



Helping America's distressed communities recover from the COVID-19 recession and achieve long-term prosperity

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Summary

Even before the COVID-19 recession, there were many distressed communities across the United States that lacked sufficient jobs. The pandemic's effects will further damage these local areas, while pushing additional places into labor market distress. Without intervention, the problem of America's distressed communities will worsen, and even a robust recovery may still leave many of them behind. Communities' responses will be hindered by reduced local resources, and their residents will suffer from lower earnings and increased social problems.

One possible solution is a new federal block grant to provide long-term flexible assistance that will create or retain good jobs in distressed local labor markets, and help residents access these jobs. The block grant's ultimate purpose would be to help residents of distressed areas by increasing local earnings per capita and broadly sharing those earnings gains.

A 10-year block grant will empower local leaders to narrow the gap in job opportunities between their distressed local labor markets and the national average. Local labor markets would be targeted if they are significantly below average in "prime-age" (ages 25 to 54) workers' employment-to-population ratios. This "employment rate" metric is an indicator of persistent, long-term local distress. And without policy intervention, distressed communities tend to stay distressed. This makes policy intervention to help distressed communities more important, while also making it easier to target the communities that will need long-term assistance.

The block grant would fund economic development and employment services, including business advice for smaller businesses, land development, infrastructure, job training, better information for residents on job opportunities, and support programs to improve job retention. Economic development services can increase business job creation while employment services increase residents' job access. These services have been shown to be cost-effective.

The grant's flexibility would make it adaptable to each area's needs. But the program also has accountability requirements: For federal approval, local leaders should put together a 10-year plan that addresses the area's labor market problems. To reduce policies that hurt distressed areas, grants would be conditioned on states capping business incentives in non-distressed areas.

The block grant would be provided for 10 years, at \$12.8 billion annually in federal budget costs, for a total of \$128 billion. This amount would be sufficient to significantly boost employment rates in distressed areas, which house about one-sixth of the total U.S. population.

These distressed areas are diverse in ethnic composition, but overall are above the national average in their percentage of residents who are Black and Latino or Hispanic. Boosts in employment rates in distressed areas would particularly benefit lower-income groups, who are more likely to be out of work. Employment services would further share job gains.

Background

During recessions, employment-to-population ratios (“employment rates”) go down everywhere, but there are greater effects in some local labor markets than in others. (“Local labor markets” are defined as groups of counties with strong commuting ties, such as metro areas, or rural commuting zones.)

The COVID-19 recession is no exception. This recession will particularly damage local labor markets that specialize in travel and tourism-related industries, or that had higher infection rates. And it will further damage local labor markets that were already distressed, even when the national economy was booming.

Recessions require national job creation via macroeconomic policies. But these broader policies will not create sufficient jobs in distressed areas to overcome their disadvantages. A lack of jobs in distressed areas leads to persistent disadvantages; the local non-employed lose skills, which hurts their long-run employability and lowers the long-run local employment rate. This lower local employment rate particularly hurts lower-income groups, who are more likely to lose jobs.

Therefore, in addition to macro job-recovery policies, targeted regional policies are needed for a recovery that will provide all residents of distressed areas with adequate job opportunities.

If a place lacks jobs, there are two obvious solutions: moving people out of distressed areas and into job-rich areas, or moving jobs to distressed areas, where the non-employed are. Moving people to job-rich areas, though, is

hard to do, and does not help those left behind. Even sizable moving subsidies (\$10,000 per household) only induce a small percentage of a distressed area’s population to move out.¹ And when a distressed area’s population drops by a given percent, the area’s jobs decline by the same percentage or more—population out-migration reduces demand for local goods and services.²

Bringing jobs to people, however, will increase an area’s employment rate, both in the short and long terms. Residents who get jobs in the short term will—as a result—have better job skills and fewer social problems, thereby boosting places’ employment rates in the long term. These effects are stronger in distressed areas. More jobs will also go to the non-employed if job creation is accompanied by workforce programs, which can train and match the non-employed with jobs.

For every 10 jobs created in a local labor market, an average area has two jobs going to the local non-employed, and the rest to in-migrants. In a distressed area, with more available non-employed, three of the 10 jobs go to the local non-employed.³ If job creation in distressed areas is combined with local workforce programs, four out of 10 new jobs could go to the local non-employed.

Helping distressed areas not only boosts local employment rates, but also boosts the national employment rate by making jobs more accessible to the previously non-employed. Without regionally targeted job-creation and workforce policies, the pandemic recovery will fail to reach its full potential for job creation that improves opportunities for local residents.

The problem

Even prior to the COVID-19 pandemic and recession, the United States had many local labor markets that were persistently distressed.

Consider the employment-to-population ratio (“employment rate”) for “prime-age” workers (those ages 25 to 54). Across local labor markets, prime-age employment rates differed greatly prior to the pandemic. In the most recent data (2014 to 2018), 14.7% of the U.S. population lived in local labor markets whose prime-age employment rate was at least 5 percentage points below average (see Technical Appendix). In contrast, 10.1% of the U.S. population lived in local labor markets whose employment rates were 5 percentage points or more above average.

Compared to booming labor markets, the odds of being employed in distressed labor markets were one-fifth lower. These distressed areas’ average prime-age employment rate was 68.1%, or 9.6

percentage points below the national average. The booming areas had an average prime-age employment rate of 84.5%, or 6.8 percentage points above the national average.

Distressed areas have a variety of ethnic compositions. Overall, however, 33.9% of the population in these areas is Black or Latino or Hispanic, compared to an overall national average of 30.1%.

Often, these distressed areas’ problems originated in past recessions. During recessions, some industries are hurt worse than others; if the badly hurt industries are a local economy’s base, that local economy will suffer more. The COVID-19 recession will continue this pattern, depending on which areas experience either more severe virus outbreaks or have industries (e.g., travel/tourism) that the pandemic affects more negatively.



Recessions have persistent effects. During a recession, if a local economy loses 5% more jobs than the national percentage loss, then, eight years later, that local economy will have an employment rate 2 percentage points lower than it otherwise would.⁴

Even in the longer term, local employment rate differentials are persistent. The correlation across all local labor markets between their 2014 to 2018 employment rates and their 2000 rates is 0.88 (see Technical Appendix).

Local labor markets that had employment rates at least 5 percentage points below the national average in 2000 averaged, on the whole, 8.8 percentage points below the nation. In 2014 to 2018, they averaged 5.5 percentage points below the nation. Some local areas do make progress relative to the nation, but they are exceptions to the rule.

