs' Prime-Age Employment Rates



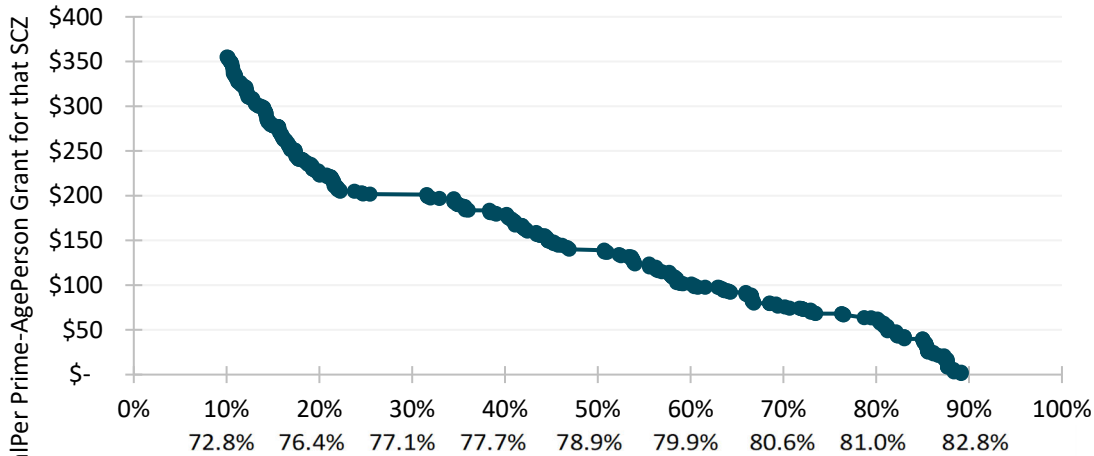
SOURCE: Author's calculations.

The targeting of program dollars can be shown by comparing block-grant funding per prime-age person at various points in the cumulative distribution of prime-age employment rates. As shown in Figure 5, funding is quite high, at \$355 per prime-age person or higher, for SCZs at the 10th percentile or below of the national baseline distribution of prime-age employment rates. This funding level declines to levels close to \$200 as we get to SCZs whose distress levels put them in the 20th to 40th percentile categories. Funding continues to decline until it dips below \$100 per prime-age person at the 60th percentile, and then declines to zero at the 90th percentile.

In contrast to existing state targeting designs, which frequently base state funding on some amount per job created, this design ensures that the lowest-employment-rate SCZs receive higher levels of state support to create jobs and narrow employment-rate gaps. Assuming all SCZs are able to create jobs at the \$55,000-per-job-created assumption, jobs created by SCZs, relative to their population, will vary directly with these funding levels.⁷²

⁷² Will all SCZs be able to do this? Probably not—but some SCZs may overperform. In general, there is no great research evidence on whether average costs per job created will be larger or smaller in the most distressed SCZs. If such programs were to become widespread in many states, comparative research might increase our knowledge of the likely determinants of how job-creation costs vary with different place characteristics.

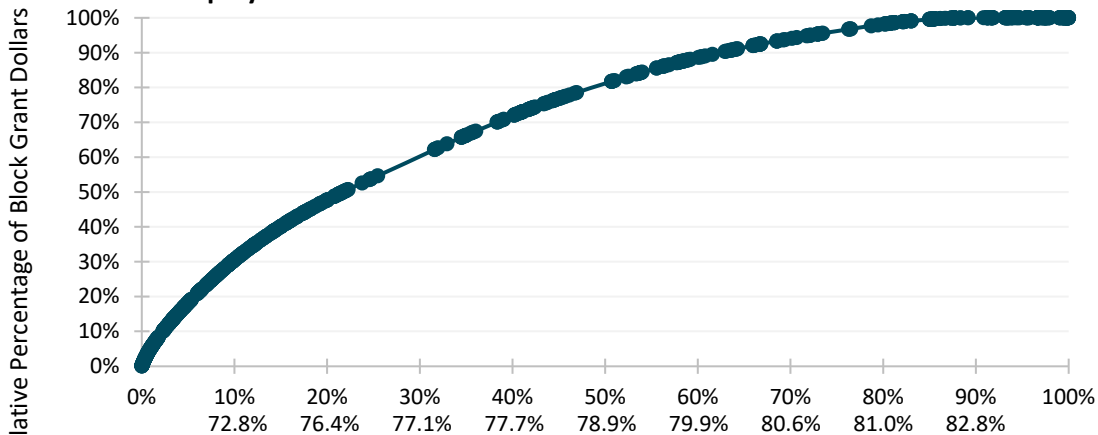
Figure 5 Annual Per Prime-Age Person LJC Block Grant by Cumulative Percentages of SCZ Prime-Age Population, Ranking SJs by Employment Rate/Per Capita Grant



NOTE: The first line of numbers below the table shows the cumulative percentage of the U.S. population in different SCZs, ordered by SCZ prime-age employment rate. The second line of numbers shows the prime-age employment rate of SCZs at that point in the cumulative distribution.
SOURCE: Author's calculations; see text.

Another way to look at targeting is to compare the proportion of block-grant funds awarded versus the proportion of the population when we rank SCZs by their distress levels. As shown in Figure 6, about 30 percent of the block-grant funds go to the 10 percent of the population that lives in the SCZs with the lowest prime-age employment rates. About 70 percent of the block-grant funds go to the 40 percent of the population in the most distressed SCZs.

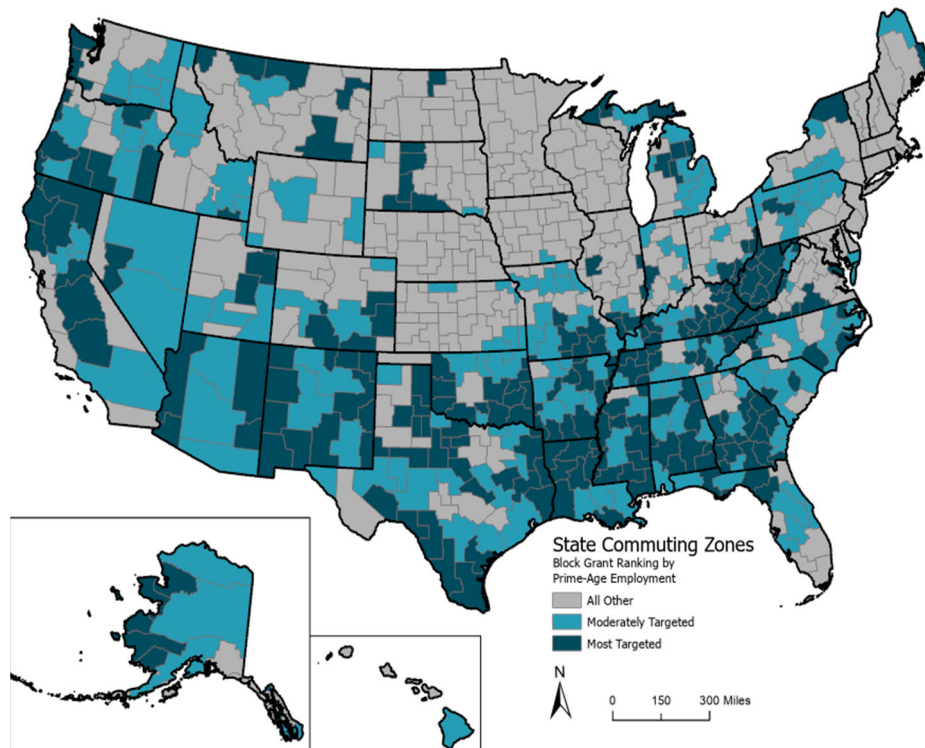
Figure 6 How Cumulative Percentage of Block Grant Disbursed Compares with Cumulative Percentage of SCZ Prime-Age Population. SCZs Ranked with Low-Ranked with Low-Employment-Rate SCZs First



NOTE: Below the figure, the first line of numbers shows the cumulative percentage prime-age population at or below a particular prime-age employment rate. The second line of numbers shows the prime-age employment rate corresponding to these cumulative percentages.

SOURCE: Author's calculations.

Which are the most targeted SCZs? As shown on Map 1, below, the most targeted SCZs—those whose prime-age employment rates put them in the bottom 10 percent of the population distribution—tend to be mostly rural areas, in Appalachia and in much of the South and Southwest. However, some inland areas of the West Coast states are also included, as well as some rural areas of Michigan. More moderately targeted SCZs—with prime-age employment rates that put them in the bottom 40 percent of the population distribution—also include some major urban areas such as Detroit, Los Angeles, and Houston.



SOURCE: Author's calculations.

Map 1 Highly Targeted and Moderately Targeted State Commuting Zones

Neighborhood Employment Opportunity Block Grants: Design Features

The proposed Neighborhood Employment Opportunity (NEO) Block Grants, funded by state governments, would provide local governments with assistance to help give residents of the most distressed neighborhoods better access to jobs, linking these residents to jobs at workplaces located throughout the local labor market. Residents in these distressed neighborhoods would have job access improved through a package of services, ranging from job information to training to transport to child care. The grant would be provided for a lengthy period, up to 10 years, to enable the program to have the scale and time needed to make a real impact.

This NEO block grant would not be an entitlement, but instead would be discretionary. Local governments would propose combinations of census tracts as a candidate neighborhood, and would also propose what package of services to provide. Why make it discretionary, rather than an entitlement? Census tracts, which are used to determine eligibility, frequently are too small to constitute a neighborhood in which to organize job access to services. Therefore, local governments need to propose geographic schemes by which to organize services in a sensible way. Local governments, with input from neighborhood political groups, are in a far better position relative to state governments to come up with appropriate neighborhood designations. For this reason, state governments should not intervene in a top-down manner to identify and designate neighborhoods by formula.⁷³

Another reason for discretion is this: the neighborhood services should be done in a way that involves neighborhood residents in helping to decide what services should be provided and

⁷³ In contrast, state governments, with their broader perspective, are in a good position to force local governments to cooperate in regional economic development authorities that will serve some reasonable design for a local labor market. Therefore, under the LJC grant, it is appropriate for the lead to be taken by the state government, which can create a local labor market design that makes sense for that state, and can then distribute funds by formula to these designated local labor market entities.

how they should be provided. Local government proposals for helping neighborhood residents should be more highly rated if the program provides more evidence of neighborhood resident involvement. Because local political conditions vary so much, an entitlement formula grant would, in many cases, fund local government plans that ignored neighborhood desires and needs.⁷⁴

The services provided could be organized around one or more “neighborhood hubs,” which would be trusted neighborhood institutions that would have case workers who could help coordinate the needed services for neighborhood residents. (See Box 4 for an example of Neighborhood Employment Hubs in Battle Creek, Michigan.)⁷⁵ The types of services provided would vary depending on the neighborhood and its existing relationships to the local labor market, as well as on the individual residents. These services could include the following six things:

- 1) Information on job openings
- 2) Training programs for jobs with good growth prospects and reasonable pay and career advancement possibilities
- 3) Help in improving neighborhood access to transportation to jobs—for example, through scheduling more frequent bus service
- 4) Help for neighborhood residents in getting low-interest loans to buy or fix cars
- 5) Help for neighborhood residents in finding child care and possibly some subsidies in paying for child care
- 6) Support services, such as paying for success coaches to help people once they are on the job.

⁷⁴ In contrast, the Local Job Creation grants are relying to a large extent on the empirical finding that job creation in distressed local labor markets will “trickle down” to provide modestly progressive benefits, with higher percentage benefits for lower income groups. While grassroots democratic participation might be helpful, for LJC grants it is not as essential as it is for NEO grants. For NEO, if the grants fail to link neighborhood residents to good jobs in the local labor market, the program’s entire rationale is voided. Neighborhood participation is key.

⁷⁵ My employer, the Upjohn Institute, has an operations division that runs Michigan Works! Southwest and manages the Neighborhood Employment Hubs in Battle Creek, Michigan. For more on Neighborhood Employment Hubs, see pp. 12–13 of Miller-Adams et al. (2019).

Box 4 Neighborhood Employment Hubs

With financial support from the Kellogg Foundation, “Neighborhood Employment Hubs” have been implemented by a local job-training agency, Michigan Works! Southwest, at four locations in distressed Battle Creek neighborhoods. The hubs’ purpose is to co-locate and coordinate employment-supporting services at trusted neighborhood institutions. In Battle Creek, such institutions include a church, a low-income housing complex, and a community action agency. A fourth hub is located at the local jail.

Each hub includes a staff person from Michigan Works! Southwest who has good knowledge of the local labor market, good contacts with local employers, and information on job training opportunities. Hubs also have on-site presence of other service providers, who can help in facilitating access to child care, transportation, or clothing or tools needed for jobs.

In sum, the hubs seek to increase employment by providing services that are not only more comprehensive and coordinated but also more accessible—not just because they are located nearby, but because they are embedded in familiar and trusted neighborhood institutions. A person’s access to better jobs depends on overcoming all the barriers to employment, not just one; thus, there are synergies to coordinating multiple services. And access to services depends upon whether a person knows about and is willing to trust those who provide services, not just on whether transportation to the services site is reasonably feasible.

The NEO grant would mostly *not* pay to subsidize job creation in the neighborhood. However, local programs would be allowed to choose to use NEO grants to pay for help to neighborhood residents to start their own small businesses, by providing the residents either with small-business counseling or access to some financing. Helping someone start a small business can be viewed as simply another type of job training.

If a local program chooses, NEO grants might also be used to provide on-the-job training subsidies to firms for hiring and training neighborhood residents. This would be similar to the approach of the previously discussed MEED program. Again, this simply is another form of providing neighborhood access to jobs through a particular type of employer-focused job training.

Why not provide cash for job creation in the neighborhood? Because the focus here is on helping improve the employment rates of neighborhood residents. Jobs that are merely located in the neighborhood do not, in general, target neighborhood residents, because neighborhoods are

not local labor markets. The focus of this program is on jobs, but more specifically on getting neighborhood residents into jobs.

