

THE BROOKINGS INSTITUTION

HARD TIMES, SOLID POLICIES TO RENEW AMERICAN COMMUNITIES

Washington, D.C.
Wednesday, October 13, 2010

PARTICIPANTS:

Welcome:

ROGER C. ALTMAN
Founder and Chairman
Evercore Partners

PANEL ONE – POSSIBLE SOLUTIONS FOR GROWTH AND REGENERATION

Moderator:

MICHAEL GREENSTONE
Senior Fellow and Director, The Hamilton Project
The Brookings Institution

Discussant:

BRUCE KATZ
Vice President and Director, Metropolitan Policy Program
The Brookings Institution

Paper Presentations:

JENS LUDWIG
Nonresident Senior Fellow, Economic Studies
The Brookings Institution

TIMOTHY BARTIK
Senior Economist
W.E. Upjohn Institute for Employment Research

P R O C E E D I N G S

MR. ALTMAN: Good morning, everyone. I'm Roger Altman and I'd like to begin by welcoming all of you here this morning. This is the fourth Hamilton Project policy forum of the year and I think it's going to be an especially provocative and stimulating one. It's going to focus on an economic strategy for revitalizing particularly distressed communities around the country. And that is an important subject because research shows, as you can see by looking through our strategy paper, research shows that certain distressed communities take an inordinately long time to recover and suffer lagging incomes often for decades. It's also an important subject because there has been a lot of debate and policy experimentation in this area, perhaps not so much recently but over recent decades. I recall serving -- proudly I might add -- but serving in the Carter Administration and we had a countercyclical revenue-sharing program which was focused on distressed communities. We worked hard on a national development bank proposal which ultimately became a part of the economic development administration in the commerce department. And this whole subject, distressed communities, was a big focus at that time in the late '70s.

So I think you're going to enjoy this morning. Let me just describe the format. We're going to have two panels, very robust ones, I think, followed by keynote remarks from Governor Jennifer Granholm of Michigan, who I think is especially articulate and experienced on this subject. The first panel, initially our executive director, Michael Greenstone, is going to provide an overview of this strategy paper which we've just put forward, and I urge each of you to look through it or ideally read it because it's really excellent. And I think all of us at Hamilton are quite proud of it. And I want to commend Michael and Adam for this work. Michael will initially review it and then moderate a panel of academic experts, including Bruce Katz, who is vice president and director of Metropolitan Studies at Brookings and a particularly well known leader in this field. Timothy Bartik of

Upjohn Institute; Jens Ludwig of the University of Chicago, which once made a mistake and allowed me to go there; and Daniel Sullivan of the Chicago Federal Reserve Bank. And the panel will present and discuss three new policy proposals in regard to revitalizing distressed communities.

And then the second panel will be moderated by Bob Rubin and will include New York City Deputy Mayor Steve Goldsmith; V&M Star president and chief operating officer, Joel Mastervich; LISC president, Michael Rubinger; and Fresno Mayor Ashley Swearingin. And this second panel will give us what I would call a report from the frontline perspective on many of the country's distressed communities and efforts, both successful ones and unsuccessful ones, to restart them.

So with that I'm going to hand this over to Michael Greenstone again.

Thank you for being here.

(Applause.)

MR. GREENSTONE: Thank you for that introduction, Roger.

Today I'm going to talk -- begin this panel by talking a little bit about our strategy paper. The continued increase in our nation's living standards rests on technological innovation, new patterns of trade, and improved ways of doing business. These advances lead to the rise of new industries and the decline of others. Since industries are not spread evenly around the country, these changes can lead to extended periods of what economists like to call adjustments. But let me speak plainly. When these changes come, workers lose their jobs, marriages are strained, children suffer, and entire communities can lose their faith in the American Dream. Today the Hamilton Project is here to make the case of national policy to aid distressed communities and to outline broad principles for such a policy.

In these mathematical models that economists like, this so-called

adjustment occurs quickly for all communities. And indeed, many communities do recover quickly. However, for some of the hardest hit communities returning to growth is a long and slow process that can take several decades. Consider the evidence from the 1980 to '82 recession. We contrast it. The 20 percent of counties that were hardest hit during this recession with the rest of the country. Prior to this recession, average incomes in what were to become the hardest hit counties -- that's the purple line -- moved in lockstep with incomes in the rest of the country -- that's the green line. But not afterwards. Indeed, even today, almost 30 years later, these counties -- it's not just that the level of income is lower but they're growing at a lower rate than the rest of the country. And that translates into an income gap of about \$10,000 per person. And that compares to an income gap of just several hundred dollars before the recession started.

Other indicators tell the same story. Rates of employment are now lower in those countries. Relative populations have declined. The young have left, and relative property values have fallen. That a recession could temporarily cause income reductions is not surprising. The fact that this toll remained and by some measures was greater a quarter century later is sobering I think by any measure. Today the United States is facing a new and urgent challenge. The unequal impacts of the Great Recession and of the ongoing restructuring in manufacturing, construction and other industries raise the risk of creating a new set of distressed communities.

On the screen we've mapped the hardest hit counties in the current recession. It is evident that they're concentrated in places where manufacturing has played a key role and where homebuilding had been an important source of economic growth. These places are at risk of becoming the distressed communities of tomorrow. Clearly, distressed communities are a local concern but why is this an issue that demands federal involvement? Perhaps the strongest argument for federal policy is the finding that the period

of adjustment is longer and harsher than has previously been realized. Although not the final word, this persistence suggests that there may be barriers or what are often called market failures that prevent these communities from fully participating in the nation's economic growth.

We outlined four barriers that may hinder some communities from recovery. Number one, spillovers. Research suggests that people in firms are more productive when they cluster, especially when they work in the same industry. So if an economic shock leads to a firm or an industry's decline in a city, there are likely to be costs to other firms.

Number two, tipping points. When unemployment rises above a certain level, social problems may develop at an increasingly rapid pace. For example, an increase in the unemployment rate from 12 to 13 percent might cause a larger increase in social problems like crime, than a rise from four to five percent.