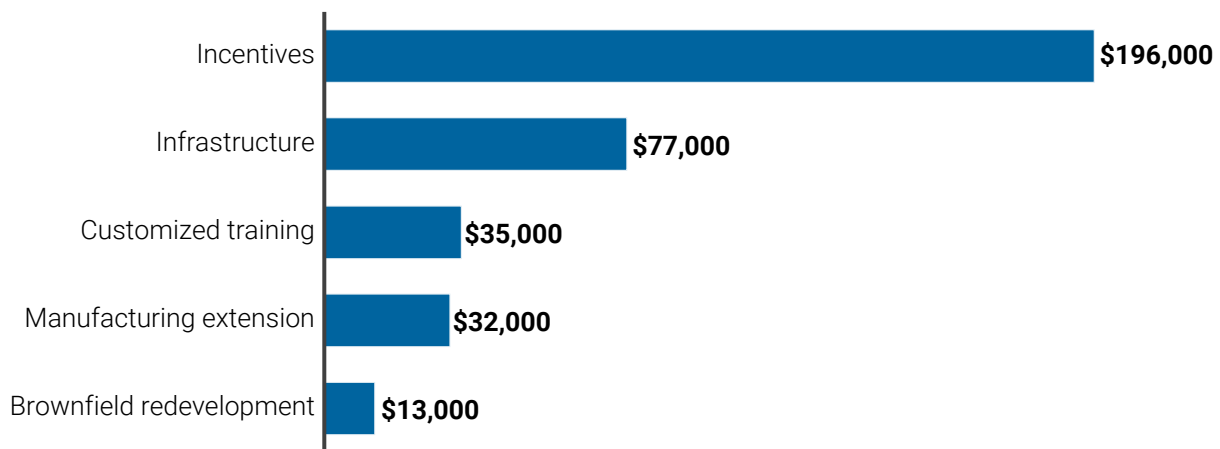
Regardless of national trends over the next few years, areas that were distressed pre-recession will mostly continue to be distressed. Today's identification of distressed areas will remain relevant in the future.

Additionally, the COVID-19 recession will push some new areas into labor market distress. These areas should be added targets for policies that help distressed areas, as their problems will not quickly fade away.

The U.S. needs a two-stage strategy for helping distressed areas. Stage one is immediately helping areas that were already persistently distressed. Stage two is adding help for newly distressed areas as it becomes apparent which areas the pandemic has pushed into distress. The help should be targeted at distressed places, create jobs cost-effectively, and target more good jobs at local residents who lack such jobs.

Current government policies do not do a good job of promoting job growth in distressed places. Governments in the U.S. devote \$61 billion annually to policies that promote state and local economic development. Of that \$60 billion, \$10 billion is federal dollars, and \$51 billion comes from state and local governments. Over 90% (\$47 billion) of state and local resources go to tax incentives or cash grants to businesses to encourage job growth.⁵

Figure 1. Present-value cost per job created of government growth-promotion policies



Source: Author's calculations. See: Bartik, Timothy J. 2020. "Using Place-Based Jobs Policies to Help Distressed Communities". *Journal of Economic Perspectives* (Summer): 99-127.

Neighboring states with similar economies have very different incentives. Indiana's incentives are over twice as large as Illinois's, even though the two states have similar employment rates. South Carolina's incentives are twice as large as North Carolina's, and again, the two states have similar employment rates.⁶ Within states, most incentives are available throughout the state, not just in distressed places.

Incentives are less cost-effective in creating local jobs compared to other job-creation methods (see figure, page 6). Incentives tip a minority of business location decisions (10% on average), and so are costly per job created. More cost-effective job creation strategies include manufacturing extension services, customized job training, infrastructure, and brownfield redevelopment.⁷

For example, manufacturing extension services provide advice to smaller manufacturers on improving technology and business practices as well as identifying new markets. Such advice is low-cost to provide, but has large effects on a business's competitiveness.

Customized job training services have local community colleges train workers for an individual business's needs. This training is particularly useful to smaller businesses, who lack sufficient resources for training and may be worried about employee turnover.

Providing high-quality business sites by redeveloping land or enhancing a site's transportation and utilities through infrastructure investment can have large effects on local job growth. Getting quickly into production at a site that can access workers and customers is key to a business's competitiveness.

Current economic development policies also do not do enough to target job opportunities on local residents who lack good jobs. As mentioned, even in distressed places, research shows that only three out of every 10 new jobs go to the local non-employed.

Local workforce programs can target more job opportunities to residents. Workforce programs can give local residents the information, skills, and resources they need to get and keep good jobs. The aforementioned customized training programs can recruit, screen, and credential more non-employed or underemployed residents. Other expanded workforce programs can do more to reach out to groups that lack good jobs and provide supports to help residents keep jobs.

Federal action could encourage targeting of distressed areas, more cost-effective job creation strategies, and greater resident access to jobs. But federal intervention must recognize that one size does not fit all. The specific barriers to job creation will differ across different places. Local needs for infrastructure, training, and business advice will vary, as will residents' skills and resources. Federal action must avoid policies that ignore local needs.

Proposal

To achieve a recovery that revitalizes distressed local labor markets, the federal government should provide annual block grants for at least 10 years to each distressed area. In exchange for long-term, predictable, and flexible aid, leaders in distressed regions would produce 10-year strategic plans to boost residents' per capita earnings. In accordance with these plans, block-grant-funded programs would create or retain quality jobs and connect local workers to those jobs.

Funded activities could include a wide variety of programs, including:

- **Business advice** to small and medium-sized local businesses and entrepreneurs, including manufacturing extension services, small business development centers, centers to help businesses bid for federal procurement contracts, and entrepreneurial assistance programs that link entrepreneurs with available government and private resources.
- **Infrastructure**, such as improvements in transit, roads, or broadband access.
- **Land and site development programs**, such as brownfield redevelopment, research and technology parks, business incubators, business corridor development, and Main Street redevelopment.
- **Job training oriented to employer needs**, such as customized job training programs run by local community colleges.
- **Workforce outreach programs** that reach out to lower-income neighborhoods and embed job placement and training services in neighborhood institutions such as churches, housing projects, and community advocacy programs.⁸

- **Job retention programs** that provide smaller employers with success coaches to increase job retention among recently hired workers from disadvantaged groups—for example, by linking these workers to services to deal with child care or car repair.⁹

The federal block grant program would allow for considerable local flexibility, as local needs vary. But to improve accountability, the block grant would also come with some strings attached.