One operational issue: should NEO services be limited to neighborhood residents? My view is that it would be politically acceptable to do so. In practice, one alternative is to prioritize neighborhood residents for services but still allow non-neighborhood residents to be assisted if there is excess capacity in the neighborhood program.

Another issue: would the assistance to neighborhood residents actually help improve the employment rates and wages of neighborhood residents, or would those residents who were successfully assisted all then choose to leave the neighborhood? First, it should be noted that this program would operate at sufficient scale to help many neighborhood residents. Therefore, it seems likely that some would remain. In addition, because many neighborhood residents would end up having higher employment and earnings, this greater neighborhood income should help improve neighborhood amenities—for example, by creating greater demand for neighborhood stores. Second, the NEO program should be accompanied by other community development programs that could focus on improving the physical infrastructure of the neighborhood: fixing up neighborhood parks, or encouraging the redevelopment of neighborhood business districts. These neighborhood amenity improvements would help encourage newly employed neighborhood residents to stay in the neighborhood.

Should community development services be eligible uses of NEO block grants? In my view, no. The program's focus should be on services to get neighborhood residents into jobs, and the program should not become distracted by getting involved in neighborhood real-estate projects. Involvement in real-estate projects raises the risk of the program being unduly influenced by real-estate developers' political influence. However, local government proposals

for a particular neighborhood should be rated in part on whether the program to help neighborhood residents get jobs is accompanied by the use of other local government resources to pay for complementary community development programs.⁷⁶

Because this NEO block grant is awarded through a discretionary and competitive grant process, it can be evaluated rigorously. State evaluators can use a quantitative scoring system to rate proposals from different eligible neighborhoods. This quantitative scoring system can in part consider the neighborhood's distress, but also various elements of the overall quality of the proposal,⁷⁷ as previously discussed:

- Is the proposed neighborhood a reasonably cohesive area?
- Do the proposed services make sense?
- Are neighborhood residents adequately involved?
- Are other complementary services being provided?

Evaluations can then compare the fate of neighborhood employment rates and other outcomes in neighborhoods that just made the cutoff for state aid with outcomes for neighborhoods that just missed the cutoff.⁷⁸

⁷⁶ What if local governments lack the resources to make these complementary community development investments? First, in some cases such community development investments will be supported by the federal Community Development Block Grant program, which is provided as an entitlement to many cities, and is distributed in a discretionary manner by state governments for smaller communities. Second, state governments may also choose to run a separate program to provide support through variable local matches for community development investments. But I think we should be wary about losing the focus of NEO on good jobs.

⁷⁷ What if some distressed communities lack the governmental capacity to come up with a proposal that is of high quality? The already-described LJC entitlement grant could include, as an eligible use of program funds, obtaining expert consultant advice for coming up with a high-quality NEO grant proposal. This eligibility makes sense, as the NEO grant could help target the LJC-generated jobs to the nonemployed in distressed neighborhoods.

⁷⁸ One caveat: I do not know of any state government in the United States that has used a regression discontinuity design to evaluate a discretionary grant program. Therefore, this proposed evaluation strategy is asking a state government to do something new and different, even though the idea would be familiar to social scientists and statisticians.

Neighborhood Employment Opportunity Block Grants: An Illustrative Proposal

To focus ideas, I now present a possible Neighborhood Employment (NEO) Block Grant proposal. This illustrative example assumes that the block grant assists all eligible census tracts. As mentioned, in the real world, I think it desirable to make the block grant discretionary. For example, the block grant might only go to two-thirds or three-fourths of eligible tracts. The total block grant amount could be kept the same and the per capita assistance increased, or one could scale down the block grant. However, the statistics presented here give a rough guide to this NEO block grant's distributional effects.

The NEO block grant would be targeted at all tracts whose prime-age employment rate is at least 3 percentage points below the average for its state-delimited commuting zone (SCZ). Each neighborhood grouping of these tracts could be proposed by its overlying local government for a block grant sufficient, after 10 years, to increase its prime-age employment rate by one-third of the gap between the neighborhood and 3 percentage points below the SCZ average.

Why target only tracts at least 3 percentage points below the average employment rate for the SCZ? The 3 percentage points is arbitrary, to operationalize this illustrative proposal. However, some sort of targeting on neighborhoods that are distressed is essential. As mentioned above, such an NEO proposal is inherently redistributive within a local labor market. If the NEO program works, job access is significantly improved for residents of distressed neighborhoods within the overall labor market. In the short run, improved job access for some neighborhoods' residents means lower employment rates for other neighborhoods within the same local labor market. This may be justified on grounds of both equity and efficiency. On equity grounds, it is unfair that some children grow up in neighborhoods with fewer employment opportunities while others do not. On efficiency grounds, there are society-wide gains to be had from improving child development in distressed neighborhoods. But achieving those equity and

efficiency benefits in the long run requires some sacrifice in the short run by residents of nondistressed neighborhoods. Providing NEO grants to nondistressed neighborhoods makes no sense, as this will tend to hurt job prospects for the residents of distressed neighborhoods.

Why target tracts based on prime-age employment rates relative to the SCZ average? An obvious alternative is to target tracts based on the tract's actual prime-age employment rate. The targeting relative to the SCZ average implies that in better-off SCZs—those having a higher SCZ prime-age employment rate—NEO grants may go to tracts with relatively high prime-age employment rates. In my view, this design of the NEO block grant is a feature, not a bug. Neighborhoods with prime-age employment rates that are well below their SCZ average are distressed in the sense that they have significantly less job access than others in their SCZ. This neighborhood disparity suggests that these neighborhoods have some job-access barriers, which are appropriately addressed by the NEO program. The NEO program reallocates job opportunities across neighborhoods within the SCZ; therefore, its formula for identifying and funding neighborhoods should be based on *relative* prime-age employment rates across neighborhoods within the SCZ.

To put it another way: if an SCZ has uniformly low prime-age employment rates across all its neighborhoods, then the problem is not job access in diverse neighborhoods. Instead, the problem is that the SCZ overall lacks jobs. On the other hand, if an SCZ generally has a high prime-age employment rate but some neighborhoods are lower, then there is a problem of barriers to job access in some neighborhoods.

Why one-third? That choice is arbitrary. But the average SCZ at the 10th percentile is moved up by the LJC grant to improve its prime-age employment rate by about 2.5 percentage points—one-quarter of the gap between that SCZ and an SCZ at the 90th percentile. The average

tract at the 10th percentile is 9.8 percent below the SCZ average, or 6.8 percentage points below the -3 percent goal. Closing that 6.8 percentage point gap by one-third increases the prime-age employment rate by about 2.3 percentage points. Therefore, this NEO grant proposal is roughly trying to do for the most distressed census tracts what the LJC grant proposal is trying to do for the most distressed SCZs.

Why 10 years? For similar reasons that a similar time period was chosen for the LJC program: 10 years seems a long-enough period to allow for adequate program development and delivery, yet short enough that the vast majority of distressed neighborhoods will not become booming neighborhoods. Setting up a well-functioning neighborhood hub takes time. Making sure that neighborhood residents have adequate access to job-related services, such as child care and transportation, also takes time. Furthermore, substantial neighborhood improvement in truly distressed neighborhoods is both a rare and lengthy process. For example, in one study of American neighborhoods that in 1980 were classified as “high poverty” (meaning more than 30 percent of their residents were below the poverty line), two-thirds of these neighborhoods were still high poverty as of 2018, 38 years later (Benzow and Fikri 2020). Only 14 percent of these neighborhoods succeeded in becoming “low poverty,” even after 38 years. (“Low poverty” in this study was defined as less than 20 percent of the neighborhood’s residents being below the poverty line.)

The block grants would be scaled based on what it likely costs to raise the prime-age employment rate by the equivalent of one extra job for each tract’s prime-age persons. This cost-per-extra-employment-rate job is based on the estimated effectiveness of the Empowerment

Zone program. Based on that program, raising the prime-age employment rate costs, in 2020 dollars, about \$107,205 per extra prime-age job.⁷⁹

The proposed NEO program would end up costing \$9.5 billion nationally. It would create 882,000 job opportunities for prime-age workers in targeted census tracts. The prime-age population in these targeted tracts totals 33.5 million, 26 percent of the total prime-age population in the United States. At baseline, these distressed census tracts have a prime-age employment rate that is 10.9 percentage points below the average for their SCZ. The extra employment opportunities lower this gap by 2.6 percentage points, to 8.3 percentage points below the average.

If we look at the proposed NEO program by state (Table 9), the program's dollar amount per prime-age person varies somewhat by state, but not by a huge amount. In many SCZs in all states, there are considerable disparities in neighborhood residents' accessing jobs. The NEO block grant per prime-age person allocation is highly positively correlated with the weighted

⁷⁹ These calculations are based on the previously discussed estimates of Busso, Gregory, and Kline (2013). The Empowerment Zone program spent about \$883 million over six years in areas whose population totaled about 722,000. The estimated effect is to raise the overall employment-to-population ratio from 23.0 percent to 24.8 percent, an increase of 1.8 percentage points, or an increase in the log of the employment-to-population ratio of 7.4 log points. The estimated cost per total jobs increased due to this higher employment rate is \$69,054. However, only 64.413 percent of total U.S. jobs are prime-age jobs, so this number needs to be scaled up to \$107,205 per extra prime-age job. I also note that the Empowerment Zone spending per capita was about \$1,223 over six years. Because currently the prime-age population is 39.4 percent of total population, this is equivalent to spending per prime-age person of \$3,101. Divided by six years, this is annual spending per prime-age person of \$517. As will be seen, this is roughly equivalent to the scale of funding for the proposed block-grant program for many of the tracts, so the NEO program's scale seems similar to that of the EZ program.

Also note that, as previously mentioned, the alternative effectiveness calculations for Empowerment Zones by Neumark and Young (2019) imply that the costs per extra job for neighborhood residents are about 23 percent greater than implied by Busso, Gregory, and Kline (2013). If those estimates are accepted, all the cost calculations here would simply be blown up by 23 percent. For example, this would increase nationwide costs from \$9.5 billion to \$11.7 billion.

Table 9 Neighborhood Employment Opportunity Grants, States Ranked by Grant per Prime-Age Person

	Weighted mean of NEO grant per p.a. person (\$)	Weighted s.d. of NEO grant per p.a. person (\$)	Wtd s.d. of tract differentials in p.a. empl. rate from SCZ avg. (%)	Neighborhood grant (in \$ millions)	As % of state tax rev
District of Columbia	114	247	10.8	38	0.4
Mississippi	109	283	11.7	122	1.4
Louisiana	108	260	11.3	196	1.6
Alabama	101	244	10.6	187	1.6
West Virginia	98	223	10.4	66	1.1
New Mexico	96	210	9.8	74	1.0
Arizona	94	318	11.8	250	1.4
Ohio	93	251	10.3	412	1.3
Kentucky	93	233	10.1	159	1.2
Michigan	93	241	10.2	347	1.1
Pennsylvania	92	259	10.4	449	1.0
Alaska	92	189	9.3	27	1.5
South Carolina	86	242	10.0	163	1.4
Indiana	83	221	9.4	212	0.9
Illinois	83	230	9.5	421	0.9
Nevada	83	254	9.8	100	1.0
Oklahoma	83	233	9.6	123	1.1
Missouri	82	219	9.2	190	1.4
Arkansas	82	232	9.8	92	0.9
Hawaii	81	227	9.2	43	0.5
Tennessee	79	213	9.2	207	1.2
New York	78	201	9.0	618	0.7
Florida	77	230	9.4	615	1.3
Rhode Island	75	219	9.0	31	0.8
Delaware	75	263	9.7	27	0.6
Connecticut	73	198	8.6	100	0.5
Texas	73	229	9.3	836	1.3
Georgia	73	205	9.0	306	1.2
Wisconsin	72	213	8.5	158	0.8
Maine	71	160	7.9	35	0.7
Kansas	71	211	8.6	76	0.7
North Carolina	68	183	8.2	273	0.9
South Dakota	67	192	8.4	21	1.1
Massachusetts	67	179	8.0	184	0.6
Montana	63	164	7.7	24	0.7
New Jersey	61	195	8.1	216	0.6
New Hampshire	61	195	7.9	32	1.0
Virginia	61	197	8.2	203	0.7
Washington	61	186	7.9	182	0.6
Iowa	60	169	7.3	69	0.6
Oregon	60	185	7.8	98	0.7
California	59	179	8.0	952	0.5
Idaho	58	223	8.5	37	0.7
Nebraska	56	164	7.2	40	0.7
Maryland	54	174	7.6	129	0.5
North Dakota	53	159	6.9	15	0.3
Colorado	52	164	7.3	120	0.7
Wyoming	50	136	6.6	11	0.5
Minnesota	50	152	6.6	108	0.4
Vermont	46	120	6.0	10	0.3
Utah	46	133	6.4	54	0.5
U.S. Total	75	215	9.0	9,461	0.8

NOTE: Weights are prime-age population in each tract. Means and standard deviations are across tracts. Zero grant tracts are included in tract calculations.

SOURCE: Author's calculations.

standard deviation of tract differentials for SCZs in each state.⁸⁰ States with relatively high NEO block grants per prime-age person include the District of Columbia, Mississippi, Louisiana, Alabama, and West Virginia. States with relatively low block grants per prime-age person include Utah, Vermont, Minnesota, Wyoming, and Colorado.

