

Place-Based Strategies

Federal Reserve Bank of Philadelphia

July 16, 2020

12:00 noon–1:00 p.m. ET

Thank you to our cohosts:

RESEARCH FOR EQUITY IN RECOVERY

W.E. UPJOHN
INSTITUTE
FOR EMPLOYMENT RESEARCH



The information, analyses, and conclusions set forth are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Today's Panelists

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- **Timothy J. Bartik**, Senior Economist, Upjohn Institute for Employment Research
- **Simon Johnson**, Professor, Massachusetts Institute of Technology
- **Mark Muro**, Senior Fellow and Policy Director, Brookings Metropolitan Policy Program
- Moderator: **Susan Wachter**, Codirector, Penn Institute for Urban Research, University of Pennsylvania

Helping Distressed Areas

Timothy J. Bartik

Upjohn Institute for Employment Research

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Distressed local labor markets have persistent problems

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- As of 2018, prime-age employment to population ratio across U.S. “commuting zones” was 75.5% at 10th percentile, 84.5% at 90th percentile.
- Correlation over time very high, over 0.8 over 20-year period.
- “Pandemic recession” will worsen this problem, as locally severe recessions often push areas into permanent distress.
- Some areas do escape on own, e.g. NY & LA from 2000 to 2018 did so. This is exception.
- Local labor market distress has high social costs: workers lose skills; increased crime & substance abuse; family problems and lower earnings of children; fiscal stress reduces public services. These social costs help explain why problems persist.

- Moving people out of distressed areas is hard, because of local ties: policies unable to induce out-migration for more than a few percent of area's population.
- Moving people out of distressed areas does not help those left behind: migration that reduces a distressed area's population by 10 percent also reduces local jobs by 10 percent, leaving employment-to-population ratio unchanged (Why? Reduced population reduces local demand, construction, entrepreneurship, and housing wealth.)
- Moving jobs to people can work: increasing an area's jobs by 10% will increase the LR employment rate by at least 2%. Why? Effects on job skills.
- These effects imply benefits/job with a present value >\$200K.
- Employment rate effects of new jobs are greater in more distressed areas, probably by at least half again, which will also increase the personal and social benefits of more jobs in distressed areas by at least half again.

Local economic development policies should be reformed

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- Current policies rely on business tax incentives, which are expensive per job created because tip only 10% of location decisions: \$200K per job created.
- Benefit-cost ratio can be increased by targeting businesses w/higher multipliers, which includes high-tech.
- Benefit-cost ratio can be increased by targeted distressed areas or by using workforce programs to link new jobs with local non-employed (first-source hiring; customized job training).
- Benefit-cost ratio can be increased by job-creation strategies that are cheaper per job created than incentives: infrastructure, business advice (e.g., manufacturing extension); customized job training; land development (brownfield redevelopment, industrial or research parks). These policies can have costs <\$50K/job

What is to be done?

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- **Local governments:** In their own interests, all local governments should cut back on incentives and rely more on attracting business by enhancing local business inputs of land, labor, and public capital. Local governments in non-distressed areas should cut back more, as jobs are less valuable there. All local governments should enhance local workforce programs to better link new jobs with job seekers.
- **State governments:** (1) Cut back on state business tax incentives and rely more on public services to business; (2) encourage coordination of economic development in local labor market areas; (3) target distressed areas for help.
- **Federal government:** (1) Similar to EU, limit discretionary incentives exceeding some % of investment or payroll, for large projects, with limits more severe in non-distressed areas; (2) federal block grant to help distressed local labor markets.
- **What would it cost to help distressed areas?:** Block grant of \$15 billion annually could provide TVA-level aid (\$300 per capita) to local labor markets with population of about 50 million. Efficient job-creation policies would cost \$50K per job, so after 10 years, these policies would cost \$150 billion and create about 3 million jobs, which would significantly close the gap between distressed areas and rest of nation.

