



# An Economic Strategy to Renew American Communities

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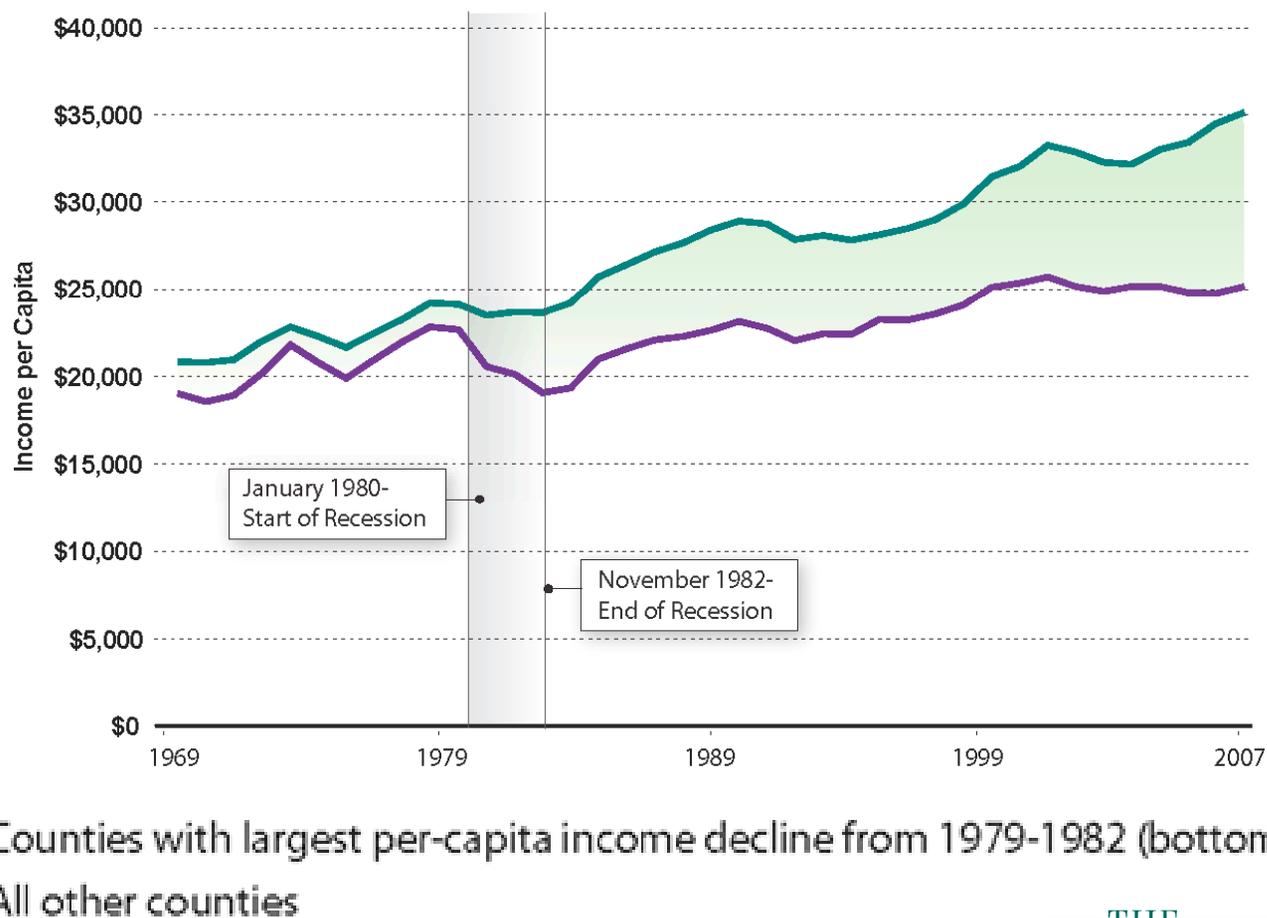
# Should We Care About Places?

