Chairman Himes, Ranking Member Steil, and members of the Committee, thank you for inviting me to testify today.

About 105 million Americans live in local labor markets that lack sufficient jobs. Fifty-five million Americans live in neighborhoods where the employment rate is low, even if the local labor market has plenty of jobs.

My testimony today argues that the most cost effective and inclusive way to solve these problems is through well-designed, place-based policies that focus on bringing job opportunities to people in distressed places.

By “place-based policies,” I mean “jobs to people” strategies that bring job opportunities to people in distressed places. And distressed places are defined as having low “employment rates,” that is, low ratios of employment to population.

**The Nature and Size of the “Distressed Place” Problem**
In the map above, we see that local labor markets with low employment rates include much of the rural South and Appalachia, but also include areas such as Detroit and Flint, upstate New York, and much of the West Coast states outside of their booming coastal cities. Neighborhood problems also extend widely. Every state has over 10 percent of their population in neighborhoods whose employment rates have a big “gap” relative to their overlying local labor market.

Low employment rates in distressed places are a key driver of many social problems. Lower local employment rates have been shown to lead to mental illness (Diette et al. 2018), substance abuse (Autor, Dorn, and Hanson 2019), crime (Pierce and Schott 2020), family breakups (Autor, Dorn, and Hanson 2019), and weaker local fiscal conditions (Charles, Hurst, and Schwartz).

---

1 The map classifies as a local labor market any metro area (divided further in some cases into metro divisions) or micropolitan area. Metro and micro areas are further divided at state borders. Outside of metro or micro areas, each county is its own local labor market. Severely distressed local labor markets are those whose employment rate, based on the 2015–2019 American Community Survey (ACS), for “prime-age workers” (ages 25–54) is less than 73.6 percent. Moderate distress is less than 77.6 percent. Underlying data for this map is available on request.
2 These calculations classify census tracts as disadvantaged if their prime-age employment rate is more than 6 percentage points below their local labor market’s average, based on the 2015–2019 ACS. The underlying data on all 70,000 plus census tracts and their overlying local labor market is available on request.
As a result, the map in this testimony resembles maps showing other social problems. In their 2020 book, *Deaths of Despair and the Future of Capitalism*, economist Anne Case and Nobel Prize–winning economist Angus Deaton share a map of “deaths of despair” (p. 34) that is markedly similar to this testimony’s map of places with low employment rates. In addition, Harvard economist Raj Chetty and his colleagues at the Opportunity Insights project have constructed U.S. maps that show the probability of lower-income children increasing their income status as adults. Their U.S. maps of areas with low upward mobility also are quite similar to this testimony’s map of low-employment-rate places.

As this prior discussion implies, the U.S. has two types of place-based jobs problems. The first type is the lack of jobs in an entire local labor market—a metro area, or a rural commuting zone. Local labor markets are typically multi-county areas that contain most commuting flows. The second type is the relative lack of job availability in particular neighborhoods within a metro area or commuting zone.

These two types of place problems require different solutions. For local labor markets that lack jobs, simply adding jobs will increase employment rates. For neighborhoods, plopping more jobs down in the neighborhood will not necessarily increase a neighborhood’s employment rate. Most Americans do not live and work in the same neighborhood. Neighborhoods are not local labor markets—metro areas or commuting zones are. The problem in these neighborhoods is “job access”: lack of transportation, information on job openings, job training, and childcare. This “job access” problem has to be solved more broadly by programs that address specific access issues.

**“People to Jobs” Strategies vs. “Jobs to People” Strategies**

Local labor market problems cannot be solved through “people to jobs” strategies, which seek to move people out of these distressed places.

People are hard to move because they have valuable ties to family, friends, and organizations in their home area. About half of all Americans live within 30 miles of their birthplace. And the available evidence suggests that average “moving costs”—the subsidy it takes to get someone to move out of their home area—exceed 100 percent of annual income.

In addition, encouraging out-migration from distressed places hurts those left behind. Out-migration removes young workers and entrepreneurs, depresses property values, weakens local tax bases, and lowers local demand for goods and services and hence local jobs. Out-migration reduces local demand enough that jobs are reduced by the same percentage as population, so even with out-migration, the local employment rate in a distressed place will stay low.

---


5 The evidence on moving costs is reviewed in Bartik (2020a, op.cit)

6 Bartik (2020a, op cit) reviews this evidence.
In other words, “people to jobs” strategies, encouraging out-migration from distressed places, just worsens the vicious cycle of local decline. Local job loss leads to population loss, leading to further job loss, all of which is accompanied by social problems such as substance abuse and fiscal problems that prevent an effective local response.