On the other hand, the grant per prime-age person received on behalf of the population in different Census tracts does vary by a huge amount, both within each state and within the entire United States. This cross-tract variation occurs because of the highly targeted nature of the grant program, which has a cutoff of grants for tracts that are close to or above the SCZ average employment rate. The cross-tract variation in NEO grants per prime-age persons in a state is highly positively correlated with the state's cross-tract employment-rate differentials.⁸¹

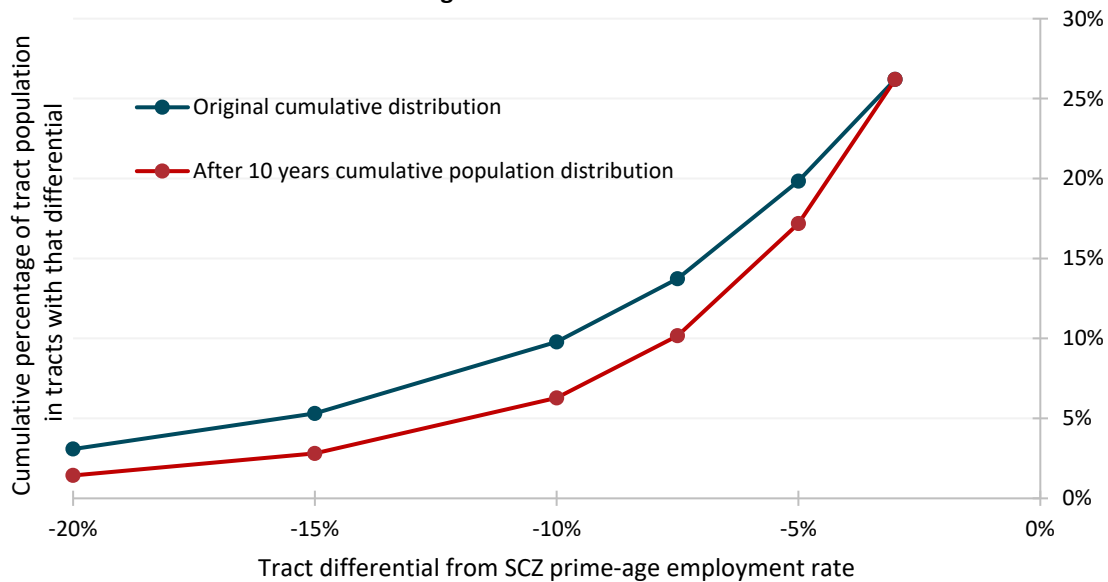
Even if NEO grants were awarded to all eligible tracts, the total cost is but a modest percentage of state taxes. On average across all states, funding all eligible tracts would only make up 0.8 percent of overall state taxes. For individual states, the percentage never exceeds 1.6 percent. Because the program would not fund all eligible tracts but would be discretionary, the real-world discretionary program would be an even lower state tax burden.

The NEO program is highly targeted in both its impact and its dollar spending. As shown in Figure 7, the program, by design, only makes a difference in tracts that are greater than 3 percentage points lower than their SCZ average, and it makes more of a difference if the baseline differential is greater.

⁸⁰ The correlation is 0.946. A regression of the state grant per prime-age person on the weighted standard deviation of tract prime-age differentials from SCZ averages, along with the overall state employment rate for prime-age workers and the weighed SCZ standard deviation in the state, shows that only the tract differentials are statistically significant. Each 1 percentage point increase in a state's weighted standard deviation of tract prime-age differentials increases the NEO block grant per prime-age person by \$11.90 (standard error is 0.86).

⁸¹ Across the 51 state observations, the correlation of a state's weighed standard deviation of NEO grants per prime-age person has a correlation of 0.817 with the state's weighted standard deviation of tract-employment-rate differentials. The correlation is reduced because for any tract that is not less than 3 percentage points below the SCZ average, the NEO grant is zero, even though these tracts vary in prime-age employment rate.

Figure 7 Effects of NEO Grants on Tract Prime-Age Employment Rate Differentials from SCZ Average

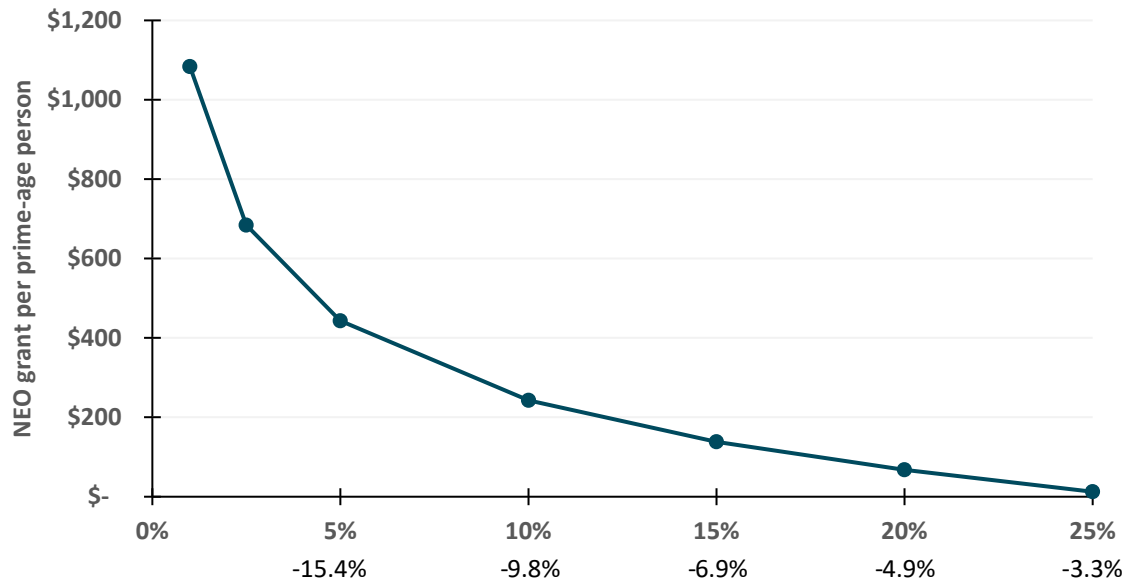


SOURCE: Author's calculations.

If one looks at how dollars per prime-age person vary with the population distribution of tract employment rates, the annual dollar spending per prime-age person is more than \$440 for tracts in the bottom 5 percent of the tract differential distribution, which are at least 15.4 percent below their SCZ average (Figure 8). Dollar spending per prime-age person drops to at least \$240 for tracts in the bottom 10 percent of the tract differential distribution, which are at least 9.8 percent below their SCZ average. The dollar spending per prime-age person further drops to \$68 or greater per prime-age person for tracts in the bottom 20 percent of the tract differential distribution, which are at least 4.9 percentage points below their SCZ average.

In terms of dollar distribution, 56 percent of the NEO block grant's dollars go to tracts in the bottom 5 percent of the overall tract differential distribution. About 78 percent of the dollars go to tracts in the bottom 10 percent of the overall tract differential distribution (Figure 9).

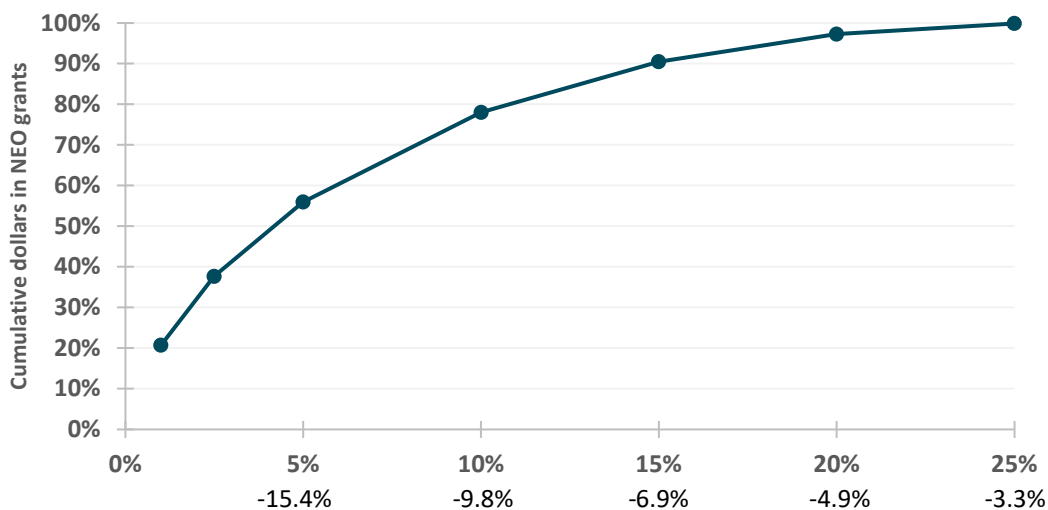
Figure 8 Distribution of Tract NEO Grants per Prime-Age Person



NOTES: Below the figure, the first line of numbers shows the cumulative percentage of prime-age population in tracts that receive a grant at or above a particular level. The second line of numbers shows the tract differential from the SCZ average corresponding to those cumulative percentages.

SOURCE: Author's calculations; see text.

Figure 9 Cumulative NEO Dollars vs. Cumulative Tract Prime-Age Population



NOTE: Below the figure, the first line of numbers shows the cumulative percentage of prime-age population in these tracts. The second line of numbers shows the corresponding tract differential from the SCZ average.

SOURCE: Author's calculations.

This targeting is obviously far greater than for the Local Job Creation (LJC) program. As mentioned before, SCZs in the bottom 10 percent of the prime-age employment rate distribution get about 30 percent of that program's funds, compared to the 78 percent that goes to the lowest 10 percent of all tracts in the NEO program. These targeting differences between the NEO and LJC programs are due to these programs' different goals. The LJC program seeks to help most local labor markets move up to the employment rates that only the most booming SCZs currently attain, which leads to greater overall aid, including aid for SCZs with average employment rates. The NEO program seeks to reduce the inequality of neighborhood employment opportunities, which leads to greater targeting of the most distressed places.

LJC and NEO Block Grants Briefly Compared

Table 10 pulls together some summary information on the LJC and NEO block grants, by state and for the entire United States. Although overall the proposed LJC grants make up a sum twice the size of NEO grants, this ratio does not hold true for all states. For example, the proposed NEO block grants are larger than LJC grants in 11 states: DC, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Nebraska, New Hampshire, North Dakota, Vermont, and Wisconsin. Although both grants are moderately positively correlated,⁸² many states that have relatively modest disparities in cross-labor-market employment-rate differentials still have large disparities in neighborhood differentials. Across states, the LJC grants per prime-age person show far more dispersion than the NEO grants per prime-age person.⁸³

Adding together the two grants makes them modestly more challenging for states to afford. Over the entire United States, the combined LJC plus NEO grants as a percentage of state

⁸² The overall correlation in per prime-age person LJC and NEO grants, across the 51 states, is 0.651.

⁸³ The standard deviation of the per-prime-age-person grants is \$113 for LJC and \$17 for NEO. These are unweighted standard deviations across the 51 states.

Table 10 LJC vs. NEO Grant Programs by State, Compared

State	LJC per prime-age person (\$)	NEO per prime-age person (\$)	Total LJC (in \$M)	Total NEO (in \$M)	LJC+NEO, % of state taxes
Alabama	344	101	639	187	7.0
Alaska	223	92	65	27	5.1
Arizona	256	94	683	250	5.1
Arkansas	308	82	347	92	4.2
California	202	59	3,267	952	2.2
Colorado	67	52	156	120	1.7
Connecticut	74	73	101	100	1.0
Delaware	110	75	40	27	1.4
District of Columbia	17	114	6	38	0.5
Florida	197	77	1,567	615	4.8
Georgia	203	73	849	306	4.6
Hawaii	90	81	48	43	1.1
Idaho	166	58	106	37	2.9
Illinois	101	83	514	421	2.0
Indiana	137	83	348	212	2.4
Iowa	17	60	19	69	0.8
Kansas	63	71	68	76	1.4
Kentucky	322	93	550	159	5.3
Louisiana	342	108	621	196	6.8
Maine	86	71	43	35	1.6
Maryland	46	54	110	129	1.0
Massachusetts	25	67	68	184	0.8
Michigan	189	93	708	347	3.4
Minnesota	5	50	11	108	0.4
Mississippi	397	109	447	122	6.7
Missouri	124	82	287	190	3.5
Montana	103	63	39	24	1.9
Nebraska	1	56	1	40	0.7
Nevada	183	83	222	100	3.2
New Hampshire	18	61	9	32	1.3
New Jersey	79	61	279	216	1.3
New Mexico	386	96	297	74	4.9
New York	138	78	1,093	618	2.0
North Carolina	176	68	700	273	3.2
North Dakota	19	53	5	15	0.4
Ohio	140	93	619	412	3.3
Oklahoma	268	83	398	123	4.8
Oregon	149	60	244	98	2.4
Pennsylvania	124	92	602	449	2.4
Rhode Island	96	75	39	31	1.9
South Carolina	209	86	397	163	4.9
South Dakota	71	67	22	21	2.2
Tennessee	238	79	623	207	4.9
Texas	198	73	2,270	836	4.8
Utah	115	46	138	54	1.9
Vermont	33	46	7	10	0.5
Virginia	115	61	385	203	2.1
Washington	139	61	418	182	2.1
West Virginia	469	98	315	66	6.4
Wisconsin	16	72	34	158	0.9
Wyoming	65	50	14	11	1.2
United States	164	75	20,841	9,461	2.7

SOURCE: Author's calculations.

tax revenues come to only 2.7 percent. As a percentage of overall taxes for an individual state, the combined grants max out at 7.0 percent in Alabama and also exceed 5.0 percent in six other states: Alaska, Arizona, Kentucky, Louisiana, Mississippi, and West Virginia.

Although the combined LJC and NEO grant amount is financially feasible for all states to enact, it can be debated whether state financing, without federal help, is the best approach from an equity and efficiency perspective. The states where LJC/CEO is over 5 percent tend to be states that are suffering the most severe problems with low employment rates. These states' interests would be served by their pursuing job creation and higher employment rates aggressively with significant budget resources. But having said that, federal help would make these states' task easier politically.

Federal financing would also make the net economic effects of the LJC and NEO programs higher in a state, as the state would not face negative economic consequences from having to finance these grants. In addition, as these states tend to be more distressed, federal financing would be a plus from the perspective of promoting economic equity.

The tradeoff is that federal financing might lead to federal program management that is top down, without sufficient attention to local needs. In addition, federal financing on a large enough scale seems politically unlikely, at present.

