BROOKINGS

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Growth through Innovation
Identifying and Responding to the U.S. Metropolitan Employment Crisis

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Executive Summary

The sheer magnitude of the Great Recession affected the ability of Americans across the country to find and keep jobs; however, unemployment has been much worse in some metropolitan areas than others, and recovery likewise has been location-dependent. Three key labor market issues facing metropolitan economies help to explain these varying patterns in the employment crisis: industry structure, the housing market, and workforce skills.

Clearly, the many metropolitan areas that had large shares of their employment in manufacturing and housing-related industries endured some of the sharpest unemployment increases, whereas metropolitan areas whose industries were more resistant to the recession (government, education and health care) fared much better, at least initially. Now, in the recovery, unemployment rates in some manufacturing-oriented metro areas are improving, partially in response to a strong rebound in demand. However, the recovery in government-focused metropolitan industries has lagged, as state and local budget crises have forced cutbacks in government workforces.

The chaos in the housing market has affected some communities more than others, and metro areas with the largest decreases in home prices also witnessed large increases in unemployment. These lost jobs reflected not only a stalled construction industry, but also the impact of decreased household wealth on local consumer spending. Although unemployment has declined in some areas where the housing market remains bad, in many locales, a poor housing market continues to be a drag on employment.

Less-educated workers face both short-run and long-run employment challenges. In the short run, during the recession, jobs in industries that demand less education declined disproportionately, in line with historical patterns. Over the longer term, the ratio of unemployment rates between less-educated and college-educated workers continue to hover around their 40-year averages. Nevertheless, metro areas with an under-supply of educated workers could encounter a rocky path to sustained economic recovery, and, going forward, many

metro labor markets will have to continuously upgrade the education and skills of their workforces.

In response to the federal gridlock that has prevented a coherent response to the jobs crisis, some state and local leaders have developed promising initiatives that address the challenges specific to their labor markets, some of which could become national models. For example, some leaders perceive that their best prospects for renewed economic growth depend on expanding their capacity to export goods and services to markets outside the United States, particularly in developing Asian and Latin American countries, where the bulk of growth in the global middle class is expected. In other locales, leaders are attempting to diversify into industries that have real near-term growth opportunity, such as clean energy technology. Finally, some leaders are emphasizing programs to improve workers skills, for example, through improving the performance of community colleges and ensuring that these institutions are responsive to local and regional workforce needs.

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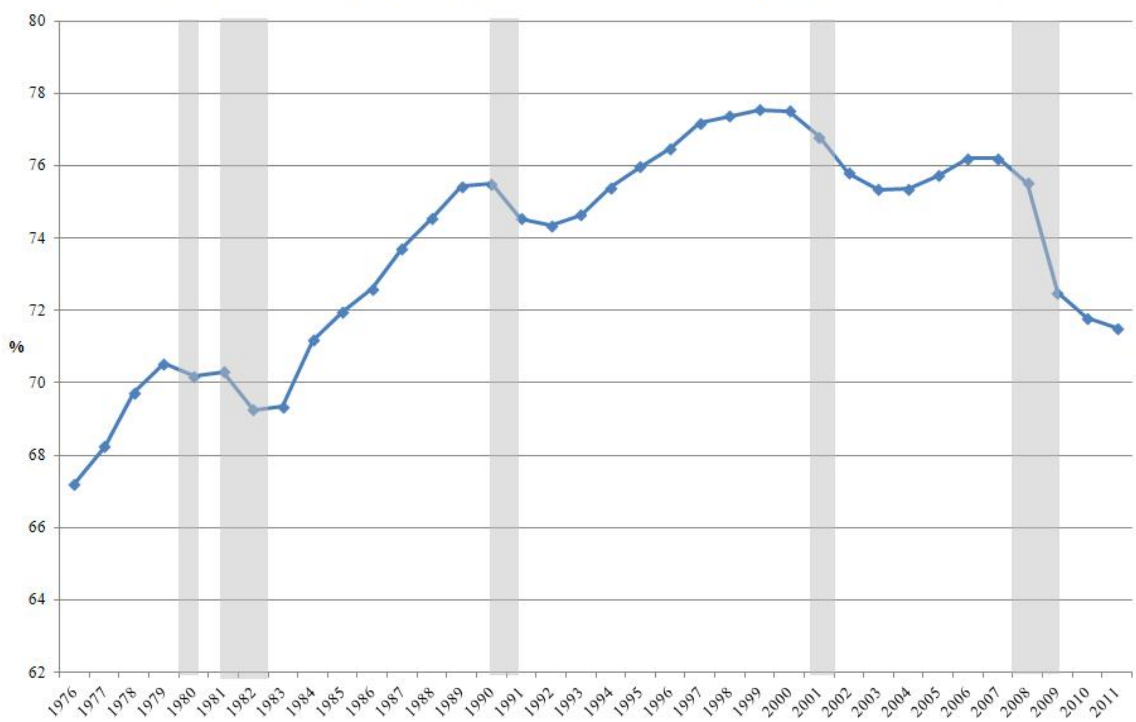
Introduction

The United States continues to face serious labor market challenges. The national unemployment rate stood at 8.5 percent in December 2011. That was down from 9.0 percent in October, but only 1.6 percentage points lower than its peak in October 2009. Before the Great Recession, that high an unemployment rate had not been recorded since 1983. A broader measure of labor market health, the employed share of the U.S. working-age population, showed a fourth straight year of decline in 2011 to its lowest level since 1984, a period in which many women were still entering the American workforce for the first time (Figure 1).