First, the locally developed plan would have to be approved by federal officials as being a reasonable strategy to create or retain jobs and improve job access. Federal officials would provide technical assistance to help communities develop more effective plans. Benchmarks for success would be set, and progress monitored. Second, the federal legislation would establish the acceptable programs, such as those listed above. Local areas would have to apply for waivers to fund activities outside of the acceptable programs. Third, the federal legislation would put some constraints on providing incentives in non-distressed areas, which tend to reallocate jobs away from distressed areas. More details on these federal administrative requirements are provided below.

At this time, toward the beginning of a potentially lengthy recession, the designation and assistance of distressed areas should proceed in two stages. First, we should immediately identify and assist local labor markets that were already distressed prior to the COVID-19 recession. Second, as the data permits, a second round of assistance should identify additional local labor markets that the recession has driven into severe distress.

To allow for local labor markets to be designated as distressed, the federal government would officially assign all of the U.S. into separate local labor markets, where each market is a contiguous group of counties linked by commuting. This federal definition would build on existing federal statistics, such as definitions of metropolitan areas or commuting zones.

For the initial round of assistance, one possible definition of “economic distress” would be as follows: The block grants would be provided to all local labor markets that, in the past five years, have had a prime-age employment rate at least 5 percentage points below the national average. In the most recent data, this comprises 14.7% of the U.S. population, or 47.6 million people. This first round aims at selecting the local areas that have experienced persistent distress, and uses data averages over multiple recent years to more accurately measure persistent distress.

The second round of assistance would rely on adequate 2021 data on local areas, which will be available by late 2022. The second round would add local areas that, in 2021, fall at least 5 percentage points below the national average in employment rates. Using one year of data is less statistically precise, but is more current, and reflects the pandemic’s effects more quickly than would be possible through using multiple years of data.

To estimate the size of this second round, consider the 119 local areas that as of 2014 to 2018 had a prime-age employment rate between 3 and 5 percentage points below the national average. Local areas in this category house 5% of the nation’s population, or 16 million people. If half of the people in this category are in areas that become distressed due to the recession, the second round would add aid for areas that cover a population of 8 million.

For either round of assistance, the actual block grant recipient would be a consortium that represents the residents of a group of counties

constituting a local labor market. The consortium could be a new governmental or private entity designated by the state government, or it could be a group of local and state governments that make up that local labor market. This consortium would be responsible for preparing the grant application, distributing the funds to different local programs, paying any local match required, and complying with federal monitoring and evaluation requirements. The grant application would lay out what investments each distressed community will make with its allocation and matching funds.

At the federal level, the grant program would most logically be administered by the Economic Development Administration, within the Department of Commerce, as the EDA historically has had responsibility for aiding local economic development efforts. The EDA would review and approve local strategic plans, and its criteria would consider whether the strategic plan clearly identifies local economic development needs, comes up with a reasonable strategy for creating and retaining jobs, and includes programs to help broaden job access. The strategic plan would also identify benchmarks for success during the 10-year period. The local consortium would be required to modify the plan if benchmarks are not met.

The EDA would also coordinate an interagency “technical assistance” team to help local consortia develop effective local plans and navigate complex rules governing existing federal programs. This technical assistance would be particularly valuable to smaller metropolitan areas, micropolitan areas, and rural areas, which tend to have less local capacity due to years of disinvestment.

The block grants would be distributed by a formula that tied each area’s aid to its distress. One possible formula: The federal government would pay two-thirds of the cost of closing half the employment rate gap between the local labor market and the nation over a 10-year period. The local consortium would pay the remaining one-third.

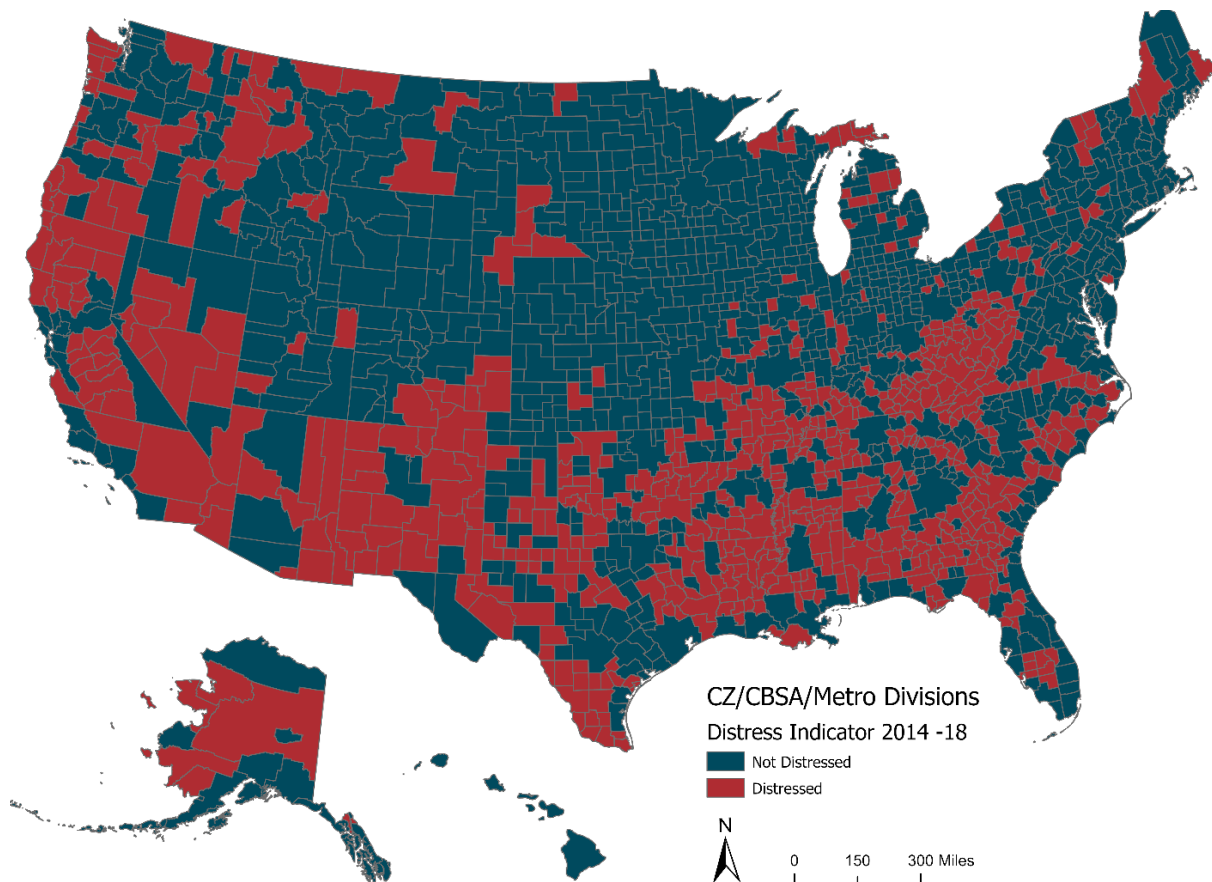
Closing half the employment rate gap over 10 years is a meaningful and feasible goal. The needed jobs are calculated assuming that 40% of new jobs will increase the local employment rate; this is feasible in distressed areas with good workforce programs. The cost to create jobs is estimated at \$50,000 per job, based on the research summarized above. The one-third local match would mean more local cost consciousness and reduced federal costs.

