EconoFact Chats: Can Distressed Places be Revived?
Tim Bartik, W.E. Upjohn Institute for Employment Research
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I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
Gloversville, New York produced 90% of the gloves sold in the United States between 1880 and 1950. Legend has it that in the early 20th century, it had more millionaires per capita than any other city in America. Now there are almost no tanneries or glove factories. Stores on Main Street are shuttered. Almost 1 in 6 people live in poverty. And the population is about one-third of what it would have been if the 1960 population had grown at the same rate as that of the nation as a whole. The story of Gloversville is not unique. There are many places across the country that have seen a steep reversal of fortune, or may have never had good times at all. Can the government help these places, and if so, how? Or should we just accept the fact that there are some cities, towns, and counties that will always fall behind? To discuss these issues, I'm very pleased to welcome to EconoFact Chats Tim Bartik. Tim is a senior economist at the W.E. Upjohn Institute for Employment Research. He's published influential work on state and local development policies, and on the positive effects of policies to promote local skills. Tim, thanks very much for joining me today on EconoFact Chats.

Tim Bartik
Well, thanks for having me.

Michael Klein
I would imagine that there's a wide variety of distressed places, cities like Gloversville, regions like Appalachia, poor towns in rural Maine, depopulated areas in the Midwest, and southern counties with high poverty rates. Are there any commonalities across these disparate and distressed places?

Tim Bartik
I would say largely no. The commonality is that they lack jobs, that the employment rate's low. And as we'll get into in this chat, that causes a number of problems, both short-run and long-run, that require some positive policies to recover from.

Michael Klein
Well, what are some of the sources of decline? I can think of a lot of examples for Gloversville. The disappearance of tanneries and glove factories was blamed on foreign competition, on changing fashions, and stricter regulations, environmental regulations in particular. In the industrial Midwest, the decline started when the term Rust Belt was coined, and it's blamed on foreign competition and companies relocating to states with fewer workers' rights. Agricultural automation is blamed for the depopulation of the Farm Belt. Coal mining regions suffered job losses with the move to other sources of energy. Small manufacturing cities were hit by the so-called China Shock. Is there any commonality across these cases?

Tim Bartik
No, I don't think so. Really, it has to do with external factors or internal factors. So, the external factors could be you happen to have an industry that suffers declines either due to trade or due to changes in consumer taste or the nature of the economy, or you have internal factors where, for some reason, you become uncompetitive in terms of your labor force, land, and the types of resources you have. Really, it's quite disparate, and going forward, we're going to see different places affected. I mean, assuming that AI, in fact, causes some type of job shock, we don't really know quite what that's going to be. It's going to affect some places that happen to specialize in industries that are particularly affected by that change in the economy.

Michael Klein
So, if there are all these disparate reasons, I guess what you're suggesting is it's gonna be very hard to forecast the places that will be distressed in the future. Is that correct?

Tim Bartik
Yes. Although, I will say that distress tends to persist. So, we already know what areas are currently distressed – that have a low employment rate, well below full employment, in many cases, very very much below full employment. And that creates all kinds of problems. So, we already know a lot of the places that will be distressed for the next 10 years, but some additional places will be added to that as the economy evolves.

Michael Klein
And the issue with employment is that it's the number of people working relative to the number of people who could work, but in a lot of these places, there's also depopulation, right?

Tim Bartik
Well, they're losing population, and that causes some adverse effects as well, but it's the employment rate effects that I tend to focus on because that affects, not just whether or not how many people have jobs, it also affects the quality of jobs people are able to get, and it has profound social and economic and fiscal consequences for the entire local area. And it is something that requires significant resources to be able to turn around.

Michael Klein
When places decline, you might expect there would be a subsequent rebound because workers could be hired cheaply, but clearly, this hasn't been the case for places that have been distressed for a long time. What are some of the sources of a persistent lack of opportunities in some places rather than just the labor market adjusting with cheaper wages and firms moving in?

Tim Bartik
Well, first of all, you know, when jobs go down and people are unemployed, in a narrower sense, there's a loss of human capital, loss of skills. People lose job experience, they lose skills. And then, of course, there's a loss of human capital more broadly defined. When employment rates go down, we know that substance abuse rates go up, crime goes up, family breakups go up. All of those things have adverse effects both on the workers…if you now have a substance abuse problem, you're obviously less employable. If you have a criminal record, you're less employable. Family breakups creates problems for the kids. There's some evidence even of intergenerational effects of the employment decline. And, of course, all this has effects on local governments and the community as a whole…that all of a sudden you have fewer people employed, so there's less tax revenue, there are more people on welfare, there's more strain on the local safety net, and that creates a problem for investing in public goods that might turn things around. So, what happens is that we have this persistent situation, and the market doesn't automatically correct it because there are all these forces leading to this persisting, and in fact, we do find that there are effects of job shocks, not just 10 years later, 20 years later, or 30 years later. You find effects 50 years later…that areas affected either negatively or positively from job shocks are gonna be different because of that, even 50 years later.