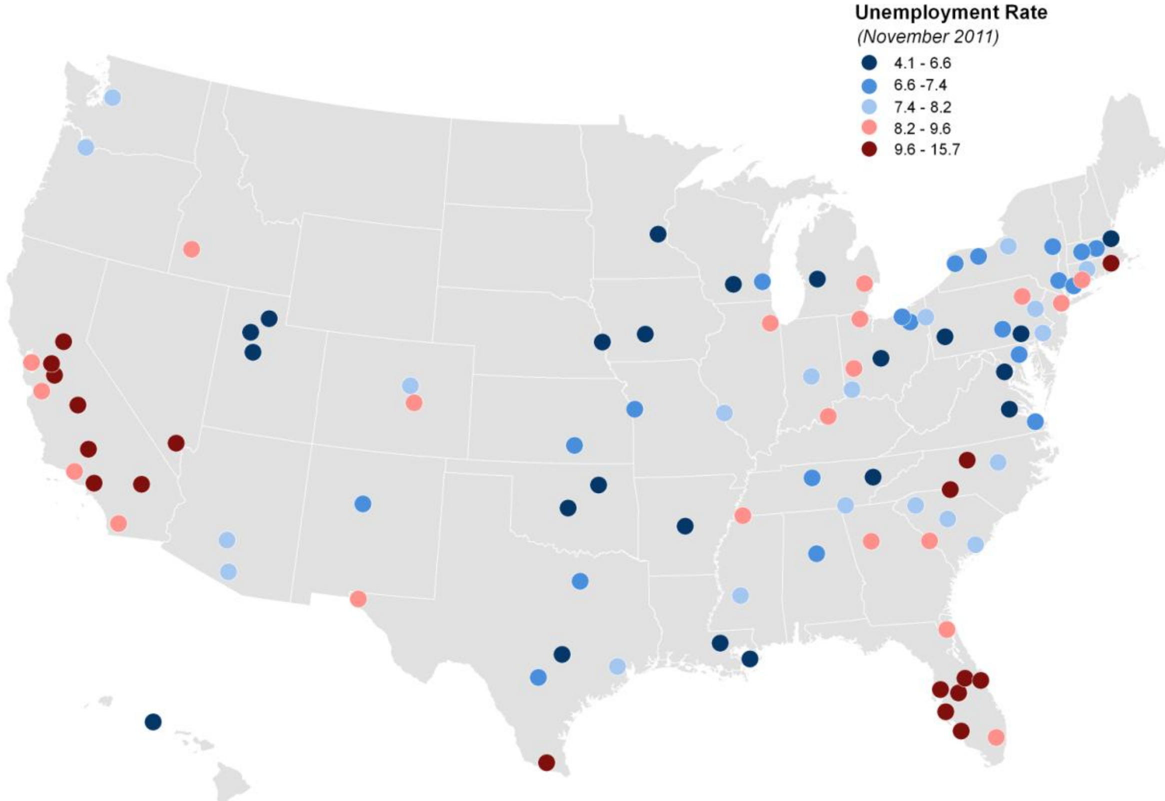
Figure 1. Share of Age 25-to-64 Population in Employment, 1976-2011



Source: Bureau of Labor Statistics. Shaded areas indicate recession periods.

The condition of the U.S. labor market as a whole masks significant variation in the health of local labor markets. In November 2011, unemployment rates across the nation’s 100 largest metropolitan areas ranged from half the national rate in Omaha (4.1 percent) to almost twice the national rate in Fresno (15.7 percent). Unemployment rates in the very largest metro areas ran the gamut from 5.4 percent in the Washington, D.C. area, to 10.7 percent in greater Los Angeles.

Figure 2. Unemployment Rate, 100 Largest U.S. Metropolitan Areas, November 2011



Source: Bureau of Labor Statistics.

These differences reflect the fact that the enormous U.S. economy is, at its root, a collection of distinct and varied metropolitan economies. Collectively, the nation's 100 largest metropolitan areas, which each have populations of half a million or more, represent two-thirds of U.S. jobs and generate three-quarters of U.S. GDP, and their performance largely drives that of the U.S. economy as a whole. These metro areas have different economic structures, workers with different types of skills and different exposures to global economic dynamics—factors that propel or hold back recovery in different corners of the country.

Large, developed, urbanized economies such as the United States demonstrate a good deal of internal variation in labor market conditions even during expansionary periods. That variation is much more in view now for a few reasons. First, the sheer magnitude of the Great Recession made things worse everywhere, but much worse in some places than others, and in a different geographic pattern than previous recessions. Second, labor market recovery is now happening at an adequate pace in some regions and metro areas, even as it stalls elsewhere. Third, and perhaps most important, the inability of the federal government to produce a coherent response to the jobs crisis due to partisan gridlock has focused even greater attention on state and local leaders' actions to respond to the specific nature of problems facing their unique labor markets.

This paper explores in greater detail the magnitude and characteristics of the labor market challenges facing the nation's largest metropolitan areas and examines evidence on the underlying factors contributing to those challenges. It pays particular attention to three factors that may help explain the current and longer-running labor market issues facing metropolitan economies: industry structure, the housing market, and workforce skills. It concludes by highlighting a series of emerging, "bottom-up" responses to job creation at the state and local levels that hold promise for accelerating and sustaining broader labor market recovery, and generating more widely shared prosperity in metro areas and the nation as a whole.

The Metropolitan Employment Crisis

Metropolitan unemployment rates paint a more detailed, nuanced picture of the national unemployment crisis at the turn of 2012. At one level, conditions are worse everywhere than they were at the onset of the Great Recession. Unemployment rates in each of the 100 largest metropolitan areas were higher in October 2011 than four years earlier. At the same time, how *much* worse unemployment is varies greatly. In October 2007, Minneapolis (4.0 percent) and Las Vegas, (4.6 percent) had similar unemployment rates. Four years later, however, the rate in Minneapolis is slightly higher (5.4 percent), but nearly three times as high in Las Vegas (13.1 percent).

To a large degree, disparate increases in metropolitan unemployment rates reflect the disparate severity of the recession on local labor markets. Unemployment remains high today in places most affected by the housing bust (California's Central Valley, Las Vegas, most of Florida), and places hit hardest by manufacturing job losses (Detroit, Providence, Greensboro). By contrast, metro areas throughout much of the nation's midsection (Omaha, Des Moines, Oklahoma City) and areas with large concentrations of government, education, and health care jobs (Madison, Washington, D.C., Boston, Pittsburgh) exhibit below-average unemployment rates.

This recovery is no exception to the pattern of variation in metropolitan unemployment. The standard deviation among unemployment rates in the 100 largest metropolitan areas rises during recessions, and falls during recoveries (Figure 3). The level of variation in 2011 is similar to that after the recessions of the early 1980s and 1990s.

Figure 3. Variation in Unemployment Rates Among 100 Largest Metro Areas, 1976-2011

Source: Bureau of Labor Statistics. Standard deviation of unemployment rates. Shaded areas indicate recessionary periods.