In the first round of aid to distressed areas, the total job creation goal over 10 years is 3.3 million additional jobs, or 330,000 jobs per year. These distressed areas' baseline employment is 19 million jobs. The second round's goals would

depend upon how the economy fares by 2021. However, because the second round's areas are likely to have less than one-fifth of the jobs of the first round's areas, the second round would only modestly increase overall job creation goals.

Under one possible definition of local labor markets (see Appendix), the first round's targeted areas are shown in the map. Distressed areas include the rural South, Appalachia, Detroit and Flint, Mich., and parts of upstate New York and New England. Many West Coast communities outside of the large coastal metro areas are also included. The distressed land area is vast, but as mentioned, the population in these places is only 14.7% of the U.S. total.

Map 1. Distressed local labor markets, 2014 to 2018



Source: Author's calculations, see Appendix.

To give a few examples: the first round would establish the following grants:

- **Detroit Metro Division:** Annual grant of \$319 million, for an area with 1.761 million people.
- **Charleston, W.Va. metro area:** Annual grant of \$58 million for a metro area with 267,000 people.
- **Columbus, Miss. micropolitan area:** Annual grant of \$10 million per year for a micro area with 59,000 people.

What would Detroit, Charleston, and Columbus do with this money? That would depend on their choices. Local needs are diverse; some areas might emphasize job training, some business services, and some infrastructure and land development. Regardless of the method, such job creation would boost local employment rates, which would particularly help the disadvantaged.

As mentioned, one string attached to the block grant is a restriction on providing large incentives in non-distressed areas. For an area to be eligible, the state or states in which it is located would have to cap incentives. Caps would set a maximum incentive per job that could be provided to large firms in non-distressed areas.

Why this restriction? These incentives are too costly per job created. Moreover, when these incentives are in non-distressed areas, they are at cross-purposes with the goal of helping distressed areas.

Here is one example of how a cap might work: The cap might require that, in non-distressed areas, any firm whose national employment exceeded 10,000 employees could not be provided with an incentive of over \$30,000 per job. Larger incentives could still be provided to smaller firms or in distressed areas.

The restriction's focus on firms with over 10,000 employees makes federal enforcement of this cap more feasible. In addition, it addresses a fairness issue: Many states give larger incentives per job to large firms. A precedent for this restriction is in the European Union, which caps incentives provided by member nations. These caps vary with both regional distress and firm size.

This block grant program will not work everywhere. Some areas' problems may be too extensive for this program to work. Local discretion allows for local creativity, but also for local mistakes.

Still, many distressed areas have sufficient assets—of people, land, amenities, and ideas—so that, with significant aid, they can succeed in creating more good jobs for residents. But even an area with potential can become trapped in a downward spiral, where economic problems lead to a lack of resources to address the problems. Federal aid can stop that downward spiral.

Budget implications

If the federal share of costs is two-thirds, the first round of this block grant would require \$11 billion in annual federal funding for 10 years, for a total of \$110 billion (see Appendix for more on this calculation). With a targeted population of 47.6 million, the per capita annual funding in assisted areas is \$231.

The second round's costs cannot be exactly calculated. But if areas with 8 million people were eligible for grants in the second round, and if aid was at the first round's average per capita costs, then the second round would have annual costs of \$1.8 billion. The two rounds together would total \$12.8 billion, and the 10-year cost would be \$128 billion.

Will this make a difference? As mentioned, the program's first round, after 10 years, would boost jobs in assisted areas by 3.3 million jobs, or a little less than 18%. If 40% of these jobs raise the employment rate, at least 1.3 million people would be employed who otherwise would not be. The national expansion in employment would be 0.9%.

Another way to see whether this program would make a difference is to compare it to past programs. The Tennessee Valley Authority, started in 1933, had large effects: As of 2000, it had boosted the region's manufacturing by over 250,000 jobs.¹⁰ The TVA's funding peaked in the 1950s at \$1.5 billion per year and about \$310 per capita (in 2019 dollars). Judging from the TVA, a few hundred dollars of funding per capita—sustained over some years—can transform a local economy.



State of play

Helping distressed areas has been a topic of much discussion among policy researchers, but the federal government has not recently pursued it at a regional level.

The “Opportunity Zone” (OZ) program might seem an exception. But the OZ program is more “community development” than “economic development.” The program gives tax breaks for investments in particular census tracts, with most zones in small neighborhoods. Even if this program succeeds in boosting a zone’s capital investment and job growth, this job growth may not significantly help zone residents. Neighborhoods are not labor markets; most neighborhood jobs are not held by residents. OZs do little to encourage overall job growth in a local labor market, which is comprised of multiple counties. Thus, OZs are mostly irrelevant to raising employment rates in distressed local labor markets.

Some policy researchers have proposed programs to address the job needs of distressed areas, including:

- Customized training (Austin, Glaeser, and Summers 2018)
- Infrastructure (Center for American Progress 2018)
- Employer hiring subsidies (Neumark 2018)
- Manufacturing extension (Baron, Kantor, and Whalley 2018)
- Aid for small business and entrepreneurs (Chatterji 2018)

Although all of these proposals might help, there are two problems with a “single solution” to aiding distressed areas. First, different areas may have different needs. Second, synergies exist between programs; job training may be more effective if accompanied by infrastructure, or vice versa. Local job growth depends on the quality of many local “inputs” such as labor, land, infrastructure, and business services.