The Growing U.S. Urban Divide: Causes & Implications

Simon Johnson

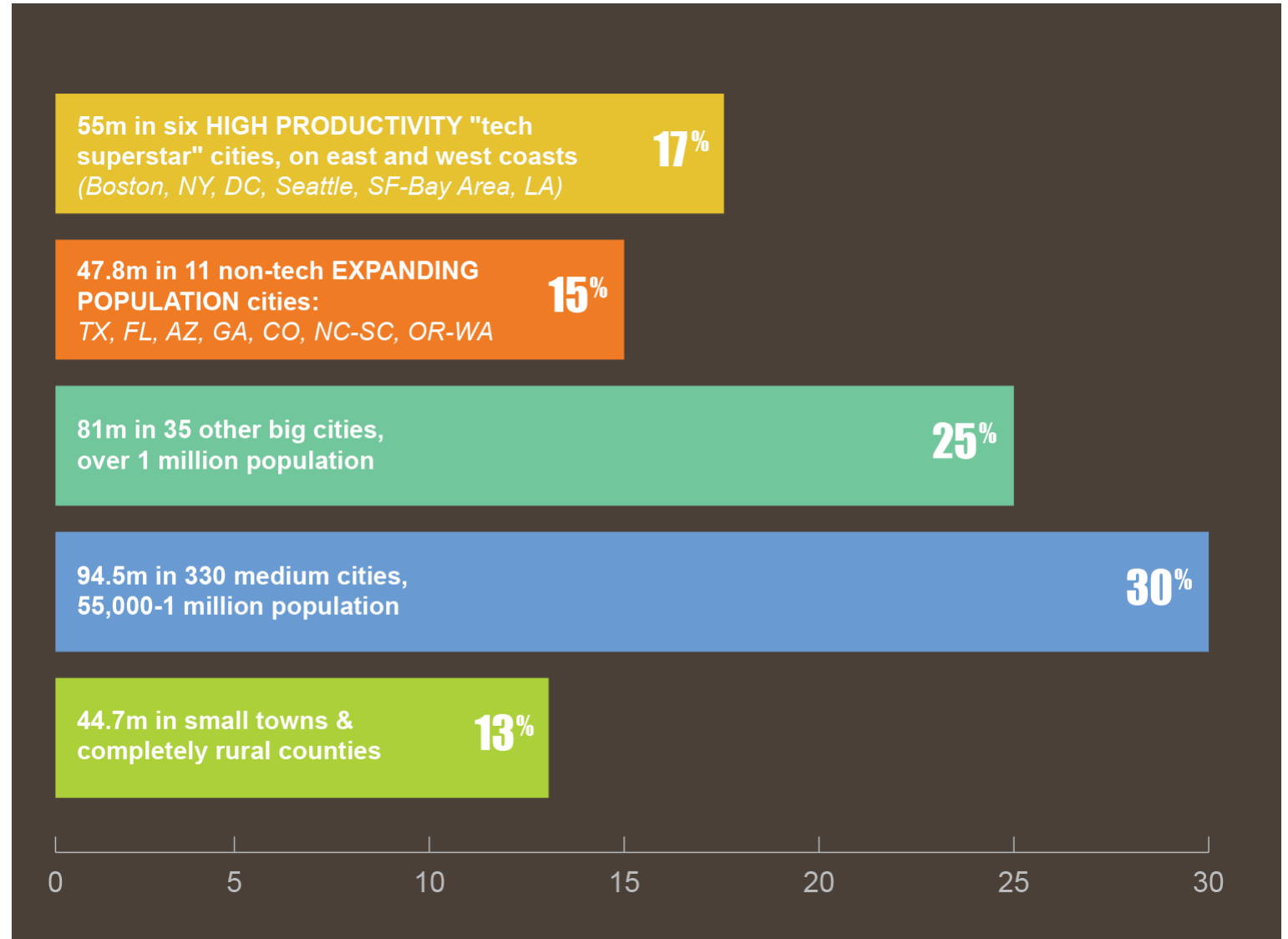
Massachusetts Institute of Technology

July 16, 2020

Five Americas Today

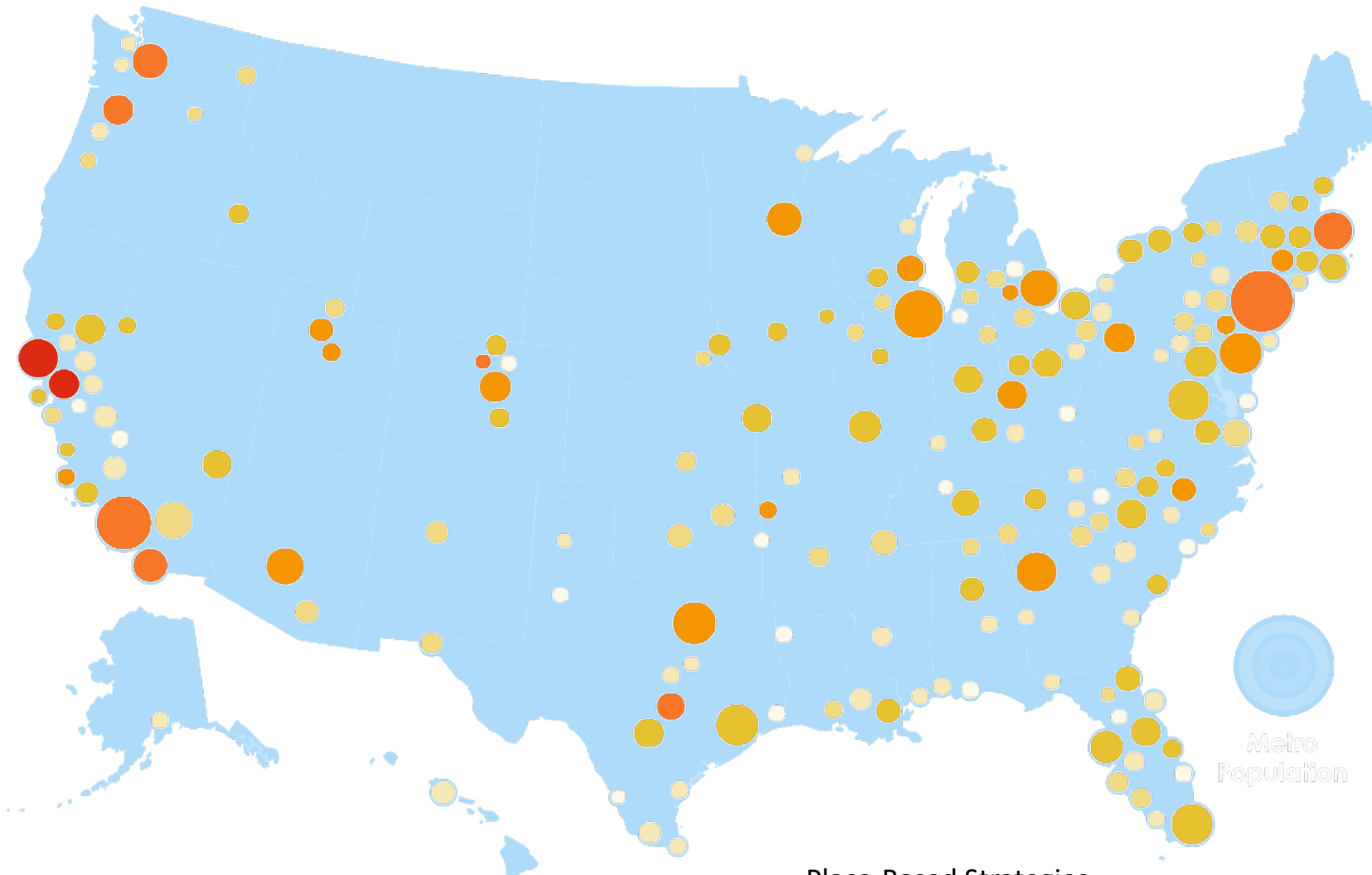
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Location of US population
in 2018,
by type of urban area
(324 million people
in the 50 states)



Six Major Innovation Hubs on East and West Coasts (Compare with hiring mix in San Francisco Bay Area)

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Darker color circle means local tech job postings look more like those in San Francisco Bay Area.

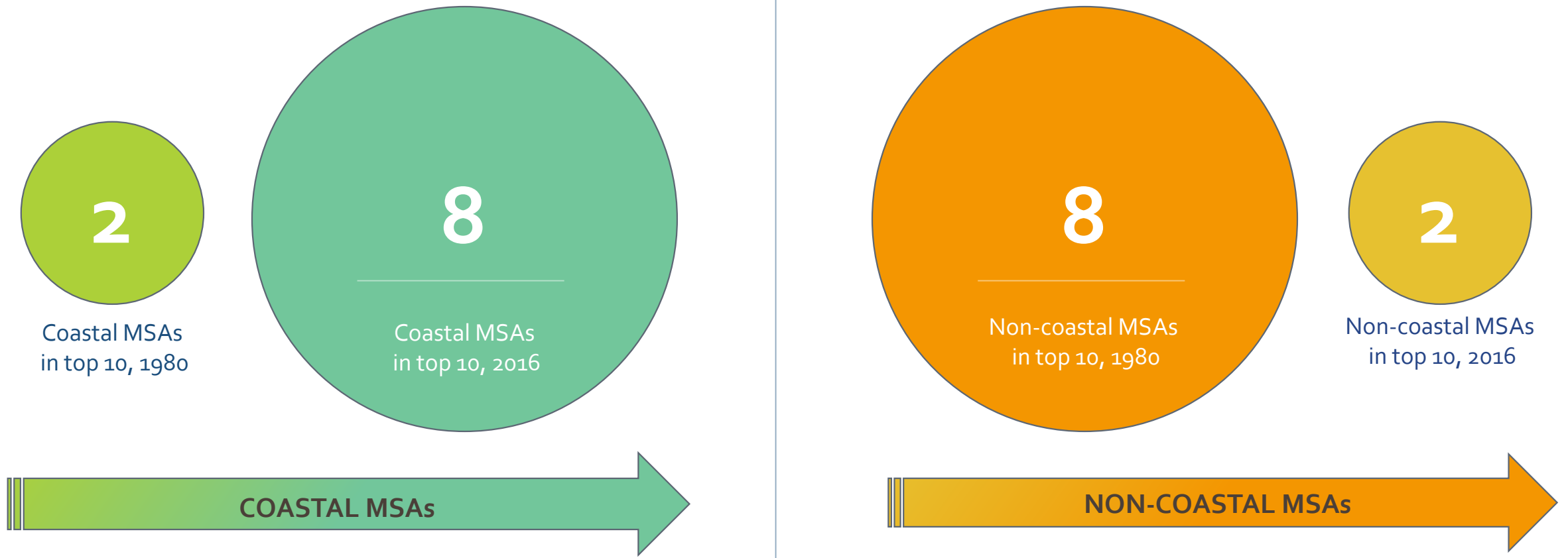
Data description:

Degree to which the local tech job postings on indeed.com in 2018 looks like the mix in the San Francisco Bay area. 100% would indicate an identical mix, and 0% would reflect no overlap.