This report's contention is not that state financing of economic development to help distressed places is the only approach. Federal support, either partial or total, might also work. But it *is* the contention of this report that state financing of help for distressed places can also work. Both the federal and the state approach have strengths and weaknesses. Which approach should be chosen depends upon the specifics of the proposed program, and the political situation.

Distribution of LJC and NEO Block Grants by Race and Ethnicity

Both the Local Job Creation (LJC) and Neighborhood Employment Opportunities (NEO) block grants are highly targeted by local employment rates, with the targeting particularly high for NEO grants. Neither program considers race or ethnicity, at least in how the grant dollars are allocated. But how impact varies by race or ethnicity may be of interest.

To avoid confusion: these grants' use of distribution formulas that target by a place's employment rate, and not by race or ethnicity, is justifiable. These grants aim at helping the nonemployed in places with low employment rates. A place's employment rate reveals its need, and it also shows where the benefits of grants, per dollar of grant cost, are greatest. From both a political and an ethical perspective, allocating grants by need and benefit-cost ratios seems justifiable.

But given the burden of U.S. history, and the continuing persistence of racial inequities, it is of interest to see how racial equity might be affected by these grant programs. In the below discussion, "racial equity" effects are proxied for by looking simultaneously at which racial and ethnic groups live in different places, and how this varies with grant levels per prime-age person.

Of course, such covariance between grant levels and racial/ethnic composition is not a perfect measure of how benefits vary by race or ethnicity. Such analysis assumes that the benefits of a grant within a place are distributed across racial and ethnic groups by the percentage of the place's population in each group. But the benefit distribution may differ, for at least two reasons. First, a place's benefits may be distributed based on the distribution of the nonemployed across race and ethnic groups, not the overall population.⁸⁴ Second, different racial groups'

⁸⁴ On average, Black and Hispanic prime-age employment rates are lower. For example, from national data from the U.S. Bureau of Labor Statistics, in 2019 the prime-age employment rate was 76.0 percent for Black Americans, 77.4 percent for Hispanic Americans, and 81.0 percent for white Americans.

access to jobs because of these programs may differ from population percentages because of how the programs are run and where they are located.

In addition, both the LJC and NEO block grant programs could adopt practices to promote benefits being distributed in a way that promotes racial equity. For example, training programs run under either LJC and NEO could make special efforts to reach out to Black or Hispanic groups. Training programs could be located at neighborhood institutions that are trusted by these groups.

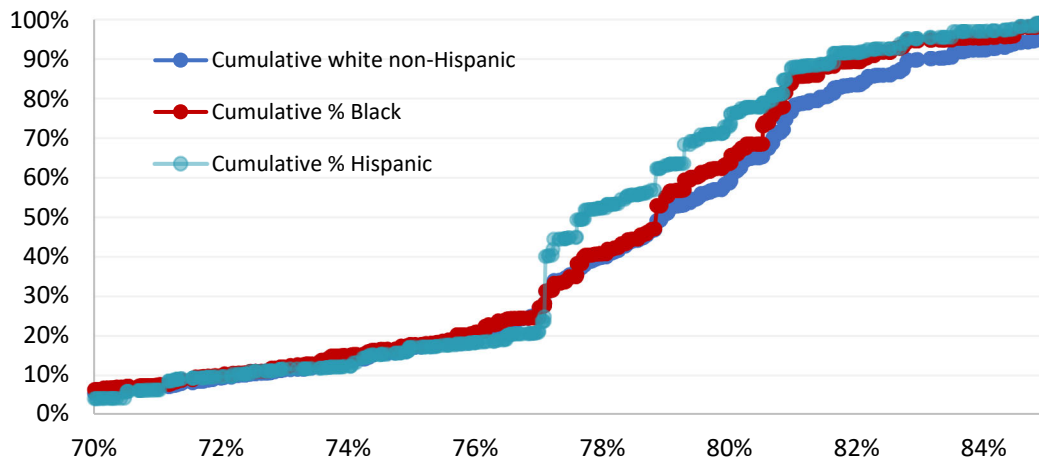
But as a first attempt to see how these programs affect racial and ethnic equity—under the simplifying assumption that benefit distribution within a place is by population makeup—the following sections provide some initial findings. The below analysis suggests that the LJC program is modestly more beneficial, on average, to Black workers and Hispanic workers. Much more targeting by race and ethnicity occurs with the NEO program, due in large part to how racial and ethnic groups are distributed by local labor markets and neighborhoods. Many distressed local labor markets are rural as well as urban, and include many white non-Hispanic groups, whereas neighborhood racial segregation means neighborhood disadvantage is more racially concentrated.

Local Job Creation Block Grants: Relative Impacts on Black and Hispanic Workers

In Figure 10, a comparison is shown between three groups in the cumulative distribution of each group's population (age 16 and over) by SCZ prime-age employment rate: white non-Hispanic persons; Black persons; Hispanic persons.⁸⁵ As the figure shows, the distribution of the population is fairly similar in the SCZs with the lowest employment rates. However, Black and

⁸⁵ The abrupt jump in the cumulative percentage Hispanic by SCZ employment rate at a 77.1 percent prime-age employment rate is due to the large SCZ of Los Angeles.

Figure 10 Cumulative Percentage of Population Ages 16 and Over of Different Races and Ethnicities in SCZs, by SCZ Prime-Age Employment Rate



NOTE: Figure shows cumulative percentage of population ages 16 and over in SCZs of various prime-age employment rates, by racial and ethnic group.

SOURCE: Author's calculations.

Hispanic groups tend to be overrepresented in SCZs whose prime-age employment rates are in a middle range, whereas the white non-Hispanic population group is overrepresented in the SCZs whose prime-age employment rates are the very highest. However, the differences in the cumulative distribution are not dramatic.

These population figures can be used to calculate the average LJC block grant per prime-age person, weighted by a particular racial/ethnic group's population distribution. These calculations show a weighted average for the white non-Hispanic group of \$164 per prime-age person, compared to \$176 for the Black group and \$181 for the Hispanic group.

In sum, at the SCZ level, targeting low employment rates results in some modest targeting of Black and Hispanic groups versus white non-Hispanic groups. Again, the caveat is that this assumes program benefits in each SCZ are distributed at least roughly according to each group's percentage in that SCZ.

Neighborhood Employment Opportunities Block Grants: Relative Impacts on Black and Hispanic Workers

In contrast, Neighborhood Employment Opportunities block grants are far more targeted on Black and Hispanic groups. (Or at least the NEO grants are far more targeted on places with a high percentage of Black and Hispanic groups. The targeting of *benefits* by race and ethnicity assumes that program benefits within a tract are distributed by each group's percentage of that tract.) This is in part due to NEO grants being more targeted on lower-employment-rate areas than LJC grants. But the targeting by race and ethnicity is also due to the far greater concentration of Black groups, and to a lesser extent Hispanic groups, in low-employment-rate neighborhoods. American patterns of racial segregation largely drive these patterns.

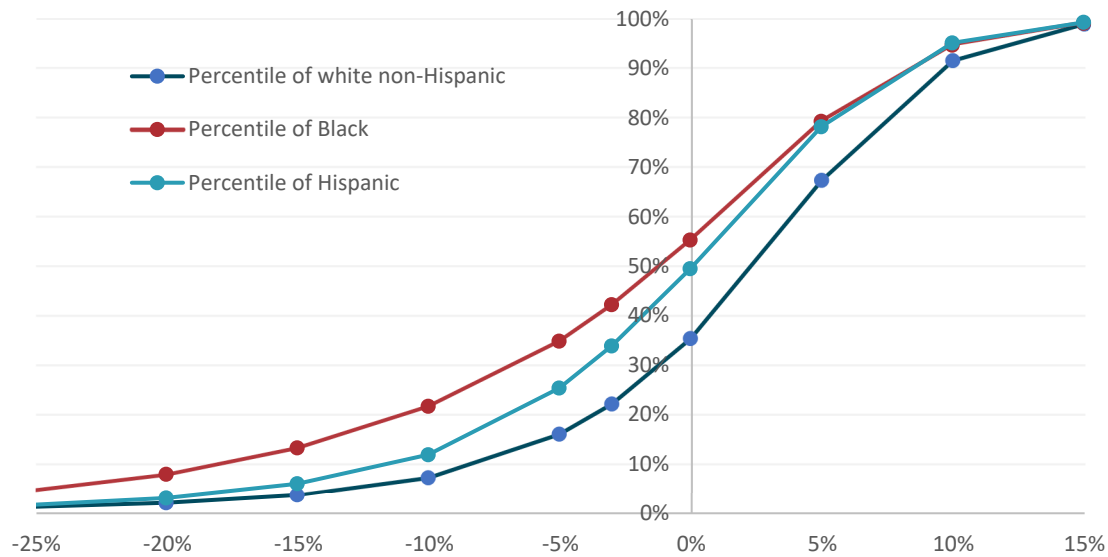
Consider neighborhoods whose prime-age employment rates are extremely low relative to their SCZs—15 percentage points below their SCZ averages. Only 3.7 percent of the white non-Hispanic population lives in such neighborhoods. But 5.9 percent of the Hispanic population lives in such neighborhoods, and 13.2 percent of the Black population lives in these extremely low-employment-rate neighborhoods (Figure 11).

For neighborhoods at least 10 percentage points below their SCZ average, the relative percentages of each group living in such low-employment-rate neighborhoods is as follows: white non-Hispanic, 7.3 percent; Hispanic, 11.8 percent; Black, 21.7 percent.

The NEO grant has a cut-off of census tracts that have a prime-age employment rate of at least 3 percentage points below the SCZ average. The percentage of each group in eligible tracts is 22.2 percent for white non-Hispanics, 33.8 percent for Hispanics, and 42.2 percent for Blacks.

The median tract employment-rate differential experienced by the white non-Hispanic population—half below, half above—is 2.4 percentage points *above* the SCZ average. The

Figure 11 Percentiles of Population of Different Ethnic Groups in Tracts with Different Differentials of Prime-Age Employment Rate from SCZ Average



SOURCE: Author's calculations.

Hispanic median is no different from the SCZ average. The Black median is 1.2 percentage points *below* the SCZ average.

Suppose all eligible tracts were awarded their full NEO grants. Then, because of more population in eligible tracts and higher grants per prime-age person, the Hispanic and Black populations would have a higher “weighted average” of NEO grants per prime-age person. The white non-Hispanic average grant per prime-age person is \$56. The Hispanic average is half again larger, at \$88 per prime-age persons. Compared to the white non-Hispanic average, the Black average is almost triple, at \$156 per prime-age person.

In sum, targeting by neighborhood distress tends to result in more targeting on places with high Black and Hispanic populations, compared to targeting by local labor market distress.

Illustrative Examples: Michigan and Detroit; Pennsylvania and Philadelphia

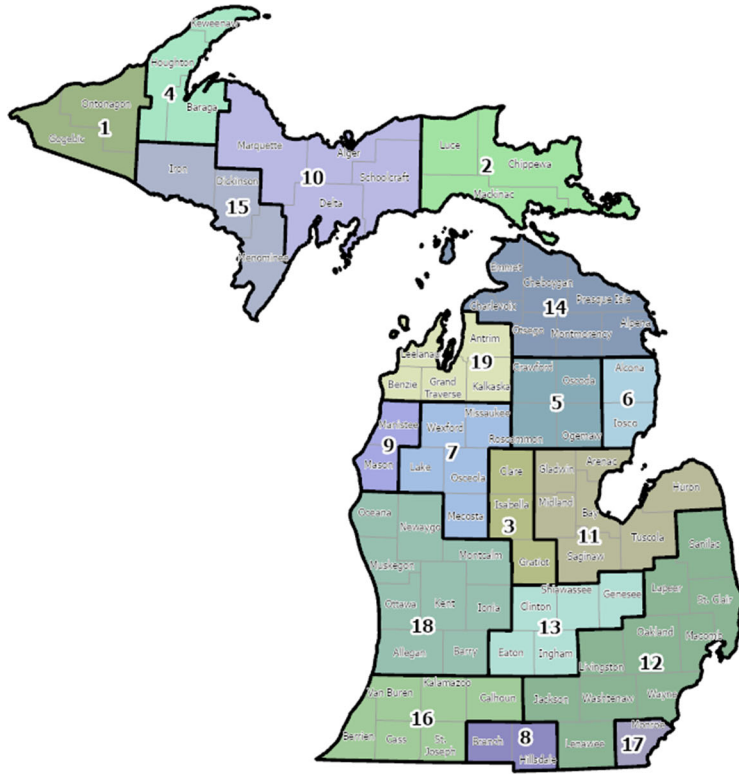
To provide some illustrative examples of how this program might work, this subsection turns to considering how these two block grants would be distributed within the states of Michigan and Pennsylvania, as well as in each state's largest city, Detroit and Philadelphia.

Michigan

Michigan is divided into 19 “state-delimited commuting zones,” or SCZs. Map 2 shows these 19 SCZs and their component counties. The numbering of the map orders the SCZs by their 2015–2019 prime-age employment rate, from lowest rate to highest rate. Table 11 presents some data on the prime-age population, prime-age employment rate, and Local Job Creation (LJC) and Neighborhood Employment Opportunities (NEO) block grants.

As Map 2 and Table 11 show, the lowest prime-age employment-rate SCZs tend to be rural SCZs in the Upper Peninsula and Northern Michigan. The Detroit area (number 12) and the Flint-Lansing area (number 13) tend to be in the middle in terms of overall prime-age employment rates. The more booming areas are in west Michigan (the Grand Rapids area, or number 18, and the Kalamazoo area, or number 16) and in the tourism/retirement center around Traverse City (number 19).

This SCZ employment-rate distribution drives the distribution of LJC block grants. The largest grants per prime-age person go to these distressed rural SCZs—in many cases over \$400 per prime-age person. Very low LJC block grants go to the robust areas of west Michigan and Traverse City, where they are less than \$100 per prime-age person. The big-city Detroit area (Wayne County, SCZ number 12) gets modestly above-average grants per prime-age person, owing to its overall middle-of-the-pack performance.