But unemployment levels today also reflect wide divergence in the extent and speed of recovery in metropolitan areas. Unemployment rates are falling in most metropolitan areas, in line with national averages, but still rose in 2 of the 100 largest metro areas from November 2010 to 2011 (Chicago and Honolulu).[1] They fell fastest in Florida metro areas like Cape Coral, Miami, Tampa and Orlando, as well as in manufacturing regions like Grand Rapids, Portland (OR), Detroit and Cleveland. They dropped by much smaller margins in Southeastern metro areas like Augusta, Raleigh, Memphis and Jackson, and in Texas metro areas like El Paso, San Antonio and Austin.

Three Issues Facing Metropolitan Labor Markets

The unemployment rate in any given metropolitan area reflects a complicated mix of factors. Demographics, for instance, influence the relative size of the population seeking work, and metro characteristics such as age structure, immigration and household types vary significantly across the U.S. landscape.[2]

Nevertheless, three factors stand out as helping to explain the current nature of the employment crisis across a broad set of metropolitan areas. They are not uniform in their impact or importance, but most metro areas battling high or stagnant unemployment rates seem to face one or more of these issues.

Industry Structure

Metropolitan areas play different, specialized roles in broader regional, national and global economies. By locating in metropolitan areas, firms benefit from proximity to suppliers and consumers, which in turn spurs specialization, innovation and economic growth.[3] Because the recession and recovery have affected some industries more than others, metropolitan unemployment dynamics reflect in part the economic functions that these places served before and during the crisis.

The first wave of the crisis struck hard in many metropolitan areas that had large shares of their employment in manufacturing.[4] The 19 manufacturing-focused metro areas among the nation's 100 largest suffered an average increase in unemployment of 5.3 percentage points from November 2007 to November 2009, above the U.S. average of 4.9 percentage points (Table 1). The recession's near-crippling blow to the auto industry reverberated especially in a vast swath of metro areas in the Midwest and South that form the nation's auto manufacturing belt, such as Detroit, Cleveland and Greenville. For many of these metro areas, this was the latest, most severe blow in a decade of declining manufacturing employment.

Table 1. Average Change in Unemployment Rate, 100 Largest Metropolitan Areas by Industry Specialization, 2007 to 2011

Industry specialization	**Number of metro areas**	**Average unemployment rate change**		
		2007 to 2009	**2009 to 2011**	**2010 to 2011**
Education/health	18	+4.3	-1.0	-1.0
Financial services	22	+4.4	-1.1	-1.1
Government	17	+4.2	-0.6	-0.9
Housing	18	+5.7	-1.2	-1.7
Information	18	+4.5	-1.0	-1.1
Manufacturing	19	+5.3	-2.2	-1.4
Professional services	16	+5.5	-1.4	-1.3
Transportation	26	+4.7	-0.9	-1.0
Wholesale trade	14	+5.3	-1.4	-1.1
Utilities	16	+5.2	-1.1	-1.3
U.S. Average		**+4.9**	**-1.2**	**-1.1**

Source: Analysis of data from Moody's Analytics and Bureau of Labor Statistics. Unemployment data are from November of each year. Metro areas with specified industrial specialization have at least a 25 percent higher share of employment in that industry than does the United States overall. Housing includes construction and real estate employment and reflects mainly local activity rather than a metropolitan export economy. Metro areas may specialize in more than one industry.

Unemployment also rose dramatically in metro areas that depended heavily on housing-related industries, such as construction and real estate. The 18 housing-focused metro areas among the nation's 100 largest experienced an average increase in unemployment of 5.7 percentage points from November 2007 to November 2009. Cape Coral and Las Vegas exemplified this over-concentration, with roughly double the share of their jobs in construction and real estate as the metropolitan average. In the years predating the housing market crash, many places in the interior West and Florida had become too invested in homebuilding and the in-migration that fueled demand for new homes. As home prices plummeted, foreclosures rose and immigration dropped to all-time lows, large numbers of workers in these metro areas were sidelined, and unemployment rates spiked.

On the positive side, metropolitan areas that specialized in industries more resistant to the recession fared much better, at least initially. Among these were metro areas with large shares of employment in government, education and health care. The 17 government-focused metro areas, such as Albany, Madison, and Washington, D.C., and the 18 education and health care-focused metro areas, such as McAllen, Pittsburgh, and Worcester, experienced average increases in unemployment rates of 4.2 and 4.3 percentage points, respectively. These sectors remained more insulated from market swings that hobbled other industries; indeed, BLS data indicate that in only one month between November 2007 and November 2009 did education and health care industries fail to add jobs at the national level. Metro areas focused on financial services and information (media, software) also performed better than national averages.

These were the key industry-related dynamics through the first stages of the crisis, as the national unemployment rate rose dramatically in 2008 and 2009. As noted above, unemployment remained at high levels from 2009 to 2010, and fell in most metro areas over the past year. But this latter stage of tentative labor market recovery reverses some of the industrial patterns seen earlier, with some heavily affected areas seeing larger declines in unemployment than metro areas that avoided the worst of the initial crisis.

This reversal of fortune has benefited manufacturing-oriented metro areas. Detroit stands out in this regard. Its unemployment rate was 14.7 percent in November 2009, nearly five points above the national average. Two years later, it stood at 9.5 percent, just slightly above the national average. Overall, the 19 metro areas that specialize in manufacturing experienced an average decline of 2.2 percentage points in their unemployment rates from November 2009 to November 2011, versus an average national decline of 1.2 percentage points. In general, these places have benefited from a strong rebound in demand for manufactured goods worldwide, in part reflecting businesses' replenishing inventories depleted at the height of the economic crisis.

Some of the housing-focused metro areas are bouncing back strongly, too. Over the past year, unemployment rates in Cape Coral and Las Vegas dipped by about two and a half percentage points, double the national decline. Some of this trend likely represents migration of unemployed workers to other parts of the country, but some reflects local job gains in professional services, education and health and even tourism. Unemployment dropped significantly faster than average in the past year in the 14 housing-focused metro areas.