Conclusion

The COVID-19 recession will worsen the problem of uneven regional distribution of job opportunities across American communities. This persistent regional inequality in job availability is best addressed through bringing jobs to people. The federal government can help via a long-term investment in a flexible block grant to promote local job creation in distressed areas, along with better resident access to jobs.

Relative to the federal budget, an annual block grant of \$12.8 billion per year is modest. This aid would provide many residents of distressed areas with significantly improved job opportunities. And only with this aid will the nation's recovery become a tide that truly lifts all boats.



Appendix: Calculations behind block grant for distressed areas proposal.

The data used in this brief is aggregated county data from the Census Bureau. The particular data used for the 2014 to 2018 period is from the American Community Survey (ACS), and data for the year 2000 is from the census long form.

This brief uses aggregated county data largely because it is available at a similar assignment accuracy for all counties; I then aggregated this county data into estimates for multi-county areas that are local labor markets. If micro data from the ACS or census were used, the data could only be calculated for “Public Use Microdata Areas” (PUMAs), which could then be assigned probabilistically to different counties. As PUMAs have a minimum population size of 100,000, this results in some serious assignment difficulties for smaller counties and smaller local labor markets. In contrast, the aggregated county data exactly matches the proper geographies. In addition, the aggregated ACS data reported by the Census Bureau uses a larger sample than is available in publicly released ACS microdata.

The principal data analyzed was various labor market outcomes for local labor markets. The main labor market outcome analyzed was the employment-to-population ratio—or “employment rate”—for so-called “prime-age” workers (between the ages of 25 and 54) who generally are out of school and before retirement. Data was also used on total civilian employment (all ages) and total population (all ages).¹¹

The local labor market definitions generally followed Census Bureau definitions, where available. The Census Bureau defines metropolitan areas and micropolitan areas (collectively called “core-based statistical areas” by the Census Bureau) as commuting-linked

groups of counties based on the strength of commuting flows among counties. As of the latest definition, in 2018, the United States (excluding Puerto Rico) has 384 metropolitan areas and 542 micropolitan areas, with the metro versus micro distinction resting on the size of the central urbanized area. The 11 largest metropolitan areas are divided into 31 metropolitan divisions that are strongly integrated. For this analysis, for these largest metro areas, the 31 metropolitan divisions are used as geographic units. Therefore, from the core-based statistical areas of the Census Bureau, we define $384 + 31 - 11 + 542 = 946$ areas. These 946 areas comprise 94.4% of the U.S. population.

What of the remaining 5.6% of the population? Any county that was not included in one of the core-base statistical areas was instead counted as being part of a “commuting zone” (CZ). Commuting zones were originally designed by economists at the Department of Agriculture to ensure that all counties—including rural counties—would be part of a local labor market. However, the most recent attempt to delineate commuting zones has not been done by the Department of Agriculture, but rather [by researchers at Penn State](#), following a similar methodology.

The Penn State researchers defined 625 commuting zones, which include all U.S. counties. For this brief’s calculations, all counties in core-based statistical areas were subtracted from these definitions. The remaining counties were still counted as part of a commuting zone, although in many cases omitting some counties in the commuting zone that had greater commuting ties and therefore qualified as a metro or micro area. Some of the 625 CZs completely disappeared due to this subtraction process. What remains are 525 full or partial CZs.

Therefore, the analysis divides the United States into $946 + 525 = 1,471$ local labor market areas. Each of these areas is defined in part based on commuting ties. The approach used here tends to emphasize the stronger ties, by defining metropolitan divisions separately, and by subtracting metro and micro areas from commuting zones. However, all U.S. counties, including rural areas, are assigned to at least one type of local labor market area.

Some minor anomalies occurred in these calculations. First, data for recent years is apparently not available for Rio Arriba County, N. M., due to what the Census Bureau described as “[data collection errors](#).” Therefore, this county was not included in any calculations for 2014 to 2018. This means that the U.S. totals for 2014 to 2018 are slightly off, as this county’s population in 2000 was 41,190. However, it was classified as distressed for the purpose of mapping based on the surrounding counties.

Second, two of the Alaskan statistical collection areas were redefined over time, such that one of the two existed in 2014 to 2018 but not in 2000, and the other the reverse. These two areas were included in totals for each year, but not in any calculation (e.g., correlation) that required comparisons between the same geographic units for 2000 and 2014 to 2018. Each of these

statistical areas was quite small, with populations under 8,000.

These 1,471 areas are meant to be illustrative. For the federal legislation, the federal government would be required to come up with official local labor market definitions that encompass the entire United States. Current metropolitan and micropolitan area definitions are “official,” but do not encompass the entire United States. Commuting zone definitions do encompass the United States, but currently do not have official federal government status.

For our initial analysis of these 1,471 areas, we calculated each area’s difference from the national average prime-age employment rate for 2014 to 2018. We then ranked the areas by their difference from the national average and calculated what percent of the population fell within different rankings. The analysis in this brief focused on those that fell at least 5 percentage points below the national average prime-age employment rate of 77.68% in this data. These constituted 573 of these 1,471 areas, and housed 14.7% of the overall U.S. population. Other cut-off points are shown in Table A1. As these cut-offs show, the distribution of local labor market stress is skewed, with more extremes in the negative tail than in the positive tail.

Table A1. Percentage of US population in local labor markets at different employment rate percentages relative to national average

Prime-age employment rate versus national average	Cumulative percentage below that point
-10	4.5
-9	5.3
-8	6.8
-7	9.3
-6	12.1
-5	14.7
-4	17.4
-3	19.7
-2	22.3
-1	30.4
0	43.7
1	53.2
2	62.4
3	76.9
4	86.2
5	89.9
6	94.3
7	95.9
8	97.5
9	99.1
10	99.8

Source: Author's calculations.

We then calculated some correlations over time for the difference between the prime-age employment rate and the national average.¹² The unweighted correlation for all 1,471 areas between the prime-age employment rate in 2000 and the rate in 2014 to 2018—an average of 16 years later—was 0.88. The population-weighted correlation (weighted either by the 2014 to 2018

total area population, or by the 2014 to 2018 prime-age population) was 0.79.

This is somewhat surprising. What seems to be going on is that a few very large areas markedly improved between 2000 and 2014 to 2018. For example, the New York Metro Division went from a prime-age employment rate of 6.9 percentage

points below the national average in 2000 to a rate that was very slightly (0.2 percentage points) above the national average in the 2014 to 2018 period. The Los Angeles Metro Division went from a prime-age employment rate of 8.2 percentage points below the national average in 2000 to a rate that was only 0.7 percentage points below the national average in the 2014 to 2018 period. As a result, if New York and Los Angeles are excluded from the population-weighted correlations, the resulting correlation for the remaining 1,469 areas between the 2000 and 2014 to 2018 prime-age employment rates is 0.85.