Source: Jed Kolko, Indeed.com

Coastal Innovation Hubs Are Now Highest Wage Areas This Was Not the Case in 1980 or Earlier

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From Jump-Starting America: authors' calculations based on census data for Metropolitan Statistical Areas (MSAs)

- **Rate of patenting in top 20 cities (by number of patents)**
 - 1980: 2.5x rate in other large cities
 - 2010: 6x rate in other large cities
- **Today: 2/3 of venture capital located in 5 cities**
 - with Silicon Valley having a distinct edge

But Tech Superstar Cities Have Become Congested and Expensive

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- **House prices in top 10 cities (MSAs), by earnings:**
 - **1980: \$188,880**
25% above national average
 - **2016: \$607,530**
3x national average!
- Hard to add housing space in high wage cities due to zoning restrictions/local politics

In the Past, Population Moved to Higher Wages and Higher Productivity

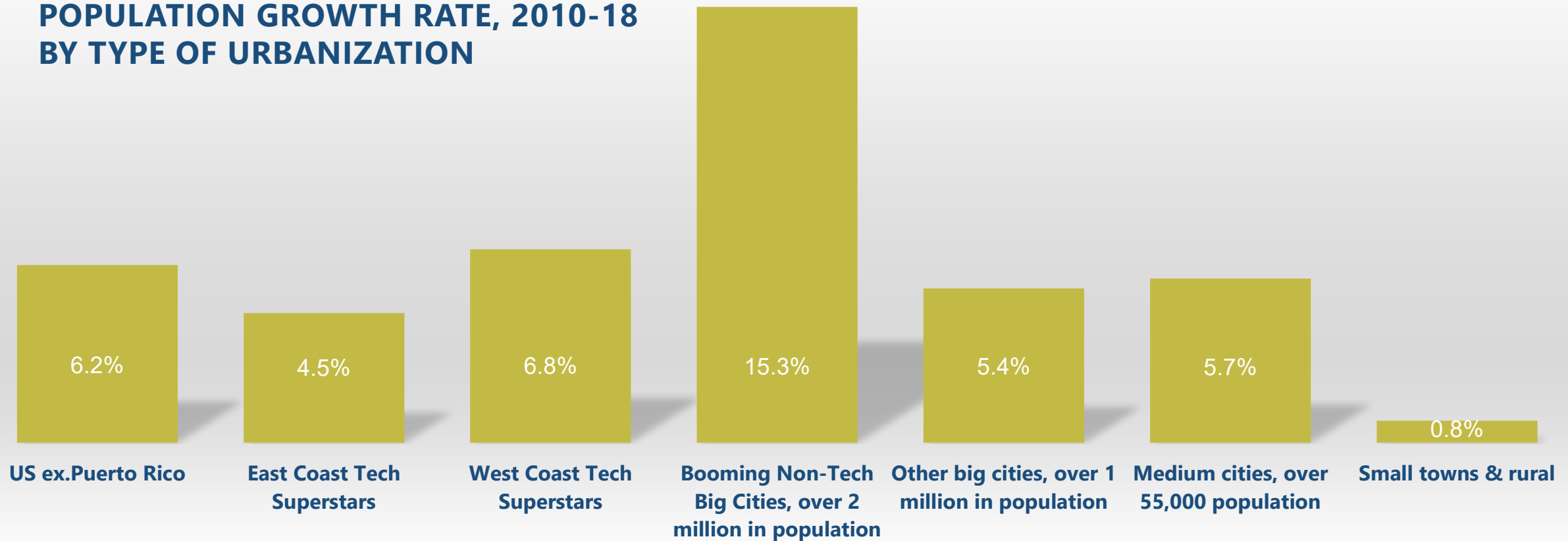
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- **PROMINENT POPULATION BOOMTOWNS IN AMERICAN HISTORY**
 - **Chicago from 30,000 residents in 1850**
 - over 2 million by 1910
 - **Detroit from 285,000 in 1900**
 - 1.6 million in 1930
 - **Los Angeles from 102,000 in 1900**
 - 1.24 million in 1930
 - 2.5 million in 1960
 - 13 million in 2017
 - **Houston from 938,000 in 1960**
 - 1.7 million in 1996
 - 7 million in 2017

People Are Moving, Out of Small Towns/Rural Areas But Not So Much to the Innovation Hubs

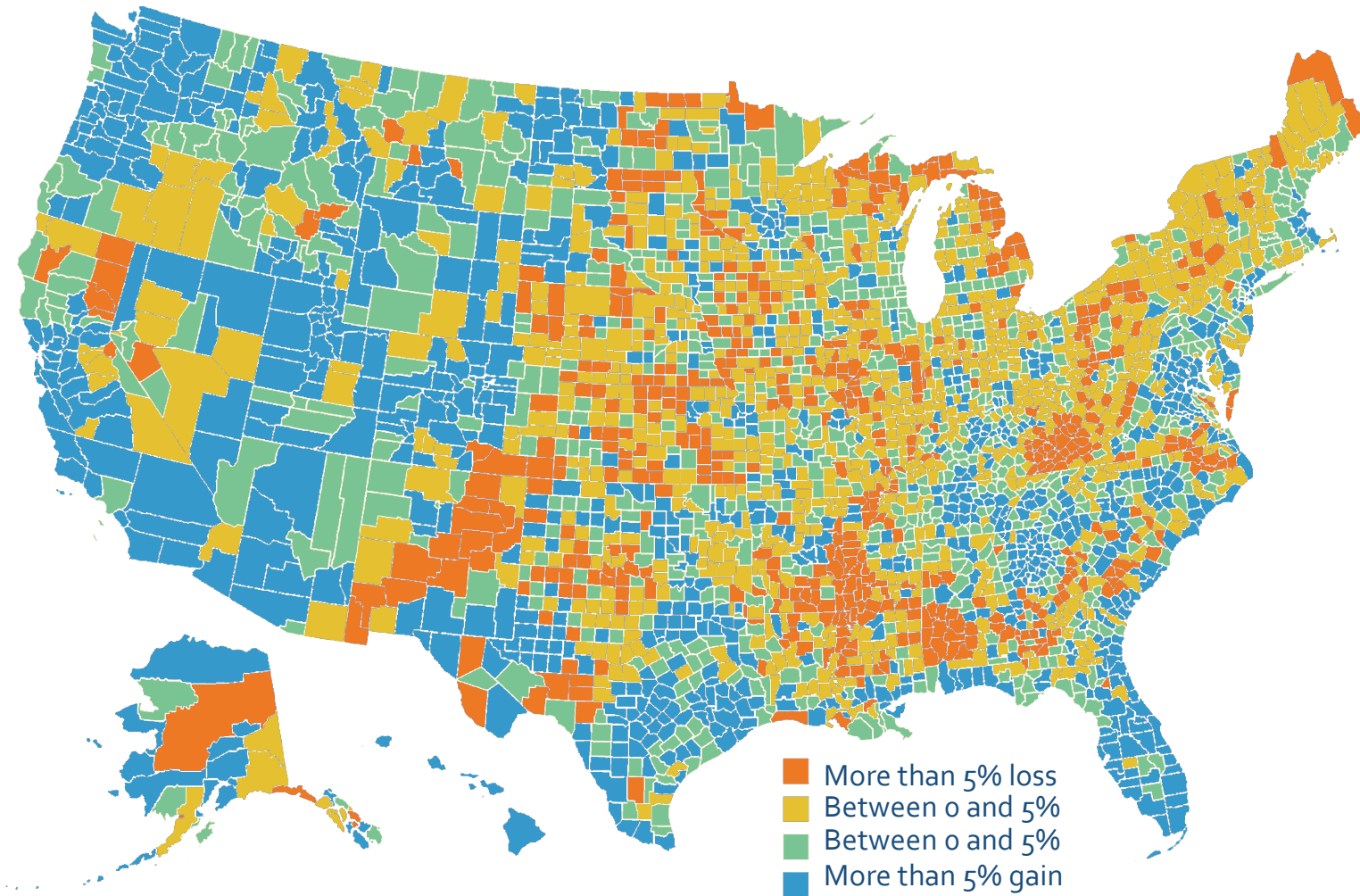
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POPULATION GROWTH RATE, 2010-18 BY TYPE OF URBANIZATION