SOURCE: Author's calculations.

Map 2 State Commuting Zones in Michigan (SCZs)

Table 11 LJC Block Grants and NEO Block Grants for Michigan SCZs

Number	Name of largest county	Prime-age population	Prime-age employment rate (%)	LJC grant per prime-age person (\$)	Total LJC grant (\$)	NEO grant per prime-age person (\$)	Total NEO grant (\$)
1	Gogebic	6,677	65.8	604	4,031,083	221	1,476,571
2	Chippewa	20,046	66.2	589	11,812,333	174	3,496,535
3	Isabella	48,707	69.1	485	23,599,425	41	2,015,687
4	Houghton	14,469	70.0	455	6,578,068	106	1,534,284
5	Roscommon	19,899	70.0	452	9,001,002	49	968,475
6	Iosco	10,380	70.3	445	4,616,970	64	661,757
7	Mecosta	41,770	71.9	387	16,183,845	52	2,183,413
8	Hillsdale	31,469	74.0	310	9,767,136	76	2,404,690
9	Mason	17,506	74.5	293	5,130,883	124	2,179,287
10	Marquette	40,118	75.9	243	9,765,989	99	3,952,610
11	Saginaw	180,266	76.1	235	42,385,144	76	13,784,096
12	Wayne	1,939,171	77.0	205	397,083,284	108	209,059,782
13	Genesee	352,908	77.4	191	67,255,654	98	34,639,229
14	Emmet	52,639	77.6	184	9,688,521	59	3,084,127
15	Dickinson	19,606	78.0	169	3,320,407	92	1,801,314
16	Kalamazoo	266,493	78.8	140	37,330,044	63	16,751,293
17	Monroe	55,874	78.9	137	7,648,204	66	3,664,142
18	Kent	569,696	80.8	69	39,027,646	71	40,586,868
19	Grand Traverse	59,919	81.1	61	3,638,726	50	3,004,586
Total		3,747,611	77.4	189	707,864,363	93	347,248,746

SOURCE: Author's calculations

From looking at Michigan and the distribution of LJC grants per prime-age person, one might ask: Can we really help these remote areas—for example, in the Upper Peninsula? Are we sure that boosting employment in each and every one of these low-employment-rate areas makes sense? The frank answer is no. No, we do not know for certain whether each and every one of these low-employment rate areas has sufficient possible economic advantages that investing LJC dollars will work. But we also do not know that such grants *won't* work. Research does not show that the cost per job created is greater in more distressed local labor markets. As mentioned above, research supports the effectiveness of regional economic development assistance in distressed areas in the Tennessee Valley (Kline and Moretti 2013) and in Appalachia (Jaworski and Kitchens 2019). These proposed grants do not overwhelm the most distressed places with funds or cost the state budget excessively. For these smaller rural places, these annual grants, although large per prime-age person, are modest both in overall size and as a percentage of the state budget. For these distressed local labor markets, which have low tax bases, these grants give these areas a chance to implement a reasonable plan to grow local jobs. Perhaps, over time, experience will suggest a more nuanced “triage” strategy, in which resources are further targeted on local labor markets that are both distressed and also have the most job growth potential.

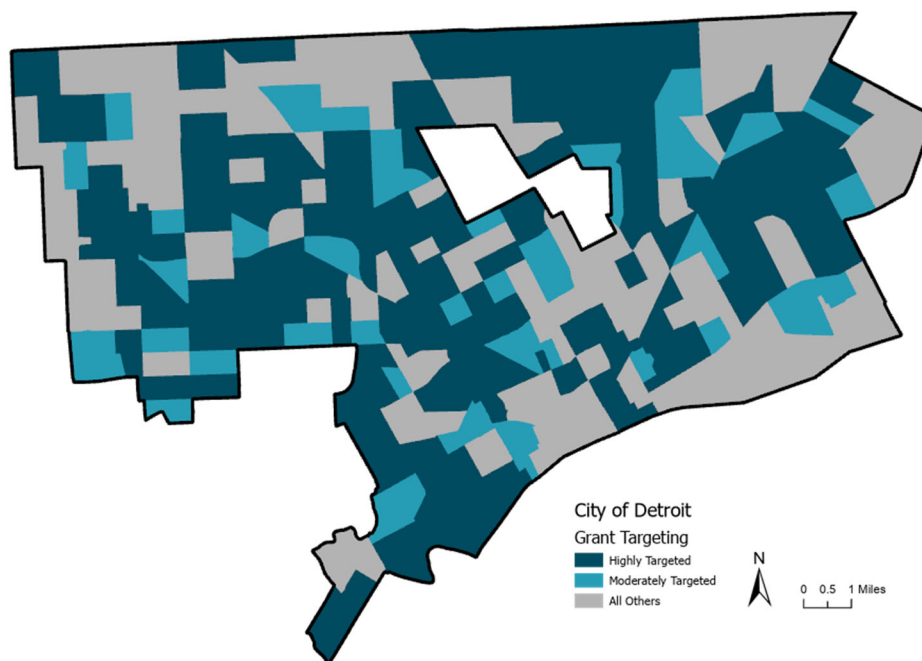
The NEO block grant is targeted at relatively distressed neighborhoods within each SCZ. All SCZs have such relatively distressed neighborhoods, so the variation in NEO grants per prime-age person at the SCZ level is not as great as for the LJC grant. Some variation does occur—for example, NEO block grants per prime-age person are somewhat above average for the Detroit area, as one might expect, given the disparities between the cities of Detroit and Ann Arbor, both of which lie within the overall Detroit area. NEO block grants per prime-age person are also high in some of the distressed Upper Peninsula SCZs. Apparently both the far west

Upper Peninsula (SCZ 1) and the eastern Upper Peninsula (SCZ 2) not only have low overall prime-age employment rates but also pockets of low-employment-rate census tracts.

Detroit

If we turn our focus to the city of Detroit, the neighborhood-targeted nature of the NEO block grant becomes more apparent. NEO grants to neighborhoods in the city of Detroit would total \$119.8 million—over half of the \$209 million in NEO grants to the Detroit area. Per prime-age person, Detroit would receive \$466, which is more than four times the average per prime-age person in either the Detroit area or Michigan as a whole.

Even within the city of Detroit, NEO grants are extremely targeted. The Detroit map (Map 3) identifies the most highly distressed and targeted neighborhoods in Detroit, as well as more moderately distressed and targeted neighborhoods. Highly distressed and targeted



SOURCE: Author's calculations.

Map 3 Highly Targeted and Moderately Targeted Tracts in Detroit

neighborhoods are defined as those whose prime-age employment rate is more than 15.4 percent below the overall Detroit-area SCZ average. Moderately distressed and targeted neighborhoods are defined as those census tracts whose prime-age employment is between 9.8 percentage points and 15.4 percentage points below the average for the Detroit area SCZ.⁸⁶

Given the structure of the NEO block-grant program, other Detroit neighborhoods would also be included, such as any census tract at least 3 percentage points below the Detroit area's prime-age employment-rate average. But given the targeting formula, \$115.0 million of the city of Detroit's \$119.8 million would go to the tracts identified in Map 3. Of this amount, \$100.3 million would go to the most highly targeted tracts, and \$14.7 million to the moderately targeted tracts. The \$100.3 million for the most highly targeted tracts amounts to \$796 per prime-age person. The \$14.7 million for moderately targeted tracts amounts to \$346 per prime-age person.

As the map shows, much of Detroit outside of the Downtown, Midtown, and Corktown areas is distressed, in that prime-age persons have very low employment rates. This includes many of the neighborhoods on the southwest side and in West Detroit, as well as neighborhoods in East Detroit, in the northeast, and just north of the wholly contained cities of Hamtramck and Highland Park. The proposed NEO grant would target the residents of these highly distressed neighborhoods with services to link them with jobs.

Again, one could ask: in some of these very highly distressed neighborhoods, will NEO grants really be able to significantly enhance residents' employment rates? As discussed above, the research evidence from Empowerment Zones suggests that providing services in severely

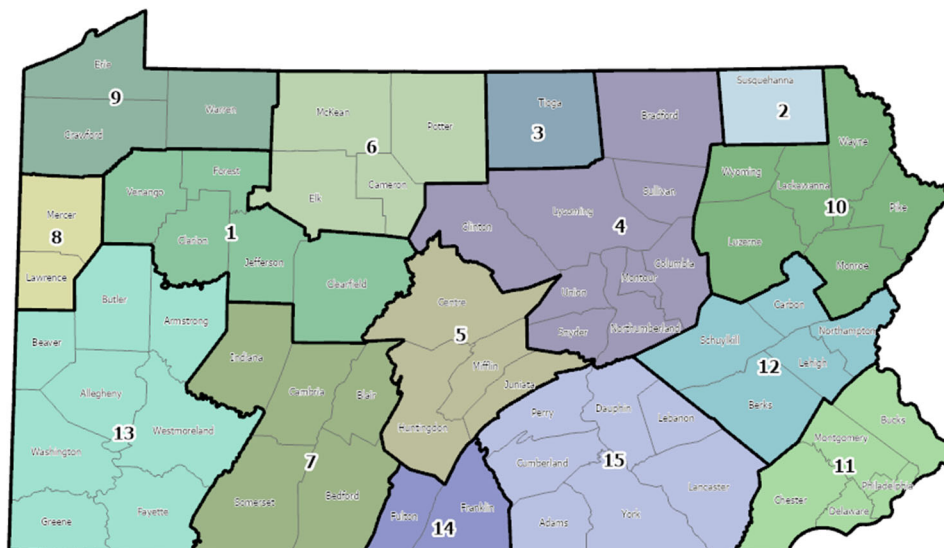
⁸⁶ Why these cutoffs? As discussed above, in the nation, 5 percent of the U.S. population lives in tracts that are 15.4 percent or more below their SCZs' average in their prime-age employment rate. Some 10 percent of the population lives in tracts that are 9.8 percentage points below their SCZs' average. Nationwide, 56 percent of the proposed NEO grants would go to the most distressed tracts, and 78 percent would go to one or the other category of distressed tracts.

distressed neighborhoods *can* increase employment rates, at an affordable cost (Busso, Gregory, and Kline 2013). No evidence shows that there is some low employment rate below which a neighborhood is irredeemable.

Pennsylvania

Pennsylvania is divided into 15 SCZs (Map 4). As with Map 2, Map 4 is ordered by the SCZ's prime-age employment rate, with the lowest-employment-rate SCZ being first and the highest-employment-rate SCZ being fifteenth. As a companion to Map 4, Table 12 presents some statistics on these SCZs, their prime-age population, their prime-age employment rates, and their prospective LJC and SCZ block grants.

As the map and table show, the lowest-employment-rate SCZs tend to be rural Appalachian labor markets. The best-off areas include the Lancaster area (number 15) and the Pittsburgh area (number 13, including Allegheny County). The Philadelphia area is close to the state average.



SOURCE: Author's calculations.

Map 4 State Commuting Zones in Pennsylvania

Table 12 LJC Block Grants and NEO Block Grants for Pennsylvania SCZs

Number	Largest county in SCZ	Prime-age population	Prime-age employment rate (%)	LJC grant per prime-age person (\$)	Total LJC grant (\$)	NEO grant per prime-age person (\$)	Total NEO grant (\$)
1	Clearfield	81,029	70.8	426	34,494,639	175	14,199,704
2	Susquehanna	13,937	75.6	256	3,561,198	6	89,627
3	Tioga	14,099	75.8	249	3,511,302	20	285,400
4	Lycoming	172,385	76.0	241	41,486,611	79	13,578,681
5	Centre	100,058	76.0	240	24,022,498	75	7,541,269
6	Mc Kean	32,909	76.0	240	7,896,787	125	4,100,441
7	Cambria	162,456	76.0	239	38,811,646	106	17,253,319
8	Mercer	68,153	76.6	219	14,908,405	118	8,046,156
9	Erie	144,361	76.8	210	30,340,912	91	13,114,608
10	Luzerne	307,113	77.0	206	63,245,318	100	30,698,377
11	Philadelphia	1,643,964	79.0	134	220,304,225	108	177,819,649
12	Berks	487,902	80.0	98	47,595,277	98	47,986,520
13	Allegheny	896,061	81.0	62	55,535,169	82	73,641,440
14	Franklin	62,243	81.7	38	2,364,180	27	1,653,610
15	Lancaster	675,632	82.2	21	14,396,394	57	38,633,176
	Total	4,862,303	79.3	124	602,474,559	92	448,641,978

SOURCE: Author's calculations.

As a result, the LJC grants per prime-age person tend to be much higher in the smaller rural labor markets. But the average Philadelphia area still takes a large share of state funds because of its size.

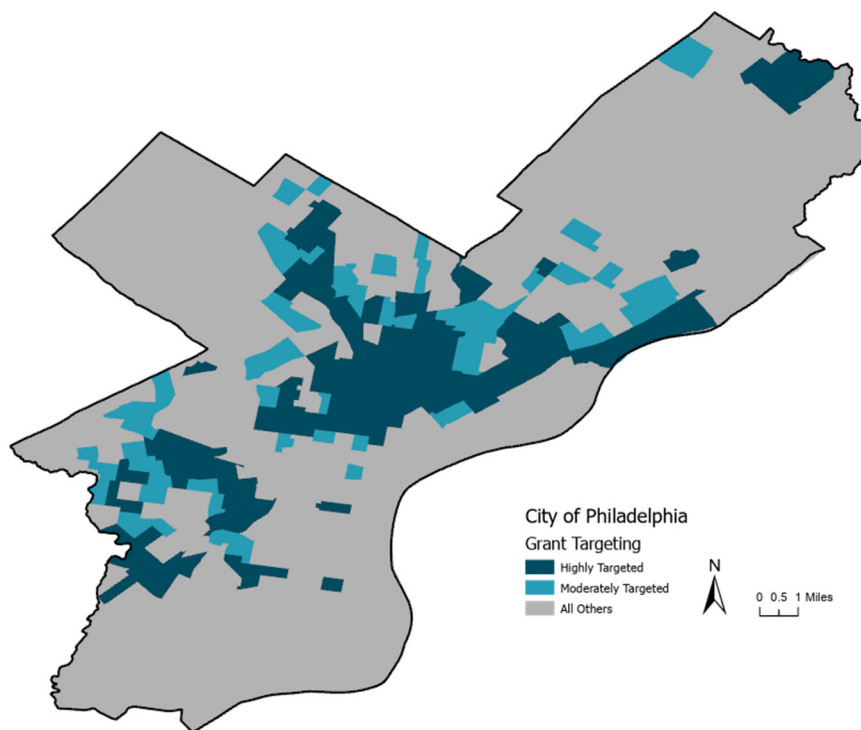
The neighborhood NEO grants show quite a bit of variability across rural areas, with some rural areas apparently having quite variable employment rates across neighborhoods, and others less so. The Philadelphia area's NEO grants per prime-age worker are only slightly above the state average.

