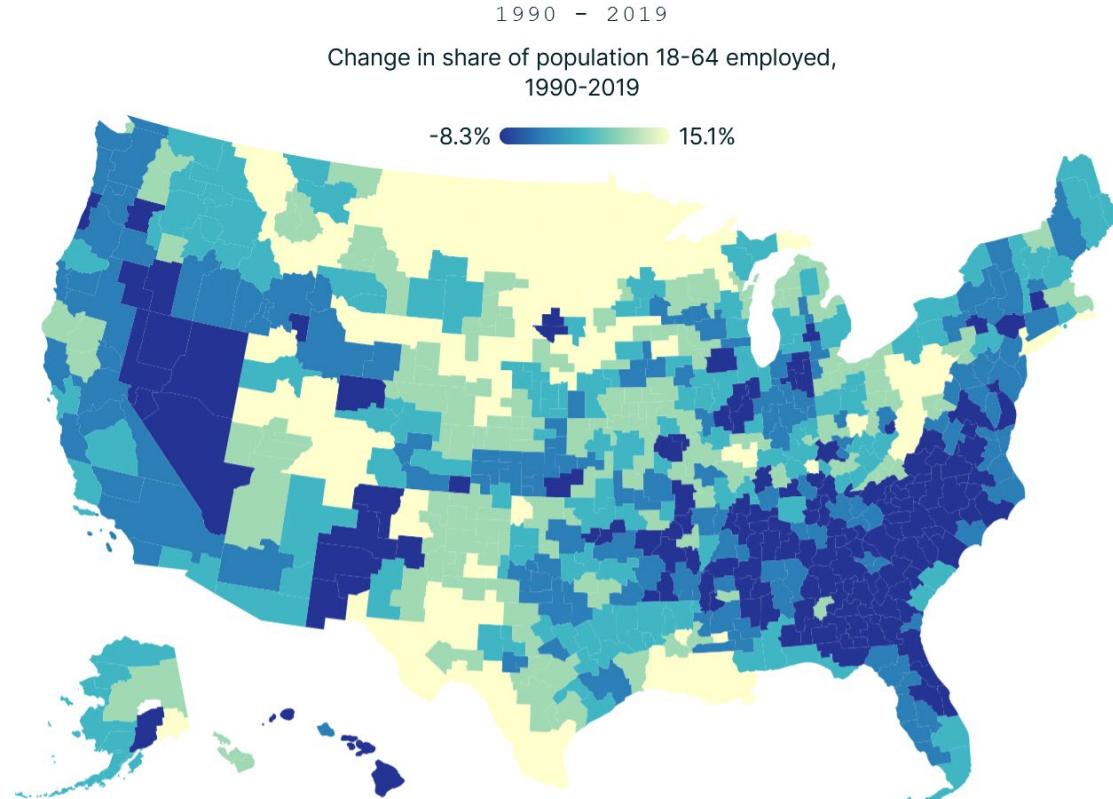# Trade and Economically Distressed Regions

Gordon Hanson
Harvard Kennedy School
Fall 2022
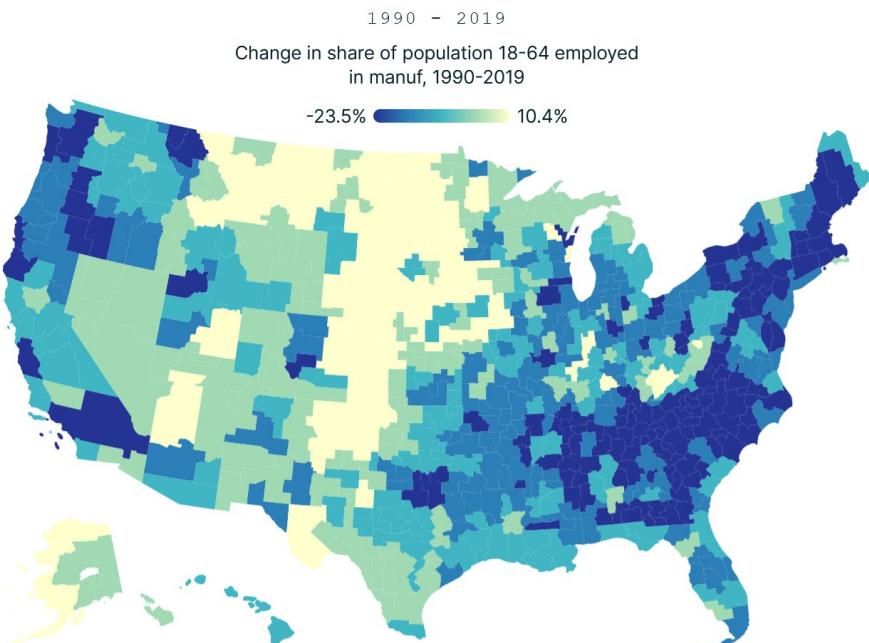
A major challenge of our time: Rising joblessness in US communities