- People- or place-based policies?
- Case study of 1980-82 recessions
- Causes of persistent local economic distress
- Motivations for place-based policies

# Case Study of 1980-1982 Recessions

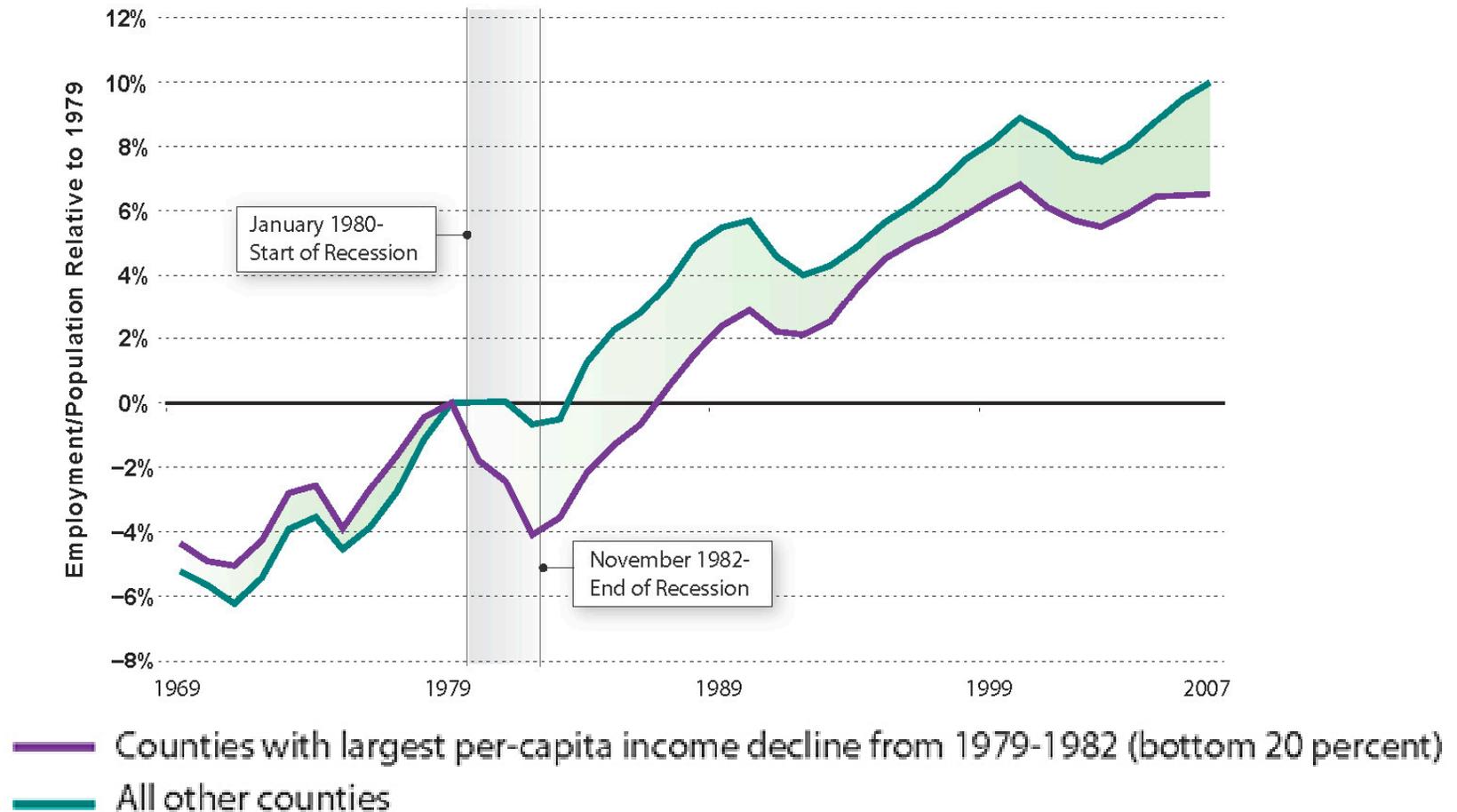
- How Do Labor Demand Shocks Affect Local Communities?
- Blanchard and Katz (BPEA 1992)
  - Adjustment through labor and firm mobility over time
  - Wages and unemployment rates normalize
  - Persistent level changes in employment
- Worst-Off Localities in 1980-82 Recessions?