Philadelphia

But the Philadelphia area's average NEO grant per prime-age worker conceals the concentration of such grants in the city of Philadelphia. Of the \$177.8 million in Philadelphia-area NEO grants, \$153.8 million would be allocated to neighborhoods in the city of Philadelphia. Per prime-age person, this is \$228, over twice the state average.

The city of Philadelphia's NEO grants are further concentrated in a smaller number of neighborhoods with extremely low or very low employment rates. Consider highly distressed census tracts in Philadelphia, which have prime-age employment rates of more than 15.4 percentage points below the Philadelphia SCZ's average. Such neighborhoods would be allocated \$103.4 million in NEO grants, which would work out to \$751 per prime-age worker. Another \$31.9 million in NEO grants would go to moderately distressed neighborhoods, with a prime-age employment rate of at least 9.8 percentage points below the Philadelphia-area average, but not as low as the highly distressed tracts. This moderately distressed grant allocation amounts to \$338 per prime-age worker.

These Philadelphia tracts that are either highly distressed and targeted or moderately distressed and targeted are shown in Map 5. The distressed and targeted neighborhoods include



SOURCE: Author's calculations.

Map 5 Highly Targeted and Moderately Targeted Tracts in Philadelphia

much of North Philadelphia and Germantown and parts of Kensington, as well as areas of West Philadelphia outside of some areas near the University of Pennsylvania.

If we compare the Philadelphia and Detroit situations, much of the difference in LEO grants reflects the overall distress levels of the two cities. For the Detroit area, a larger portion of the city is made up of highly distressed neighborhoods within the Detroit local labor market. The city of Philadelphia also includes many highly distressed neighborhoods, but the share of Philadelphia that is severely distressed is not as great as in Detroit. For example, the most highly distressed tracts in Philadelphia have a share of the city's total prime-age population of 20 percent, whereas the corresponding share in Detroit is 49 percent.

CONCLUSION

This report's most important points are threefold:

1) The United States has two distinct types of place-based jobs problems: a *local labor market* problem in some areas, particularly in rural areas and smaller cities, of too few jobs relative to residents; and a *neighborhood* problem *within* many local labor markets, in which that neighborhood's residents have less effective access to jobs than is typical of the overall local labor market. These two types of problems lead to two different types of place-based policies. If a local labor market has too few jobs, more jobs need to be created. If a neighborhood's residents lack access to the local labor market's jobs, that access needs to be improved.

2) Alleviating low employment rates, whether in a local labor market or a neighborhood, has major social benefits. Higher employment rates not only directly increase earnings but also boost wages, increase local government revenue, improve physical and mental health, reduce

substance abuse and crime, strengthen families, provide role models, and enhance better child development.

3) With a long-term program of the right public services, local employment rates can be significantly improved at affordable costs. Business job creation can be encouraged by enhancing local business inputs—for example, by improving local worker skills, making more sites available for business development, building infrastructure to improve access to markets and supplies, and providing information on how the business can be more competitive and sell to new markets. Worker access to jobs can be encouraged by providing information on job openings, enhancing worker skills, providing child care, and improving transportation.

If place-based jobs problems can be addressed at affordable costs, why haven't state and local governments already done so? The fundamental political problem is that distressed local labor markets and neighborhoods lack both economic and political resources. Economically, a distressed rural area or smaller city lacks the tax base to make the needed long-term investments in job-creation policies. A city with many distressed neighborhoods, such as Detroit, lacks the fiscal ability to link these neighborhoods' residents with job opportunities. Politically, local labor markets are not part of America's democratic structure. No one speaks for local labor market areas. Within their cities, most distressed neighborhoods have limited political clout.

This report's block grant proposals attempt to address these economic and political problems. State government's targeting of distressed local labor markets and neighborhoods alleviates their economic resource constraints. The block-grant proposals do targeting, which is always politically difficult. But these proposals also have broad benefits, which increases the political appeal. Most or all of the local labor markets in the state get something. Many local communities would get funds to administer on behalf of distressed neighborhoods.

Furthermore, these block-grant proposals do not require significant new tax revenue. The two proposals have a combined cost of around \$30 billion nationally. This total is less than 3 percent of state government's annual tax revenues.⁸⁷ Perhaps as important, \$30 billion is about—or slightly less than—what state governments currently devote to business tax incentives, which is around \$33 billion (Bartik 2019). For many states, all that their state governments would need to do is reallocate what they currently devote to business tax incentives. Rather than handing out lots of cash in tax incentives around the state, target the state's distressed places and use more cost-effective public services. Other states might need to make some budget adjustments to raise the needed funds. But increasing employment rates of a state's residents is a worthy goal, justifying state investments of significant size.

But although this logic makes sense, logic needs to be backed by political power. Distressed rural areas and smaller cities, and distressed neighborhoods, need to have more political power. Only with such power will policies be likely to address these places' need for jobs. Developing such power requires these distressed places to have local leaders with the resources to pursue a high-quality, sustained campaign of political organizing.

⁸⁷ Table 10, above: the LJC and NEO grants together are 2.7 percent of total state tax revenues.

Appendix A

Case Studies of Economic Development Programs, 10 Most Populous States

California (population 39.4 million)

The state of California currently devotes about \$2.7 billion a year to economic development programs.⁸⁸ The largest component of this economic development budget is for research and development (R&D) tax credits, which cost \$1.846 billion. Other major programs include \$280 million in legacy costs for the state's Enterprise Zone program, which expired in 2014; \$230 million in funding for "clean energy" trucks and equipment; \$145 million in film tax credits; and \$20 million in hiring credits in aerospace. The state's signature big discretionary incentive program, "California Competes," under which the state can hand out funds with few restrictions, currently has an annual cost of \$110 million, although it appears likely to dramatically escalate in future years, given current awards. The state also uses an add-on to the unemployment-insurance tax to make grants to firms for training incumbents and new hires, at an annual cost of around \$103 million.⁸⁹

The now-expired Enterprise Zone program will be discussed further below. Of the other programs, distressed areas are not significantly targeted. Only two programs explicitly aim for targeting distressed areas, 1) "California Competes" and 2) the training grant program. California Competes gives some preferences in making incentive awards if at least 75 percent of the added employees work in an area whose unemployment or poverty rate is at least 50 percent above the

⁸⁸ The state also provides sales tax exemptions for some materials used in manufacturing and in some research industries, at an annual cost of \$215 million. I do not consider this an incentive, as a sales tax should not tax intermediate inputs, for the reason that it creates tax cascading effects, which encourage firms to vertically integrate.

⁸⁹ Sources for these estimates include the following: California Department of Finance (2019), California Employment Training Panel (2020), and California Air Resources Board (2019).

state average.⁹⁰ These designated distressed areas tend to be smaller cities, although a few rural counties also make the cut. This preference does not appear to result in substantial targeting: of the 115 projects approved in 2019 and 2020, only 12 were classified as being in a high-poverty or high-unemployment area. And out of the \$436 million in credits awarded in those two years, only \$53 million went to the high-poverty or high-unemployment areas.⁹¹

The Employment Training Panel grant program also has some modest targeting. If the employer is located in a county or subcounty area whose unemployment rate is at least 25 percent above the state average, the project has less stringent minimum-wage and retention requirements and is supposed to gain an edge in grant review. These high-unemployment areas are mostly cities or census-designated places within counties; as of late 2020, only four counties received full county eligibility, most notably Los Angeles County. During the 2018–2019 grant cycle, high-unemployment areas received 106 out of the 432 contracts approved statewide, the training in such high-unemployment areas included 15,000 trainees out of a statewide 95,000, and the high-unemployment projects took up \$14.7 million in promised funding out of the total of \$109.2 million. Thus, it seems that the high-unemployment areas had more modest-sized projects approved at a somewhat lower training cost per worker. Overall, the funding share going to high-unemployment areas is only a small portion of the statewide total.

California used to have much more targeting by virtue of its Enterprise Zones. Begun in the 1980s and terminated in 2014, the Enterprise Zone program funding peaked in the 2011–

⁹⁰ Specifically, the project has an easier time getting through the first round of review if this is true, even if the grant requested is relatively high compared to the project's payroll and investment. The program screens proposals based on the requested subsidy relative to the project's payroll and investment, and, based on this ratio, it establishes cutoffs for making the second round.

⁹¹ A recent study of California Competes found some positive effects of the program on job creation in tracts in which projects were awarded funds, and some positive effects on employment for persons living in low-income census tracts (Freedman, Neumark, and Khanna 2021). But on the whole, the study found stronger effects of the program on more advantaged tracts, so the program's effects do not seem to be targeted.

2012 fiscal year at a cost of \$1.0 billion. Most of the cost for this program was for tax credits for employers in the zone who hired “qualified individuals”; these tax credits could be paid for up to five years and could total up to \$36,000 per hire. “Qualified individuals” was defined fairly broadly: such qualified individuals included those who were economically disadvantaged or on welfare, but also those living in high-unemployment areas in or near the zone, veterans, and anyone whose layoff or termination from an industry or occupation is considered to be permanent. The Enterprise Zone program’s other components included tax exemptions for interest paid on loans made to zone businesses, expensing of business equipment purchases, sales tax exemptions on purchases of machinery and equipment, and an income tax credit of 5 percent for persons living in the zones.

California designated 42 zones. Zones tended to be relatively small residential areas, although they frequently included nearby industrial and commercial areas. Zones were required to be economically distressed in having low incomes, high poverty, and high unemployment. The available data indicate that median zone income was less than two-thirds of the state average and that zone unemployment rates were almost twice the state average. Zones were usually geographically small; average size was less than 10 square miles. However, the zones collectively included about 10 percent of California’s overall employment. But this employment was concentrated in relatively few zones; for example, over one-third of employment from the 42 zones was in the Los Angeles and San Francisco zones.⁹²

Given the way the program was designed, it seems likely that the program was highly targeted in terms of locating jobs in a *neighborhood* that was distressed. But the hiring criteria

⁹² My sources for program information are Neumark and Kolko (2010) and O’Keefe and Dunstan (2001).

are broad, so it seems likely that the program was more of a general spur to hiring for employers locating in the zone, not a spur for hiring zone residents.

Texas (population 29.4 million)

The state of Texas current devotes about \$1.1 billion to economic development programs.⁹³ Of this total, by far the largest program is the Chapter 313 program, at an annual cost of \$769 million. Under Chapter 313, Texas school districts forgo local property taxes for projects, with these forgone property taxes mostly reimbursed through the state's school aid formula.⁹⁴ Other programs include these: \$205 million for R&D tax credits, \$62 million in historic building credits, \$51 million in sales and use tax credits under the Texas Enterprise Zone program, \$42 million in "deal-closing" grants under the Texas Enterprise Fund, and \$19 million in skills development grants for customized training delivered by community colleges.

Of these state of Texas programs, the only one that is targeted to distressed places is the Texas Enterprise Zone program, and this program is only modestly targeted. Any community can apply for a project to be included in the program, regardless of whether the community is distressed or whether the project is located in a distressed neighborhood. However, as will be described, the hiring requirements are relaxed somewhat based on where the project is located and whether the hires are residents of a distressed area. The program authorizes around 100 projects a year. The incentive provided by the state is a sales tax refund, up to a maximum that is usually \$2,500 per job created or retained, although for large projects, that can be increased to \$7,500.⁹⁵

⁹³ The forgone tax costs are 2021 estimates from the Texas Comptroller (2020). The Texas Enterprise Fund numbers are averages over the 14 years from 2004 to 2017 and are taken from Texas Enterprise Zone (2019). The customized-training funding numbers come from the Texas Workforce Commission (2019).

⁹⁴ School districts also extract side payments from firms in exchange for granting these abatements, with the side payments averaging 31 percent (Jensen 2017).

⁹⁵ Information on the Texas Enterprise Zone program is taken from Texas Economic Development (2021).

The zone designation comes into play in determining what the firm must do in exchange for the sales tax refund. If the project is located in a designated zone, then 25 percent of those jobs created or retained under the program must go to persons who are disadvantaged, zone residents, or veterans. Disadvantaged persons include persons who are low-income, on public assistance, or who have been unemployed for at least three months. If the project is located outside a designated zone, then 35 percent of the jobs created or retained under the program must go to those same three target groups.

Large portions of the state are in zones. The countywide designation requires high poverty, high unemployment, and low high-school degree attainment, and ends up designating only 9 of Texas's 254 counties, including around 5 percent of Texas's population. But zones also include census block groups with greater than a 20 percent poverty rate; this block-grant category adds an additional 27 percent of Texas's population as part of zones. Therefore, almost one-third (32 percent) of Texas's population lives in a zone. Furthermore, obviously many other sites in communities are near zones, so firms throughout Texas would most likely hire many residents of zones with no special effort whatsoever.⁹⁶

In the most recent biennium with data, fiscal years 2017 and 2018, out of the 107 “designated projects” approved by the state, 67 were outside designated zones.⁹⁷ So the program is mostly supporting development throughout the state. The program is to some extent targeting jobs at disadvantaged persons or zone residents, but the hiring percentage requirements are modest, so it is unclear how much difference the requirements make to normal hiring patterns.