Michael Klein
Well, that's the case for Gloversville. I mentioned Gloversville because I grew up there, and starting in the 1960s and early 1970s, tanneries started to shut down and glove factories started to shut down. And I've been there recently, and as I mentioned in the introduction, many, many shops on Main Street are shuttered. The housing stock is deteriorating. There's very high rates of unemployment and poverty. So, that's a good example of what you're describing, how these shocks persist for a very long time. So, I guess the question then arises of what can the government do. In some recent remarks that you made, you stressed the importance of place-based jobs policies, and you talked about the way jobs have special importance in the efforts to help places. So, what is that special importance? You've already mentioned things like human capital, people's health, their education, their skills. Are there other spillover effects as well?

Tim Bartik
Well, I think you've already hit some of the high points of them…that we know from research that higher employment rates bring about a wide variety of positive things, such as families do better, the crime rate goes down, substance abuse goes down, more tax revenue, less welfare

spending, et cetera, et cetera. I think generally, the sense of well-being in the community is better. There are also studies showing political effects of this, that when an area goes down, people tend to more extreme populist solutions, and whereas if the economy turns around, they feel a little more positive about the likely future of their community. So, I think what we need to do is there's a, there's a vicious cycle of decline that can occur in these communities, and we need to try to figure out policies that can bring enough good job opportunities to a place at an affordable cost so that we can move to a virtuous cycle where the positive effects of more jobs reinforce themselves, and you get the self-reinforcing virtuous cycle. But that often requires outside resources because, again, these areas are going down. They do not have the funds to do long-term investment in their local economic development at an adequate scale.

Michael Klein
In something that you wrote that I was reading recently, you talked about perhaps the most famous national-level place-based policy, and that was the Tennessee Valley Authority that focused on rural electrification. And electrification not only improved people's lives in their homes, but it also created an environment that was much better for businesses, and it helped foster jobs. Can you talk a little bit about the TVA, how it came about, and what it accomplished?

Tim Bartik
Well, okay, TVA was a very large investment, and you mentioned electrification, and that was a major focus. But it also did things with job training, with economic development, with public health, and many other things to improve the entire Tennessee Valley region. It came about partly due to a senator from Nebraska, paradoxically enough, George Norris, who'd been pushing for more public utility-led redevelopment of distressed areas in the US. And the Tennessee Valley was supposed to be the first example. It was enacted very early on in FDR's New Deal. A very early part of the New Deal. And it was meant to be an example of how the government could play a positive role in regional economic development of what at that time was an extremely high-poverty area with all kinds of problems and farmers who weren't doing well and were going under and really no industry at all. TVA, with the combination of what you mentioned – electrification, along with all the job training and public health and everything else, was able to attract many manufacturing jobs to the area. It's still not the most booming area of the country, but it is far better off than it would've been otherwise. And the available research indicates that TVA created manufacturing jobs in that area at a cost per job in today's dollars of about $100,000 to create one permanent manufacturing job. Now, that may seem like a lot of money, but if you look at the benefits that flow from a manufacturing job, not just from the multiplier effects on other jobs, but also from what it does, the employment rate, lowering substance abuse, all the things we've mentioned, helping local government – it's clear that from any benefit-cost standpoint, TVA passes a benefit-cost test. Now, it was supposed to be a forerunner of other policies. I mean, later on, Norris introduced a bill to create seven other TVA regions around the

country. That never passed, so that never happened. It ended up being a one-shot thing rather than a model for federal intervention to try to boost regional economic development.

Michael Klein
So the fact that these others didn't get passed, I guess that says something about the political will for doing that, even though TVA was seen as a success. Do you see any evidence that today there's a political will and opportunities, maybe with respect to internet access or some other kind of change that would really help a region, or is the internet already pervasive enough that it wouldn't be that, it might be something else?

Tim Bartik
Well, I think it still helps, although my basic thinking about distressed areas is that this is not a one-size-fits-all type of approach to things that really works. Every distressed region has different strengths and weaknesses and needs to follow its own strategy for investing in various infrastructure and training and other public goods and services to businesses to turn itself around. The fact that TVA succeeded in a policy that emphasized electrification doesn't mean that what's needed today is rural electrification, or for that matter, that what's needed today is the same thing everywhere. I think the policies that's needed vary from place to place very much. Later on, the Appalachian Regional Commission was a large-scale federal intervention, and that emphasized highways. Again, is the solution to the problem of distressed places to build more highways today? Well, maybe in some places, but in a lot of places, you might need many other different kinds of policies. Depends on the situation. Depends on the local context.