# Persistently Lower Income and Income Growth in Hardest-Hit Counties



Source: BEA

# Persistently Lower Level of Employment



Source: BEA

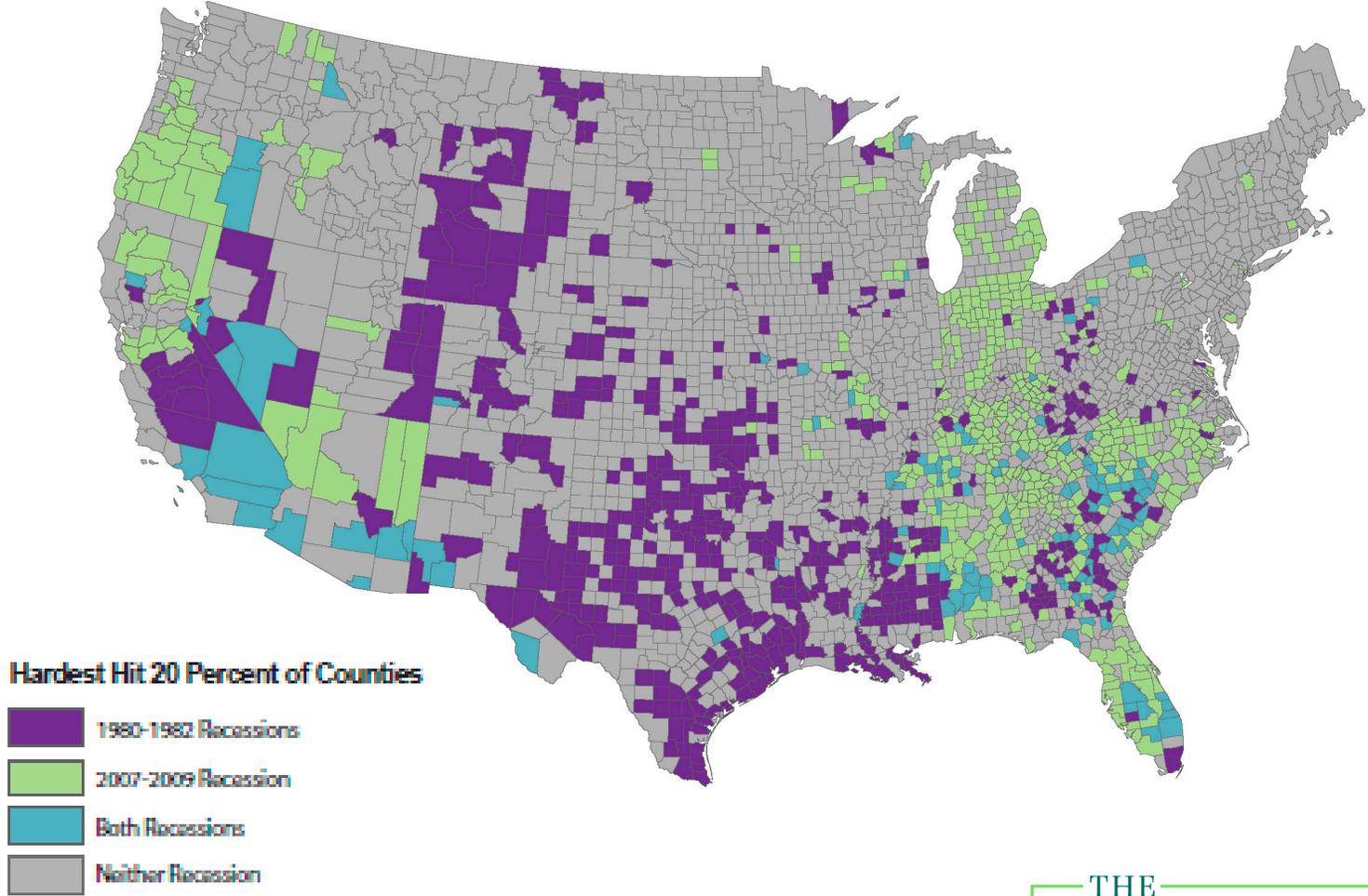
<b>Total population</b>			
Hardest-hit 20% of counties	23,002,765	27,655,986	20.2%
Remainder of country	207,294,950	276,376,500	33.3%
<b>% of population aged 18 or less</b>			
Hardest-hit 20% of counties	30.0%	24.6%	-18.0%
Remainder of country	27.4%	24.3%	-11.3%
<b>% of population aged 65 or more</b>			
Hardest-hit 20% of counties	11.1%	13.6%	22.5%
Remainder of country	11.1%	12.7%	14.4%
<b>Average median housing price (\$)</b>			
Hardest-hit 20% of counties	\$108,269	\$131,390	21.4%
Remainder of country	\$134,348	\$176,398	31.3%

Source: U.S. Census, BEA, BLS, and authors' calculations.