Unemployment has been slower to decline, however, in government-focused metropolitan areas. While less susceptible to cyclical declines than more market-oriented industries, government employment is now on the decline, as state and local budget crises are forcing cuts in public-sector jobs. Unemployment rates are roughly the same today as two years ago in several state capitals, including Baton Rouge, Des Moines, Honolulu, Jackson and Little Rock. From November 2009 to November 2011, the average unemployment rate in the 25 government-focused metro areas declined only 0.6 percentage points. Education and health-care oriented metro areas also have seen slightly slower declines in average unemployment the past two years than the United States overall.

Housing Market

The impediment that housing market conditions pose to national economic recovery has been well documented and debated. In response, the Obama administration has mounted a series of efforts to reduce home foreclosures and stabilize home prices, though none has yet fully achieved these goals.[5]

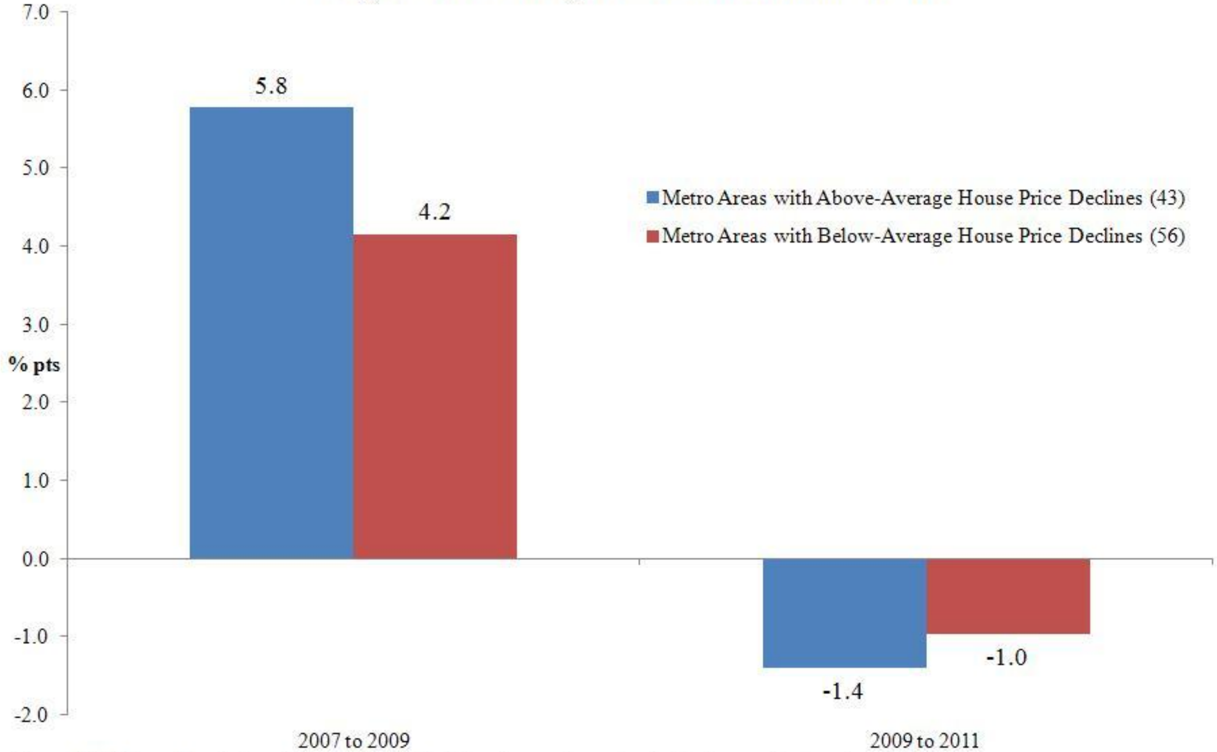
Beneath the national numbers, however, lurks tremendous variation across the country in home price, foreclosure and mortgage trends that may contribute to current local labor market difficulties.[6] From their pre-recession peaks to their troughs, home price changes in the 100 largest metropolitan areas ranged from just an 8 percent drop in Pittsburgh to a 65 percent plunge in Modesto.

Not surprisingly, the 43 metro areas that have experienced home price declines exceeding the national average also witnessed an average unemployment rate increase from 2007 to 2009 (5.8 percentage points) that exceeded the national average (Figure 4). Several of these metro areas were among those that also had large shares of employment in construction and real estate, noted above. But even those metro areas in which prices declined rapidly but workers were not concentrated in the housing sector experienced a large average spike in unemployment, reflecting the impacts of declining household wealth on local consumer spending.

The map of underwater mortgages—those in which the balance exceeds the home's value—mirrors that for home price trends generally. Among the 10 metro areas in which the largest share of home mortgages are underwater, nine also rank among those with the largest home price declines.[7] For instance, home prices in Las Vegas are roughly 65 percent off their pre-recession peak, and more than 63 percent of mortgages in the metro area are estimated to be underwater. By contrast, only 6 percent of Pittsburgh mortgage-holders owe more than their home is worth today.

Many of the metro areas in which home prices dropped farthest and large shares of homeowners are underwater have nonetheless posted larger-than-average unemployment declines in the past year. Unemployment rates in most major Florida metro areas have dropped at least 2 percentage points since November 2010, versus a national decline of just over 1 percentage point. California metro areas heavily affected by the housing market crash made above-average progress on unemployment as well. Still, the average unemployment rate remains 4.4 percentage points higher than its 2007 level in metro areas with large home price declines, versus 3.2 percentage points in less affected metro areas.

Figure 4. Average Unemployment Rate Change by House Price Decline, 99 Largest Metro Areas, 2007 to 2009 and 2009 to 2011



Source: FHFA Home Price Index and Bureau of Labor Statistics. Average house price decline from peak to trough was 26.7% nationally. Data not available for Lancaster, PA. Unemployment data are for November in specified years.