For 80 Percent of Counties (149m People): Decline Number of Residents Ages 25 to 54, 2007-2017

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Source: Heartland Visas Report

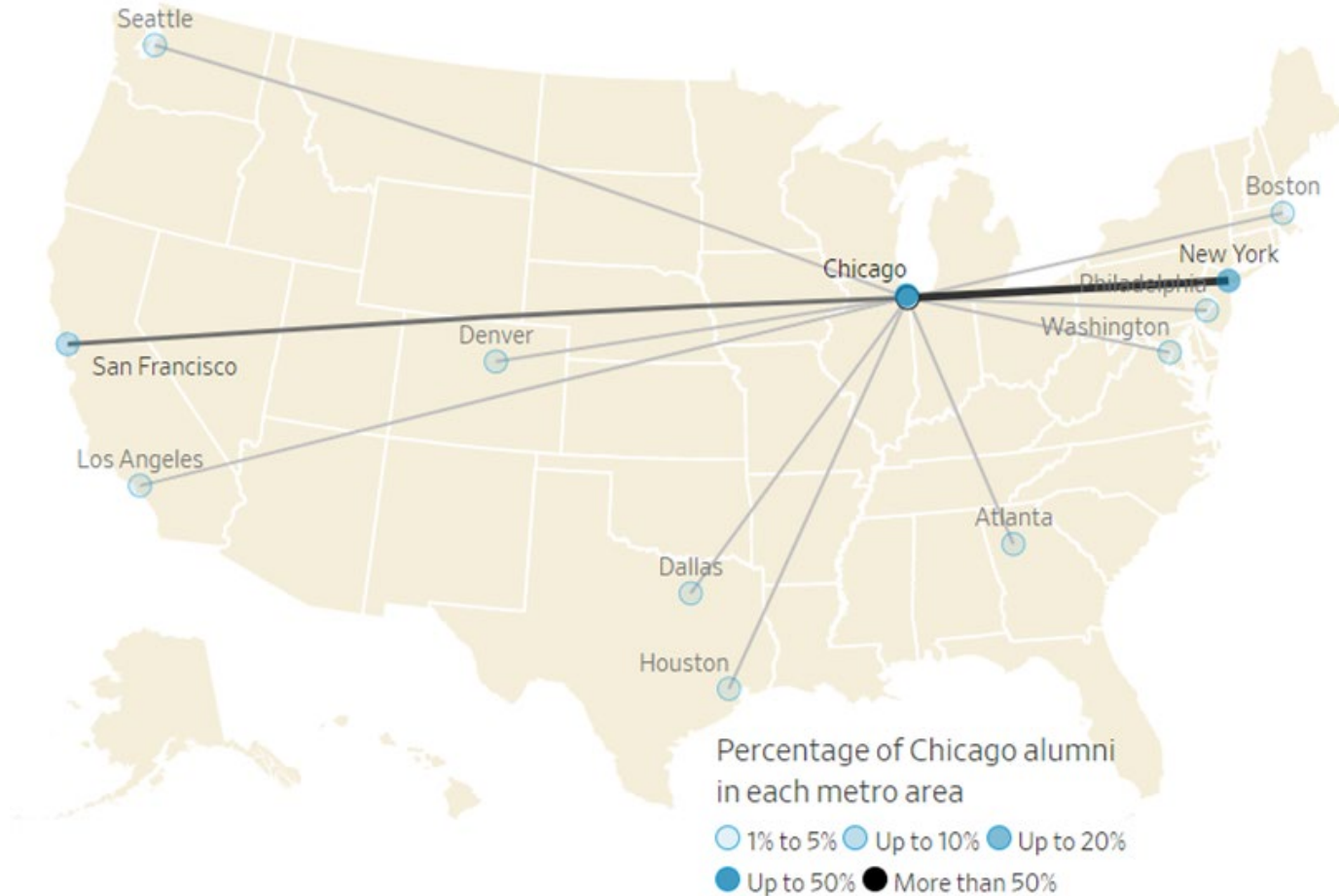
Moving out of their birth states by age 30:

- Nearly half of all college graduates
- 27 percent of high school graduates
- 17 percent of people who did not complete high school

Source: U.S Census Bureau, Moody's analytics

Explanations: Where Do Graduates From Top Schools Go?

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CHICAGO

Dataset covers alum from 445 schools over 10 years.