Number three, skills. In distressed communities, workers displaced from long-term jobs often have skills that are best suited to industries or occupations that are in decline. These workers may underinvest in training or retraining due to difficulty getting loans, poor information about the benefits of training, and that some of the benefits accrue to others.

Number four, adjustment costs. One of the main ways localities adjust to economic change is through mobility. However, there are big upfront costs, both financial and psychological to moving. And banks are generally unwilling to provide loans to finance such moves.

These barriers or market failures mean that addressing economic and social costs associated with persistent, localized economic distress requires a set of policy tools that are focused directly on places. The rationale for this intervention is not just to help a specific firm or industry or even community. It is to improve national economic growth and

ensure that it is broadly shared. The approaches we recommend are motivated by the observation that long-term localized distress is characterized by a mismatch between the supply and skills of local workers and the demand for their work from local businesses. We believe, and indeed we challenge the authors on this stage, to show that it is possible to design policies that have benefits that exceed their costs. In the current fiscal and economic environment this is even more important than usual.

We recognize that every community is different and there is no one size fits all solution. That's why we recommend that policy focus on three broad categories. One, attracting new businesses. There's clear evidence that some place-based policies can attract business investment to targeted areas and can boost the productivity and wages of workers in those areas.

Two, aiding workers whose skills are no longer in great demand. This can be done in at least two different ways. Number one, through wage insurance programs; or second, through policies that make it easier for workers to get the skills that are in greater demand.

Three, matching workers to new jobs. My MIT colleague, Peter Diamond, was awarded the Nobel Prize in Economics on Monday for work demonstrating the difficulties that workers can face when searching for a new job, especially in a recession. Facilitating faster and better matching of workers and employers through increased information and reduced barriers to mobility could lower unemployment, boost earnings, and even raise productivity. Finally, as we consider new policy options to aid the stressed communities, a central ingredient must be the commitment to and resources for rigorous evaluation. Over the past several decades, as Roger has pointed out, policy ideas on urban redevelopment have come into and out of favor, almost as if they're riding on a merry-go-round. A failure to seriously commit ourselves to evaluation in developing a tool

chest of what works is a choice to have more communities with their accompanying human and social costs. More distressed communities with their accompanying human and social costs than is necessary.

I'm now pleased to briefly introduce the author of three exciting policy proposals. Although you can learn more about them in the material we've handed out, I'll just give a brief introduction. Tim Bartik is a senior economist at the W.E. Upjohn Institute for Employment Research and a world leader in regional economics.

Dan Sullivan is the director of research and executive vice president at the Federal Reserve Bank in Chicago. Dan and his colleague, Robert Lund, are considered the godfathers of research on displaced workers and the most effective training and retraining programs.

Jens Ludwig is a McCormick Foundation professor of social service administration, law, and public policy. Anything else? At the University of Chicago. Jens and his colleague, Steve Raphael are internationally recognized experts in the fields of poverty, education, and crime.

And finally, we're very lucky to have Bruce Katz here today as a discussant. He's the vice president at the Brookings Institution and founding director of the Brookings Metropolitan Policy Program. He regularly advises federal, state, regional, and municipal leaders on policy reforms that advance the competitiveness of metropolitan areas.

So I'm going to turn the podium over to Dr. Bartik who will make the first presentation. Thank you.

DR. BARTIK: Thank you for that introduction, Michael, and good morning to all of you.

My discussion paper focuses on the most direct way that public policy can help distressed communities that lack jobs which is simply create jobs.

There's the clicker. That's good.

The issue isn't whether we can create jobs in distressed communities. With enough money, with enough political will, we can certainly do so. The real question is can we create jobs in distressed communities in a way that is cost effective and has clear national benefits. The most obvious way to create jobs in distressed communities is simply to provide some tax subsidy and we certainly are doing a lot of that at the state and local level. However, in my view there are alternative approaches that are more cost effective and of greater national benefits. The alternative approach that I am pushing in this paper is to provide distressed areas with services that will improve the productivity of local businesses. For example, through customized training and information for small and medium-sized businesses.

Services that improve business productivity can be more cost effective because if these services are run well, they lower business costs by more than one dollar per dollar of program cost. They -- services and improved business productivity also have obvious national benefits. Greater productivity will improve national per capita income. Now, you know, as Michael outlined, redistributing jobs to distressed communities also has national benefits but the national benefits from greater productivity are easier to quantify and more obvious.

Efforts to create jobs in distressed areas should also make sure that they target distressed areas tightly so that not every community is eligible. If we're going to realize any national benefits from redistributing jobs to distressed communities, we need to tightly target distressed areas. Tight targeting also means that we're going to have enough resources per distressed area to actually make a difference. In addition, as Michael referred to, we need to make sure that efforts to create jobs are held accountable through rigorous evaluation. Rigorous evaluation in this case means that we have to compare the

productivity and job creation of business scenarios that are assisted with similar ones that are nonassisted. And my discussion paper outlines how that can be done.

Now, let me outline my three policy proposals for creating jobs in distressed communities. The first two proposals would be targeted at the 20 percent of all local labor market areas in the U.S. that are most distressed and would also target small and medium-sized business. My first proposal would create a new federal matching grant program for state customized job training programs. Most states currently provide customized training grants to businesses as an economic development program. Unlike federal job training programs which typically are targeted at the disadvantaged, customized training programs view the business as the client, they only provide training to workers that the business chooses, and they adapt the training to each business's individual needs. This new federal matching grant program would support state expansion of customized training but only for small and medium-sized businesses, which are most likely to underinvest in training and only in designated economically distressed areas. So it gives those areas a competitive advantage.

My second proposal is for the manufacturing extension service. We currently have such a program at the federal level. That program provides matching grants for regional centers around the U.S. that work with small or medium-sized manufacturers to provide them with low cost, reliable consulting advice to help improve their competitiveness. My proposal is to expand this program but increase the federal match rate for services provided to manufacturers in distressed communities.