“Jobs to people” strategies, however, can work. In distressed local labor markets, job growth strategies produce both local benefits and national benefits.

In a booming area, only about 14 percent of the jobs created go to increasing the employment rates of local residents. In a distressed area, 50 percent of the jobs increase the employment rate of local residents, over three times as great a local benefit.7

In other words, in a booming area, local job creation mainly encourages in-migration and higher property values, redistributing income to property owners. In a distressed area, benefits tend to go to the non-employed and the under-employed. Therefore, in a distressed area, job growth results in a moderately progressive distribution of benefits, with higher percentage gains for low-income groups and disadvantaged racial and ethnic groups, who are more likely to be non-employed or under-employed.

Targeting distressed areas also helps the national economy. By boosting jobs where more workers are available, targeting distressed areas raises the national employment rate that is attainable.8 Higher employment rates nationally can be reached without increasing inflation.9

What Place-Based Strategies Are Cost-Effective?

But local job creation strategies should be designed to be cost-effective—that is, they should have a low cost per job. Business tax incentives can work but are often expensive per job truly created, as less than one-quarter of the jobs are truly created locally due to the incentive—the rest of the jobs would have occurred in the local area even without the incentive program.10

More cost-effective local job creation strategies are those that enhance the quality of business inputs with customized services. Such customized services include infrastructure programs; real estate programs that create various forms of “business parks”; customized training programs under which community colleges help individual firms; business advice programs, such as manufacturing extension services or small business development centers, which help businesses adopt more competitive practices and target new markets.

Based on research, customized services to businesses have a cost per job created, compared to business incentives, that is less than one-third as great, as shown in the figure.\textsuperscript{11}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{cost_per_job_created.png}
\caption{Cost Per Job Created}
\end{figure}

The intuition: bringing job growth to a distressed local labor market is more effective if we address the area’s underlying problems, which affect the quality of the area’s inputs to business. Trying to solve the underlying problems by throwing cash at businesses is less cost-effective.

Past programs that exemplify this approach include the Tennessee Valley Authority (TVA), which, from the 1930s on, used rural infrastructure and other services to create jobs. Research studies show that TVA increased manufacturing jobs in the region by over 250,000 jobs.\textsuperscript{12}

Other examples of successful local economic development include Grand Rapids, Michigan, the Lehigh Valley in Pennsylvania, and the Crosby/Ironton area of Minnesota.\textsuperscript{13}

From 1990 to 2019, Grand Rapids’s manufacturing jobs expanded by 16 percent, while total national manufacturing jobs declined by 27 percent. The secret sauce? Grand Rapids devoted significant resources to helping small and medium-sized manufacturers get trained workers, and helping them diversify to servicing growing markets such as health care equipment. Grand Rapids also sought to find local buyers for local businesses whose owners were retiring.

The Lehigh Valley was able to respond to the steel industry collapse of the early 1980s with a variety of strategies, all involving using services to exploit local comparative advantages in

\begin{itemize}
\item Manufacturing extension services
\item Customized job training
\item Infrastructure
\item Business tax incentives
\end{itemize}

\textsuperscript{11} Cost is present value cost in March 2022 dollars. The figure is derived from research studies reviewed in Bartik (2020a, op cit).


\textsuperscript{13} For a fuller description of local economic development strategies in these three areas, see Bartik, Timothy J. 2020b. Bringing Jobs to People. Report for Aspen Economic Strategy Group.
spurring business growth. Strategies included developing seven industrial parks; using the Ben Franklin Technology Partnership center to encourage high-tech spinoffs from Lehigh University; brownfield redevelopment; and a business incubator and lending network for smaller businesses, targeting both high-tech manufacturing and warehousing.

Crosby/Ironton is a former iron mining center. The area succeeded in developing the hills around the former open-pit iron mines—which have now become lakes—into a mountain biking course. This has attracted tourists and new residents, and new businesses such as brewpubs.

**Neighborhood Programs**

For neighborhoods, the research shows that enterprise zone programs that just provide tax breaks for investment or job creation in a neighborhood are ineffective in helping the neighborhood’s residents.\(^{14}\) Preliminary findings for the Opportunity Zone program\(^{15}\) also suggests these tax breaks do not help zone residents.\(^{16}\)

The ineffectiveness of most “zone programs” is partly because many of the subsidized investments would have occurred anyway. For example, for Opportunity Zones, the early evidence suggests that many of the designated zones, although distressed, were “positively selected” by governors among eligible census tracts—that is, the selected tracts showed upwards trends prior to being selected (Freedman, Khanna, and Neumark 2021 op. cit).

