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THE MOBILITY BANK
The problem

- Large differences in unemployment rates across areas
  - Flint, MI: 28.6% as of July, 2010
  - Most cities in Iowa have unemployment rates <6%

- These differences slow to disappear; local job creation often insufficient to fully absorb unemployed workers (Flint’s unemployment rate was 22% back in 1982)

- (Good timing; Nobel prize awarded to 3 economists for work on problems matching workers to firms)
The issue of persistence creates dissonance in my mind. On the one hand there is a whole bunch of research by macro types that seems to suggest that regional unemployment in the U.S. is not very persistent over the long term (like a decade). On the other hand, we both know of plenty places that seem perpetually distressed. I was never able to find a complete time series of unemployment for Flint so I don't really know how Flint did when the unemployment rate in Michigan dropped to the national average.

Steven Raphael, 10/8/2010
The puzzle

- Why don’t more people “invest” in moves to places with better local labor market conditions?

- Partly due to market failure
  - Moving is expensive (think $10,000 as ballpark) and people w/out savings can’t borrow to finance moves
  - Similar to failure in market for college student loans

- Some evidence:
  - People w/ college degrees more likely to move after job loss
  - Displaced workers who move, more likely to be re-employed
The mobility bank

- Loans of up to $10,000 to unemployed people in cities in top third of unemployment distribution
  - Loan repayment wouldn’t start until successful re-employment, & payments capped at 3% of income

- Combined with efforts to disseminate national labor market info. at DOL “one-stop” shops
  - People can also use loan amounts to visit candidate destinations (as w/ current tax breaks for moving $)
The costs and benefits

- Net costs should be $500m to $800m per year
- Should lead to an extra 93,000 person-years of employment for people in distressed areas
  - Speeds up matching of workers and firms
  - Cost per job match compares very favorably to other government efforts
  - Addresses persistent market failure that prevents efficiency-enhancing residential mobility