My third proposal would target the most distressed two percent of the U.S. I propose phasing out the current empowerment zone program and restarting the program with the original design which included not only business tax breaks but also public services in those zones. Now, the empowerment zone program has since morphed into a program

that is only business tax breaks, which makes no sense because research suggests that the original program with the public services was effective and that business tax breaks alone will not turn around distressed neighborhoods. For all three of these programs we have good research evidence that they boost business productivity. The productivity benefits are at least twice program cost and the estimate cost per job created for these programs are in the range from \$10,000 to \$25,000 per job created, which is far less than the benefits of creating jobs in distressed areas.

These three programs are complementary. Customized job training programs help a wide variety of business while manufacturing extension programs target the particularly hard hit manufacturing sector. Empowerment zones help make sure jobs reach the most distressed neighborhoods, but we need the first two programs because you're not going to turn around a distressed neighborhood unless if the metropolitan area remains distressed. As my proposal outlines in detail, these three programs could be implemented at full scale at a net national cost of less than \$2 billion per year.

In conclusion, my idea is to create jobs in distressed areas by adopting three proposals which we have the best research evidence that they can increase business productivity. Promoting job creation to distressed communities is more likely to be politically sustainable if it is cost effective and it provides clear benefits for the nation.

Thank you for your attention.

(Applause.)

MR. SULLIVAN: Thanks. As Michael noted, Bob Lund and I were working on this project. And both of us are new to the idea of distressed communities as a subject area to study. But we've been working for some time on the issue of displaced workers, which is a closely related topic. And just to sort of define what we mean by that, we're thinking of workers who had had a job for several years, maybe three to five or even 25

years, and then lost a job because something happened to the firm in which they worked. And I think many distressed communities are essentially communities in which many displaced workers exist because they've suffered some shock to the industry that's important to supporting the community.

The displaced workers tend to be a fairly distinct subset of the unemployed. In a good year there's maybe only a million new displaced workers. In a bad year, we don't actually have the numbers yet too closely for, say 2008 and 2009, but one can suspect there might be some number close to three million workers of this kind. This is a kind of -- a group of workers that policymakers have studied extensively for quite a period of time. And the reason you can sort of see that they worry about this is the graph that's on my slide there, which looks quite a bit like the graph that Michael put up about counties that did well or did badly, but what it shows is a group of workers that probably can't see this too well. These are people who lost their jobs in the first quarter of 1982, which used to be the standard for like the worst recession that the country had gone through. And what you can see is the workers who kept their jobs had sort of steady growth in their earnings over time but that the workers who lost those jobs suffered a very rapid drop. That's expected because they're often -- or mostly unemployed during that period of time. But the interesting, disturbing policy worthy discussion has to do with the fact that the recovery takes a very long time. And even 5 and 10 years later you can see that these workers have lower earnings. And policymakers have been interested in trying to do things to help them.

And the point -- one simple point I want to make is that traditional unemployment insurance is totally unable to do that because unemployment insurance workers when you're unemployed. You get benefits while you're unemployed. But the main amount of cost that workers in this situation suffer is not their unemployed period, it's the fact that they get reemployed but at much lower wages often. Twenty-five percent is a fairly -- 20

to 25 percent being a fairly typical range. So traditional unemployment insurance is not something that's going to be able to help those people.

Now, in another excellent Hamilton Project paper, Jeff Kling discussed extensively a program of wage insurance, which would give workers some continued support even after they're reemployed with the support being dependent on the difference between their old job and their new job in terms of earnings. And that's actually a way that Bob and I really do -- it's probably a very good way for public policy to move.

What we're going to talk about in this paper though is something a little bit different, which is the idea of providing extra support for some of these workers to go back and get retraining through the community college system. Bob and I have worked on that subject as well and by and large we view that the results that have happened so far where we study workers that often on their own initiative went back and got additional training at a community college had pretty good results. So the number up there suggests that we estimate on average the rate of return to that kind of investment might be around 12 percent, which is really very high relative to most other investments that one can think of in this regard.

Now, that's not a magic bullet number though. It's not a kind of number that says that easily can replace the bigger earnings losses that workers suffer just with a course or two in community college. It takes actually quite a bit of retraining to make up for losing a job that you held a long period of time. However, it does seem like the rate of return is good and that probably more of this kind of training ought to take place.

A few points though. This is not going to be the best program for all possible workers. The results suggest that this kind of retraining works better for workers that are relatively young because they would have longer time to recoup the investment and also for ones who had previously been in post-secondary education and it also shows that

the retraining is better if you take technical courses as opposed to less rigorous coursework.

So we have a couple of proposals. Actually six proposals but two I just want to mention a bit in detail. One would be to expand the Pell Grant program and design it especially for displaced workers. And the idea here would be to encourage workers to go back to work. Also to allow them to continue retraining even after they return to work. One thing that happens frequently is people go back to work and they're not -- their sort of support through current programs ends. We would like the support through the Pell Grant program to be designed to give them additional support even after they go back to work.

We have some specific ideas up there which would provide for a fairly generous retraining stipend that would be available to people and support their ability to cover tuition, fees, childcare, transportation, things like that for a period of up to five years after they lose their job.

We also want to put some restrictions on these things. We'd want phase-outs to happen in particular for incomes that were above say \$80,000. And we would also like to only offer these programs to workers that are making satisfactory progress.

Another avenue here that we think would be helpful is to have a federal program which provides support to the community college system in areas that really need it because there's a catch 22 that happens very frequently. When a community is suffering severe distressed they have many workers who want to go back and get retraining. And in fact, it's a very good time for them to go back to retraining because usually the opportunity cost is not very high because it's hard to find jobs at all. But while that's going on, at the same time basically there's very little in the way of -- it's usually a very pressured time on communities and there are usually cutbacks in community college. So precisely when they're most needed there are cutbacks.

So what we propose is that there be a system set up so that communities

that are suffering the greatest distress would get some additional support to keep their community college infrastructure running when it's needed the mos.