Housing market problems thus seem to pose continued challenges to metropolitan labor markets in the form of idled workers from sectors like construction and real estate, and reduced consumer spending due to declines in homeowner wealth. Some experts have raised the specter of additional problems arising from unemployed people in heavily affected housing markets being unable or unwilling to move due to an inability to sell their homes.[8] This concern is amplified by recent data showing that the share of Americans who moved across state lines was just 3.5 percent in 2010-2011, a postwar low.[9]

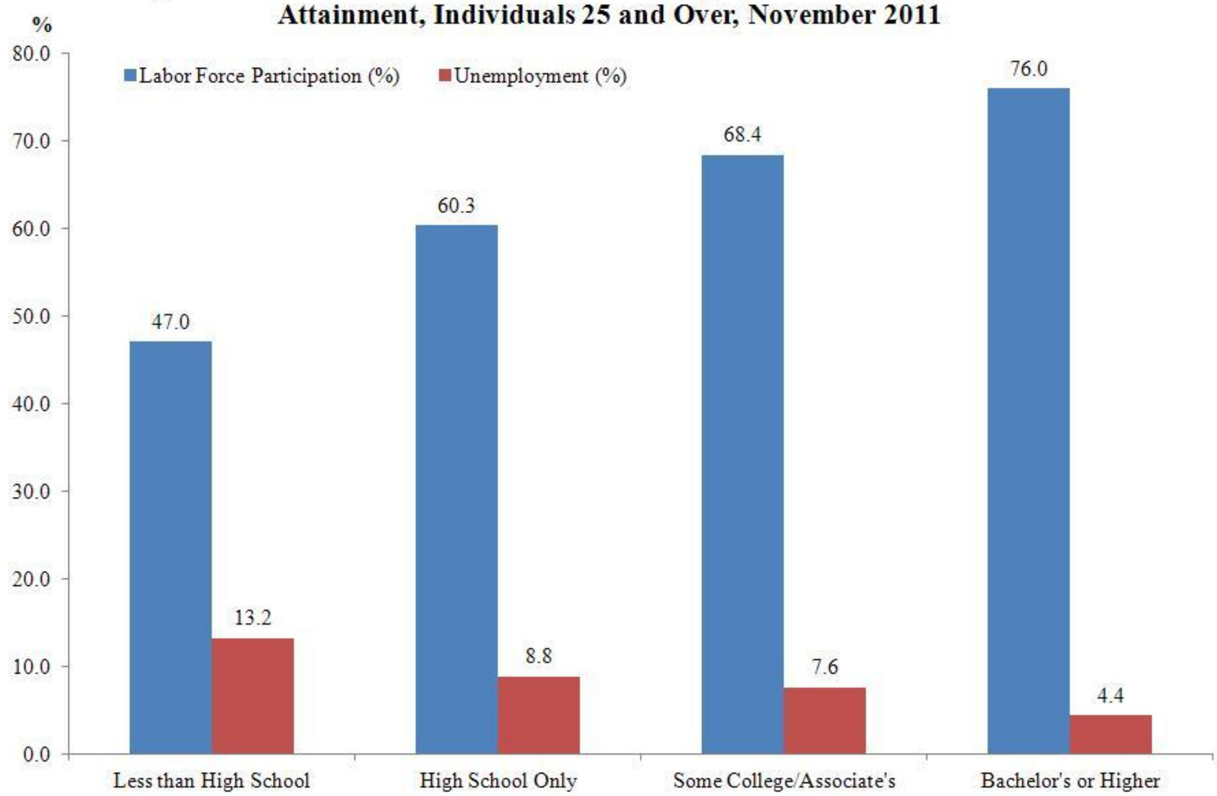
The preponderance of recent research on this question, however, suggests little to no relationship between home price declines, or the prevalence of negative equity, and household migration patterns.[10] Some researchers find that interstate mobility rates have actually declined more in states with healthier housing markets, the opposite of what one would expect if "lock-in" were a serious problem.[11] Recent, more rapid unemployment declines in heavily impacted metro areas seem to indicate that labor immobility is not a major contributor to the ongoing challenges facing those regions.

Workforce Skills

A third factor that may contribute to high levels of unemployment in metropolitan areas relates to the skill levels of their workers. Specifically, unemployed workers may lack the requisite education and skills for available job openings. At the national level, concern about this issue has received a good deal of attention in the popular press, and in recent industry studies.[12]

Employment data by educational attainment provide some basis for worrying about "skills mismatch" in the U.S. labor market today. Unemployment rates are much higher, and labor force participation rates much lower, for less-educated individuals (Figure 5).

Figure 5. Labor Force Participation and Unemployment Rates by Educational Attainment, Individuals 25 and Over, November 2011