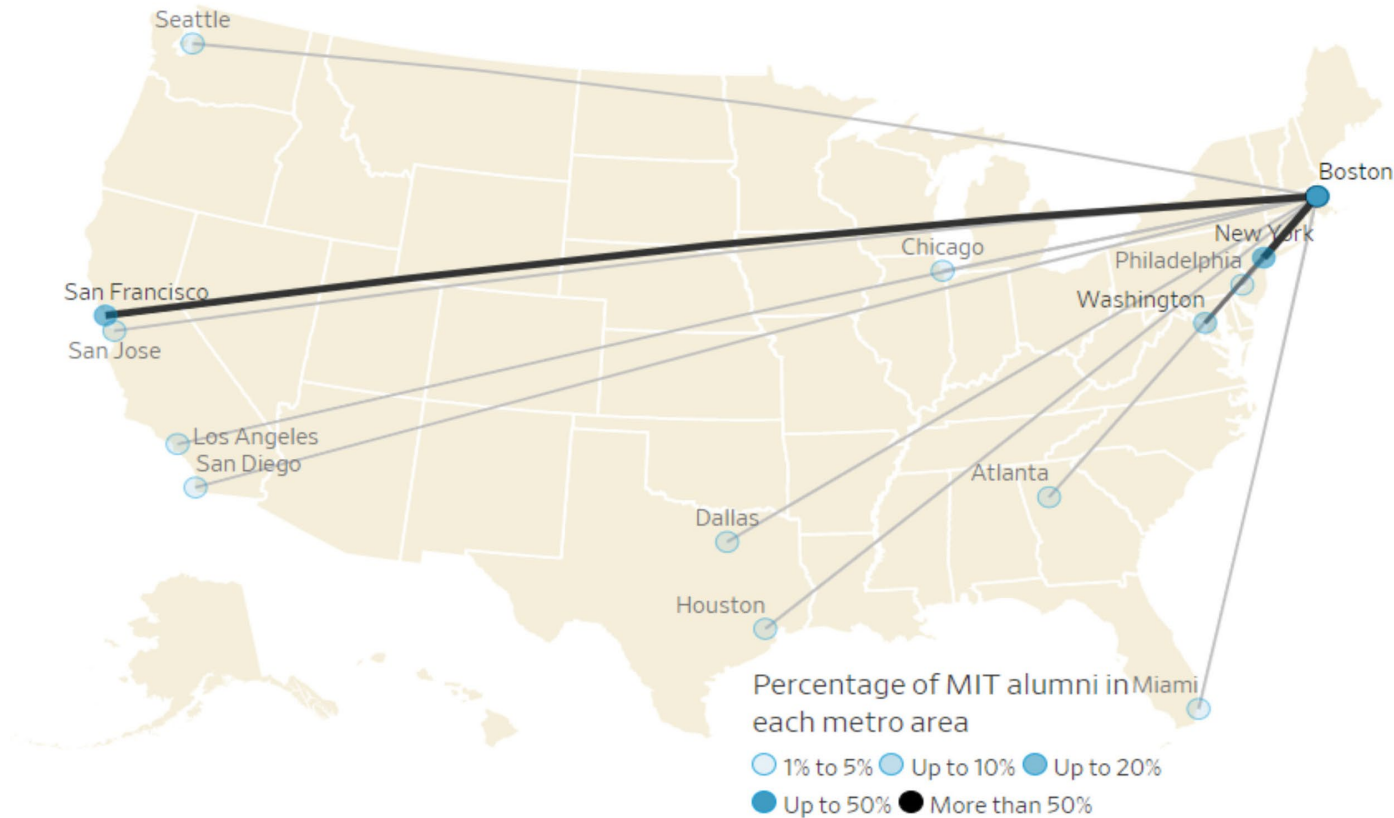
Source: Wall Street Journal



METRO AREA	PERCENTAGE
Chicago	38.4
New York	10.2

Explanations: Where Do Graduates From Top Schools Go?

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MIT

Dataset covers alum from
445 schools over 10 years.

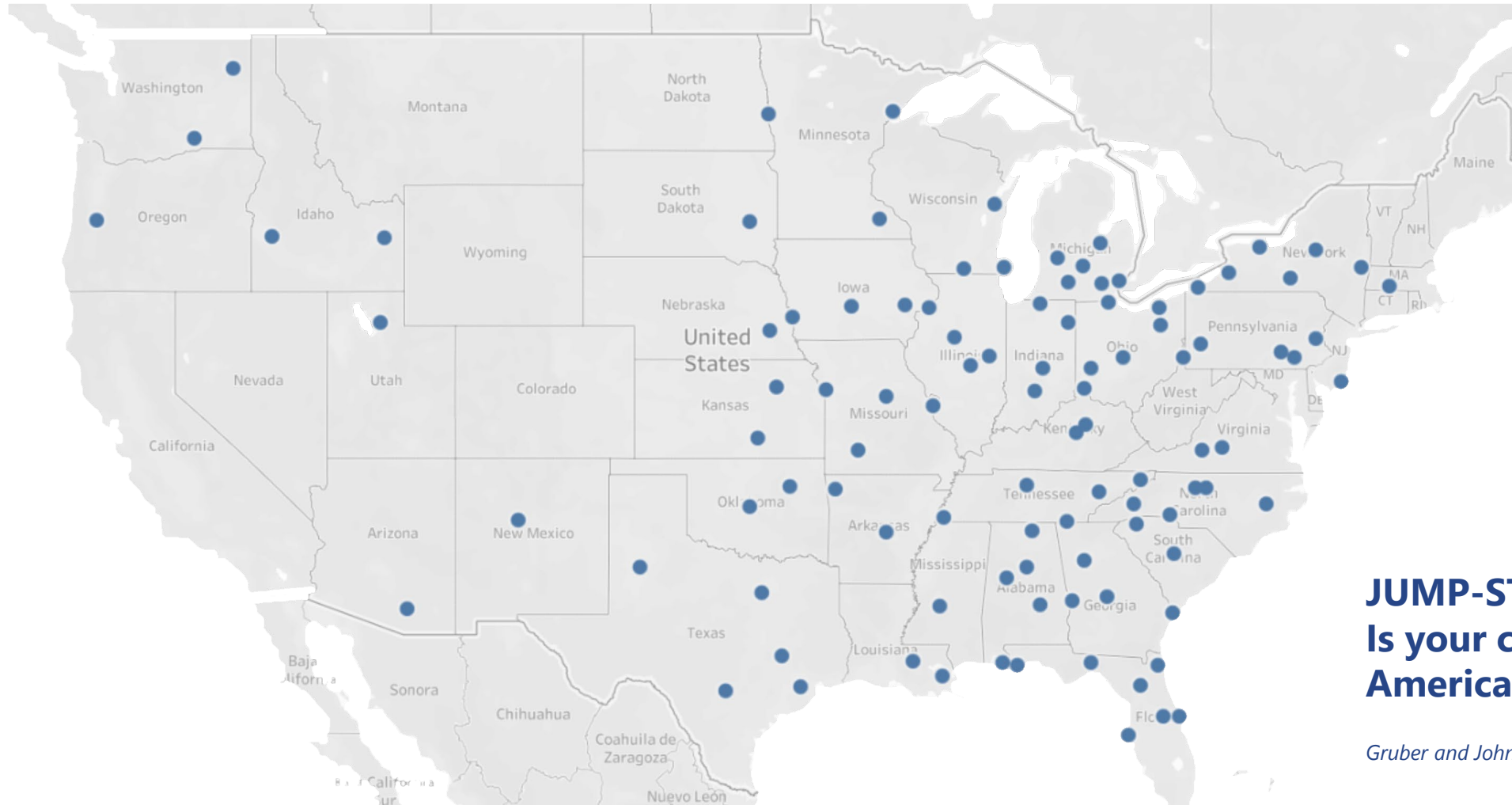
Source: Wall Street Journal



METRO AREA		PERCENTAGE
Boston	<div></div>	27.2
New York	<div></div>	11.0

102 Cities Available to Become the Next Tech Hub: College Educated, Low House Prices, Over 100,000 Potential Workers

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JUMP-STARTING AMERICA:
Is your city the next great
American technology hub?

Gruber and Johnson. Last updated April 2019.