# Why Does it Take So Long?

- Geography
- Skill mismatch of displaced workers
- Long adjustment through labor mobility and labor force participation

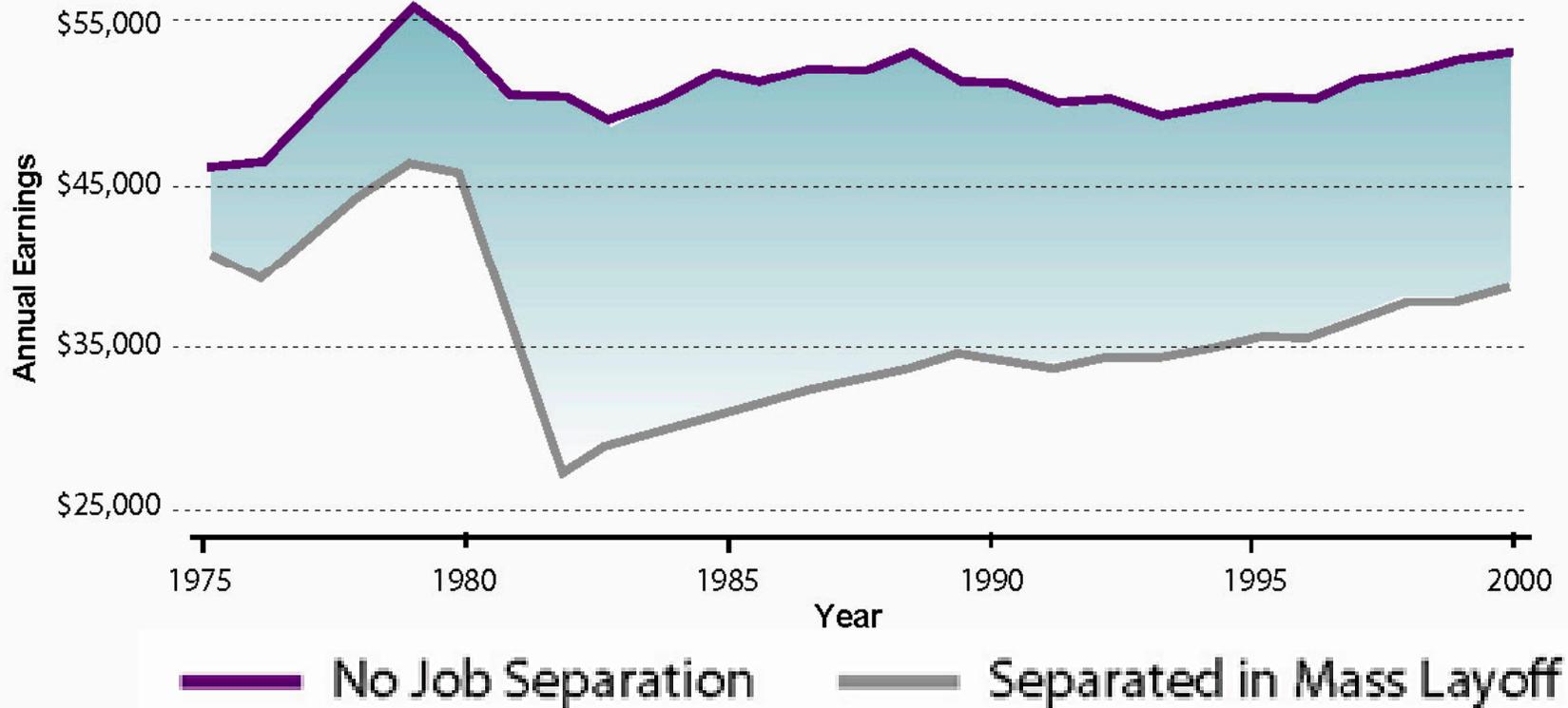
# Geography Reflects Industry-Specific Shocks



Source: Card (1980-82), BLS (2007-09)



# Skill Mismatch



Source: von Wachter, Song, and Manchester 2009

# Adjustment is Slow

- Population of Buffalo, Pittsburg, Detroit half of 1950/1960 levels (and still falling)
- Persistent drop in level of  $e/pop$  ratio
- More than 10 years for unemployment rate to normalize

# Motivations for Policy Response

- Long, harsh adjustment process
  - Existing insurance programs conditioned on unemployment; short-term
- Market Failures
  - Spillovers/agglomeration economies
  - Tipping points and non-linearities
  - Barriers to skill acquisition
  - Adjustment costs/insurance

# Economic Strategies

- Address mismatch between supply and skills of workers and needs and demands of local firms
  - Attract new businesses
  - Address earnings losses of displaced workers
  - Match workers to new jobs