Some additional proposals here which we don't have time to talk about but which would basically call for trying to be a bit more efficient in how the training is done, particularly noting, as I said, that certain courses seem to pay off a lot more and states and localities ought to find ways to get them to be done more. And of course we're definitely in favor of more research and evaluation.

Thanks very much.

(Applause.)

MR. LUDWIG: So this is a paper with Steve Raphael at Berkeley who is sorry he couldn't be here today. He's teaching out in Berkeley. And we are making a proposal for something that we call the mobility bank. Now, the problems that the mobility bank is intended to address are the massive differences that we see in unemployment rates across areas within the United States. So if you go to Flint, Michigan, for example, and you look at the unemployment rate in July 2010, it was nearly 29 percent. That excludes people who have given up for work. So if you're not actively looking for work you're not even included in the 29 percent number. As a way to give you a sense of the magnitude of the problem, if you go to almost any city in Iowa by comparison, the unemployment rate is less than six percent. Maybe substantially less than six percent. These differences across areas and economic conditions, especially at the city level, are slow to disappear. Local job creation is often insufficient to fully absorb the local unemployed workers. You can see this in the example of Flint. If you go back to 1982, the unemployment rate in Flint was 22 percent at that point.

And so our proposal is really about how do we do a better job of matching workers to firms across space within the United States? And as Michael mentions, Steve

Raphael and I look quite prescient given that Monday the Nobel Committee awarded a prize for thinking about how to solve these labor market matching problems.

Now, the puzzle that motivates the specifics of our mobility bank project or proposed program is the question of why more people don't move from places where the unemployment rate is 29 percent to places where the unemployment rate is four, five, or six percent. As a complement to some of the place-based initiatives that we've been -- we talked about in the previous two papers, and I think the key insight or key hypothesis to our mobility bank proposal is we think that this is partly due to a market failure. And the market failure stems from the fact that moving is expensive. If you think about what it would cost you as an unemployed worker to move from Flint, Michigan to Des Moines, Iowa, and you thought about moving expenses and you allowed yourself two months of living expenses to look and find for a job, you could think about \$10,000 as the ballpark that you -- the ballpark budget for making a move like that.

Now, middle income and upper middle income people can self-finance these upfront costs and basically invest in residential moves that will generate long-term returns. Low income people can't. Low income people without savings can't self-finance and there's a market failure in the credit market that under provides loans to people for investing in residential moves that will make them better off because they can't use the long term earnings stream that they would get from these moves as collateral to secure the loan.

So let me tell you a little about the mobility bank that we have in mind that would be intended to try and solve this market failure that we think contributes to people sticking in places with very high unemployment rates. So what we're proposing is a mobility bank program that would make loans of up to \$10,000 to unemployed or underemployed people living in cities in the top third of the national distribution with respect to their unemployment rates. We propose that loan repayment wouldn't start until people are

successfully reemployed to help ensure people against the uncertainty about moving and looking for work. We want to motivate the work disincentives associated with repayment of the loans. And so we propose that the loan payments are amortized over a 10 year period and should be capped at three percent of gross income.

We think that information problems, limited information about what job opportunities and amenities are like in other places could also be a contributing factor to residential immobility. So we propose a program of stepped up information provision of national job opportunities, and we also suggest that these mobility bank loans could be used to travel to places to search for work and look at local amenities, as well as finance the moves themselves.

Now, our best guess for the net costs of this program would be something on the order of \$500 to \$800 million per year. Our estimates suggest that this could lead up to an extra 93,000 person years of employment per year among people living in economically distressed communities. This -- if the mobility bank were enacted, we think this would enhance sufficiency by improving matching of workers to firms within the U.S. labor market. We think the costs per job that we estimate for the mobility bank compare very favorably to most of the other government interventions that we've seen that are oriented towards job creation, and maybe most importantly the mobility bank has the potential to address this market failure that we think is preventing people from making moves that they believe would be in their long-term best interests.

Thanks very much.

(Applause.)

MR. KATZ: So I'm Bruce Katz. First, I just want to commend Bob and Roger and Michael for focusing on the issue of distressed communities. I think Michael's point that there is no national policy on distressed communities is spot on. We have bits of

policies. We respond to military base closures. There's now a space coast initiative because of the NASA cutbacks. We obviously respond to natural disasters. But there really is no deliberate, purposeful policy or strategy in the United States with places hit by economic restructuring.

I agree with some of the proposals put forth by Tim and Dan and Jens and their colleagues. I think the focus on the manufacturing extension program, the focus on community colleges, is absolutely correct. These efforts work. These initiatives work. They are underfunded, and frankly given what we're about to see in states and municipalities with the fiscal cutbacks, they may be undermined.

But I want to make three broad points about these papers and this topic. The first, it's insufficient to look at American examples. There are other places in this world, particularly in Europe and Japan that have undergone dramatic economic restructuring over the past 30 years. And they have responded differently. So we almost have a natural experiment.

At the metro program with the Lund School of Economics, we particularly focused on places like Torino, which saw a dramatic restructure of the auto sector when Fiat collapsed in the late 1970s. Bilbao, Barcelona, Sheffield in England, Leipzig in Germany. What these places have with municipal, metropolitan, state or province, national, and even E.U. intervention is a recovery playbook. It's partly focused on the things we're talking about here, investments in workers and firms, but it fundamentally starts with a collective strategy about what are the assets and attributes and advantages that a place has in the global market. So it starts with a prospect, almost an investment prospectus for places. It then proceeds to make some signature and seismic and sustained investments over time with the private sector in what matters -- exports, innovation, human capital, manufacturing innovation, infrastructure particularly around the core of the place. There is a global context

to these interventions. Europe, as you would expect, fundamentally things of itself in the global market. And so there is an internationalization of the strategy. It just doesn't look within or even within a sort of provincial context; it looks within a global context.