⁹⁶ These calculations are based on downloading the county designations as of 2019, and the census block group designations from the 2010 census, from the website for the Texas Enterprise Zone program.

⁹⁷ These calculations are based on an Excel spreadsheet that the state of Texas has on approved enterprise-zone projects, available under the label “Enterprise Zone Program Designations” at <https://gov.texas.gov/business/page/texas-enterprise-zone-program> (accessed January 8, 2021).

Florida (population 21.7 million)

The state of Florida decentralizes a great deal of its economic development activity to local governments, which levy special taxes to support various types of investments in tourist development or sports stadiums. These special taxes currently total more than \$1.1 billion.⁹⁸

The state's own investments are more modest and consist mainly of general business incentives, along with some special support for the space industry. Limited amounts of economic development funds are targeted to investments and/or job creation in distressed census tracts. Total economic development funding is around \$241 million annually. That amount is widely spread over many programs. Programs exceeding \$10 million annually in size include the following ten:

- 1) Sales tax exemptions for R&D machinery and equipment, \$53 million
- 2) Loans and other investments by Space Florida in supporting space-related industries, \$32 million
- 3) Sales tax break for machinery and equipment purchases by new businesses, \$31 million
- 4) Qualified Target Industry Tax Credit, \$24 million
- 5) Capital Investment Tax Credit, \$17 million
- 6) Customized training for new or incumbent workers, \$15 million
- 7) Quick Action Closing Fund, \$12 million
- 8) New Markets Tax Credit, \$11 million
- 9) Sales tax break for machinery and equipment for expanding businesses, \$11 million
- 10) Space Industry Tax Credit, \$10 million⁹⁹

⁹⁸ Information on these special local taxes is taken from Florida Revenue Estimating Conference (2020).

⁹⁹ Tax-credit data come from the Florida Revenue Estimating Conference (2020). Spending program information, except for the Space Industries program, comes from Florida Department of Economic Opportunity (2020b). Space Industries information comes from Space Florida (2020).

Of the many programs listed here, the only one with significant geographic targeting is the New Markets Development Program tax credit.¹⁰⁰ This program is targeted at census tracts with high poverty and/or lower median income. Funds are mainly available as credits for capital investments in such zones.¹⁰¹

The state formerly had an Enterprise Zone program, which provided sizable jobs tax credits and sales tax breaks. This program was sunsetted in 2015. Funding for this program peaked in 2010 at \$65 million annually, most of which was devoted to sales tax breaks for building materials for condominiums. The state at one point had 65 Enterprise Zones, with each zone being a distressed area of less than 20 square miles. The jobs credits of the program were conditioned on the businesses locating in the zone *and* hiring zone residents.¹⁰²

In addition, the state has a Rural Economic Development Initiative, which includes three “Rural Areas of Opportunity”—multicounty regions that are economically distressed. The state also provides similar aid to some other rural counties. Thirty-eight of Florida’s 67 counties are in the program. The program assistance comes in the following form: state agencies are supposed to waive program requirements in the targeted counties and expedite grant requests for those counties. The state claims that these waivers or “expedited grants” have a total annual value of \$470 million, but it seems that most of this represents relabeling of existing funding. It is doubtful whether new dollars for locals—such as by lower local match requirements—exceed 10 percent of this total, or \$47 million.¹⁰³

¹⁰⁰ In addition, the incumbent workers’ training portion of the customized training program will increase the training costs paid for from its normal 50 percent rate to 75 percent for businesses with fewer than 50 employees, or for businesses located in rural areas, distressed areas, and brownfields. See CareerSource Florida (2020).

¹⁰¹ Information on the new markets program is found in Florida Office of Program Policy Analysis and Government Accountability (2019).

¹⁰² Information on the history of the Enterprise Zone program is largely based on Florida Office of Program Policy Analysis and Government Accountability (2014).

¹⁰³ Information on the claimed annual value of the waivers or expedited grants under the state’s Rural Economic Development Initiative is found in Florida Department of Economic Opportunity (2020a).

New York (population 19.3 million)

New York state currently devotes about \$2.4 billion per year to economic development programs. (New York City also is a big economic-development actor, but the focus here is on state governments.) Most of this is in tax incentives (slightly under \$1.5 billion), but New York state also devotes an above-average share of its economic development activities to spending programs, which total almost \$1 billion.

Among the large tax breaks (exceeding \$100 million) are the following programs:

- \$427 million for film credits
- \$220 million for the Empire Zone program, which used to be the state's biggest economic development program but has now expired for new commitments
- \$161 million for the less-generous Excelsior Jobs program, which replaced Empire Zones
- \$161 million for investment tax credits
- \$130 million for brownfield tax credits¹⁰⁴

Among the largest spending programs (exceeding \$100 million) are \$591 million in spending on various infrastructure projects supporting economic development, and \$311 million in job creation and retention grants. An additional \$57 million is spent on various high-tech projects.

New York's economic development programs are only modestly targeted to distressed places. The most targeting occurs in the state's spending on job creation/retention and infrastructure. Out of \$911 million in spending for these two purposes (\$591 million for infrastructure, \$311 million for job creation/retention), \$94 million goes to spending in the Buffalo area, \$110 million for broadband infrastructure in underserved places, and \$76 million to

¹⁰⁴ Information on tax expenditures on economic development is taken from New York State, Division of the Budget, Department of Taxation and Finance (2019).

upstate New York projects outside of Buffalo. The remainder of the funds are spread all over the state.¹⁰⁵

The Excelsior Jobs program ostensibly has some targeting, but it is very limited and likely has little effect. Excelsior provides multiple tax credits: a 6.85 percent wage credit for 10 years, a 2 percent investment tax credit, a 6 percent credit for New York research and development (R&D) spending, and a real property tax credit. Only the last is place-targeted: a firm can be approved for a real property tax credit if that firm is located in one of 54 communities around the state. But a real property tax credit also can be awarded to a project located anywhere in the state if the project involves any one of a large number of approved industries and exceeds a certain job creation size. For example, any manufacturing job creation effort that exceeds 10 jobs and \$1 million in investment may apply.¹⁰⁶

The history of the Empire Zone program, formerly the state's biggest economic development program, illustrates that political dynamics push toward spreading out economic development aid. The Empire Zone program began in 1986 as an Enterprise Zone program, which targeted tax breaks for investments and job creation to 10 small areas that were high-poverty or high-unemployment places. The program eligibility was gradually expanded, but by 2000 the program still cost only \$30 million annually. In 2001, however, eligibility was expanded virtually statewide, and benefits were also expanded. Costs escalated to almost \$600 million by 2008. The program was replaced with the smaller Excelsior Jobs program in 2010, although firms with existing eligibility continue to receive Empire Zone tax credits as of today.¹⁰⁷

¹⁰⁵ Information on state economic development spending comes from New York State, Empire State Development (2020).

¹⁰⁶ This information comes from New York State, Empire State Development (2021).

¹⁰⁷ Information on the history of Empire Zones comes from Citizens Budget Commission (2008).

Pennsylvania (population 12.8 million)

The state of Pennsylvania devotes about \$0.5 billion to economic development programs, about two-thirds through tax expenditures and one-third through spending programs. Noteworthy programs (larger than \$30 million annually) include these:

- Keystone Opportunity Zone tax credits, \$84 million
- Film and other entertainment tax credits, \$79 million
- R&D tax credits, \$55 million
- Neighborhood Assistance tax credits, \$36 million
- Pennsylvania First grants, \$32 million
- Ben Franklin Technology Partners grants, \$30 million¹⁰⁸

Of these, the only programs that have even modest targeting on distressed areas are the Keystone Opportunity Zone (KOZ) program and the Neighborhood Assistance program. KOZ was originated in 1998, well before the federal OZ program. KOZ provides potentially up to a full waiver of all state and local taxes.¹⁰⁹ Although KOZ areas can be high-poverty, high-unemployment, or low-median-income neighborhoods or communities, the program eligibility criteria are broad: a designated area has to meet only 2 of 12 different criteria. These criteria include, for example, that “the area has substantial real property with adequate infrastructure and energy to support new or expanded development” and “at least 20 percent of all real property within a five-mile radius of the proposed zone in a nonurban area (one-mile radius in urban area) is deteriorated or underutilized.”¹¹⁰

¹⁰⁸ Information on both tax expenditures and spending is taken from the state’s 2020–2021 budget, although the figures used are estimates for actual tax credits or spending for 2019–2020 (Commonwealth of Pennsylvania 2020).

¹⁰⁹ The cost estimates here are only for KOZ’s costs to the state government, not the local costs.

¹¹⁰ This information comes from Pennsylvania Department of Community and Economic Development (2019).

The Neighborhood Assistance Program provides tax credits to businesses contributing to a wide variety of neighborhood improvement projects. The criteria for distressed areas are even broader than for KOZ: all KOZ areas are automatically distressed, as are all incorporated cities in the state, as well as communities participating in other Pennsylvania programs such as its Main Street program.¹¹¹

Illinois (population 12.6 million)

The state of Illinois currently devotes about \$0.5 billion to economic development programs. A little over three quarters goes to tax incentives, but the state also has significant economic development spending.¹¹²

Major tax incentive programs include these:

- the EDGE program, under which the state allows incented businesses to keep a portion of their employees' payroll-tax withholdings for up to 10 years at an annual cost of \$127 million
- the state's Enterprise Zone program, at an annual cost of \$121 million
- R&D tax credits, at an annual cost of \$54 million
- film credits, at an annual cost of \$44 million.

The major spending programs include some customized training dollars at a little over \$6 million, as well as help for minority businesses at \$11 million annually.¹¹³ But the major economic development spending is for infrastructure, under the Rebuild Illinois program. Of the infrastructure spending that in a direct way supports economic development, \$50 million goes to

¹¹¹ Information on the Neighborhood Assistance Program (NAP) comes from its program guidelines, found at Pennsylvania Department of Community and Economic Development (2022).

¹¹² Information on Illinois's tax incentives comes from the state's tax-expenditure report, Illinois Comptroller (2018), and from reports by the Illinois Department of Commerce and Economic Opportunity (2019) on the Enterprise Zone program and other targeted zone programs.

¹¹³ Information on operating spending programs is in the state budget documents at Illinois Office of Management and Budget (2020). Information about minority business aid is at Illinois Office of Minority Economic Empowerment (2021).

improve broadband access, and \$54 million for more general infrastructure to support economic development projects.¹¹⁴

Out of these programs, the only ones that have much targeting are EDGE, the Illinois Enterprise Zone program, and the broadband program. EDGE is only modestly targeted. In “underserved” census tracts, which are tracts with high poverty (20 percent or greater) or unemployment that is 120 percent of the national average, among other criteria, the incented business can keep 75 percent of its employee tax withholdings, not 50 percent. A perusal of the map of underserved areas suggests that such areas include a huge portion of the land area of Illinois. In addition, for 83 recent EDGE projects, only 19 are in underserved tracts, versus 64 outside such areas.¹¹⁵ Most of the EDGE funding also goes to entities outside the underserved tracts: \$60.8 million in EDGE credits reported for the 64 projects outside of the underserved tracts, and \$16.2 million for the projects in the underserved tracts.¹¹⁶

The broadband program is also likely modestly targeted. It seems likely that funds will tend to go to communities with underdeveloped telecommunications infrastructure, which often tend to be more distressed.

The Illinois Enterprise Zone program, which provides a wide variety of business tax breaks for businesses that locate in a designated zone, is ostensibly very targeted. But the targeting diminishes once one looks at program details. Eligible areas have to meet only 3 of 11 criteria to qualify, although meeting more criteria increases the likelihood of an area being

¹¹⁴ Information on infrastructure that supports economic development is at Illinois Department of Commerce and Economic Opportunity (2021a). The initial first year of broadband grants is discussed at Illinois DCEO (2021b).

¹¹⁵ Recent EDGE agreements are reported by the state at Illinois DCEO (2021c).

¹¹⁶ The underserved tract projects are, on average, smaller, averaging 41 new or retained jobs per project, compared to 55 new or retained jobs per project in the rest of the state. The EDGE credit per job is modestly higher on the underserved tracts, at \$20.6K per job versus \$17.4K per job in the rest of the state.

designated.¹¹⁷ Two of the criteria are clearly economic distress criteria: high unemployment and high poverty. Other criteria include having vacant structures or recent business closings, being a brownfield area or an abandoned coal mine, and having low growth in business property values. But some criteria have more to do with the quality of the plan for the Enterprise Zone—for example, the potential of the project to create jobs and boost the tax base, and whether the area has a good local public infrastructure plan and good programs in local high schools and community colleges that develop business-relevant skills. A perusal of the designated Enterprise Zones in Illinois suggests they cover a huge portion of the state’s land area. The program seems more of a real estate development program for underutilized real estate than a program that targets employment distress.

Ohio (population 11.7 million)

The state of Ohio has total economic development funding of around \$0.8 billion. Of this total, a little less than half is provided in the form of tax incentives, and a little more than half in the form of grants or, in some cases, loans.

Of the approximately \$371 million annually in state tax incentives for economic development, the largest programs include the following:

- \$151 million in job creation and retention tax credits
- \$59 million in extra state tax credits for federal Opportunity Zones
- \$57 million in tax credits for historical structure rehab
- \$54 million in R&D tax credits
- \$25 million in film tax credits¹¹⁸

¹¹⁷ The Illinois Enterprise Zone criteria are outlined at Illinois Department of Commerce and Economic Opportunity (2021d).

¹¹⁸ The information on Ohio tax credits is taken from the annual tax expenditure report, available at Ohio Department of Taxation (2020).