# Strategy 1: Attracting New Business

- Productivity-Enhancing Business Investments (Bartik)

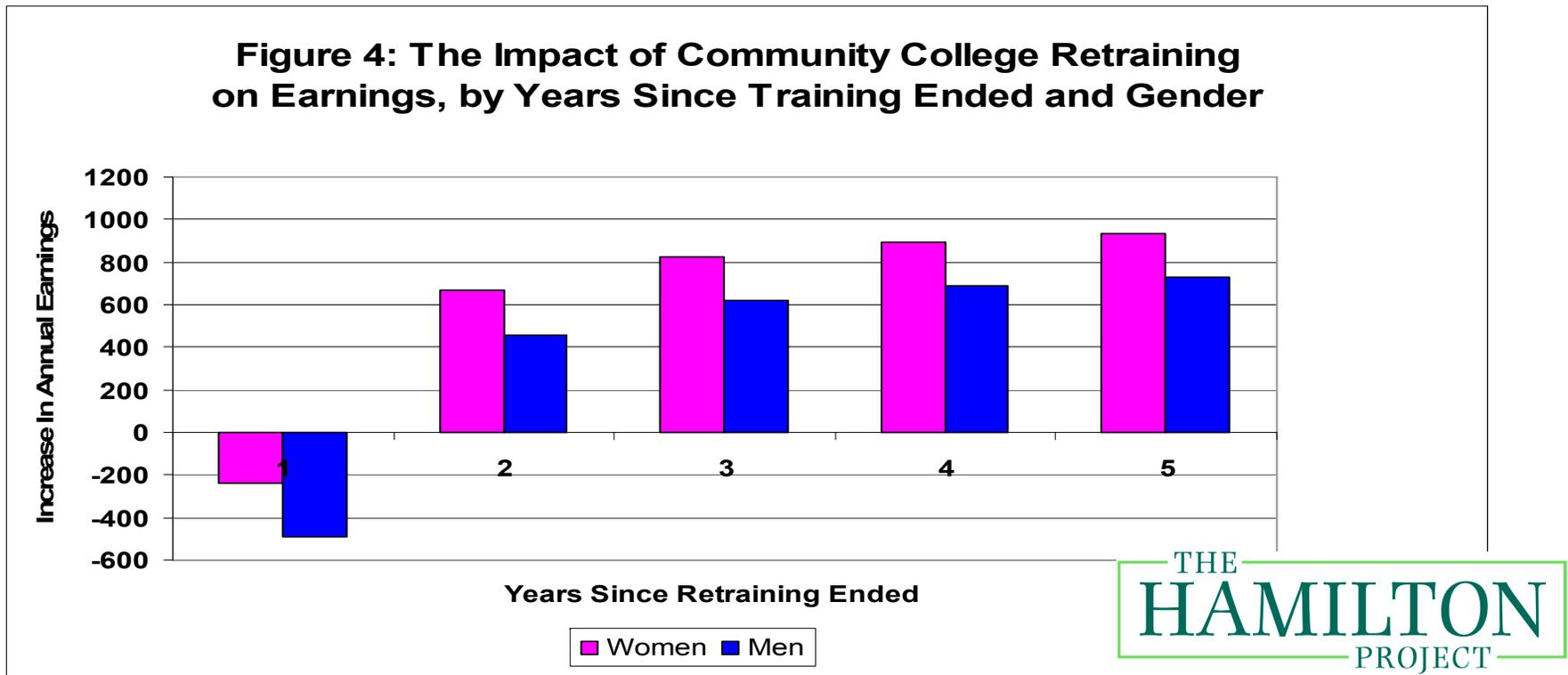
	Percentage effects on productivity	Ratio of productivity benefits to government costs	Government cost per new or relocated job
Federal matching grants for customized job training	0.5 percent	1.8	\$25,000
Expanded and targeted MEP	0.8 percent	2.1	\$8,500
Restarted and restored Empowerment Zones	3 percent	2.1	\$18,000

## Strategy 2: Aiding Displaced Workers

- Problem is earnings losses not unemployment
- Wage Insurance
- Retraining (LaLonde and Sullivan)
  - Pell Grants for Displaced Workers Program
  - Recession Community College Fund
  - Reforming Funding Mechanisms for Community Colleges to Encourage High-Return Courses
  - Target Training Ready

# Community College Training

- Old dogs *can* be taught new tricks: ROI ~12%!
- CC retraining returns highest for:
  - Young, have previous post-secondary education
  - Technical vocational courses