Michael Klein
In something else that you wrote, you pointed out that place-based policies are now at the state or local level rather than the national level like the TVA. Do you think this reflects that local concerns don't filter through to the national level? Or maybe more positively, that the importance of local knowledge in addressing challenging issues is so important as you were indicating by saying that each policy has to be tailored to the particular region?

Tim Bartik
Why the federal government doesn't do more is an interesting question. At the state and local level, clearly, there's an interest of each state in trying to advance its economic development, both for tax revenue reasons, as well as helping create better job opportunities for the voters. Similarly, at the local level, there's an interest in that. It helps the fiscal situation, potentially, of state and local governments, and also helps the voters who elected these governments. At the federal level…it's interesting, we've had these sporadic things like TVA, Appalachian Regional Commission. The federal government has really backed away from this. We do have some federal programs, but they're small scale. I mean, Economic Development Administration, EDA, is relatively small scale. Manufacturing Extension Partnership, relatively small scale. The federal government has backed away from it, and you can debate why. I mean, some of it could be the

adverse experience with…we did have this large-scale city redevelopment program, urban renewal, that had a lot of backlash to it, maybe because it was poorly administered, it did some bad projects. But it's hard to get federal action in this area, partly because it's hard to get what you really need, which is targeting the distressed areas where the gains from job creation are the greatest.

Michael Klein
Given that the policies are often locally based, does that mean that there's a zero-sum aspect for the nation as a whole, that some places will prosper while others fall behind if you have policies that are targeting certain places?

Tim Bartik
I think that the zero-sum game doesn't exist if you target the distressed places. I would argue that if you…the evidence is pretty strong that creating jobs in a distressed place will boost employment rates by a lot more than creating jobs in a non-distressed place. Essentially, in a non-distressed place, everyone's employable already has a job. In a distressed place, a lot of people who are not employed, but who are employable, don't have a job. So, essentially, by moving jobs to where the available labor is, you're making the national labor market more efficient. You're reallocating jobs to where they're needed. There's a fair amount of evidence that you can do this at lower inflationary pressures. So, in terms of the macro jargon, you're lowering the non-accelerating inflation rate of unemployment. You can actually boost the overall employment rate in the nation. So, I would argue that if you target distressed places, no, it is not a zero-sum game. On the other hand, if you're just randomly doing local economic development to whoever has the most political clout in Congress, that is a zero-sum game because many of those areas will already be booming and they don't really need the available jobs. You're not really pushing up the overall employment rate in the nation.

Michael Klein
Well, you said if you target the distressed areas. I guess that's kind of a big if because you've pointed out that state place-based programs are, in general, not targeted at distressed local labor markets. So, is another source of the location of these programs just lobbying to get government resources for places that don't really need them?

Tim Bartik
Well, the problem you have, of course, with targeting is it can be controversial. Obviously, if you're a political representative from an area that's not targeted, you might resist that. There have been a few cases where there has been successful targeting at the state level. It's tended to depend on situations where the booming areas are doing fine and don't necessarily want more growth, and the distressed areas have some political clout, like in North Carolina and South Carolina. There have been coalitions where for example, North Carolina at one point had a heavy subsidy program that went to the most distressed rural counties, but largely excluded the

booming areas like the Research Triangle and Charlotte. Why were they able to do that? Well, one, the booming areas already felt like they had enough job growth. They maybe didn't want that much more. And two, it happened that in North Carolina legislature that certain longtime rural legislators had powerful committee posts. And so you were able to get a political coalition that could do this. And the question is, can you create that coalition in other states? I've tried to argue that there is significant evidence that if you can do place-based policies cheaply enough in distressed places, you actually could raise money for the state government, and it actually could help relieve some state fiscal stresses. And that I think is gonna be increasingly important in the years ahead given the fiscal situation of all levels of government in the US.

Michael Klein
You cited some figures and in your work you've presented cost-benefit analyses of successful policies. Can you tell a story or two about places where a place-based policy really helped a distressed region?

Tim Bartik
Yeah, let me just mention one…and this is actually an area that was threatened with distress…because again, when you look at successful policies, it depends on having the local resources. So I live about an hour south of Grand Rapids, Michigan. Grand Rapids, Michigan is a manufacturing-focused city. It has roughly twice the share of manufacturing in its economy of the average place in the US. And it has a wide variety of manufacturing industries – office furniture, lots of auto suppliers, et cetera, et cetera. So obviously, when you start getting into the 1990s and 2000s, with the China shock, Grand Rapids was threatened by the decline in US manufacturing, and the reality is they've succeeded in actually growing – from 1990 to the present, Grand Rapids has grown manufacturing jobs while they've gone down by a huge amount in the US as a whole. Well, how did they do that? Well, they did a lot of things. They work with the community college and local manufacturers to make sure that they were running really good customized training programs to meet the needs of manufacturers. Two, they helped manufacturers diversify into growth areas. So a number of auto suppliers who were bending metal or molding plastic for auto supplies were helped to move then to healthcare industries. You can bend metal and mold plastic for various types of medical equipment and supplies. And they also work to help family-owned firms where maybe the owner is retiring to try to find new local ownership rather than selling out to some out-of-state company that might relocate. They've worked very hard on attracting…some of the people in the local area were able to get a lot of the Michigan State Medical School to relocate there. They set up a whole biomed research corridor. They encouraged a lot of healthcare-related industries to start up there. Now, that required significant resources that in Grand Rapids were largely raised privately by…they're running an industrial policy in Grand Rapids with some pretty conservative Republican leadership in the business community, and they were able to basically double down on manufacturing and make it work. Now, that doesn't mean that should be the strategy for all manufacturing-intensive communities. Other communities have followed different strategies and have succeeded…have

