Trade and Economically Distressed Regions

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A major challenge of our time: Rising joblessness in US communities

1990 - 2019

Change in share of population 18-64 employed, 1990-2019

-8.3% 15.1%
What are the causes of joblessness?
Impact of the China trade shock, 1990 to 2019

(a) Actual decline in manufacturing employment
1990 - 2019
Change in share of population 18-64 employed in manuf, 1990-2019
-23.5% to 10.4%

(b) Predicted decline due to China trade shock
1990 - 2019
Change in exposure to import competition from China
0 to 7.25

https://divides.socialpolicylab.org/
What happened in Martinsville, VA?

Martinsville, VA

The Martinsville Novelty Corporation Factory (1929 - 1995), was one of only a handful of early 20th-century furniture factories still standing within Martinsville's city limits.

VIRGINIA DEPARTMENT OF HISTORIC RESOURCES
Martinsville, VA

Percent of working-age adults that are working in manufacturing: -70.3%

Percent of working-age adults working that are employed: -27.0%

Loss greater than 81% of US regions

Loss greater than 97% of US regions
Why is job loss painful?
Scarring effects of job loss: Permanently lower earnings

Quarterly earnings loss after a mass layoff
Geographic labor mobility is low and falling

Figure 2. U.S. migration by type, 2005 to 2021

2a. Within county mobility rates

2b. Between county migration rates

Credit markets are imperfect

- How to compensate for loss of income due to job loss
  - **Tap into savings**
    - Those with lower incomes often have close to zero savings
    - Spending drops sharply with job loss (Ganong & Noel 2019)
  - **Rely on unemployment insurance**
    - Benefits are small, last 6 months, vary by state (max of $235/week in MS, $823/week in MA)
    - Benefits aren’t tuned to local labor market conditions (Chodorow-Reich 2018)
  - **Get a loan, start a business, retrain for a new job**
    - Falling housing prices can impede new business formation (Davis & Haltiwanger 2019)
    - Retraining often hampered by lack of credit, poor information, poor training options
What are the policy solutions?
Policy options

- Let market forces work
  - *With limited geographic labor mobility, adjustment may take decades*

- Treat disadvantaged workers (move people to jobs)
  - *Existing (mostly federal) means tested programs appear to be insufficient*
  - *Making housing supply more elastic in superstar cities would help (Hsieh & Moretti 2019)*

- Treat disadvantaged regions (move jobs to people)
  - *In last 20 years, the practice of local economic development in the US has expanded greatly, but we still know little about the efficacy of place-based policies*
Justifications for place-based policies

- Geographic clustering of high skilled labor
  - Localized spillovers in production and consumption
    - R&D, highly skilled labor concentrate in larger cities (Diamond 2016, Moretti 2021)
    - Optimal policy: attract skilled labor to poor markets (Fajgelbaum & Gaubert 2020, Bilal 2022)

- Scarring effects of joblessness, low-wage work
  - Abundance of poorly paid work has negative social consequences
    - Workers don’t accumulate or end up losing their human capital, public infrastructure degrades, children are raised in poverty (Charles Hurst & Schwartz 2017)
    - Optimal policy: add jobs where employment is elastic (Austin Glaeser & Summers 2016), help employers internalize social return to good jobs (Rodrik 2022)
Place-based policies in practice

- **Workforce development** *(enhance labor)*
  - Subsidize training of workers in skills in demand by employers that pay decent wages

- **Business retention and recruitment** *(attract capital)*
  - Provide tax credits or subsidies to firms that build or expand major facilities

- **Assistance to small and medium business** *(improve technology)*
  - Subsidize technical assistance and loans to small, promising firms

- **Redevelopment of land and infrastructure** *(repurpose land)*
  - Subsidize investment in low-income or declining neighborhoods

- **Craft and implement a regional strategy** *(solve coordination problems)*
  - Convene actors, build regional identity, elicit resources, catalyze investment
Business retention and recruitment

- **Guide firms through process of building a major facility**
  - Identify interested firms, navigate regulations, facilitate access to tax breaks
  - Tax breaks, subsidies account for most of $150bn spent on place-based policies

- **Challenges**
  - Zero-sum competition between regions (Slattery & Zidar 2018, Kim 2021)
  - Capitalization of policy into land values (Erhlich & Steidel 2018)
  - Manipulation of subsidies for political gain (Slattery 2022)
Kansas City border war

- In 2010s, the Kansas and Missouri portions of Kansas City poached businesses from each other
  - Fueling this is a consulting industry that companies use to maximize benefits extracted from states
  - KS and MO have since promised no poaching (but the truce is tenuous)
Approaches for workers without a BA

○ **Workforce Development Boards**
  - Training vouchers, career counseling, career readiness, job search
  - **Challenges**: poor record of training employable workers

○ **Community colleges**
  - Certificate programs in occupational skills (eg, construction, healthcare, IT, repair)
  - **Challenges**: most colleges favor educating students to transfer to 4-year schools

○ **Sectoral employment programs**
  - Screen, train, prepare workers for specific jobs (Card et al 2018, Katz et al 2021, Project Quest)
  - **Challenges**: replicating and scaling successful models
Assistance to small and medium business

- **Small Business Administration**
  - *Small Business Development Centers, SCORE network, loan guarantees*

- **Economic Development Administration, NIST**
  - *University research centers, Manufacturing Extension Program*

- **Challenges**
  - *Screening of firms, misaligned university incentives, pig-in-the-python funding cycles*

- **Successes**
  - *In developing countries, subsidizing management and IT services to established medium-sized firms improves long-run firm performance (Bloom et al 2013, 2022, Iacovone 2022)*
Community Reinvestment Act, Empowerment/Opportunity Zones
- Tax credits, grants, loan guarantees for investing in low-income communities

Challenges
- Most of funding (80%) goes to real-estate development projects in large cities

Successes
- Some regional investment corporations (eg, RIDC, 3CDC) combine private capital with own resources to invest in projects with high social rate of return
Regional strategy: economic development organizations

Public-private partnerships: business development, worker training, site selection, access to suppliers, access to incentives, access to export markets
Conclusion

- Regionally concentrated joblessness is a major issue of our time
  - Severe economic, political and social consequences

- Emerging understanding of place-based policies
  - After mass layoffs, much more generous UI benefits would help
  - Tax breaks to recruit major companies appear to be largely zero sum
  - Sectoral employment programs can work (but need employer engagement)
  - Technical assistance to small business has been shown to work abroad
  - How to combine policies is still a mystery (lots of experimentation by EDOs)