And finally, it accepts the notion that in a changing economy, the quality of place matters. That's why you've seen these cities submerge their freeways in their central downtowns. That's why you've seen these cities reclaim their waterfronts. That's why you've seen these places remediate their brown fields at scale. Public-private investments around a collective strategy to basically help a place diversify economy, build on its strengths, recognize its assets, and leverage its potential. That is a different playbook. And I think in the United States we fundamentally have to understand we're not alone in the world anymore and we have to look to places that frankly we've dismissed too much. And take the best of what they might have and tailor it to our own dynamic culture.

Second point. The past may not be prolog. I think this recession is a juncture for the economy. I think we have to move forward to a different kind of economy. We can't go back to normal because what proceeded this recession was anything but normal. We've got to move to an economy that is powered by exports, driven by low carbon, and fueled with innovation. If you take that as the shape of the next economy, some of these distressed communities might be able to participate. Just take Detroit and southeast Michigan. The metro is the ninth biggest exporter in the United States. It is the twelfth largest export intensity of any metropolis in this country. It is the eighth largest number of jobs of any metro in the export sector, and frankly, if you stand on the Detroit side of the river you can see Canada from there. You can actually see a foreign country. Right? (Laughter.)

So if we think about a different kind of economy, we may start measuring the assets and attributes and advantages of certain places differently than we had because I

think the way we measure now is just the residue of the prior economy -- debt fuel consumption.

Final point. It is not sufficient just to look to the national government. Frankly, we all know what this town is going to be like in three or four weeks. It's not going to be out of business, but it's not going to be able to make some of the seismic and systemic moves that are necessary to shift to the next economy. Frankly, that's why I like a lot of these proposals because the benefits outweigh the cost. They tend to be incrementalist in nature but they may be exactly what can get done. But I think the hard lift is going to happen in the states and in the municipalities and metros that we're talking about today. These are the places that are not going to have to just pursue incremental policy changes; they're going to have to cut to invest. If you want to reclaim your waterfront or remediate your brown fields or restore your downtown, maybe you shouldn't be building that new freeway at the periphery or winding the freeway at the periphery. That's yesterday's economy.

And yet if we look at transportation spending and we look at infrastructure spending, and frankly, we look across a spate of domestic policy, we are still investing as if it's 1970s America. So I would say let's take some of these proposals, let's complement them with some other initiatives, and let's begin to build up from that pragmatic network of elected officials, corporate, civic, business and university leaders who understand their place and then can then galvanize the kind of systemic reforms in state and federal policies that are absolutely necessary and a long time coming.

Thank you very much.

(Applause.)

MR. GREENSTONE: Thanks very much to each of our panelists. I thought I would begin the conversation by asking Tim -- so Tim, you said that these policies

will not just attract businesses but they'll raise the productivity of other businesses that are there. Can you talk a little bit about how that might work?

MR. BARTIK: Well, there are specific programs. Both customized training and manufacture extension interact with businesses. In the case of customized training it raises the productivity of the workers there. In the case of manufacture extension you're working with the business on a variety of competitiveness problems. Now, the thing is these benefits not only accrue to the business. We know that when productivity goes up in business it raises per capita incomes nationally. And the other thing is what we're trying to do is give a competitive advantage to some of these distressed areas, so it's going to attract jobs to those areas. It's going to grow the economy in those areas. That's going to have, as you outlined before, that's going to have impacts on the employment rates of these areas, employment population ratios and wage rates, not only in the short run but in the long run. I think a key underlying theme of a lot of discussion today is that these short run investments not only affect labor market outcomes in the short run which we would expect, but have these long run implications. As people get more job experience they acquire more job skills, more confidence, and it really builds on itself.

MR. GREENSTONE: Dan, so I have several questions about your excellent proposal. I'll just start with one. It seems to be focused on a very particular set of workers. Can you talk a little bit about how you decided to focus on those workers and what other retraining or skill improvement programs there are for different types of workers?

MR. SULLIVAN: Sure. We focused on community college training and evidence suggests that those kinds of retraining is more effective for people with at least a pretty decent based level of skills, you know, the results for people who say haven't finished high school don't look very good, whereas the ones for people who would say had a little bit of previous college experience before they lost their jobs actually look quite a bit better. So it

is the case that the proposal we've been talking about probably is more suited to help workers, you know, kind of at the middle or even upper part of the income distribution. So I think that's just a fact and I think it's unfortunately the case that probably large investments in people without a base level of skills to prepare them for going back to college or technical school isn't going to work very well.

There is still, and we're not proposing big changes to these programs, but there are programs that basically facilitate job search. You know, the one stop centers and programs that sometimes combine, you know, small amounts of retraining with a focused kind of career placement kind of thing, I think those also have pretty good rates of return, although it's sort of hard to think that you're going to push people as far in that kind of world that you could potentially with significant amounts of retraining for them.

MR. GREENSTONE: So if your displaced worker Pell Grant program were enacted say in January and the -- it was not targeted in such a clear way that you guys have outlined, what would happen to the rate of return?

MR. SULLIVAN: Well, if it was expanded vastly beyond the realm, I think undoubtedly the rates of return would go down because we're studying mainly workers who on their own decided to go back. In some cases they had subsidies as well but if you expand the pool you're going to go beyond the ones for whom it's the most directly beneficial and the average would go down.

MR. GREENSTONE: So Jens, you've proposed a very interesting and timely proposal which you call the mobility bank. Why does the government need to get involved in subsidizing these loan?

MR. LUDWIG: Yeah. Mainstream economists usually think that there are two rationales for government intervention in a market. Market failure and spillovers, which is just another form of market failure. One of the things that got Steve Raphael and I

thinking that market failure could be a real problem here is not just thinking due to the experience that we've had making our own moves but when you look at nationally representative surveys of displaced workers you can see that within three years of losing a job, about 16 percent of college educated displaced workers relocate and something like 10 percent of people with less than a college degree wind up moving. The people, the displaced workers who move, have better reemployment outcomes -- about 12 percentage points more likely to get reemployed. We think there are two main explanations that we think might be contributing to those differences in relocation rates between college educated workers and other people, which is credit market constraints, the ability of the college educated workers to finance the moves, and information about national labor market opportunities. And so our mobility bank proposal is really focused on addressing both of those things.