Of the approximately \$462 million annually in state spending on economic development programs, some of the more prominent programs are as follows:

- \$277 million in funding for various high-tech development projects
- \$99 million in loans for business facility investments
- \$32 million in site development grants
- \$26 million in various customized job training programs¹¹⁹

Almost none of these programs are significantly targeted on distressed places. The state does designate “priority investment areas,” which are either counties with a labor surplus (mostly in the Appalachian part of the state) or some neighborhoods within the state’s central cities. Supposedly such “primary investment areas” receive special consideration under various state programs, but it is unclear what difference (if any) this makes in practice. The state’s tax credits that supplement the federal Opportunity Zone tax credits do go to what are mostly high-poverty neighborhoods. The credit is a percentage of the capital investment in the zone. Some programs do seem implicitly targeted to distressed areas—for example, the state has a special Appalachian job-training program and some programs to promote coal R&D.

Georgia (population 10.7 million)

Georgia devotes about \$1.7 billion annually to economic development. Of that amount, over 90 percent goes to various tax credits, the rest to spending.

Of the approximately \$1,588 million annually in economic development tax credits, over half (\$1,079 million) goes to the film tax-credit program. Other major tax-credit programs include these:

- the Jobs Tax Credit program (\$186 million)

¹¹⁹ State economic development spending is taken largely from the state budget, available at Ohio Office of Budget and Management (2021). Some further information came from the annual report of the Ohio Development Services Agency (2019).

- research tax credits (\$160 million)
- Quality Jobs Tax Credits (\$79 million)
- Employee Retraining Tax Credits (\$51 million).¹²⁰

Of the approximately \$101 million spent annually on economic development programs, major programs include these:

- \$44 million in help to rural counties for economic development–related infrastructure and services
- \$41 million in customized job training
- \$16 million for “deal-closing” grants¹²¹

Of the major economic development programs, the program with the most claim to being targeted is the Jobs Tax Credit. The JTC awards jobs credits for five years. The amount per job is tied to the economic distress level of the particular county, and the eligibility for claiming the credit is eased in more distressed counties. Higher credits under more generous terms also can be claimed for Opportunity Zone census tracts and other low-income census tracts. Of the state’s 159 counties, there are four tiers:

- Tier 1, with 71 counties, has a credit of \$4,000 per year per job, which can be claimed against the corporate income-tax or payroll-tax withholdings.
- Tier 2, with 35 counties, has a credit of \$3,000 per job but is only claimable against state corporate income-tax withholdings, although the credit can be carried forward for 10 years.
- Tier 3, with 35 counties, has a \$1,750 annual tax credit, which can only be taken for up to 50 percent of the firm’s corporate income-tax liability, again with a 10-year carry forward.
- Tier 4 (Atlanta, for example), with 18 counties, has a credit of \$1,250, up to 50 percent of corporate tax liability, again with a 10-year carry forward. Low-income tracts have credits of \$3,500 per job, which can be taken against both the corporate income-tax and payroll-tax withholdings.

¹²⁰ Data on tax expenditures comes from Georgia Governor’s Office of Planning and Budget (2021a). Also helpful was Kanso (2021).

¹²¹ Spending comes from the most recent budget at Georgia Governor’s Office of Planning and Budget (2021b).

The most recent empirical studies find little evidence that these differential credits have any effect on employment growth by county.¹²² There are no current data on the actual amount provided by tier in jobs tax credits. However, it seems plausible (given that the less distressed tiers have much faster growth) that a fair proportion of the credits probably go to firms in less-distressed tiers, or to low-income tracts in such tiers. Within tiers, counties with faster job growth obviously will tend to generate more tax credits for firms.

North Carolina (population 10.6 million)

North Carolina is unusual in having a relatively low level of state economic development resources, which resources are almost exclusively provided through discretionary grants. The state devotes about \$0.1 billion annually to economic development.

Of the total of \$134 million in state grants for economic development, \$88 million is in cash incentives to companies, and \$46 million is in grants that provide services and infrastructure to support economic development. In the incentives category, by far the two largest programs are the Job Development Investment Grant (JDIG) program, at \$53 million annually, which provides cash grants to companies that create jobs; and the film incentives program, at \$31 million. In the grants for various services, the largest category is in rural grants for various types of infrastructure, at \$24 million, but the state also devotes \$9 million to small business aid and \$7 million to support biotech projects.¹²³

¹²² Crooks et al. (2020).

¹²³ This description of the state's economic development programs is based on the following: an annual report on all incentive programs by the North Carolina Department of Commerce (2020a); an annual report on the JDIG program from the North Carolina Department of Commerce (2019); an annual report from the Rural Economic Development Division of the North Carolina Department of Commerce (2020b); information on film-industry grants from the North Carolina Department of Commerce (2021a); and biotech funding information from the North Carolina Biotechnology Center (2021).

This reliance on discretionary grants is a relatively recent development. From 1988 to 2014, the state had three waves of job-creation tax credits, including the William S. Lee program from 1996 to 2006 and its replacement, the Article 3J program, from 2007 to 2013. These programs were sizable, with the Lee program averaging around \$100 million in credits per year and the 3J program peaking at about \$85 million in credits per year.¹²⁴ The state also had some other sizable economic development tax credits, including a credit as large as \$108 million for renewable energy facilities and a research tax credit as large as \$58 million annually. Overall, annual tax credits for economic development in the 2014–2015 period appear to be slightly over \$200 million. Thus, the switch to more grant-funded economic development seems to have led to some cutback in overall economic development incentives.

The state for a long time has had a tier system of trying to classify counties into different distress categories and then targeting these different tiers of counties for different types or amounts of economic development aid. Each of the 100 counties is annually ranked on various economic criteria. The current criteria include these four: 1) average unemployment rate, 2) median household income, 3) three-year population growth rate, and 4) property tax base per capita. Similar criteria have been used in the past.¹²⁵ The overall ranking of the counties is based on the simple average rank using these four criteria; then the counties are grouped into tiers, ranging in various years from two tiers of county distress up to five. In addition to some allocation of credits or grants by county tier, other government programs are also targeted by tier. Given the demographic context of the state, the more distressed counties tend to be rural

¹²⁴ This description of the state tax credits is based partly on Pérez and Suher (2022), and also on perusing past tax expenditure reports.

¹²⁵ At times, the state has allowed smaller counties to be automatically moved into more distressed tiers, but this provision has been dropped. The current tier system is described at North Carolina Department of Commerce (2021b). This also includes information on recent movement of counties across tiers, referred to below.

counties, particularly in the eastern part of the state, and the least distressed counties tend to be those near the state's bigger urban centers, such as Charlotte and the Research Triangle area.

For example, from 2007–2013, the state was using a three-tier system. Under the Article 3J program, firms creating jobs in counties in Tier 1, the most distressed tier, were eligible for job-creation credits of \$12,500 per job; job creation in counties in Tier 2, the medium distressed tier, made firms eligible for credits of \$5,000 per job; and job creation in counties in Tier 3, the least distressed tier, resulted in credits of \$750 per job for firms.¹²⁶ The 3J program also provided differential investment credits by county tier.

Over time, there was some tendency for more counties to be classified as distressed. For example, the Lee Act in 1996 began with 10 most-distressed counties, which later expanded to 28 most-distressed counties. Article 3J had 40 most-distressed counties.

The distress classification has been criticized on a number of grounds, including that the tiers artificially group some very different counties together, while making big distinctions between two counties on either side of a tier threshold. The annual reclassification of counties often moves 20 or so counties from one tier to another. In addition, although the amount of credits per job varied by tier, because job growth rates tended to be higher in less-distressed counties, the total economic development assistance was not necessarily tightly targeted to the most distressed counties.

For instance, the Program Evaluation Division of the North Carolina General Assembly did a report in 2015 that argued that the tier system was not effective in targeting the most-distressed counties.¹²⁷ Adding together all programs distributed by tiers, this analysis found that

¹²⁶ These are total credits over the four-year term of the credit. The credit per job year is one-fourth of the amounts given. This information is taken from Pérez and Suher (2022).

¹²⁷ See North Carolina General Assembly, Program Evaluation Division (2016). Problems with North Carolina's targeting are also discussed in Pew Charitable Trusts (2021).

\$13 per capita went to the 40 most distressed counties, \$19 per capita to the 40 middle-tier counties, and \$1 per capita to the 20 least-distressed counties. So, in the past, the tier system does seem to have targeted aid to the bottom 80 counties and away from the top 20 counties, but within the bottom 80, the targeting did not seem to be very effective. The bottom 80 counties had 57 percent of the state’s population but received 96 percent of the dollars.

After 2014, the state continued to use the tier system, but now in a more relaxed form that seemed to target even fewer dollars on the distressed counties. For example, the largest economic development program in North Carolina is the discretionary job creation grant program, or JDIG. The JDIG program is supposed to consider county distress in making awards and in determining the amount of such awards, but these provisions do not appear to result in much targeting. In the 2019 awards, the most distressed 41 counties in Tier 1 had 23.2 percent of the state’s population but received just 18.9 percent of JDIG dollars; the “medium distressed” 39 counties in Tier 2 had 36.4 percent of the state’s population but received only 18.6 percent of JDIG dollars; and the least distressed 20 counties, in Tier 3, had 40.4 percent of the state’s population yet received 62.5 percent of JDIG dollars.¹²⁸

The state does allocate some infrastructure funds to the most distressed rural counties. For example, only Tier 1 and Tier 2 counties are eligible for about \$24 million in state infrastructure grants. Based on the available evidence, about 45 percent of such infrastructure dollars go to Tier 1 counties and 55 percent to Tier 2 counties.¹²⁹ But the JDIG dollars are larger, at \$53 million annually. Overall, the combination of economic development dollars does not

¹²⁸ These calculations are mine, based on the state’s 2019 JDIG report from North Carolina Department of Commerce (2019).

¹²⁹ This is based on the reported allocation of the JDIG “utility account,” which consists of added funds that are some percentage of the JDIG awards to less-distressed counties but can only be used for infrastructure grants in more-distressed counties. No one in the less-distressed county is paying for this infrastructure; rather, this is a way to earmark infrastructure spending. I assume the other rural development grants, which are also targeted to Tier 1 and Tier 2 counties, are distributed similarly to the JDIG utility account.

appear to be particularly targeted. For example, if we analyze the JDIG dollars and infrastructure dollars together, Tier 1 counties have 23.2 percent of the population and get 25.9 percent of the combined JDIG and infrastructure funds; Tier 2 counties have 36.4 percent of the population and get 28.4 percent of the combined JDIG and infrastructure funds; and Tier 3 counties have 40.4 percent of the population and get 45.7 percent of the combined JDIG and infrastructure funds.¹³⁰ If we were to look at other state dollars in film grants and biotech grants, it seems likely that we would find that these funds also favor the biggest cities.

North Carolina illustrates some of the problems with geographic targeting. It is challenging to come up with a targeting system that is stable and that is widely politically accepted. Furthermore, there are pressures to reallocate some of the largest economic dollar amounts to the big projects in a state's high-growth areas.

Michigan (population 10.0 million)

The state of Michigan devotes about \$1.4 billion annually to economic development. Of that total, the majority is in the form of tax incentives, at \$1.2 billion, with \$0.2 billion for spending programs, much of which also goes to incentives.¹³¹

Of the state's \$1.196 billion in tax incentives, \$603 million goes to the state's old economic development tax-credit program, MEGA (Michigan Economic Growth Authority), which allowed firms to retain their worker income tax withholdings. This wage subsidy could last up to 15 years. The MEGA program, begun in 1995 but phased out in 2011, still has sizable

¹³⁰ One rationale for considering JDIG and infrastructure together is that about one-third of these infrastructure dollars are considered part of the JDIG program. Funded JDIG projects in Tier 2 and Tier 3 counties trigger an allocation of 10 percent of the Tier 2 JDIG dollars and 25 percent of the Tier 3 JDIG dollars into a "utility account" that can only be used for grants for infrastructure, such as water and sewer, and rural broadband, in Tier 1 and Tier 2 counties. This does not subtract from the JDIG award; it is a funding vehicle for infrastructure grants.

¹³¹ Information on the state's tax breaks for economic development come from the state's tax expenditure reports, Michigan Department of Treasury (2019). Information on the state's economic development spending comes from the annual legislative report of the Michigan Economic Development Corporation (2020).

costs, given the long-term nature of the credits provided. Another \$446 million is in local property tax abatements, mostly for industrial property, which are implicitly reimbursed by the state government through School Aid Fund per-pupil spending.¹³²

Of the \$218 million in economic development spending, about \$99 million goes to two incentive grant programs, the larger being MEGA's replacement, the Michigan Business Development Program, at \$84 million. The state also devotes \$65 million in both capital equipment and operating funding for various types of industrial training. About \$42 million in grants goes to help communities develop sites or infrastructure for economic development.

The state of Michigan's spending for economic development is not explicitly highly targeted. The state's economic development agency devotes some attention to making sure that a diverse slice of the state is funded under these various economic development programs.

The state formerly had an Enterprise Zone-style program called "Renaissance Zones," which provided tax breaks from most state and local taxes for small, distressed neighborhoods. This program, begun in 1996, was phased out beginning in 2011. Most of the tax credits came from local property-tax breaks, but state business-tax breaks also were provided, peaking at around \$22 million in 2012.¹³³

¹³² Since Proposal A was adopted by Michigan voters in 1994, Michigan school property taxes for operating purposes for "nonhomestead properties," including businesses, have been limited to 18 mills. In most school districts, homeowners pay no property tax for school operating purposes. After subtracting school district property-tax revenue, the state then pays an extra amount sufficient to bring total school funding up to a state-set level per student. Therefore, how much the schools collect in business property taxes is irrelevant for local school funding for operations. There are additional industrial tax abatements on *nonschool* property taxes that I do not count as state tax breaks, as they are not reimbursed either explicitly or implicitly by the state.

¹³³ A portion of the local property tax breaks would be reimbursed to schools by the school aid fund, which would add some \$30 million or so to the annual state costs of the Renaissance Zone program. However, the costs of this program were generally always small compared to what the state devotes either to programs such as MEGA and the newer Michigan Business Development Program grants or to the state's reimbursement of local property-tax abatements that cut school funding.

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