Thank you for inviting me to speak today. It is an honor to speak to a group that is doing what I consider the most cost-effective types of economic development work that is needed to help the residents of distressed places

In my role as a researcher, I hope to provide you with some research evidence that is helpful to your work – either research that may provide you with useful arguments as you seek to expand your efforts, or useful ideas as you seek to improve your efforts, to get more good jobs to those who need them most.

I have three main points:

First, the U.S. has two types of distressed place problems – the problems of distressed places that are local labor markets, and the problems of distressed places that are neighborhoods, and these different types of distressed place problems require quite different solutions.

Second, the most cost-effective policies to help distressed places are not tax incentives, but customized business services to create jobs in local labor markets, and customized services to improve job access in neighborhoods.

Third, there are some promising signs that place-based policies are receiving more attention – but both the federal government and state governments have the capacity to do more to make a meaningful commitment to help lower the economic gaps between distressed places and more booming places.

What is the size of the distressed place problem? First, there is the problem of distressed local labor markets, where by "local labor markets" I mean multi-county areas that include most commuting flows, such as metropolitan areas, micropolitan areas, and rural commuting zones. About 10 percent of the U.S. population lives in local labor markets whose employment to population ratio, or employment rate, for prime-age workers – those ages 25-54 – is at least 10 percentage points below full employment, even when the overall U.S. economy is doing well. Another 30 percent lives in local labor markets whose prime-age employment rate is at least 5 percentage points below full employment.

If you look at a map, these distressed local labor markets include much of the rural South and Appalachia, but also upper New York State, older industrial cities such as Detroit and Flint, and must of the West coast outside the booming coastal cities.

Second there is the problem of distressed neighborhoods, which I proxy for through Census tracts, areas of about 4,000 people. About 10 percent of the U.S. population lives in severely distressed census tracts whose prime-age employment rate is at least 10 percentage points the average for the local labor market, and another 10 percent lives in more moderately distressed tracts at least 5 percentage points below the local labor market average. Large parts of many cities are distressed neighborhoods; for example, 49 percent of Detroit's population lives in a severely distressed neighborhood.

As I said, these different types of distressed places require different solutions. For distressed local labor markets, the solution is more jobs, if we can achieve that goal at a sufficiently low cost. More jobs will increase employment rates, and will do so more effectively in more distressed local labor markets, where more non-employed labor is available. In a distressed local labor market, about half (54.5%) of all jobs created will end up increasing the employment rate of local residents who would otherwise be non-employed; in a booming local labor market, only one-sixth (16.2%) of job creation goes to local residents who would otherwise be non-employed, the remainder simply increases in-migration, without significant benefits for the original local workers.

In contrast, in a distressed neighborhood, locating more jobs in a neighborhood is not a particular effective way to help that neighborhood's residents. Once one controls for the growth rate of jobs throughout the local labor market, how that growth is distributed within the local labor market has only modest effects on particular neighborhoods – and in fact is often not statistically significant in empirical work. For example, if a distressed neighborhood is 5 percent of the local labor market, and the local labor market is also distressed, we would expect less than 1 in 20 (4.1%) of jobs put in that neighborhood to increase the employment rate of that neighborhood's residents. This is about a fourth more than the share of jobs that would go to the distressed neighborhood's residents if the jobs were located in some other neighborhood, which is about 3.2%. But it is still not a particularly effective way to lower the employment rate gap between that distressed neighborhood's residents, and the overall labor market success of the average resident of the entire local labor market.

Why doesn't job creation in distressed neighborhoods do more to help the neighborhood's residents? Because most Americans, in all types of neighborhoods, do not work in the neighborhood they live in, and most jobs located in almost any neighborhood are not held by residents of that same neighborhood. Plopping jobs down in a neighborhood is neither necessary nor sufficient to improve the employment rate of the neighborhood's residents. What is needed is to improve access of the neighborhood's residents to jobs, both within and outside of the neighborhood.

So, what policies work best? For distressed local labor markets, the research evidence strongly supports the kinds of economic development services that many of you are involved in helping promote. Tax incentives on average have a cost per job created of around $296,000, whereas well-designed infrastructure projects can spur growth at less than one-third the costs per job created, or $97,000; whereas customized job training and manufacturing extension services can create jobs at around one-sixth the cost of tax incentives, or $50,000 and $54,000 respectively. Other customized services such as small business development centers and brownfield redevelopment also have good evidence of cost effectiveness.