Let me just say a little thing about externalities, too. If you think about as we talk about in the Hamilton Project paper, if you think about who benefits when unemployed or underemployed workers move out of Flint, it's not just benefits to people who relocate to Des Moines, Iowa and are more likely to get a job, but also reduces the amount of excess supply of labor in places like Flint. So people who remain behind in Flint are also benefitting. And when unemployed in Flint are making decisions about whether they should move or not, they're not incorporating the benefits to other people in the community and that creates an opportunity for the government to become involved and try to move us closer to the optimal amount of mobility. So the rationale for government intervention in the mobility bank is really very similar I think in a lot of ways to the reason that the government is involved in the student loan market for college.

MR. GREENSTONE: So one thing that we put as a charge to all three authors, all three sets of authors, and I was very pleased with the creative ideas that came

up, was that this would -- the proposals would increase productivity, creates wages, and creates employment growth not just in a particular community but at the national level. And so I want to pose, you know, ask you to focus a little bit more on that. So are you saying for \$500 to \$800 million dollars we can increase GDP?

MR. LUDWIG: It's not clear that we could -- this is not going to be the thing that's going to double GDP in the United States. This is very much in the flavor of an incremental and hopefully feasible intervention as Bruce mentioned but something that passes a benefit cost test and could help tens of thousands of people in distressed communities. And so it seems like it's worth doing to us.

One way to think about the productivity effects of the mobility bank that we propose is you can go back to the 1960s and look at some of the writing that Milton Friedman was doing about the labor market at that point and he was already talking about mobility costs as one of the frictions in the labor market that contributes to difficulties of workers and firms matching to each other. You can think about the productivity gains from this proposal in the following way. You have a bunch of workers in places with 25 or 30 percent unemployment rates that are having a relatively difficult time matching up with firms. You have a bunch of firms in places with unemployment rates that are like four or five percent that relative to places with more excess supply of labor have a harder time finding workers. Every week that a worker sits around idle looking for work is a week of productivity foregone. Every week that a job sits idle and unfilled is a week of productivity foregone as well. And so we think that by increasing the rate at which workers and firms can match up with each other, this is one incremental step that we can make towards enhancing overall productivity.

MR. GREENSTONE: So, and Jens, as a fellow economist I know we like to -- it's easier to speak in terms of frictions and adjustments but I think one thing that's kind

of brought us all here today is we know that those frictions and adjustments have very real impacts on people's lives. Economic distress, families dissolving, and you know, as I mentioned in remarks at the beginning, you know, in the long run it can hurt the social fabric of the country and even cause people to lose faith in the American dream.

So I thought I would give Bruce Katz just one minute to kind of jump in here and then we're going to take some questions from the floor.

MR. KATZ: Yeah. I was thinking about this last night, about these efforts to address market failure and increase productivity. And thinking about why Europe has been able to do this to a much greater extent than we have. And I think the reason is because politically Europe is still young. The E.U. is how many years old? Germany, Italy, even Spain, are 30 to 50 years old. Right? In terms of their post-war or post-Franco regimes. Therefore, what they're trying to do is promote a level of national cohesion, leave no region behind, by building on the assets and attributes of this place -- of these particular distressed places. We've lost that in the United States. And maybe because we're an old political system. We used to have it when we talked about the north-south divide and the ability of bringing up places that didn't have, you know, that really weren't participating in the economy in the same way. We've got to get it back. And I think the way to get it back is partly to talk about a national vision about the next economy and talk about different places can contribute to that vision. And that's why I'm so particularly focused on exports or low carbon or even innovation as a general proposition because they seem aligned to the disruptive moment and they seem aligned to our ability, entrepreneurial, to match that moment. And then each of what you've described in some respects is a pointillistic or a specific way if it was done in a targeted way, to meet this possibility.

MR. BARTIK: Just following up on that, as I point out in the paper, much of the tax breaks that state and local governments hand out to business for economic

development in the U.S. would be illegal under European Union law. They are illegal under European law.

MR. KATZ: Absolutely. Absolutely.

MR. GREENSTONE: They cannot do it. And the E.U., economic development pursued by France or Germany or whatever has to meet various criteria that would pretty much fit into what I was advocating. It has to be targeted at distressed areas, has to do something with training, has to maybe do something with high tech and productivity. You simply can't hand out random tax breaks all over the place. That would be an illegal act of France to undertake. And it's kind of strange that even through the European Union is a less cohesive national unit than the U.S.; it has stricter regulation of what the member states do than what we have at the federal level in the U.S.

MR. GREENSTONE: Okay. I think we have a couple minutes for questions from the floor.

MR. CHAN: Is this on?

MR. GREENSTONE: Sorry. Please state your affiliation.

MR. CHAN: Certainly. I'm Sewell Chan, reporter for the New York Times.

My question for Professor Ludwig was unlike the other two proposals; yours seems to focus on the mobility of the individual worker rather than helping the worker and the community in place. Could one inadvertent effect though be reductions in human capitals and exacerbating the brain drain of the most enterprising or the most ambitious workers in any environment? I mean, you already mentioned the college educated ones tend to leave at a higher rate but now you seem to want other workers to migrate as well.

MR. LUDWIG: Yeah. Is this on?

MR. GREENSTONE: I think so.

MR. LUDWIG: I asked the mic guys to make me sound like James Earl

Jones. Is it working? (Laughter.) I see everybody nodding.

MR. GREENSTONE: They've done a good job.

MR. LUDWIG: The -- I think one important thing to keep in mind is that the mobility bank idea really needs to be thought of as complementary to the place-based interventions rather than as a substitute strategy. And so the thing that I like about this panel is that you think about the three different interventions as a package rather than a bunch of isolated things.