However, despite New York and Los Angeles, distressed status is highly persistent over time. If we had classified all areas that were at least 5 percentage points below the national average prime-age employment rate in 2000 as distressed, these 353 areas, on average, had a prime-age employment rate that was 8.8 percentage points below the national average. In 2014 to 2018, these same 353 areas had a prime-age employment rate that was 5.5 percentage points below the national average.

What has occurred between 2000 and 2014 to 2018 is that a few larger areas have boomed, and many smaller areas have become economically distressed. There were 353 areas that were 5 percentage points below the national average in 2000, comprising 18.8% of the population—whereas in 2014 to 2018, there were 573 areas that were 5 percentage points below the national average, comprising 14.7% of the population.

In terms of ethnic compositions, these 573 areas had a Black population that was 13.3% of their total population, compared to a national average of 12.3%. The distressed areas' Latino or Hispanic population was 20.6%, compared to a national average of 17.8%.

To design a block grant program, we tried to adopt assumptions that were moderate, yet still addressed the scope of the problem. We defined each of the 573 areas that were at least 5

percentage points below the national average in 2014 to 2018 as distressed. Why this definition? First, most areas that are at least 5 percentage points below the national average are unlikely to catch up with the nation over the next 10 years on their own. Second, given the severity of this distress measure, it seems plausible that many such areas will lack sufficient resources to adequately invest in their own economic development. Third, this distress indicator led to 14.7% of the U.S. population being classified as distressed, a definition that seems restrictive enough to allow for some meaningful targeting of resources, yet broad enough to elicit considerable political support.

We set a job creation target that seems achievable within 10 years. We assumed that we needed to create jobs to fill half the prime-age employment rate gap between the area and the national average. To calculate how much job creation this would require, we assume that civilian employment would need to expand sufficiently so that if 40% of this job growth raised employment rates—and prime-age employment rates went up proportionally with overall employment rates—then the target of cutting the gap with the nation by half would be reached. We get effects of at least 30% if job growth occurs in distressed areas (see review by [Bartik 2020](#)). We assume we can get to 40% if job creation is accompanied with employment services to link local residents with jobs, such as customized job training and other workforce programs.

We assumed that jobs could be created at about \$50,000 per job; this seems feasible based on studies of various business services, which have found costs per job created that vary from \$13,000 to \$77,000 (see brief).

As discussed in the brief, we end up with a block grant that—at its first stage—needs to create about 3.291 million jobs in these 573 distressed places. The total price tag of this (at \$50,000 per job) is \$164.5 billion. On an annual basis, the cost is \$16.5 billion. Some of this cost might be shared

Table A2. Breakdown of distressed areas by type: Population, employment rate, block grant

Type of area	Number of such areas	Total population of such areas (in millions)	Prime-age employment rate vs. national average (%)	Annual block grant (in billions of dollars, at 2/3rds of "need")
Metro areas (including 1 metro division)	85	26.204	-7.7	4.748
Micro areas	227	11.289	-11.1	3.021
Remainder CZs	261	10.078	-13.2	3.200
Total of all types	573	47.572	-9.6	10.969

Source: Author's calculations

by state and local governments. For example, if the federal government paid two-thirds of the cost, the annual federal price tag would be \$11 billion per year. As described in the brief, the second round's costs are unknown and depend on how many additional areas become distressed, but might plausibly be an additional \$1.8 billion per year.

On a per capita basis, the price tag of this proposal for the assisted areas is equal each year to about \$346. If the federal share of the cost is two-thirds, the block grant averages about \$231 per capita each year. The first round's assisted areas have a total population of 14.7% of the U.S., or about 47.6 million people.

How does this compare with past federal regional efforts? The Tennessee Valley Authority (TVA) peaked at around \$1.51 billion per year from 1950 to 1955, for an area that, in 1950, housed about 4.9 million people. This is about \$310 per capita. The TVA seems to have been fairly effective in revitalizing the region ([Kline and Moretti 2013](#)).

The Appalachian Regional Commission's (ARC) peak annual spending, from 1966 to 1975, was

about \$1.65 billion per year in today's dollars, for an area with about 19.5 million people in 1970. This is about \$85 per capita. The evaluations of the ARC seem to reflect that it mainly had impacts in the minority of counties where it made major highway and other infrastructure investments ([Jaworski and Kitchens 2019](#)).

So, the investment proposed in this brief is: 1) Greater than the TVA because it targets not just one distressed region, but a much larger proportion of the nation, and 2) Greater than the ARC, both because a larger population is being assisted and because we are trying to imitate the more successful TVA model.

How are these distressed areas distributed between different types of local labor markets, and how do the proposed grants vary across areas? Table A2 shows the division between metropolitan areas (and the one metropolitan division included: Detroit), micropolitan areas, and the commuting zone remainder areas. As shown, the distressed areas include 85 metropolitan areas, 227 micropolitan areas, and 261 areas which are the remainders of commuting zones. Shares of population and block grant dollars

by area are 1) Metro areas: 55% of population and 43% of block grants; 2) Micro areas: 24% of population and 28% of block grants; 3) CZ areas: 21% of population and 29% of the block grants. The higher per capita allocations to the smaller communities reflect their lower employment rates.

We can also look at how the distressed areas are distributed by population size. Table A3 shows the local labor markets that are distressed and also exceed 250,000 in population. These are comprised of one metro division (Detroit), and 25 metropolitan areas, from Riverside-San Bernardino, Calif. to Flint, Mich. to Charleston, W.Va. This group of distressed local labor markets that are at least medium-sized have a little over one-third of the total population of distressed areas, and a little over one-quarter of the block grant total for distressed areas.

In general, the distressed-area grants tend to be greater per capita for smaller communities. However, this is not because they are small. The job creation targets are based on the employment rate gap from the national average. Smaller communities, on average, have lower employment rates. If two communities have the same gap between their prime-age employment rate and the national average, but one community is twice as large, its block grant will be twice as large.

