

Place-conscious federal policies to reduce regional economic disparities in the United States

May 2021

By Equitable Growth

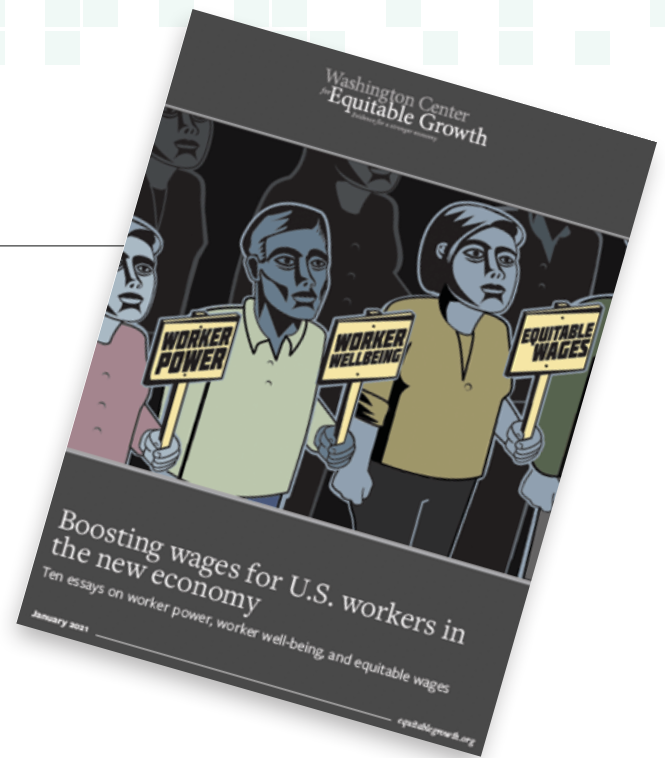
Overview

The dramatic growth of geographic inequality between regions of the United States over the past four decades results today in a handful of metropolitan areas, largely along the coasts, becoming some of the richest economic regions in world history. These cohesive groups of counties linked by strong economic ties, such as those between a city and its suburbs, contrast with large swaths of the country that are increasingly trapped in economic decline, struggling with deindustrialization, stagnant incomes, and rising unemployment.

Regional economic challenges are generally considered a problem for state and local civic leaders alone. But the growth in geographic inequality since 1980—driven by national-level changes—requires a national-level “place-conscious” policy response. These types of place-conscious federal policies can reduce interregional inequality, without explicitly targeting struggling regions for subsidies or investment. Among the policies are:

- Universal anti-poverty programs
- Restored regulation of key sectors, notably transportation and communications
- State and local financial reform
- Direct investment to meet national priorities, such as climate resilience

<https://equitablegrowth.org/boosting-wages/>



This factsheet examines the necessity for this place-conscious approach, based on the essay “Place-conscious federal policies to reduce regional economic disparities in the United States,” by the economist Robert Manduca at the University of Michigan. The essay is part of *Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Rising interregional inequality and place-based policy responses

In 1980, most U.S. commuting zones had mean family incomes roughly in line with the national average. While there was certainly inequality within these areas, average incomes were roughly the same across most of the country—with important exceptions in the rural South, the Rio Grande Valley, and other long-identified areas of persistent rural poverty.¹ Over the subsequent decades, however, regions of the United States diverged economically from one another. By 2013, there were far more places with mean incomes that were either much higher or much lower than the nation as a whole.

For many years, these regional economic challenges were largely considered a problem for local and state leaders to address by themselves. But today, there is an increasing appetite for federal policy action to reduce geographic

inequality. Initial proposals have largely taken the form of “place-based policies” that target struggling neighborhoods, cities, or regions for investment or subsidies with the goal of increasing incomes and employment.² Recent proposals for place-based policies include geographically targeted tax breaks tied to job creation³ and direct federal investment in research and development located in struggling regions.⁴

Yet place-based economic policies meet with skepticism on several grounds. First of all, deciding which places deserve to be targeted with extra subsidies is both technically challenging and politically fraught. Secondly, there is no guarantee that residents of a targeted place will be the final beneficiaries of these investments, since newly created jobs are often filled by in-migrants rather than current residents. Finally, such policies often appear to have the effect of simply moving economic activity from one place to another rather than increasing the total amount.⁵

The growth in geographic inequality since 1980 is driven by national-level changes

The key fact about regional economic divergence is that while it appears to be the result of many different local trends, it is fundamentally a national process driven in large part by national economic trends and federal policies.