I think one reason why you would not think -- one reason that Steve and I do not think about the mobility bank proposal as a potential driver of brain drain is to think about the problem that it's intended to address and the segment of the labor market that is affected by these mobility constraints. And so when we -- at least when I think about brain drain I think about college educated or more educated people leaving an area and contributing to a downgrading of the average educational distribution in some area. We think that people who are constrained right now and can't move out of economically distressed communities are the lower income people without savings who can't fund their own move. And so what this proposal does is it tries to eliminate a constraint for people in that part of the labor market and it allows them to now make moves that they think might be in their best interests in ways that more affluent people can already make on their own by dipping into savings.

MR. KATZ: I just want to add to that. I think one thing that is a common theme in a lot of these distressed communities is, you know, industries are not spread evenly around the U.S. and so they tend to be concentrated in particular places. And so when an industry gets hit by technological change and is no longer growing and it's shrinking, you have a bunch of workers left in particular places who have skills that are specific to that industry. And they may need -- there might be a better match for them

somewhere else. And so I think we don't want to consign them to staying in a place where there's not demand for their skills.

MR. CHAN: Could I ask one more question? This is probably best for Professor Bartik or for you, Mr. Greenstone -- Professor Greenstone.

The Federal Reserve right now is sort of -- one of the active intellectual debates going on is how much of the unemployment is structural versus how much of it is explainable by structural forces. And this could have a big shape on what they decide to do next. I guess this is why I'm not asking this of Mr. Sullivan. (Laughter.) Would either of you be willing to weigh in on that question?

MR. BARTIK: I think we clearly have a large circle of unemployment but we also -- so that's not what we're addressing in these proposals today, at least in my opinion. I mean, I think there's a lot of cyclical unemployment. Clearly more can be done to stimulate the economy to lower that. But that's a different topic.

We're now talking about areas that face long-term distress. So that's a big problem. And we need to address that through a variety of strategies that hopefully complement each other. In fact, one of the things about these three proposals is they each address maybe a different segment of the labor market. So maybe Dan's proposal doesn't really help people with very low education, but if you create jobs in the area that will. And there's a certain segment that wants to move if they had the mobility bank -- but then there are other people who don't want to move. So you need to address the problems of every group in the labor market. And that's what we're trying to do. That is a structural unemployment problem but the existence of that does not mean that there isn't a cyclical unemployment program.

MR. GREENSTONE: Let me just add to that. I think what this panel is trying to do and this notion that there should be a federal policy for distressed communities is

actually take resources -- resources is a nasty word -- humans, people, families -- who are not participating in the American economy in the same way that a lot of the rest of the country is and bring them into that economy. And actually, what that could do is lower the full employment rate. And so I think in many sense it could lower -- we should be aiming at a higher level of employment.

Okay. I think there's a question over there.

SPEAKER: (Off mic.) I was saying that I fully approve of these measures that you're putting forward but is it just playing in the face of the conventional wisdom that we've been hearing for the last 20, 30 year period? And some are even getting louder now as we approach election. Any government intervention is going to be very bad. A very bad thing. So how are we going to get -- the mainstream economies, they're not changing their position. They're defending the free market fundamentalism. So aren't you really in an ideological battle and not really an intellectual one?

MR. GREENSTONE: Thank you for that question. You know, let me try to answer that. I think actually what you have here is several mainstream economists, all of whom I think have identified very targeted ways to implement policies that can benefit the U.S. economy. I should emphasize I like the point you made about the 20 to 25 years. One thing is urban redevelopment policy has been going on for a very, very long time. And as Roger mentioned, he was working on the Carter Administration in the '70s. One really unfortunate thing is that now 25, 30 years later we don't have a tool chest of things that we know that work. And a common theme in these proposals is that there has to be rigorous evaluation of all of them. And if we don't do that what we're going to do is the Hamilton Project or its successor or some other group will be in this room 20 years from now talking about distressed communities again and bemoaning the absence of tools and policies that are effective at improving the lives of people who live in these communities.

MR. CRAWFORD: Steve Crawford from the CFED. I think everybody's for labor mobility, especially out of distressed communities. I wonder about the figures from the representative survey Jens that, you know, 16 percent of college educated people are moving versus 10 percent of others if I recall.

MR. LUDWIG: That's among displaced workers.

MR. CRAWFORD: That's among displaced workers. Right.

MR. LUDWIG: Yeah, yeah. I'm sorry. Among displaced workers --

MR. CRAWFORD: You're right.

MR. LUDWIG: -- within three years.

MR. CRAWFORD: But that means 90 percent versus 84 percent if we flip that. And then it doesn't look like such a big difference. And if you control for age, one wonders if the difference wouldn't come down some more. And what strikes me about -- I mean, if the main barrier to mobility is lack of being able to finance it, then by all means it sounds to me like a great proposal. But Michigan has experience with relocation vouchers. They not only paid workers to move to communities -- more prosperous communities. I forget -- Ohio, Indiana -- where they were. They found them jobs. And I think, and I don't know. This was a long time ago and I don't have the facts on this but my memory is that an awful lot of them moved back before long to Michigan because there are other reasons that they don't want to come besides being able to finance the movement costs. And in addition, nowadays we have a housing policy issue. That is a lot of people can't sell their house in order to move, which raises an additional question about labor mobility which is whether housing policy needs to put less emphasis. We see in European lower -- I think Bruce makes some good points -- that the housing policy can be less oriented towards ownership because people are renting. Presumably they are more available to move elsewhere. Just curious your thoughts on that.

MR. LUDWIG: I think -- so the move -- in our proposal we are not assuming -- I think your question is exactly right in the sense that our proposal is not assuming that the establishment of a mobility bank is going to lead to a sea change in the total number of moves. And so as best we can tell in the displaced worker survey data that we've looked at there's a wedge of people that look like they might potentially be credit contained as part of the reason for why they're not moving, but there are a lot of unemployed people, especially in these distressed communities. And so when you multiply a small change in mobility among a large number of unemployed people, that leads you to the tens of thousands of numbers of people moving and getting jobs under our estimates.

