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Timothy J. Bartik

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

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Getting the Workforce into Good Jobs Requires Place-Based Policies[†]

Timothy J. Bartik
W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686
Email: bartik@upjohn.org

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What I want to add to this discussion is that I think workforce development programs will be far more effective if they are accompanied by policies that address the problems of distressed places. And such place-based policies are feasible at affordable but not cheap costs, if we have the political will.

By “distressed places,” I mean two types of distressed places. The first type of distressed place is local labor market areas, which are multi-county areas, such as metropolitan areas with a lot of internal commuting, and which have low employment rates compared to the U.S. average or to full employment. The second type of distressed place is a neighborhood, which might be one or more census tracts, that has much lower employment rates than the surrounding local labor market area.

So, roughly 25 percent of Americans live in distressed local labor markets, both rural and urban, ranging from Appalachia to upstate New York to Flint, Michigan, to much of the West Coast outside of the booming coastal high-tech cities. Another 20 percent of Americans live in distressed neighborhoods.

So, if we want to get people into good jobs through public policy, workforce development policy by itself cannot fully do the job. You also need policies that create job opportunities in

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these distressed places. Job training policies work far better if more good jobs are accessible to people in a particular place.

Such job opportunity policies in distressed places have far higher returns than job creation policies in non-distressed areas. For example, for distressed local labor markets, the benefits of job creation are three times as great as in a non-distressed local labor market. In a distressed area, when you create jobs, it does drive up the employment rate and earnings of the original local residents. In non-distressed places, creating jobs mainly drives up local prices and wages, without much in the way of labor market benefits. From the Federal Reserve's point of view, lowering unemployment by targeting distressed places has less than half the inflationary effect of lowering unemployment in non-distressed places.

For neighborhood employment policies for residents of distressed neighborhoods, the most important social spillover is that this has enormous benefits for the neighborhood's children. Children do much better in neighborhoods where more adults are employed in legitimate and good jobs. Research suggests that the benefits for children of improving labor market conditions in neighborhoods are twice as great in distressed neighborhoods as in booming neighborhoods.

Currently, the main thing we do to create more job opportunities are state and local economic development policies, which are much larger than what the federal government does in this area. And these economic development policies at the state and local level are mainly business tax incentives or other cash incentives for large corporations to make particular investments. We devote over \$50 billion per year to such policies.

But handing out cash to large corporations is a relatively costly way to create job opportunities. It is far better to invest in infrastructure and business services, particularly services

to small business, to create jobs. Such services would include business advice services, such as small business development centers and manufacturing extension offices. They would include customized job training services to help train workers at a specific employer. This includes investing in real estate that is zoned and permitted for business usage without a lot of red tape, which would include business incubators, industrial parks, research parks, etc. We need to target the PROBLEMS that impede job creation in a distressed local labor market by providing services, not just hand out cash to try to subsidize our way out of the situation.

On the neighborhood side, what residents of distressed neighborhoods need to get into good jobs is not necessarily real estate investments in the neighborhood, but employment services that go well beyond job training services, narrowly defined, to include childcare assistance, help in getting reliable transportation such as a reliable used car, and help in retaining jobs by success coaches who can help deal with multiple problems. If we want to get people in distressed neighborhoods into jobs, we need to target the real-world employment problems they face in that particular neighborhood, not just pretend that a few real estate or business investments in the neighborhood will make those problems go away.

Can we afford to do this? I crunched some numbers in a report I did last year on how state governments can target job opportunities to distressed places.¹ I concluded that we could solve about one-third of the lagging job opportunities of distressed places by a program that would spend about \$30 billion per year, over 10 years. This is obviously not cheap—it's an investment of \$300 billion. On the other hand, it is about half of what we currently spend on handing out business cash incentives. So, it is a policy that state governments, for example, could

¹ In my opinion, this report is the best research I have ever done, over a career that now spans over 40 years. https://research.upjohn.org/up_technicalreports/44/

afford to do. They just need to cut back on the subsidies currently going to handing out cash to large corporations—not to eliminate such cash subsidies, but to cut them in half.

The biggest challenge in this area is trying to get either the federal government or state governments to invest at scale in services to solve the problems of distressed places. In general, federal or state economic development and community development policies that are targeted are small in scale, and those that are larger in scale, such as business tax incentives, rarely have any serious targeting to distressed places. The obvious political challenge is that distressed places, such as some rural county in Appalachia or Flint, Michigan, rarely have much political clout—and political leaders prefer to spread the dollars out to everyone, and in particular want to help more politically powerful places, which tend to be places with greater economic strength.

My proposal is to try to solve the problem by targeting distressed places within the confines of a universal program. That is, let's provide development assistance grants to all places, but with a formula that ties the per capita grant to the “employment gap” of the place. Similar strategies have sometimes succeeded in targeting school aid funds more to lower income school districts.

So, to sum up:

- Job training programs work better if we can boost employment opportunities in the distressed places where many people in need of training live.
- One-fourth of all Americans live in distressed local labor markets, and one-fifth of all Americans live in distressed neighborhoods, where “distressed” means that job opportunities are scarce.
- Targeting job opportunities in these areas has benefits at least double that of creating jobs in a booming area, and potentially can boost overall employment without increasing inflationary pressures.
- Rather than handing out cash for business investments, the most effective strategies provide services, both for business and for neighborhood residents, to help overcome specific problems that lead to distress in these places.

- We can afford to solve these problems, but we need to be willing to make some cutbacks in current development cash handouts to business, and we need to be willing to do a lot more geographic targeting than is currently the norm.