Much of the increase in interregional inequality since the 1970s is attributable to federal policy changes that seem geographically neutral at first glance. This includes the lowering of trade barriers,⁶ relaxation of antitrust enforcement,⁷ and deregulation of the transportation and communications industries.⁸ Though implemented nationally, these policies interacted with existing spatial patterns in the U.S. economy in ways that systematically helped some places while disadvantaging others.⁹

The solution: Universal, place-conscious policies

Addressing interregional inequality will be most effectively accomplished at the federal level through what might be termed “place-conscious policies.” Rather than attempting to identify and compensate regions that are “losing” the economic competition after the fact, as place-based

policies do, place-conscious policies seek to even the economic playing field and lower the stakes of interregional competition to begin with. This will make them easier to administer, less susceptible to critiques for being unfair or corrupt, and ultimately more effective.

A place-conscious approach can be applied in almost every area of federal policy, from trade to taxes to military spending. Manduca’s essay examines four types of place-conscious policy:

- Universal anti-poverty programs
- Re-regulation of key industries
- State and municipal financial reform
- Direct investment

Taken together, these policies represent a revival of the federal government as a proactive force for uniting disparate regions into one national economy—a role it has repeatedly played throughout U.S. history, from the development of the U.S. Postal Service to the building of the interstate highway system.

Read the full essay

“Place-conscious federal policies to reduce regional economic disparities in the United States,” by **Robert Manduca**

This essay is part of Boosting Wages for U.S. Workers in the New Economy, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Endnotes

- 1 Bruce A. Weber and Kathleen Miller, “Poverty in Rural America Then and Now.” In Ann R. Tickamyer, Jennifer Sherman, and Jennifer Warlick, eds., *Rural Poverty in the United States* (New York: Columbia University Press, 2017), available at <http://cup.columbia.edu/book/rural-poverty-in-the-united-states/9780231172233>; USDA Economic Research Service, “Rural America at a Glance - 2017 Edition,” *Economic Information Bulletin* (2017), available at <https://www.ers.usda.gov/publications/pub-details/?pubid=85739>.
- 2 David Neumark and Helen Simpson, “Place-Based Policies.” In Gilles Duranton, J. Vernon Henderson, and William C. Strange, eds., *Handbook of Regional and*

Urban Economics, vol. 5 (Amsterdam: Elsevier, 2015), pp. 1197–1287, available at <https://www.sciencedirect.com/science/article/pii/B9780444595317000181>.

- 3 Benjamin Austin, Edward Glaeser, and Lawrence H. Summers, “Saving the Heartland: Place-Based Policies in 21st Century America.” In Janice Eberly and James Stock, eds., *Brookings Papers on Economic Activity* (Washington: Brookings Institution Press, 2018), pp. 151–232, available at <https://www.brookings.edu/bpea-articles/saving-the-heartland-place-based-policies-in-21st-century-america/>.
- 4 Robert D Atkinson, Mark Muro, and Jacob Whiton, “The Case for Growth Centers” (Washington: Brookings Institution, 2019), available at <https://www.brookings.edu/research/growth-centers-how-to-spread-tech-innovation-across-america/>; Jonathan Gruber and Simon Johnson, *Jump-Starting America: How Breakthrough Science Can Revive Economic Growth and the American Dream* (New York: PublicAffairs, 2019), available at <https://www.publicaffairsbooks.com/titles/jonathan-gruber/jump-starting-america/9781541762503/>.
- 5 Edward L. Glaeser and Joshua D. Gottlieb, “The Economics of Place-Making Policies.” Working Paper 14373 (National Bureau of Economic Research, 2008), available at <https://www.nber.org/papers/w14373>; Enrico Moretti, “Local Labor Markets.” Working Paper 15947 (National Bureau of Economic Research, 2010), available at <https://www.nber.org/papers/w15947>.
- 6 David H. Autor, David Dorn, and Gordon H. Hanson, “The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade,” *Annual Review of Economics* 8 (1) (2016): 205–40, available at <https://doi.org/10.1146/annurev-economics-080315-015041>.
- 7 Phillip Longman, “Bloom and Bust,” *Washington Monthly*, November 28, 2015, available at <http://washingtonmonthly.com/magazine/novdec-2015/bloom-and-bust/>; Robert Manduca, “Antitrust Enforcement as Federal Policy to Reduce Regional Economic Disparities,” *The ANNALS of the American Academy of Political and Social Science* 685 (1) (2019): 156–71, available at <https://doi.org/10.1177/0002716219868141>.
- 8 Ganesh Sitaraman, Morgan Ricks, and Christopher Serkin, “Regulation and the Geography of Inequality,” *Duke Law Review* (forthcoming), available at <https://doi.org/10.2139/ssrn.3527055>.
- 9 Robert Manduca, “The Contribution of National Income Inequality to Regional Economic Divergence,” *Social Forces* 98 (2) (2019): 578–621, available at <https://doi.org/10.1093/sf/soz013>.

<https://equitablegrowth.org/boosting-wages/>

 facebook.com/equitablegrowth

 [@equitablegrowth](https://twitter.com/equitablegrowth)

 equitablegrowth.org/feed

 info@equitablegrowth.org

1156 15th St. NW Suite 700
Washington, DC 20005
202-545-6002