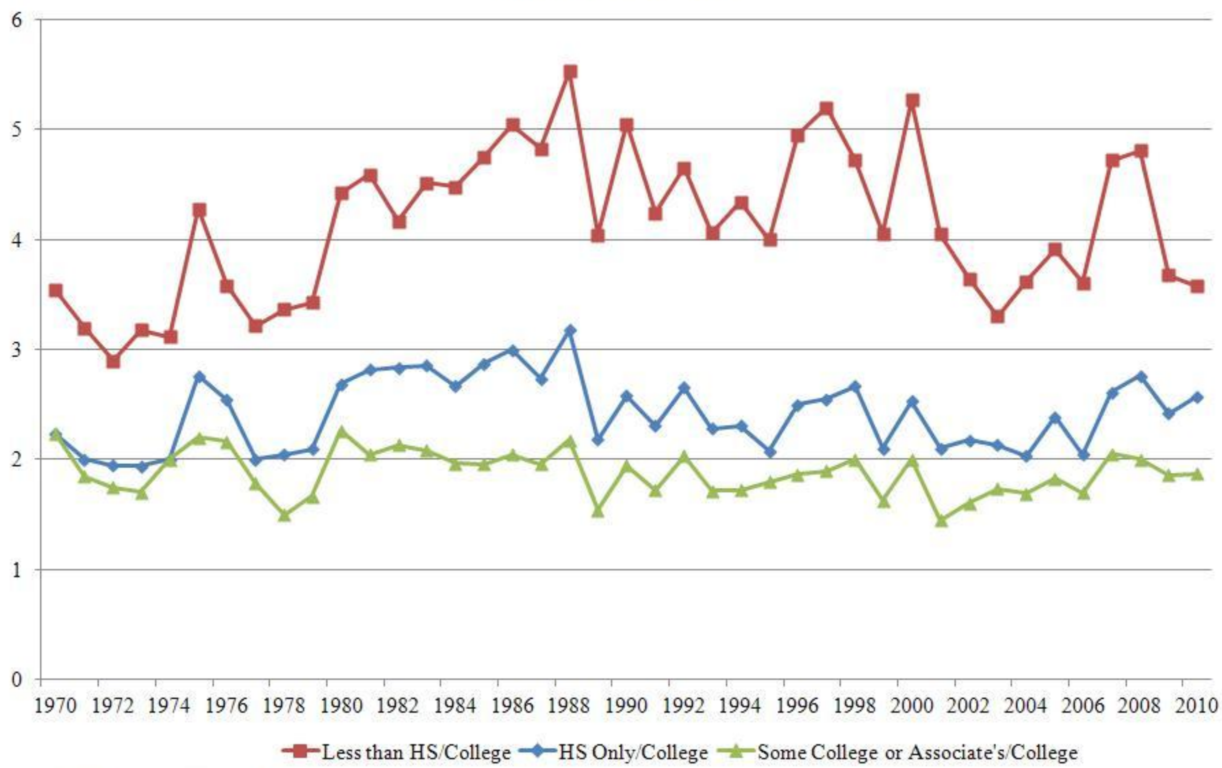
Source: Bureau of Labor Statistics

The employment struggles facing less-educated workers nationwide today seem to reflect both short-run and long-run dynamics. During the recession, the average level of education demanded by occupations in the U.S. labor market rose slightly faster than the average educational attainment of U.S. residents aged 25 and over.[13] This reflects in part the disproportionate loss during the recession of jobs in industries that demand less education (e.g., construction) alongside smaller job losses, and even gains, in industries that demand more education (e.g., education, health care). Over the long run, the differences between employment outcomes for more- and less-educated workers reflect employers' increasing, and in some cases bifurcating, demand for education.[14]

Does today's high unemployment rate indicate that the Great Recession significantly widened the gap between the demand for, and supply of, highly-skilled workers? Some analysis supports the contention that the U.S. labor market is suffering from a high level of so-called "structural" unemployment. Some researchers point to data indicating that job openings are high relative to the level of unemployment.[15] Others find that recent state-level unemployment rates relate positively to measures of their skills mismatch.[16]

Yet other research questions the relative contribution of skills mismatch to current U.S. labor market problems. First, unemployment historically rises more rapidly for less-educated groups than more-educated during a recession, then falls faster during the recovery.[17] Recent trends provide some initial evidence for this phenomenon. From summer 2011 to November 2011, the unemployment rate for individuals without a high school diploma was down 1.8 percentage points, and down 1.1 percentage points for those with no more than a high school diploma, while it was unchanged for four-year college graduates. Second, longer-run trends indicate that the ratios of unemployment rates between less-educated and college-educated workers continue to hover around their 40-year averages (Figure 6). Third, several other researchers have called into question initial evidence pointing to skills mismatch as a significant contributor to unemployment.[18] Some analysts posit that changes in the recruiting intensity of employers, or their flexibility and willingness to provide on-the-job training, may contribute more to current levels of unemployment than a lack of skilled workers.[19]

Figure 6. Ratio of Unemployment Rates, Lower-Educated to College-Educated Workers, 1970-2010



Source: Bureau of Labor Statistics

While most evidence casts doubt on the theory that skills mismatch is the most important U.S. labor market problem at the moment, the different economic and demographic structures of its metropolitan areas reveal places where an under-supply of educated workers could complicate the path to sustained economic recovery.

Not all metro areas mirror the nation as a whole on employment patterns by educational attainment. Metropolitan areas with higher rates of educational attainment overall experienced smaller declines in the employment rates of their workers.[20] Yet while college-educated workers had higher employment rates than other groups across the board throughout the downturn and recovery, in many large metro areas, workers with a high school diploma bore more of the brunt of the recession than workers without a diploma (Table 2). This is consistent with evidence pointing to a "hollowing out" of U.S. labor market opportunities for some middle-skill workers in jobs particularly susceptible to automation or offshoring.[21]

Table 2. Change in Employment-to-Population Ratio by Educational Attainment, 10 Largest Metro Areas, 2007 to 2010

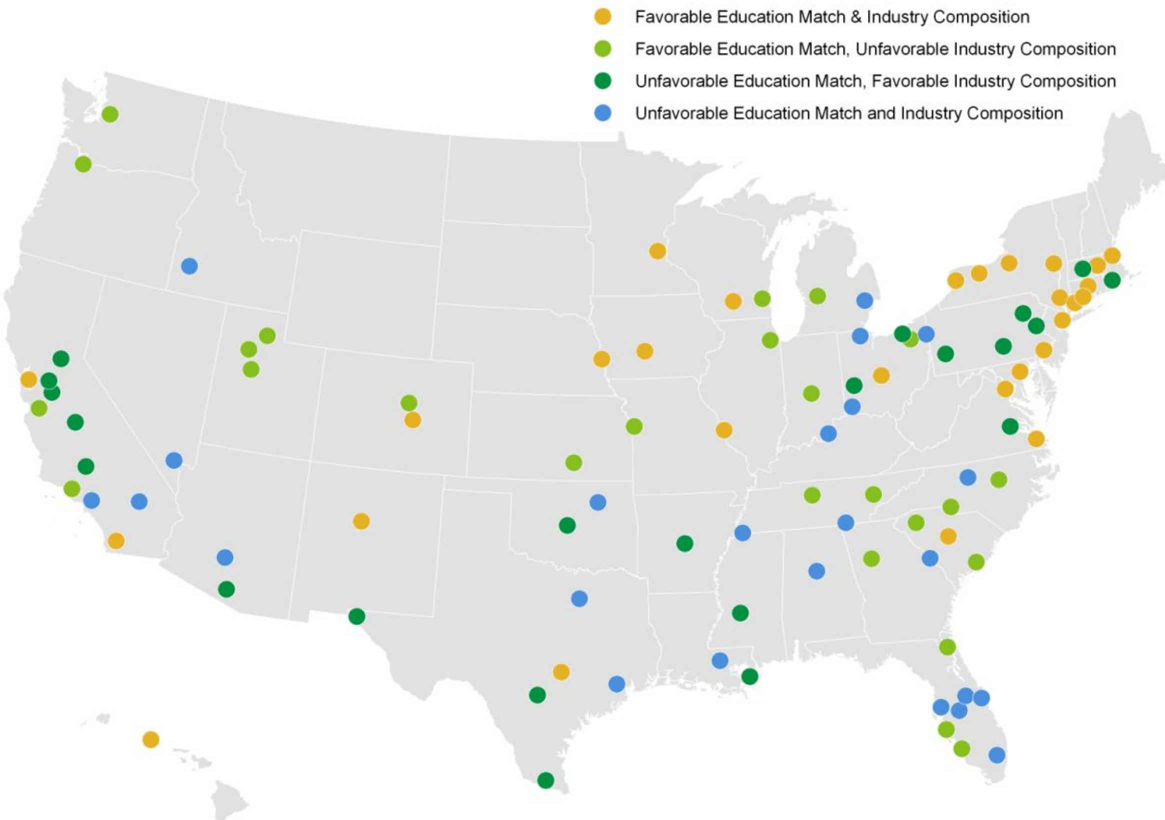
Metro Area	Less than HS	HS Only	Some College	Bachelor's
Atlanta, GA	**-4.7**	**-6.7**	**-5.4**	**-2.3**
Boston, MA	-1.1	**-4.2**	-2.3	-1.0
Chicago, IL	**-4.9**	**-4.9**	**-3.9**	**-1.3**
Dallas, TX	**-2.8**	**-3.1**	-1.5	-0.1
Houston, TX	-1.6	**-3.2**	-1.8	-0.5
Los Angeles, CA	**-3.0**	**-3.8**	**-3.3**	**-2.2**
Miami, FL	**-5.9**	**-6.8**	**-4.1**	**-2.7**
New York, NY	-0.4	**-3.2**	**-3.0**	**-1.5**
Philadelphia, PA	**-3.1**	**-4.9**	**-4.1**	-0.9
Washington, DC	2.4	-2.3	-1.2	-0.7