One surprise in this analysis is that about 6% of the total national block grant goes to one distressed local labor market: Riverside-San Bernardino, Calif. This is clearly an economically

distressed local labor market, with an employment rate that is 6% below the national average. It was already distressed in the year 2000, with an employment rate 7.8% below the national average. The Riverside-San Bernardino area is a large local labor market, with a population exceeding 4.5 million. It is not crazy to think that if this area is to be transformed through additional job creation, it will take considerable resources devoted to business services, training, and infrastructure—and that this will not come cheap. As mentioned, the TVA at its peak was spending about \$1.5 billion per year (in today's dollars) on an area with around 4.9 million people. So, spending \$656 million per year on an area with 4.5 million people does not seem disproportionate.

An Excel spreadsheet presents complete data on all 1,471 local labor market areas, including their employment rates in 2000 and 2014 to 2018, and, for distressed areas, proposed job creation goals and block grant levels.

Finally, policy evaluators should note that the block grant proposal would allow for a rigorous evaluation. As local labor markets are targeted based on a quantitative cut-off for receiving aid, evaluation could be done using a “regression discontinuity design.” Areas that just made the cut-off for being targeted could be compared with areas that just missed the cut-off. Using these comparisons, the proposed regional aid program could be held accountable for whether it made a difference in job creation and employment rates.

Table A3. Distressed areas with average 2014 to 2018 population exceeding 250,000

Name of metro area (all except Detroit Metro Division)	Total population (in millions)	Prime-age employment rate vs. national average (%)	Annual block grant (in billions of dollars at 2/3rds of need)
Detroit-Dearborn-Livonia, MI	1.761	-7.3	0.319
Riverside-San Bernardino-Ontario, CA	4.519	-6.0	0.656
Fresno, CA	0.978	-7.3	0.173
Bakersfield, CA	0.883	-11.8	0.252
McAllen-Edinburg-Mission, TX	0.849	-6.4	0.119
Stockton, CA	0.732	-6.1	0.108
Augusta-Richmond County, GA-SC	0.594	-6.4	0.089
Modesto, CA	0.539	-6.7	0.088
Fayetteville, NC	0.516	-7.9	0.075
Visalia, CA	0.460	-8.9	0.096
Killeen-Temple, TX	0.438	-8.7	0.077
Salinas, CA	0.433	-6.1	0.064
Mobile, AL	0.431	-6.2	0.065
Brownsville-Harlingen, TX	0.422	-7.1	0.066
Flint, MI	0.409	-5.1	0.050
Beaumont-Port Arthur, TX	0.396	-8.9	0.089
Montgomery, AL	0.374	-6.7	0.062
Huntington-Ashland, WV-KY-OH	0.364	-9.8	0.087
Ocala, FL	0.348	-9.4	0.070
Columbus, GA-AL	0.320	-8.0	0.055
Kingsport-Bristol, TN-VA	0.306	-7.3	0.055
Clarksville, TN-KY	0.296	-7.6	0.043
Longview, TX	0.285	-6.2	0.044
Laredo, TX	0.272	-6.6	0.042
Merced, CA	0.269	-10.2	0.064
Charleston, WV	0.267	-8.9	0.058
Total for distressed areas > 250K in pop.	17.464	-7.2	2.965
Total for distressed areas < 250K in pop.	30.107	-11.1	8.004
Total for all distressed areas	47.572	-9.6	10.969

Source: Author's calculations.

References

More details on the local labor market areas used for this brief’s calculations are in an appendix. An Excel spreadsheet presents data on each local labor market area.

Studies on the local effects of population out-migration and job growth, are reviewed in:

- Bartik, Timothy J. 2020. “Using Place-Based Jobs Policies to Help Distressed Communities”. *Journal of Economic Perspectives* (Summer): 99-127.

This paper also summarizes data on place-based policies. More information on incentives is in the Upjohn Institute’s Panel Database on Incentives and Taxes:

- <https://www.upjohn.org/bied/home.php>.

Research on the persistent effects of locally severe recessions is presented in:

- Hershbein, Brad, and Bryan A. Stuart. 2020. “Recessions and Local Labor Market Hysteresis.” Upjohn Institute Working Paper 20-325. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Data on cost per job created of different programs are in 2019 dollars, and use a 3% discount rate. The research studies behind these numbers are described in:

- Bartik, Timothy J. 2018. “What Works to Help Manufacturing-Intensive Local Economies?” Upjohn Institute Technical Report No. 18-035. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/tr18-035>.

The research on the proportion of incented projects that are induced by incentives is reviewed in:

- Bartik, Timothy J. 2018. “‘But For’ Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?” Upjohn Institute Working Paper 18-289. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/wp18-289>.

Information on tying together economic development and workforce programs can be found in two annual reports from the Upjohn Institute’s research initiative on place-based prosperity:

- Miller-Adams, Michelle, Brad Hershbein, Timothy J. Bartik, Bridget Timmeney, Amy Meyers, and Lee Adams. 2019, *Building Shared Prosperity: How Communities Can Create Good Jobs for All*, Upjohn Institute.
- Bartik, Timothy J. , Brad Hershbein, Michelle Miller-Adams, Lee Adams, Amy Meyers, and Bridget Timmeney. 2020. *Investing in Community: A Playbook for Connecting Economic and Skills Development*. Upjohn Institute.

Information on European Union rules on regional state aid can be found at:

- https://ec.europa.eu/competition/state_aid/regional_aid/regional_aid.html.

Good evidence on TVA's effectiveness is in:

- Kline, Patrick, and Enrico Moretti. 2013. "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority." *Quarterly Journal of Economics* 129(1): 275–331.

Proposals for helping distressed areas are found in the following publications:

- Austin, Benjamin, Edward Glaeser, and Lawrence H. Summers. 2018. "Saving the Heartland: Place-Based Policies in 21st Century America." *Brookings Papers on Economic Activity*.
- Baron, E. Jason, Shawn Kantor, and Alexander Whalley. 2018. "Extending the Reach of Research Universities; A Proposal for Productivity Growth in Lagging Communities." In *Place-Based Policies for Shared Economic Growth*, Jay Shambaugh and Ryan Nunn, eds. Hamilton Project. Washington, DC: Brookings Institution, pp. 157–184.
- Center for American Progress. 2018. *Blueprint for the 21st Century: A Plan for Better Jobs and Stronger Communities*. Washington, DC: Center for American Progress.
- Chatterji, Aaron K. 2018. "The Main Street Fund: Investing in an Entrepreneurial Economy." Hamilton Project Policy Proposal No. 2018-09. Washington, DC: Brookings Institution.
- Neumark, David. 2018. "Rebuilding Communities Job Subsidies." In *Place-Based Policies for Shared Economic Growth*, Jay Shambaugh and Ryan Nunn, eds. Hamilton Project.
- Washington, DC: Brookings Institution, pp. 71–121.