But the typical ineffectiveness of zone programs is also because neighborhoods are not labor markets. In all kinds of neighborhoods, most jobs at businesses in the neighborhood are not held by neighborhood residents. Therefore, even if a zone program succeeds in boosting jobs located in a neighborhood, neighborhood residents’ employment rates may be little affected.\(^{17}\)

What can help get a neighborhood’s residents into jobs? The evidence suggests that this goal is more readily achieved by neighborhood services that directly interact with residents to increase job access.


\(^{15}\) It is still “early days” in evaluating Opportunity Zones. Studies so far have found varying results. One study found significant effects on zone job growth (Arefeva, Alina et al. 2021. “The Effect of Capital Gains Taxes on Business Creation and Employment: The Case of Opportunity Zones.” Available at SSRN 3645507). But another study found little effect on zone job postings (Atkins, Rachel et al. 2021. “What is the Impact of Opportunity Zones on Employment Outcomes?” NYU Stern School of Business). But as I argue below, the fact that neighborhoods are not labor markets suggests that even if the program boosts jobs located in the neighborhood, this likely would have little effect on zone residents’ employment prospects, which is consistent with the findings of the study by Freedman et al. (Freedman, Matthew, Shantanu Khanna, and David Neumark. 2021. “The Impacts of Opportunity Zones on Zone Residents.” *Journal of Urban Economics*: 103407.)

\(^{16}\) Freedman, Khanna, and Neumark, 2021, op. cit.

\(^{17}\) For Opportunity Zones, an additional problem is that the program incentivizes capital investment, and is therefore not targeted on job creation.
The zone program with the most research evidence of success is the federal Empowerment Zone program of the 1990s, as least in its initial design for the first six cities assisted. This research evidence suggests that the program significantly increased neighborhood residents’ employment rates, at a cost in today’s dollars of about $119,000 per extra job opportunity. This cost is far less than the value of one added permanent job.

How did Empowerment Zones differ from most zone programs? Like many other zone programs, Empowerment Zone programs included tax breaks for employers that hired zone residents. But Empowerment Zones also provided a $100 million block grant to each zone. Compared to most other zone programs, block grants are a distinct feature of Empowerment Zones. These block grants were mostly spent on workforce development programs for zone residents, or on programs that provided customized assistance or capital to assist neighborhood small businesses or help residents start new businesses.

One promising approach to coordinating and providing these services to a distressed neighborhood’s residents are Neighborhood Employment Hubs. My employer, the Upjohn Institute, runs workforce programs, funded by both government and foundations, in the Kalamazoo/Battle Creek area. With funding from the Kellogg Foundation, the Upjohn Institute has established Neighborhood Employment Hubs in distressed neighborhoods in Battle Creek. These hubs are set up at trusted neighborhood institutions, such as churches, neighborhood groups, and low-income housing projects.

These hubs could be designed to provide information on job openings, one-stop access to local training programs, and help in finding childcare. With sufficient funding, hubs could help develop support services, such as additional childcare centers in neighborhoods that otherwise would be “childcare deserts.”

One possible service of Neighborhood Employment Hubs is an Employer Resource Network (ERN). My employer also runs ERNs in Kalamazoo and Battle Creek, and helps oversee ERN programs throughout Michigan. Employer Resource Networks provide small and medium-sized businesses with access to a “success coach,” who provides casework services to individual employees to help increase their job retention. For example, the Institute’s ERN can help employees get their cars repaired quickly by providing access to a cooperating local credit union.

19 The exact present value of these job creation benefits would depend on how quickly the added employment rates depreciate, but many studies find much persistence in local employment rates. Benefits would also depend on the social spillovers of extra jobs (e.g., reduced substance abuse, reduced crime), and the fiscal spillovers (added tax revenues, reduced welfare benefits). But a plausible present value of lifetime social benefits per extra employed person would likely be at least a half million dollars, and perhaps much more (Bartik 2020a, op.cit).
20 In dollars of that era. Value in today’s dollars probably at least $170 million.
21 For more on Neighborhood Hubs and ERNs, see Miller-Adams et al. 2019. “Building Shared Prosperity: How Communities Can Create Good Jobs For All.” Annual Report, Place-Based Research Initiative, Upjohn Institute. For a wonderful video showing the power of ERNs, see https://www.michiganworkssouthwest.org/employers/employer-resource-network/.
The Federal Role

How can the federal government best help the residents of distressed places, both local labor markets and neighborhoods?

In designing place-based policies, federal policymakers should recognize that “one size does not fit all.” Urban areas have different needs from rural areas. And each area has different industrial bases, amenities, or proximity to markets, which dictate different strategies needed.