Bold entries significant at 90 percent confidence interval. Source: Analysis of American Community Survey data.

At the metropolitan level, workers' educational levels relative to the demand for education among area occupations mattered for unemployment during the recession. Comparing the average level of educational attainment among a metro area's working-age adults to the average level of education possessed nationwide by workers in the metro area's occupations, one study shows that, from 2005 to 2011, metro areas with larger-than-average gaps between education demand and supply had unemployment rates 1.4 percentage points higher than other metro areas. This was similar to average unemployment rate differences over the same period between metro areas with more versus less resilient industries.[22]

Where might an under-supply of skilled workers be a problem? Figure 7 shows four types of metro areas that either face particular challenges around workforce skills, industry demand, both or neither. The two types of areas exhibiting education gaps include places like Philadelphia, Little Rock, and San Antonio. They escaped the worst of the recession's effects because of concentrations in relatively stable industries, but may face obstacles to reducing unemployment today because employers' demand for educated workers may outstrip the local supply. By contrast, places like Augusta, Baton Rouge, Los Angeles and Memphis appear to face a double-

Figure 7. Education Gap and Industry Growth Indexes, 100 Largest U.S. Metropolitan Areas, 2009



whammy–hard-hit industries and a relative lack of educated workers—as they try to reduce unemployment.

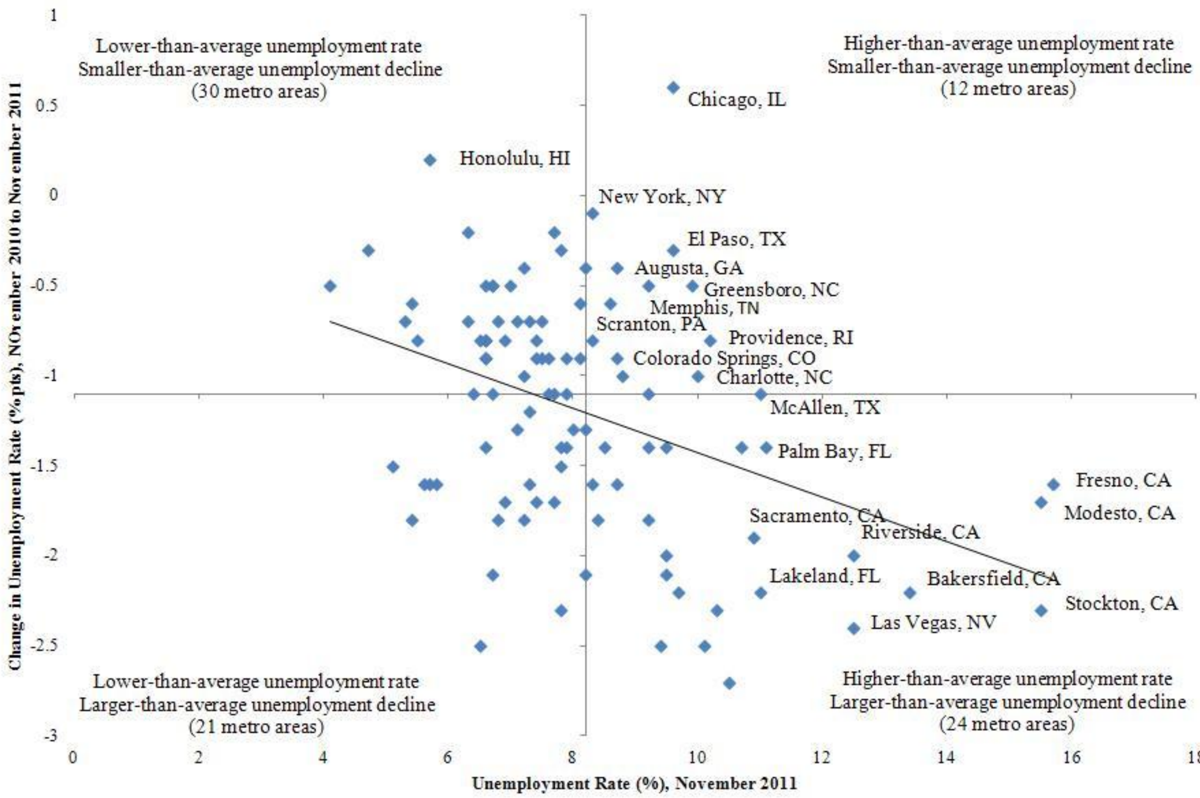
These figures do not necessarily contradict the above evidence that skills mismatch explains relatively little of the short-run problems facing the U.S. labor market. In fact, most of what these metropolitan figures may capture is longer-running gaps between worker education and employer demand that contributed to higher-than-average rates of unemployment even before the recession. Overall, a metro area's education gap explains about half the variation in its average unemployment rate from 2005 to 2010, but just 20 percent of the unemployment increase it experienced from 2007 to 2009.[23]

In this way, the Great Recession shone a bright light on a longer-running issue confronting many major metropolitan labor markets: the need to continuously upgrade the education and skills of the workforce to ensure broadly shared labor market prosperity.