1990 – 2019

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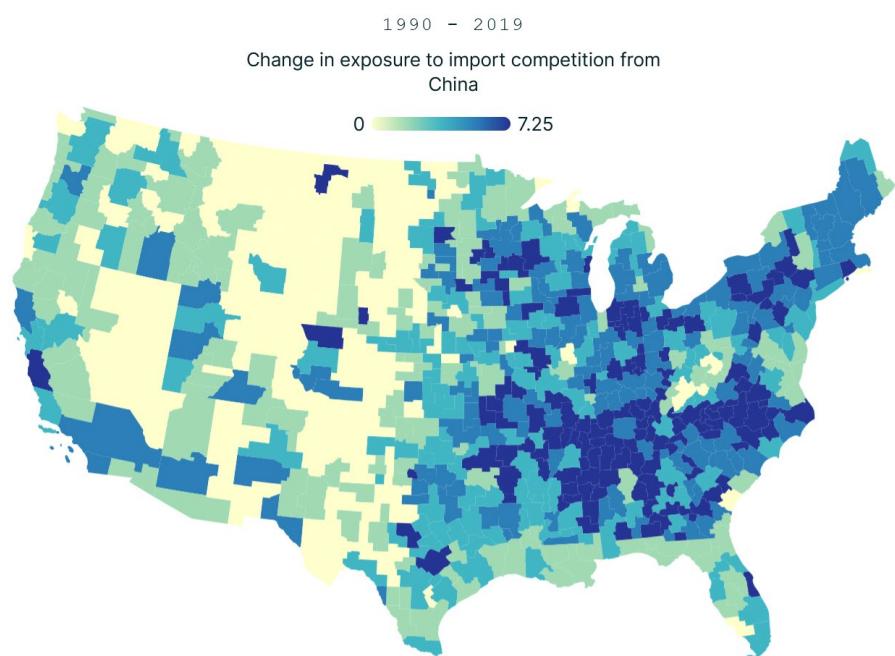1990-2019