Source: Jump-Starting America

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Implications: Declining Productivity Growth

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Source: Wall Street Journal

- **Decline of public (federal government) support for R&D**
 - Rose from roughly 0% in 1940 to near 2% of GDP in mid-1960s
 - But now down to 0.7% of GDP: an important potential policy lever
- **Venture capital prefers innovation with particular risk-profile & location**
 - Private sector under-invests in basic knowledge due to spillover effects
- **Restricted housing supply limits access of US workers to highest productivity innovation hubs**
 - Lowered growth rate by 1/3 from 1964 to 2009
- **The Lost Marie Curies & Einsteins: very smart young people do not get access to high quality education or the ability to start a tech business**
 - Addressed by National Defense Education Act of 1958, after Sputnik...
- *Some dimensions of social and political polarization seem likely to worsen*

People with Less Education Are Being Effectively Pushed Out of Larger Cities

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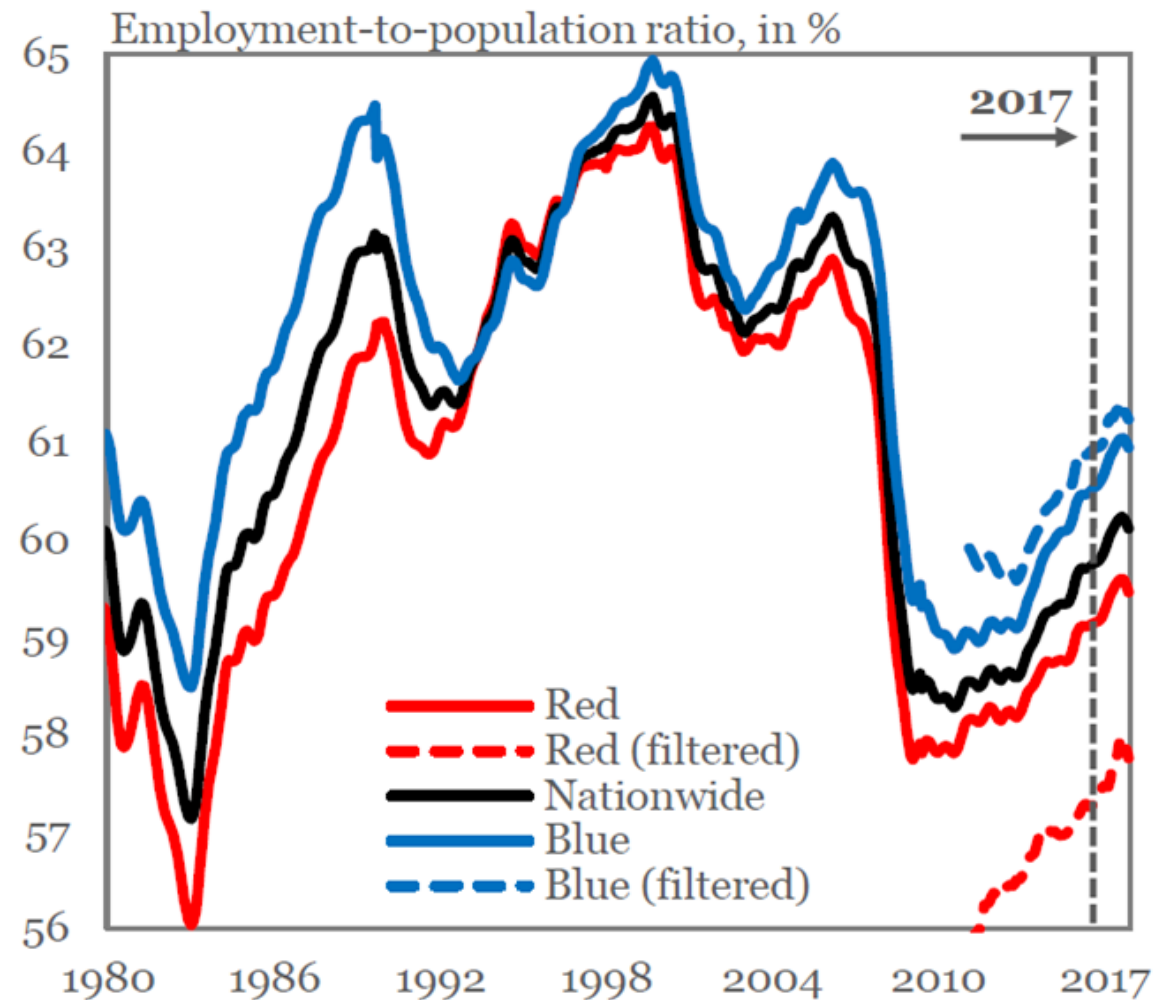
Moving from the Deep South to **Santa Clara County, CA** would have this effect on the earnings of a **janitor's** household, after paying for housing costs.

Earnings after housing costs	In 1960	In 2017
Deep South	\$14,105	\$19,362
Santa Clara	\$29,202	\$14,000
	+ \$15,097	- \$5,362
Change	+ 107%	- 28%

Source: Eduardo Porter, New York Times, using Census Bureau data

Employment to Population Ratio Persistently Lower in Red States, for Decades

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Source: Census Bureau, BLS, IIF.

Robin Brooks, Jonathan Fortun, and Greg Basile, "Global Macro Views – The Red-Blue Labor Market Split," Institute for International Finance, March 8, 2018

The Trend is Reversible but Would Require a Large-Scale Concerted Effort

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JSA Balanced Criteria Top Technology Hub Candidates

Rank	Name
1	Rochester, NY
2	Pittsburgh, PA
3	Cincinnati, OH-KY-IN
4	Columbus, OH
5	Cleveland-Elyria, OH
6	Syracuse, NY
7	Grand-Rapids-Wyoming, MI
8	Buffalo-Cheetowaga-Niagara Falls, NY
9	Albany-Schenectady-Troy, NY
10	St. Louis, MO-IL
11	Dallas-Ft. Worth-Arlington, TX

Education prevails; house price does not matter as much Top Technology Hub Candidates

Rank	Name
1	Ann Arbor, MI
2	Boston-Cambridge-Newton, MA-NH
3	Durham-Chapel Hill, NC
4	Madison, WI
5	Austin-Round Rock, TX
6	Champaign-Urbana, IL
7	Seattle-Tacoma-Bellevue, WA
8	Trenton, NJ
9	Minneapolis-St. Paul-Bloomington, MN-WI
10	Raleigh, NC
11	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD

Spreading Tech to More of America: A Proposal

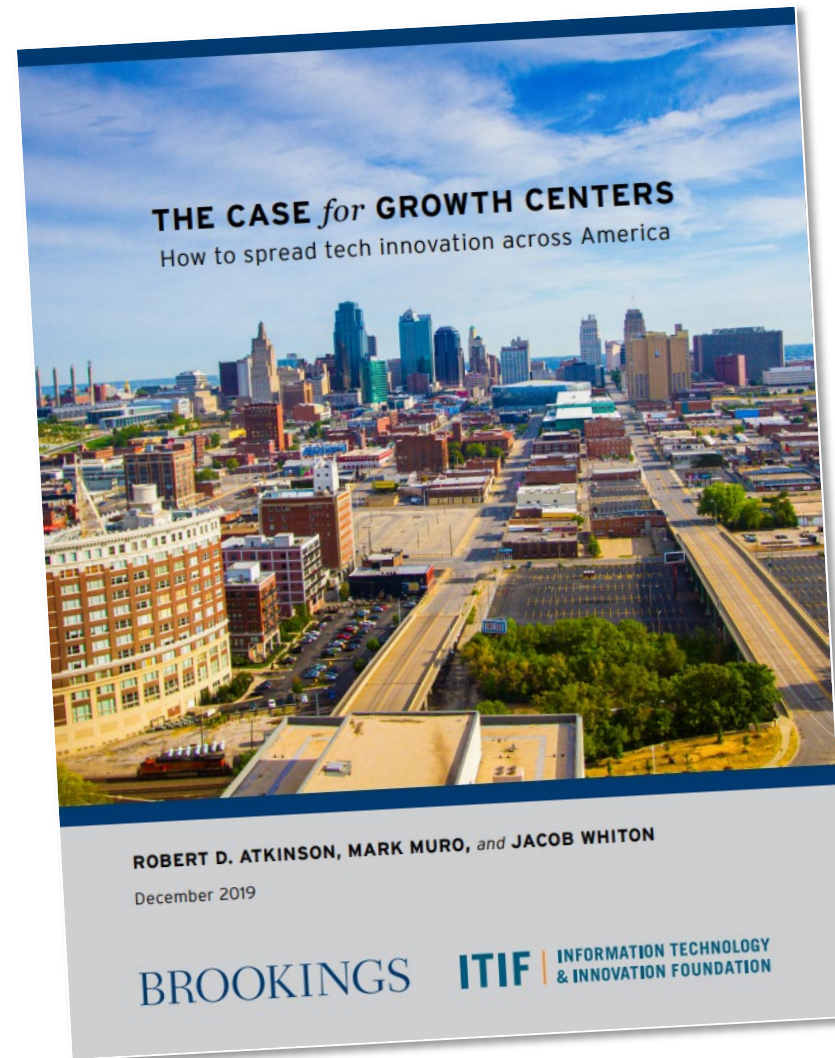
Mark Muro

Brookings Metropolitan Policy Program

July 16, 2020

Our report

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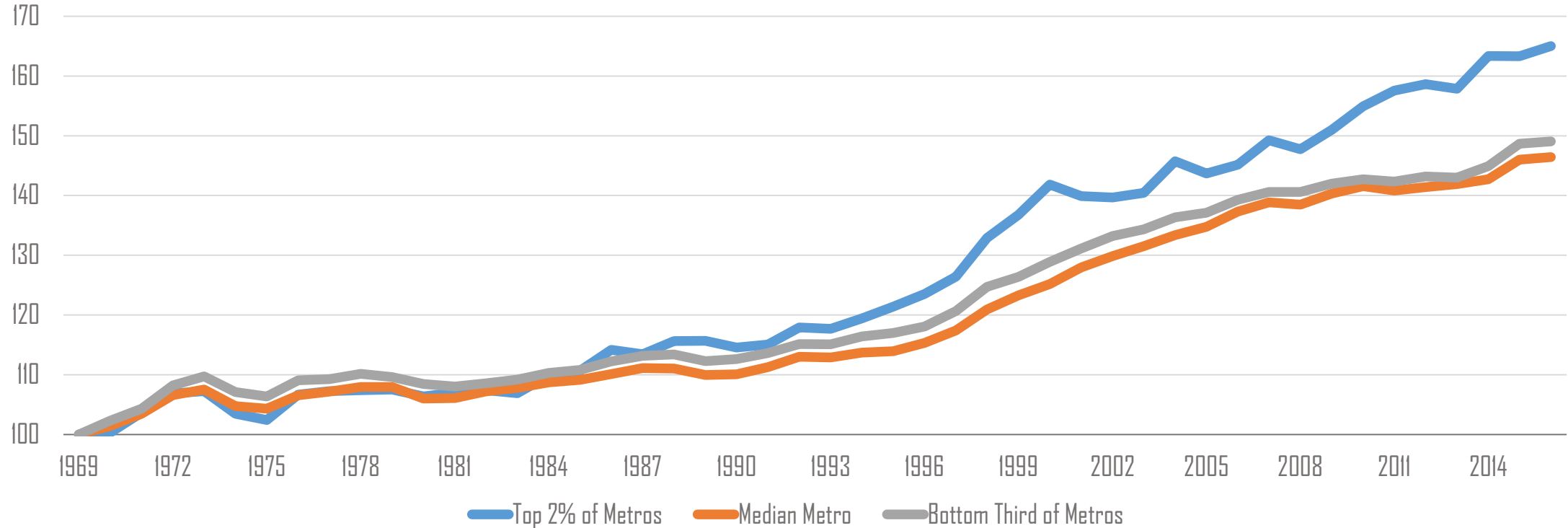


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After decades of "convergence," a select set of "superstar" metros began to "diverge" from other metros

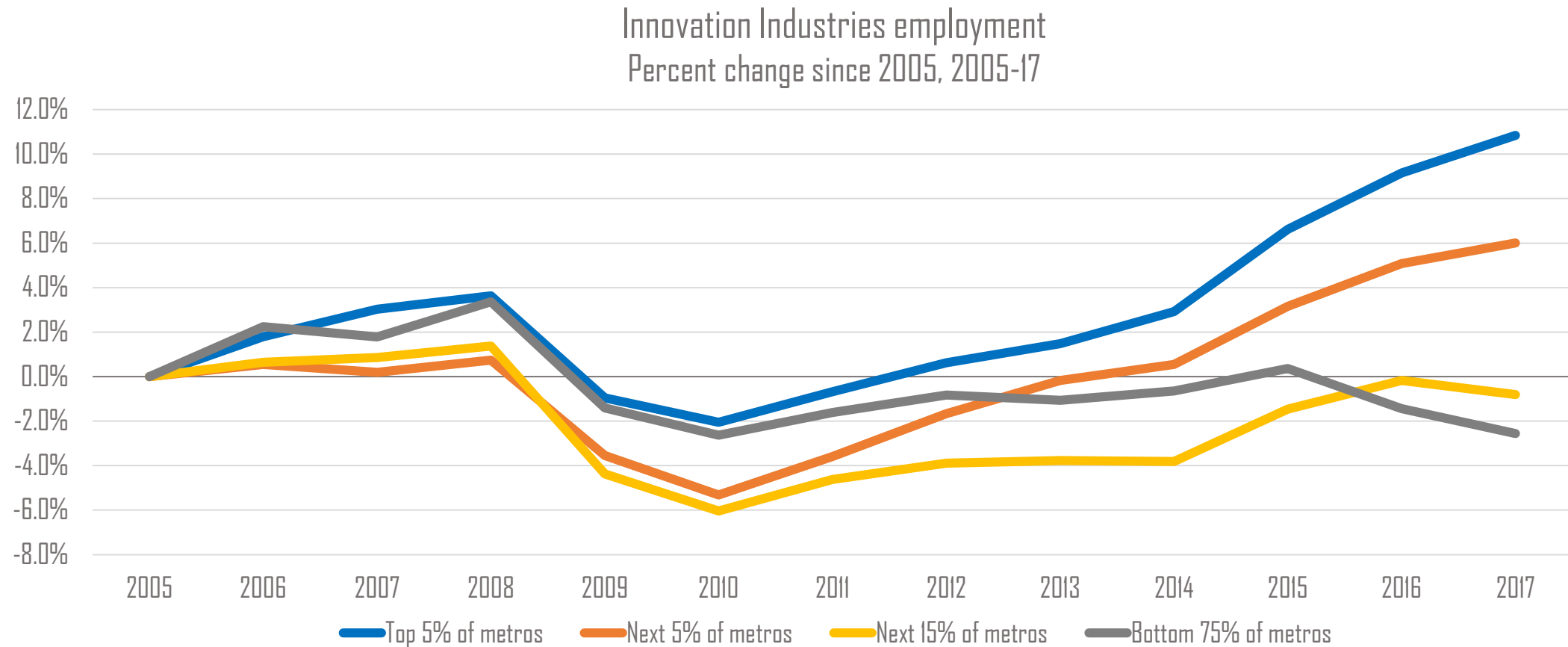
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Average wages & salaries (1969 = 100)
1969 - 2016