diversified out of manufacturing successfully. Lehigh Valley is one example. But Grand Rapids has been a success. It is harder to point to examples of truly distressed areas that with their own resources have pulled themselves up by their own bootstraps because, as the cliché goes, they don't have boots. So, they can't pull themselves up by their own bootstraps. That really requires an outside intervention, like TVA did, or like the Appalachian Regional Commission did, for both of which we have evidence that these outside federal dollars really helped turn around local economies.

Michael Klein
So, I think you're illustrating an important point here, that it wasn't just throwing money at Grand Rapids, but it was actually a deep knowledge of what was needed and intervention, not just through financial transfer, but through programs that help, right?

Tim Bartik
Right. And what I've stressed in my work is that it's easy to throw cash at the problem. It's easy to hand out tax abatements. It's easy to hand out tax incentives, and, or for that matter, cash grants are easy to hand out. You just write a check, right? Or you just say you only pay half your normal property taxes for 10 years or whatever. But I actually think the evidence is, in terms of creating jobs, it's more cost-effective to actually address the problems. If the problem is lack of trained workers, train the workers for the companies. If the problem is that some small and medium-sized manufacturers need to adopt new technology to be competitive, or they need to move into new industries, help them move into new industries. Help a company that's been selling to auto companies figure out how to meet the very different regulatory requirements and quality requirements of the healthcare industry. In terms of infrastructure, figure out what infrastructure you really need. Do you need an access road? Is there enough land available for industrial development? Is it properly zoned? Can you make sure that you're not going to have 5 years of litigation over a new company locating there? So addressing the fundamentals of land, labor, and what I would call information, you know, helping companies, especially small and medium-sized companies, have better information on how to compete – those are really the key factors and have a much lower cost per job created than simply handing out cash.

Michael Klein
So, I think those are really important lessons as we consider there are many places in the country that have been either left behind, or are falling into distress, and there isn't a one-size-fits-all policy. So do you see rising political support for this? Or is it going to have to be kind of place by place, region by region, and somehow they have to get the resources out from outside the region, but it's going to be a real challenge. Or do you think, on the other hand, that there's increasing recognition of these problems, especially with the rise of populism, and it might be a little bit easier in the future to make the case.

Tim Bartik
I think that the rise of populism has led to more interest in how do we deal with this. How do we deal with this distress? There's a lot of distress in rural areas in the US. Obviously, there's also distress in cities such as Flint, Michigan, in my own home state, or if you go out to places like Fresno or Bakersfield in California, many parts of upstate New York, et cetera, et cetera. I think the challenge at the federal level, as you know, and as I think most economists know, the federal government's broke, and we have a severe deficit and debt situation. So the question is, can you fit into a program something where the federal government would target the distressed places? I've estimated that you could make a significant dent in the distressed place problem if you were willing to target the distressed places, the bottom, say, one-third of distress of the country, with a total of about $20 billion a year for about 10 years, that that would make a significant difference if it was spent wisely. In terms of the federal budget, that's like a rounding error. On the other hand, is that likely to happen in 2029, or the future? I don't know. It would be a hard sell among all the other things going on. I am a little more optimistic that some states may do this. I know there's been some interest in my home state of Michigan. As I mentioned, some of the southeastern states have occasionally explored targeting distressed places, and I think it would take, who knows…maybe the new governor in California…I mean, California's an interesting state. It's a very wealthy state, and it has some real booming cities along the coast, but a lot of the inner part of California is very distressed, and is very alienated from the rest of the state. And California has not really addressed this. And maybe there will be interest in doing that, because I see a lot of times in American politics, the really innovative stuff starts with states demonstrating the possibility of something, and then the federal government picks up on it later on.

Michael Klein
Well, Justice Brandeis said that states were the laboratories for democracy. Maybe they can be the laboratories for economic development as well. Tim, thank you very much for joining me today. It's a really important issue, and as I mentioned, you're one of the leading scholars in this, so it's great to get your insights. Really appreciate your time.

Tim Bartik
Well, thank you for having me.

Michael Klein
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