-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

(b) Predicted decline due to China trade shock

1990 – 2019

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

-23.5%   10.4%

1990 – 2019

Change in exposure to import competition from
China

0   7.25

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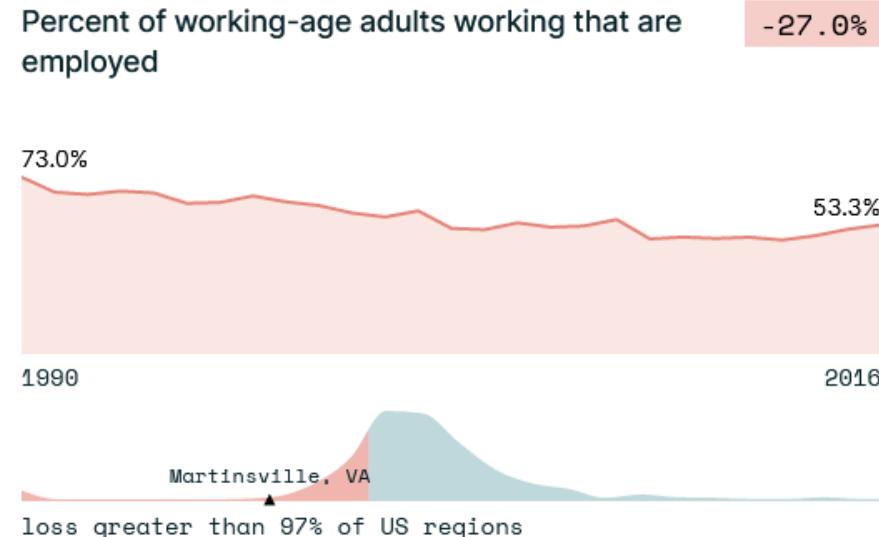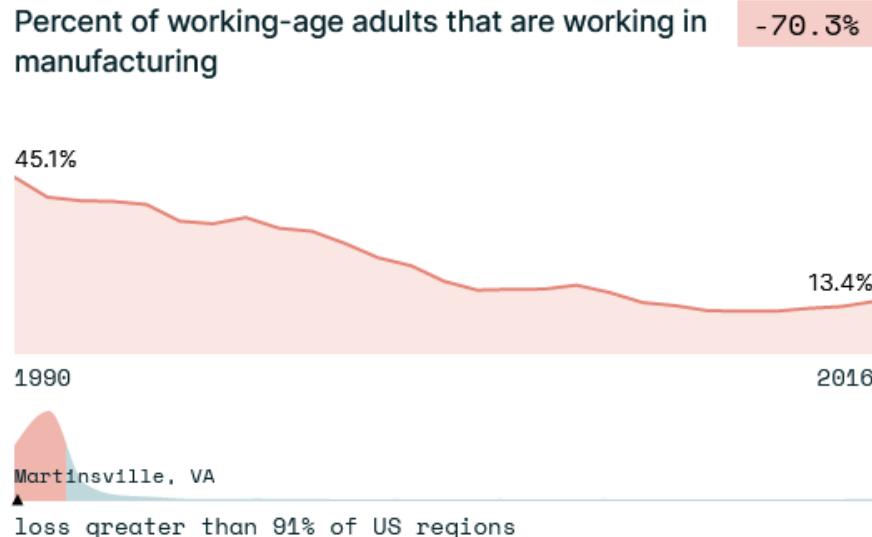
What happened in Martinsville, VA?

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.

# Martinsville used to be a major furniture manufacturer

Martinsville, VA

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

45.1%

13.4%

1990   2016

Martinsville, VA

loss greater than 91% of US regions

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

73.0%

53.3%

1990   2016

Martinsville, VA

loss greater than 97% of US regions

Why is job loss painful?

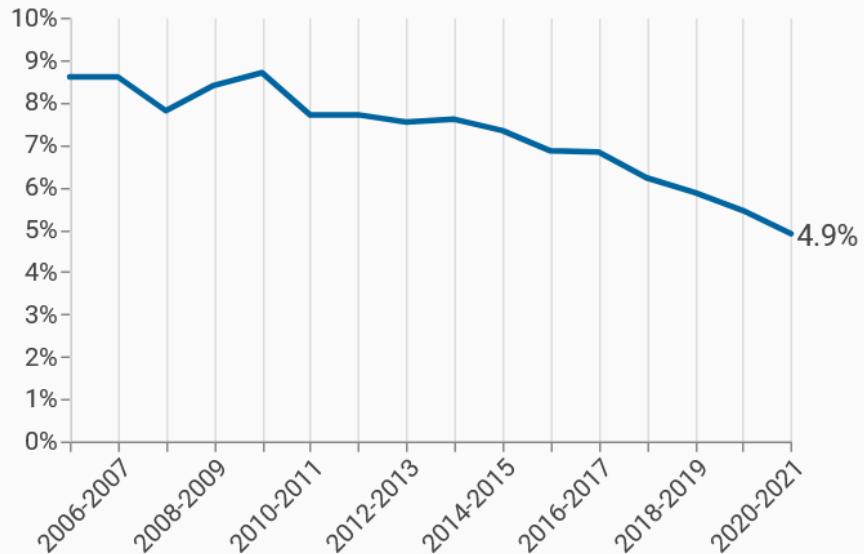# Scarring effects of job loss: Permanently lower earnings