In no domain have these trends been starker than in the “innovation” sector

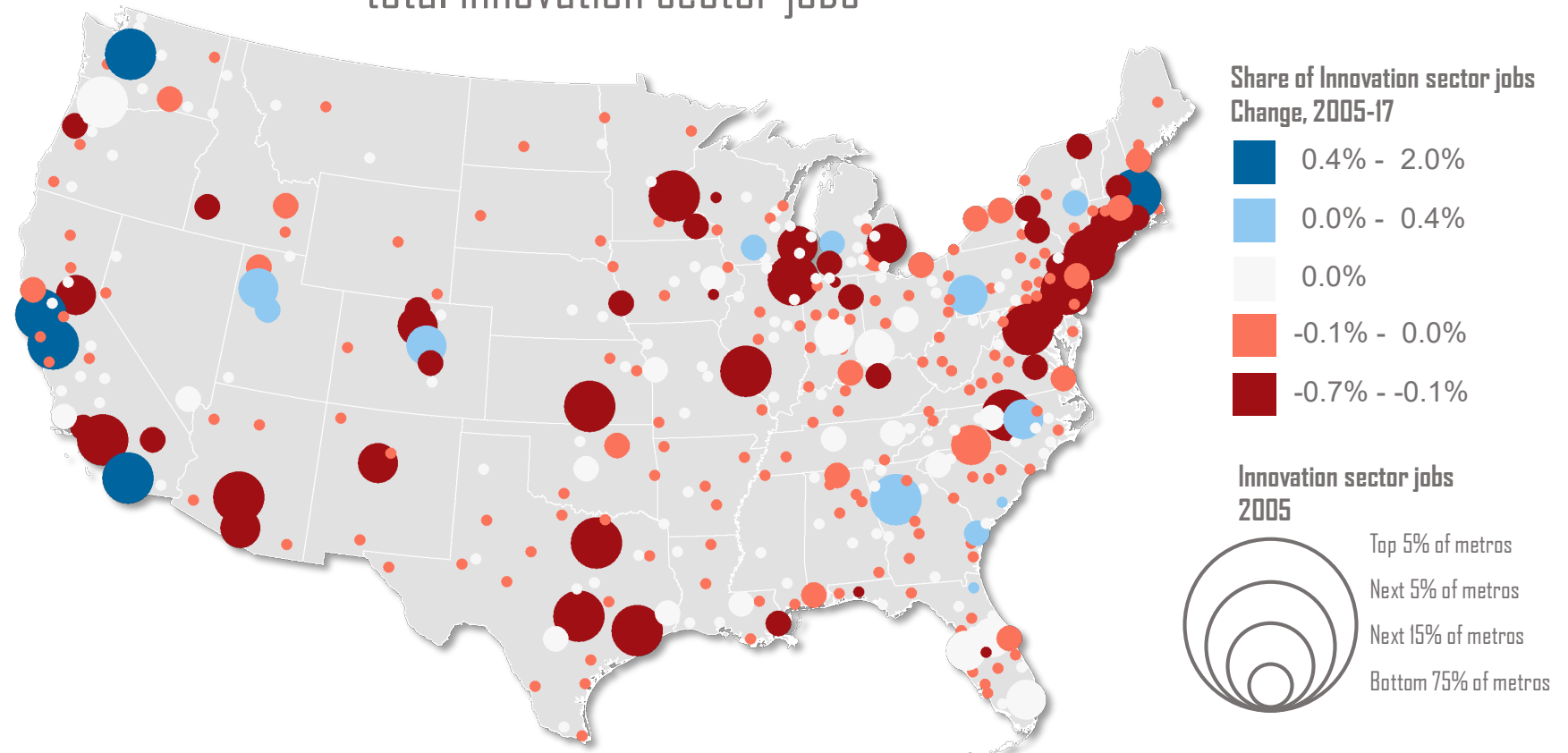
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While a few tech superstars increased their share of the nation's innovation sector, most metros *lost* share

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Metros by change in share of
total innovation sector jobs

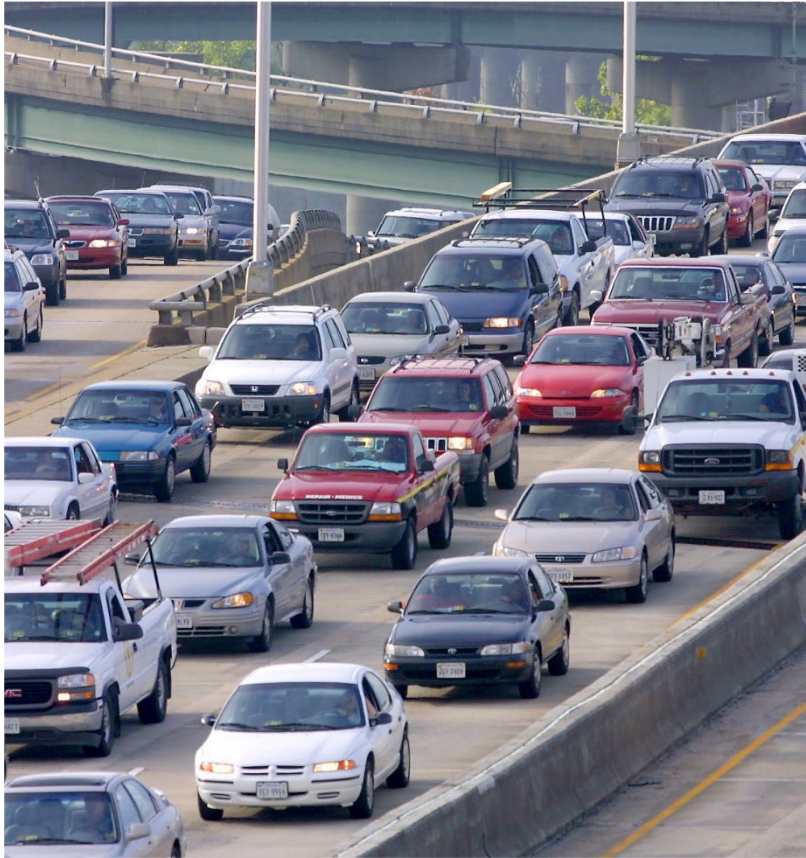


Source: Brookings and ITIF analysis of Emsi data

Why this matters

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Economic costs



Social costs



Political costs



Vision: Counter regional divergence by creating more “growth centers” across the nation

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- Build on the “growth poles” strategy to turn promising Heartland metros into dynamic tech hubs:
 - Nation-level intervention
 - Inputs at scale
 - Focus on key locations
- Our move: Focus “innovation surge” on just a few places to push against basic geographic imbalance

Proposal: Support transformative innovation sector scale-up in 10-12 Heartland metros

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- Congress should:
 - Assemble a major package of innovation supports (\$100b)
 - ✓ Direct R&D funding ("surge" of \$69b for 10-12 cities)
 - ✓ Tax and regulatory preferences
 - ✓ Business financing
 - ✓ Federal properties, infrastructure, "placemaking"
 - ✓ Workforce linkages; "inclusion" targets
 - Establish a rigorous and competitive selection process
 - ✓ RFP-driven challenge
 - ✓ Goal-driven criteria
 - ✓ Independent selection

Which can be America's next top innovation hubs? Lots of places

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