Proposals to help more regions succeed in high-tech are in the below two publications (Atkinson, Muro, and Whiton 2019; Gruber and Johnson 2019). Only a limited number of distressed areas would meet their criteria for being potential high-tech areas.

- Atkinson, Robert D., Mark Muro, and Jacob Whiton. 2019. *The Case for Growth Centers: How to Spread Tech Innovation Across America*. Brookings Institution and Information Technology and Innovation Foundation.
- Gruber, Jonathan, and Simon Johnson. 2019. *Jump-Starting America: How Breakthrough Science Can Revive Economic Growth and the American Dream*. New York: Public Affairs Books.

An interesting local program to help provide services to high-tech entrepreneurs is Chicago's P33 program, information on which can be found at:

- <https://www.p33chicago.com/>.

Endnotes

1. For evidence of these small migration effects of moving subsidies, see: Kennan, John, and James R. Walker. 2011. "The Effect of Expected Income on Individual Migration Decisions." *Econometrica* 79 (1): 211–51; Bartik, Alexander W. 2018. "Moving Costs and Worker Adjustment to Changes in Labor Demand: Evidence from Longitudinal Census Data." Working paper, Department of Economics, University of Illinois at Urbana-Champaign.
2. The research on local jobs effects of local population growth is reviewed in Bartik, Timothy J. 2019. "Should Place-Based Jobs Policies Be Used to Help Distressed Communities?" Working paper 19-308, W.E. Upjohn Institute for Employment Research.
3. The evidence on local employment rate effects of local job shocks is reviewed in Bartik, Timothy J. 2020, "Using Place-Based Jobs Policies to Help Distressed Communities", *Journal of Economic Perspectives* (Summer): 99-127.
4. See Hershbein, Brad, and Bryan A. Stuart. 2020. "Recessions and Local Labor Market Hysteresis." Upjohn Institute Working Paper 20-325. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
5. These statistics are reported in Bartik, Timothy J. 2020, "Using Place-Based Jobs Policies to Help Distressed Communities", *Journal of Economic Perspectives* (Summer): 99-127. Cost figures are in 2019 dollars.
6. These comparisons of neighboring states are average state and local incentives as of the most recent year, 2015, as reported in the database described in Bartik, Timothy J. 2017. "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States." Report prepared for the Pew Charitable Trusts. Local incentives are included because local government incentives are largely determined by state law and policies.
7. The research on the relative effectiveness of different job creation policies is reviewed in Bartik, Timothy J. 2020, "Using Place-Based Jobs Policies to Help Distressed Communities", *Journal of Economic Perspectives* (Summer): 99-127. These statistics are in 2019 dollars. See also Bartik, Timothy J. 2018. "What Works to Help Manufacturing-Intensive Local Economies?" Upjohn Institute Technical Report No. 18-035. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research; and Bartik, Timothy J. 2018. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
8. An example of such a workforce program is the Neighborhood Employment Hub program in Battle Creek, Mich. This program is run by Michigan Works! Southwest, the job training agency in Southwest Michigan which is part of the Upjohn Institute, and is funded in part by the Kellogg Foundation. The hubs are in a local church, a housing complex, a community-action agency, and the local jail. For more information, see p. 13 of Miller-Adams, Michelle, Brad Hershbein, Timothy J. Bartik, Bridget Timmeney, Amy Meyers, and Lee Adams, 2019, *Building Shared Prosperity: How Communities Can Create Good Jobs for All*, Upjohn Institute.
9. An example of such a program is Employer Resource Networks (ERNs). ERNs originated in West Michigan in 2007 and have since spread

to nine states. Under ERNs, a network of small businesses contract with case managers/success coaches who help provide or link support services to increase job retention. Typically, the small businesses pay fees for this service, although the fees may be subsidized by the local workforce system. See p. 14 of Miller-Adams, Michelle, Brad Hershbein, Timothy J. Bartik, Bridget Timmeney, Amy Meyers, and Lee Adams, 2019, *Building Shared Prosperity: How Communities Can Create Good Jobs for All*, Upjohn Institute.

10. The estimated manufacturing jobs effects of TVA are derived from Kline, Patrick, and Enrico Moretti, 2013, "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority." *Quarterly Journal of Economics* 129(1): 275–331. These 250,000 extra manufacturing jobs would then be expected to have a multiplier effect of at least two, boosting the area's total jobs by over 500,000, thereby boosting local employment rates significantly.

11. Calculation of the civilian employment rate requires some algebra using Census Bureau county data, which does not directly report these numbers, but does report sufficient information to recover such numbers for all counties. The county census data used, which came from American FactFinder, reports four data items for various population groups (including 25- to 54-year-olds) that can be used: 1) ratio of civilian employment E to the sum of civilian population C and military population (and employment) M , which I define as $e^{**} = E/(C + M)$; 2) total population P , which = $C + M$; (3) labor force participation rate including military, which I write as l^* , and which equals civilian labor force L plus military employment

M , divided by total population P ; and 4) the civilian unemployment rate, which I write as u , and which is ratio of civilian unemployment U to civilian labor force L . We want to derive the ratio for the employment rate for civilians, which I define as e , and equals E/C . To do so, note that from equations 2 and 1 we can calculate civilian employment. From civilian employment and the civilian unemployment rate we get the civilian labor force L . With the civilian labor force, population, and the labor force participation rate including the military, we can derive military employment. From military employment and the population, we can derive the civilian population. And we can then calculate the civilian-employment-to-population ratio. This seems the most relevant as it is probably a better definition of local labor market conditions than a measure that includes highly mobile military employment.

12. Comparing actual changes over time is less useful. As is well known, the Census Bureau's measures of employment rates in the past used to be below those done by the Bureau of Labor Statistics (BLS) due to differences in how closely people were questioned about whether they were employed. So, in April of 2000, when the U.S. census was conducted, BLS calculated the prime-age employment rate as 82%, while the census long form reported 76%. The Census Bureau redid the ACS questions in 2008 to try to narrow the gap between the two surveys, and this effort seems to have in part [succeeded](#). Over the 2014 to 2018 period, the average BLS prime-age employment rate was 78%, versus 77.7% in the census results derived from the ACS. However, in calculating correlations, national means are implicitly subtracted out.

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