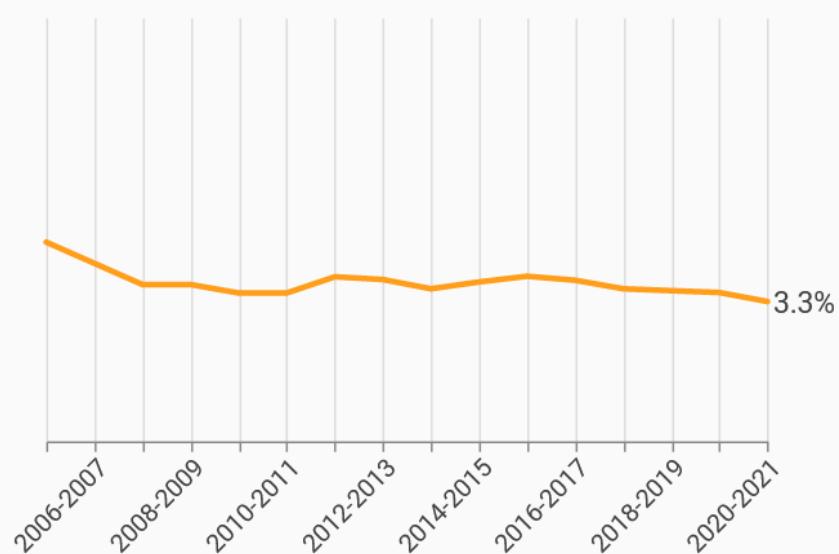## Quarterly earnings loss after a mass layoff
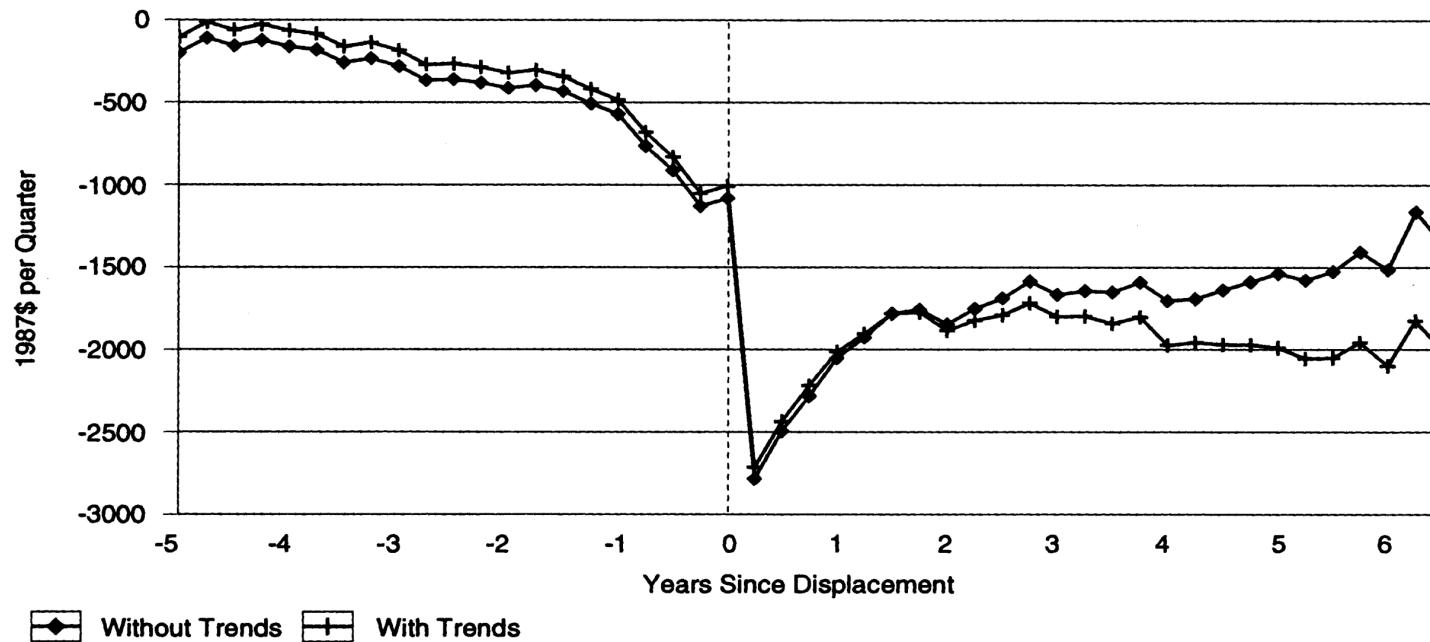
Geographic labor mobility is low and falling