For example, TVA succeeded with rural electrification, but this is not the key infrastructure challenge today. Grand Rapids succeeded in “doubling down” on manufacturing, but not all manufacturing-intensive communities would be well-advised to pursue such a strategy. The Lehigh Valley’s economic development strategy included warehousing, which depends in part on its geographic location.

The rural Crosby/Ironton area achieved some success by developing a mountain biking course, but obviously this does not mean that every rural area should develop a mountain biking course.

Therefore, the best way to assist distressed places is through a flexible federal block grant that allows communities to target their particular needs. For several years now, I have been proposing a federal block grant package to help distressed places, with two parts: one block grant for distressed local labor markets, and another for distressed neighborhoods. Block grant funds could be used flexibly for many services to promote local job creation or job access.

Based in part on this proposal, a bill (the RECOMPETE Act) was introduced to create such a program by Congressman Derek Kilmer. A small pilot version of this program was incorporated into both the Build Back Better Act and the America Competes Act.

For this testimony, I recomputed a possible two-part block grant proposal. This proposal would be targeted to help the 105 million Americans in the most distressed local labor markets, and the 55 million Americans in the most disadvantaged neighborhoods. The grant proposal would be sufficient, under plausible assumptions about costs per job, to after 10 years close one-third of the gap between these distressed places and more booming places.

This block grant proposal is calculated to cost $21 billion per year for the local labor market job creation block grant, and another $12 billion per year for the neighborhood job access block grant.


23 The distressed local labor markets—metro areas, micro areas, or rural counties—are those whose prime-age employment rate was below 77.6 percent in 2015–2019. These are identified in the map. The distressed neighborhoods have a prime-age employment rate of at least 6 percentage points below their local labor market.

24 Specifically, I assume costs per job of local labor market programs of around $56,000, and costs per extra job opportunity in urban neighborhoods of $120,000, per the research literature reviewed above.

25 Excel spreadsheets detailing all the assumptions made, and figures on grants by place, are available on request.
This proposal is roughly similar in size to the TVA’s per capita spending but it benefits more places. TVA’s annual federal funding peaked in the 1950s at an amount equivalent, in today’s dollars, to a little over $300 annually per capita. This current proposal, which targets help for distressed places with a population of about 160 million people, has an average annual cost of a little over $200 per capita for these distressed places. More severely distressed places get higher per capita block grants, while more moderately distressed places get smaller per capita block grants.

Spending levels of about this size are needed to really turn around a distressed place. As mentioned, although job creation’s benefits are very high per job, job creation costs are non-trivial. Research suggests that the cost per extra permanent job opportunity created is in the $50,000 to $120,000 range, even for more cost-effective customized services.

Why can’t distressed local places adopt such programs on their own? Per capita cost of $300 is about 14 percent of average local tax revenue per capita. For a distressed place, carving out 14 percent of its budget to devote to long-term economic development over 10 years would be politically and economically challenging. Furthermore, the local area would need to impose higher local taxes or cut local public spending, which would hurt the local economy, and at least partially offset the positive effects of the economic development program.

Coordinating an Equity Agenda for Inclusive Growth

These place-based block grants would be one way of pulling together the recommendations this committee has heard from many prior witnesses.

Witnesses have mentioned job training programs (Posen 2021 and Williams 2021) and services to small business (Theodos 2021). These block grants can fund these training and small business services, and administer them to be more attuned to local needs.

MIT Professor Daron Acemoglu (2021) told this committee that the federal government should do more to encourage businesses to invest in job creation and in workers. Flexible place-based block grants can help do so by providing customized training and other services that will be tied directly to job creation.

Kate Bahn (2022), of the Washington Center for Equitable Growth, told this committee about the problem posed by too much “employer concentration,” when local labor markets have too few employers to provide a real competitive local labor market. This problem occurs particularly in many rural areas, and can be addressed in part by the proposed block grant program, which would add new employers in many such areas.

This committee recently held a hearing on housing and related neighborhood issues. Efforts to improve neighborhoods run the risk of gentrification and increased rents if we do not at the same time increase neighborhood residents’ employment rates and earnings—the goals of this block grant proposal.
Mayor Vince Williams (2021) of Union City, Georgia, told this committee of the importance of cooperation within a region. He also spoke of the importance of developing local capacity to plan and create infrastructure and services to support stronger local growth. The block grant proposal can also address these needs.

In the end, much of the U.S.’s economic success—in the past, present, and future—depends on whether local areas have the services needed to both support the growth of good jobs and increase worker access to those jobs. Distressed places cannot afford these needed services. With a well-designed block grant proposal, the federal government can help turn around distressed rural areas, cities, and neighborhoods. This aid for distressed places obviously helps those areas, but bringing up these distressed places will also help create more demand, skills, and vitality for the entire U.S. economy.

References