I should be very clear -- I want to emphasize a point that Michael made. Can I guarantee that the mobility bank will work? Absolutely not because we don't have anything like this in place. Right? The nice thing about a loan program like this is that if nobody feels credit constrained they won't use it. Right? And so this is not like building a big pyramid and then nobody visits it and it's a big waste. The evaluation of this is really, really important. Right? We think that there are reasons to hypothesize that this could make a difference and help tens of thousands of families improve their positions every year but we're not year. And so evaluation for us is absolutely a central part of what we're proposing.

MR. GREENSTONE: I think there's a question over there.

SPEAKER: I'd like to go back to Tim Bartik's and Mr. Sullivan's -- Dr. Sullivan's papers for a moment and leave you off the hook for a moment and just challenge your assumption about the skills of displaced workers or workers in general, especially in distressed communities. The numbers are just startling on people who just have a high school diploma who have really low skills who do not have a high school diploma who had perfectly good jobs and were able to function. And just today Dr. Katz's organization came out with a report about Washington, D.C. and the growing gap between people with a high

school diploma or less and those with a college education. So how -- both of you have, you know, Tim has -- don't have any remediation. Dr. Sullivan says, you know, this is only going to work for people who have some college education. How do you propose to address the growing gap between people with high school educations or less and others and what does that mean for quality of life in the communities that you all say are so important?

MR. BARTIK: Well, I guess what I would say about my proposal is that it's designed to create jobs in distressed areas. Now, some of them may be jobs that people who have low skill levels cannot access. So maybe you're working with a manufacturer, you're helping it figure out new ways of doing business. Maybe that manufacturer is very high tech. Maybe the worker's skill levels will have to be very high in that manufacturer. But that's an export-based business. That's regional economics jargon for something that Michigans say that sells to such a faraway place as Ohio. Okay? There are multiple effects of that. That manufacturing plant will have suppliers. The workers will go out and buy stuff - will create jobs with local retailers. So a variety of jobs will be created at different skill levels.

Now, when people have looked at what is the impact of job growth in a metropolitan area on different income groups, it's distributed progressively. In other words, the greatest impact is on the lowest income quintile. There's greater impact on people with less education in terms of employment rates of local job growth than there is of higher educated people. So if you're able to create jobs in the export-based segment of a metropolitan area, you will create jobs at a variety of skill levels. And we know from various studies that that will in turn have an overall modestly progressive affect on the local income distribution.

MR. SULLIVAN: I don't have to much more to add. I did want to make sure that I didn't say too strongly that retraining only works for people who had previously

had some college education. I think it could work for lots of people, including people who only had a high school education and perhaps even a few that didn't because on average the results seem to be much better for people who had better skills going into these things. And I think, you know, just from a pure efficiency grounds we would want to do our best to sort of only make investments that we think are going to pay off.

And I think one proposal I didn't talk about was to sort of try and have means for identifying what are the right strategies for different workers. And I wouldn't want to basically only depend on things like your previous education levels. (Inaudible) does it work harder and identify the things which would really do well for a broader group of people. So I think it's beyond the scope of this panel but there's lots of, you know, programs and tax policies and things that can address the income inequality. But that's not primarily what we were interested in going after today.

MR. KATZ: Michael, I don't think we can take enough time looking at that map you put up initially in your presentation because that map showed two very different parts of the country that we're talking about. Right? We're talking about the Auto Bill, right? Because other manufacturing places have not been hit as hard as the auto zone, particularly in Indiana, Michigan, and Ohio. And then we're talking about places that put housing on steroids. All right? I mean, the intermountain west, parts of Florida, parts of other portions of the southern part of our country.

I think if we just kept looking at that map, I think we would have to ask ourselves what are the broader policies that basically precipitated this kind of result. And there's two kinds of policies. We have tilted towards consumption. Right? Tax code, a whole bunch of other housing policies, and we've undermined our ability to compete globally in manufacturing, I think which is what Tim is really getting at. And so I do think that, again, these are very helpful proposals that are targeted to these distressed areas in a multiple of

ways but they're, as you were saying, there are a broader suite of policies that actually led to this map that we need to get at both for the communities that are most hard hit and for the country as a whole. And we can't spend enough time looking at that because that's the result of 20 years of policy. And we should go back and begin to unwind and unravel, probably first in the states frankly, because I don't think the federal government will be capable of doing this. At the state level we may be able to get at some of these underlying conditions.

MR. SULLIVAN: Can I add just one thing to that? I have a slightly different take on this that the surprise here may be that different kinds of regions are getting affected by these sort of events. And I think that's an important possible point that we don't really know, you know, maybe Washington, D.C. is going to be the next distressed community. And to the extent that it's hard to predict where exactly these kinds of events are going to occur, that leads you to think that the idea of insurance is more important.

And basically, I think that's what Bob and I are arguing for to some extent is that we ensure workers and perhaps to the extent possible ensure communities because we don't know what the next community is going to be. And so everybody has some sense -- something to gain from having an insurance policy that would sort of bring the resources to the next distressed community. It's always harder when you already know which they are because then it becomes an us versus them kind of thing. But if we're just looking ahead to try to design policies that will sort of put resources that will sort of put resources to areas that are going to be hurt in the future. I think that's potentially a political solution.

MR. BARTIK: And I'd like to second what Bruce said, that if people are cynical about the federal government being able to do these things, a lot of these policies can be pursued by state and local governments. So the fact that the federal government may be politically paralyzed does not mean that governmental action to improve distressed

communities isn't possible at other levels of government.

MR. GREENSTONE: Okay. I want to thank all of our panelists. I think we have collectively tried to underscore that the federal role for having a suite of policies at the federal level to help distressed communities is an important goal and one that the Hamilton Project will continue to be advocating.

We're now going to have a 10 minute break. We'll reconvene at 10:25. And the second panel is Perspectives from the Front Lines of American Communities. It should be a very exciting conversation. Thank you.

(Applause.)