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

2a. Within county mobility rates

2b. Between county migration rates

Source: William H. Frey analysis of US Census
Bureau Current Population Surveys

Brookings Metro
25 YEARS OF IMPACT

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)*
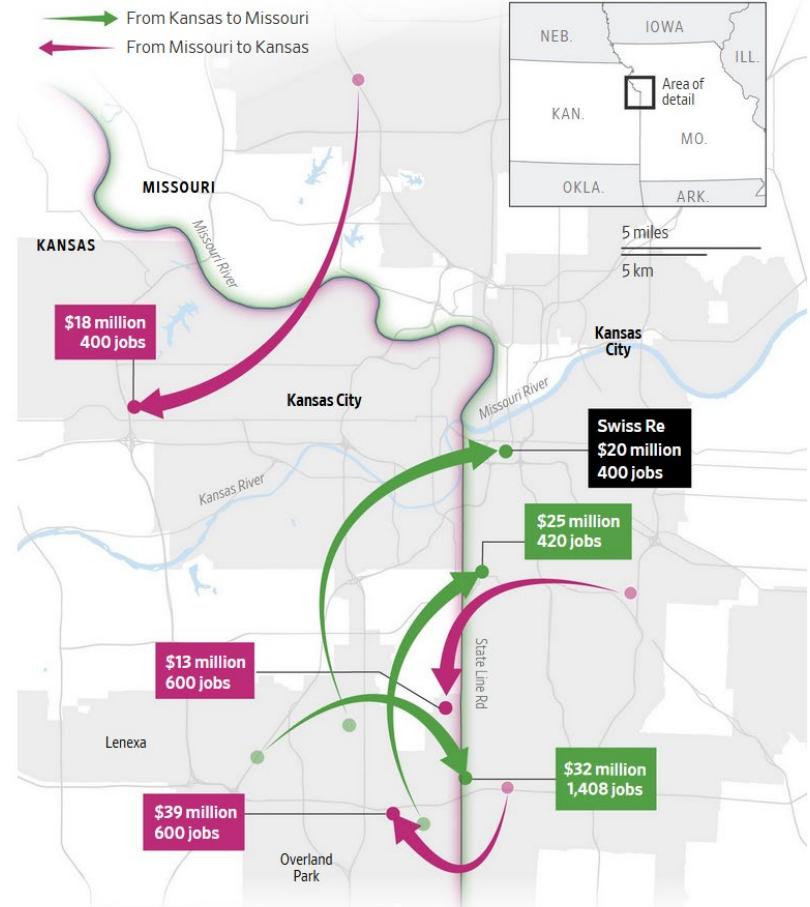
Kansas City border war

- **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)*

Crossing the Line
According to the Hall Family Foundation, 116 companies moved their operations across Kansas City into the neighboring state between 2011 and 2019. The states paid $335 million in economic incentives due to the moves.

Select companies that moved across state lines

→ From Kansas to Missouri
→ From Missouri to Kansas

NEB. | IOWA | ILL.
KAN. | MO.
OKLA. | ARK.
Area of detail

5 miles
5 km

MISSOURI
KANSAS
Missouri River
Kansas City

$18 million
400 jobs

Kansas City

Missouri River

Swiss Re
$20 million
400 jobs

$25 million
420 jobs

Kansas River

$13 million
600 jobs

State Line Rd

$32 million
1,408 jobs

Lenexa

$39 million
600 jobs

Overland Park

Workforce development

- **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)*

Redevelopment of land and infrastructure

- **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*

Commuting Zones (by poverty rate)
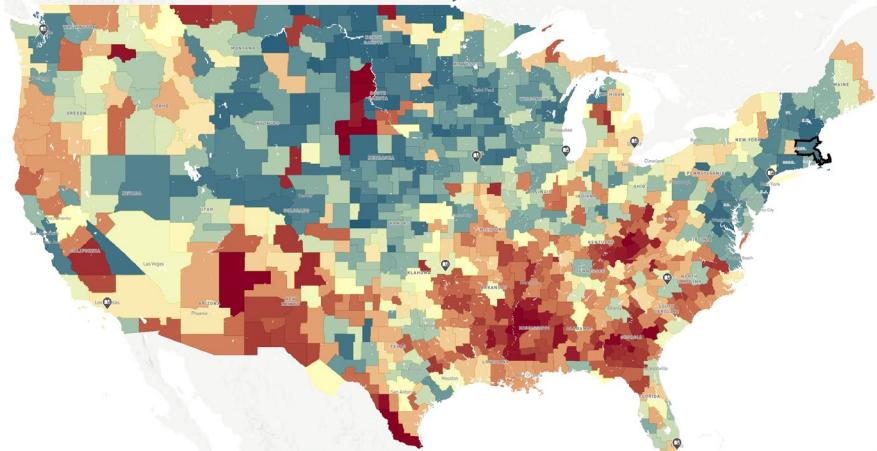
Opportunity Zones