For distressed neighborhoods, the research evidence suggests that what we need to do is increase residents' access to jobs, broadly defined. Doing so costs about $70,000 per extra job opportunity for an otherwise non-employed neighborhood resident. Promising interventions include neighborhood employment hubs to help connect neighborhood residents with information on job openings and job training, subsidies for improving access to childcare and reliable used cars, success coaches to work with new entry-level workers to help them better retain jobs, and support for on-the-job-training opportunities at private employers.

Using these cost per jobs numbers, we can come up with what it would cost for the United States as a whole to address the problem of distressed places, both local labor markets and neighborhoods. The exact calculation is sensitive to how tightly you target distressed places, and how ambitious you are at closing employment rate gaps

In one recent exercise, I estimated that annual government spending of $30 billion -- $21 billion for distressed local labor markets, and $9 billion for distressed neighborhoods – would be sufficient over a 10-year period to on average close one-third of the employment rate gap these distressed places have from full employment. The program would over that time period create about 3.6 million jobs in distressed places.

When you run the numbers, to significantly lower the employment rate gap between a distressed place and full employment probably requites spending about $100 to $300 per capita per year, for at least 10 years. This is comparable to what we spent per capita during their peak funding periods on our two prior largest economic development programs, the Tennessee Valley Authority, or TVA, and the Appalachian Regional Commission or ARC – in today's dollars, $329 per capita on TVA, and $90 per capita for ARC. However, these programs were for regions whose populations are a lot smaller than would be encompassed by a more comprehensive program. TVA's population at the onset of the program was about 5 million people, and ARC's population was about 20 million. As I outlined, I think that the residents of distressed places would probably be at least 80 million people, if not more.

There is some policy movement towards increasing help for distressed places. The recent Chips and Science Act received the most attention for its incentives for semiconductors, but the CSA also potentially represents the most significant place-based initiative in U.S. history, even bigger than TVA, or ARC. Specifically, CSA authorizes $10 billion to be spent over 5 years on at least 20 Regional Technology Hubs, and $1 billion over 5 years to be spent on distressed places under a pilot version of the Recompete Act. The original Recompete Act was a bill introduced by Congressman Derek Kilmer, and was in part based on my research. This 5-year spending of $11 billion is larger than the maximum 5-year spending on TVA or ARC, the two prior largest place-based programs run by the federal government.

Several things to note about this. First, we shouldn't count our chickens before they're hatched, and this $11 billion hasn't yet been appropriated. Second, as mentioned, this $11 billion is small relative to what I would regard as the need, which as I would place at about $30 billion per year or $150 billion over a five-year period. The federal government, with the political will, could easily afford to adopt such a program – it is less than 1 percent of federal tax revenue. Third, there are a lot of details of implementation to work out, if these two bills are to offer sufficient flexibility to local areas funded by these programs, while at the same time making sure that jobs go to local residents, and that the entire program is well evaluated.

What else can be done to promote better place-based policies? One thing I would note is that there is nothing preventing state governments from stepping up to the plate. Although $30 billion per year is in some sense a lot of money, it is also less than 3 percent of state government tax revenue. State governments could do much more to target distressed local labor markets and neighborhoods with block grants. In my recent report, I outline a specific budget for every state on what would be the size of a block grant proposal to help distressed local labor markets and neighborhoods, with data on the overall size of these grants, and their distribution by local labor market and neighborhood. There is nothing preventing New York State from doing much more for upstate New York except political will, and nothing preventing California from doing much more to help its many distressed inland communities except political will.

These proposed block grants would fund the kind of customized business services to create jobs, and customized neighborhood services to improve job access, that I recommend as the most cost-effective way to boost local employment rates in distressed places. They include many of the kinds of programs that you are involved with in your communities, but would allow these programs to be carried out at a much larger scale, and allow funding of a full range of complementary services.

Ultimately, the case for place-based policies is that it is both unfair and economically inefficient for so many Americans to lack access to good jobs. Trying to move all of the residents of distressed places to booming places is undoable, and also counterproductive – the research suggests that moving people out of distressed places destroys so many jobs that the out-migration leaves the local employment rate of those left behind the same as it was before. We need to adopt either federal or state policies, or ideally both, that will address in a comprehensive way the job needs of residents of distressed places. If this is done with smart policies, with cost-effective services, we can increase employment rates for residents of distressed places at affordable costs. Such a policy not only increases the fairness of our economy, but also increases the overall size of our economic pie, by increasing the sustainable national employment rate and employment. Moving jobs to people is a policy approach that makes sense if done right.