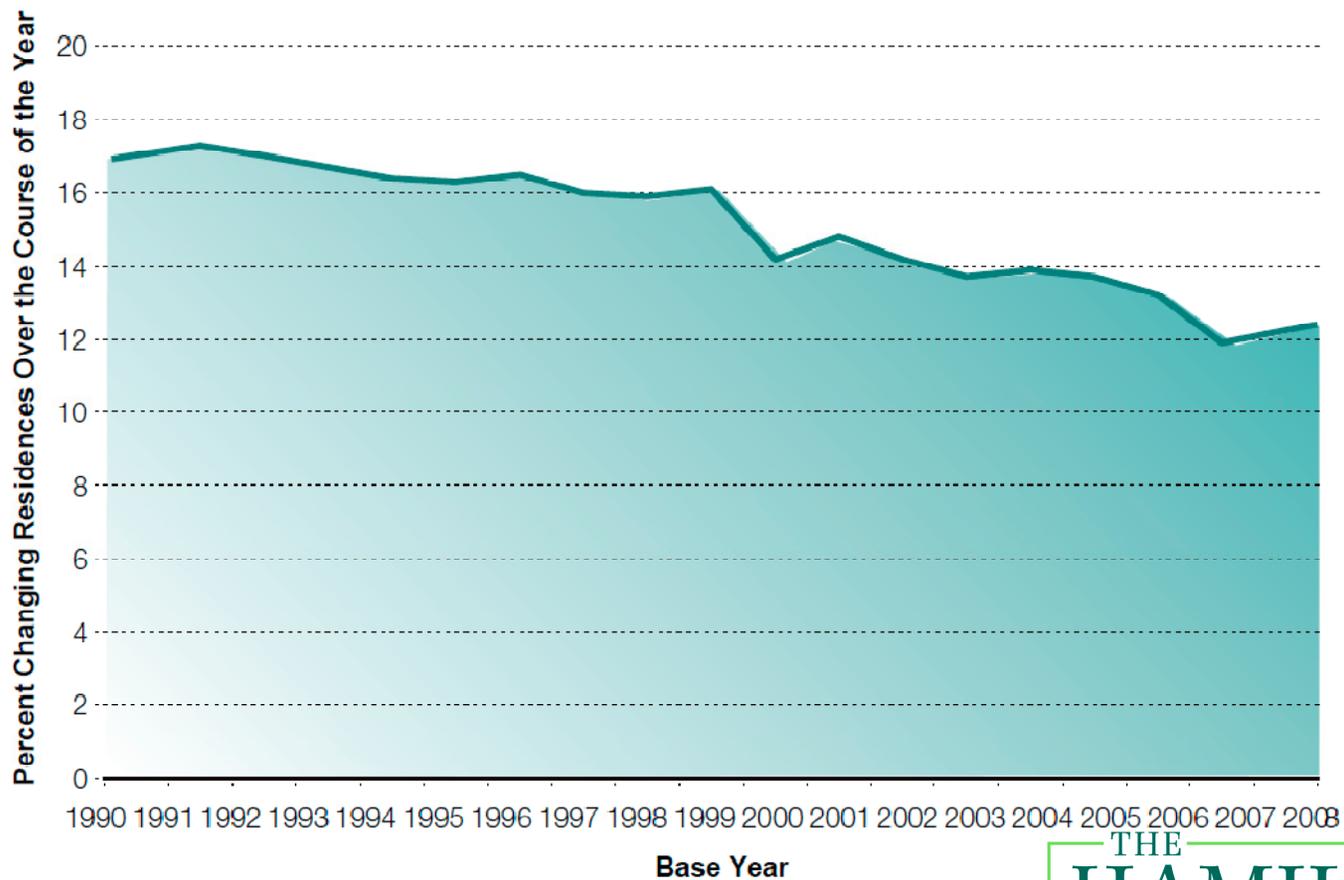


## Strategy 3: Matching Workers to New Jobs

- Improving America's One-Stop Career Centers
- The Mobility Bank (Ludwig and Raphael)
  - Targeted help
  - Loans not grants
  - Risk sharing by the government
  - National labor markets

# Mobility Rates at Historic Low

U.S. Mobility Rates, 1990 through 2008



Frey (2009)

# Conclusions

- Policies to address structural aspects of localized distressed
  - With national benefits
- Role of evaluation
  - Working from the best evidence available—but need more