Economic Development Districts (EDDs)
March 2019
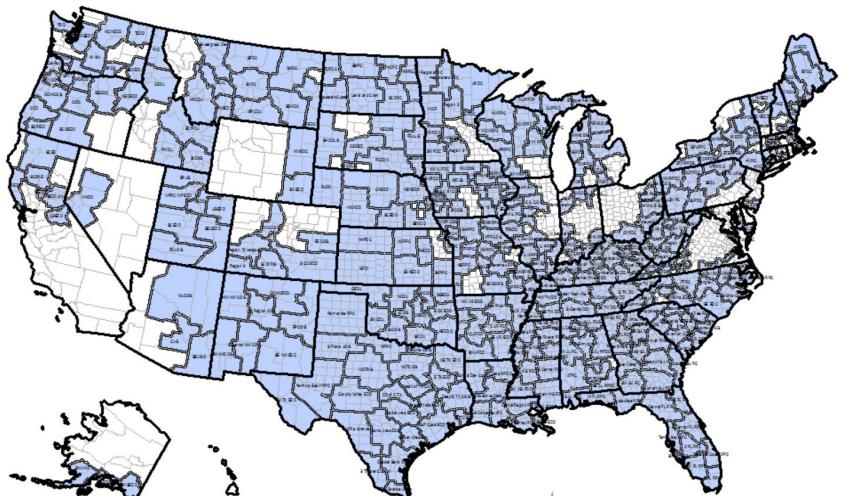
Workforce Development Boards
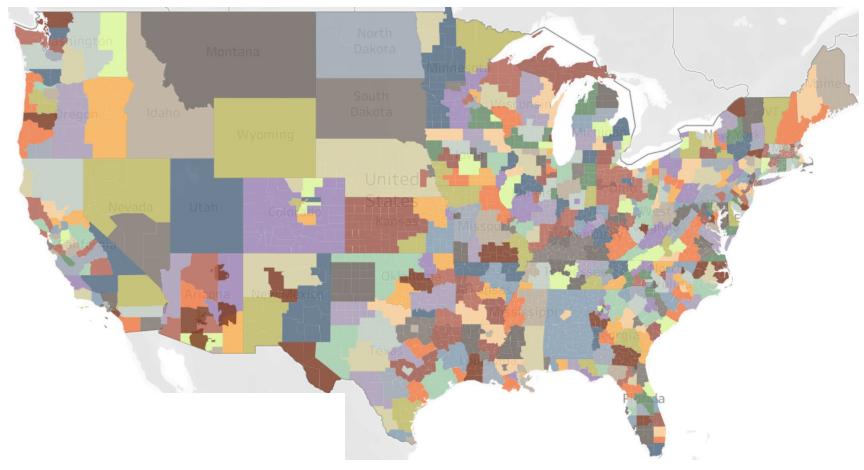
Regional strategy: economic development organizations

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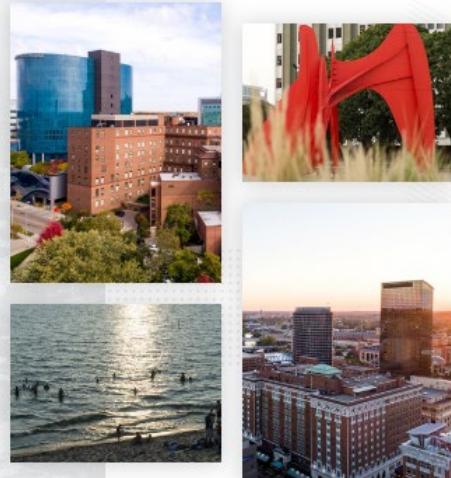
Conclusion

- **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)*