Discussion and Implications

Beneath the troublesome indicators for the U.S. labor market as a whole, a diverse array of metropolitan economies face labor market challenges of widely varying magnitude and sources. Metro areas that continue to post high unemployment rates but that have not achieved significant reductions in those rates over the past year confront some of the most pressing challenges (upper-right quadrant, Figure 8). So, too, do metro areas that despite significant recent reductions continue to exhibit very high unemployment, most located in California's Central Valley (lower-right quadrant, Figure 8). These places face a mix of the challenges illuminated above, from concentration in lagging industries (Chicago), to education gaps between employer demand and worker supply (Scranton), to depressed housing markets holding back broader recovery (Modesto).

Figure 8. Unemployment Rate, November 2011, versus Change in Unemployment Rate, November 2010-2011, 100 Largest Metro Areas



In the face of these challenges and limited action at the federal level to address underlying problems, leaders at the state, local and metro levels are innovating to respond to their specific barriers to labor market recovery. Several innovations adopted in just the past year offer promising models that could be replicated elsewhere, and eventually scaled up for national action:

Satisfying Growing Global Demand

American consumers fueled most of the last round of U.S. economic growth, piling up record levels of debt in the process. To be sustainable, the next round of growth must take advantage of growth in consumer and business demand elsewhere, particularly in overseas markets. The vast majority of the world's fastest-growing metropolitan economies are in developing Asian and Latin American countries, which will account for the bulk of growth in the global middle class.[24] Metro areas focused in exporting goods and services to these growing markets already seem better positioned in the recovery than more inwardly focused metro areas, or those with their strongest ties to Eurozone markets.[25]

In response to these opportunities, Los Angeles has established a new Regional Export Council that aims to double export levels in five years by expanding access to export training and market research, streamlining export services, and providing networking opportunities for export-ready companies in twelve key industries. The region begins with established strengths in its connections to Asian and Latin American economies on the Pacific Rim and the infrastructure to move freight by land, sea and air. The effort will focus especially on smaller firms looking to enter new markets or begin exporting for the first time and will help provide them with market research, assistance to develop export plans and workshops to learn the basics of exporting.[26]

Diversifying Into Growth Industries

As described above, several of the states and metro areas that were most affected by the downturn were those that became too focused in housing before the real estate crash in the late 2000s. In many, the over-concentration in housing was a reflection of a larger reliance on consumption-oriented industries such as retail, and leisure and hospitality. To be sure, state and local leaders' ability to directly influence house prices or mortgage balances remains limited. But their success in adding new jobs and overcoming the drag of the housing market will depend in part on their ability to encourage the diversification of the local economy into industries with real growth opportunities in the near term.

As they do, they might look to the example recently set by Nevada, an epicenter of the consumption economy and housing market crash. The state is very self-consciously recalibrating its economic development agenda to build on the endemic strengths of its metro areas, particularly Las Vegas and Reno. It is moving to aid and abet "bottom-up" strategies such as well-conceived cluster initiatives, and regional business and export plans. It is also actively seeking to diversify the industry base of these regions, setting a platform for higher-value growth through innovation, global engagement, and enhanced workforce training. To achieve these goals, the state is unifying its existing economic development activities, elevating their position in the executive branch, and providing new funding and structure for future investments in knowledge and innovation.[27]

Ensuring Workers Have Needed Skills

Current labor market challenges have placed renewed priority on the performance of community colleges, the primary type of postsecondary institution serving local and regional workforce needs.[28] Indeed, during the recession and sluggish recovery many community colleges have enrolled record numbers of students who are seeking affordable ways to increase their skills. Yet community colleges face well-documented challenges in ensuring that their students complete degrees and acquire credentials with value in the labor market.[29]

The North Carolina Community College System is working with all 58 of the state's community colleges through its SuccessNC initiative to double the number of students completing career credentials by 2020.[30] Such strategies are particularly relevant today in a state with metro areas like Charlotte and Greensboro that appear to be lagging the nascent national recovery. The initiative is fostering greater collaboration among the colleges; developing performance measures to assess and improve course offerings, including their alignment with regional labor market needs; and working at the system level to resolve specific barriers impeding colleges' efforts to improve student outcomes. An increasing number of states are taking similar steps to realize the potential of their community colleges to help better align worker skills with pressing labor market needs.[31]

Conclusion

The road to labor market recovery in the United States will likely be a long one, and the pace of progress will depend on many events well outside the purview of metropolitan leaders, such as the fate of the Eurozone, federal tax policy, the value of the Chinese currency and crude oil prices. Yet those leaders remain in a unique position to help power a sustainable recovery, because their places exert an outsized influence on national growth, and because they can tailor their interventions to the unique challenges and opportunities their places face. This paper provides an initial overview of those challenges and the emerging policy responses that can overcome near-term federal inertia and grow jobs for the long term in metropolitan America.

Notes and References

[1] Metropolitan unemployment rates reported by the Bureau of Labor Statistics are not seasonally adjusted, so comparisons over time must use the same month of data.

[2] See Brookings' State of Metropolitan America Indicator Map, online at www.brookings.edu/metro/StateofMetroAmerica/Map.aspx.

[3] Stuart Rosenthal and William Strange, "Evidence on the Nature and Sources of Agglomeration Economies," in J.V. Henderson and J. F. Thisse, ed., *Handbook of Regional and Urban Economics*, vol. 4 (Amsterdam: North-Holland, 2004).

[4] Industry specializations in this section are defined by metropolitan areas in which employment in the specified industry represents at least 25% more of total metro employment than it does in the United States overall (i.e., location quotient of at least 1.25).

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