THE HAMILTON PROJECT

Advancing Opportunity, Prosperity, and Growth

Increasing Residential Mobility to Boost Economic Mobility

In August 2010, the unemployment rate in the Flint, Michigan, metropolitan area was 23.6 percent, well above the national average of 9.6 percent. Other cities around the country have been hit similarly hard and have had unemployment rates persistently above the national average. At the

The Mobility Bank

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same time, numerous cities around the country have very low unemployment rates, at or below 6 percent. Given this substantial variation in local labor markets across different parts of the country, workers could benefit by moving from high-unemployment areas to areas with greater demand for workers; this move would help workers get back to work more quickly.

However, these benefits of labor-market mobility are not being fully realized. One reason is that an unemployed person who is thinking about moving for economic reasons faces a series of front-loaded costs, such as moving expenses and leaving familiar surroundings, which are incurred in exchange for potential longer-term benefits—a steady job. But unemployed workers have few resources and little ability to borrow from private lenders to finance this type of investment: they cannot use their future earnings as collateral to borrow money to finance a move. At a time when geographic mobility could help improve economic mobility, the mobility rate is at a historic low.

Authors Jens Ludwig and Steven Raphael propose a mobility bank to help individuals finance moves to areas of greater economic opportunity. In cities with unemployment rates in the top third nationally, residents could take out a loan to finance their move to an area where they believe they can more readily find a job. Repayment of the loan would not be required until the borrower found a job. Because the proposal provides a loan rather than a grant, it appears to be very cost effective compared to other job-creating programs. And by speeding the rate at which unemployed workers find jobs, it could help reduce overall unemployment.

The Challenge

Mobility is a key feature of an efficient labor market. In a mobile labor market, individuals move to areas where their skills are in higher demand, reaping benefits in the form of higher wages and greater employment stability. The national economy benefits from the increased demand these higher earnings generate, and the mobility can help regions adjust to local labor market shocks. Mass layoffs may have less of a deleterious effect on an area if some workers leave the area for new job opportunities, reducing the competition for scarce jobs and freeing up funds that would otherwise have to be spent on social services for the unemployed.

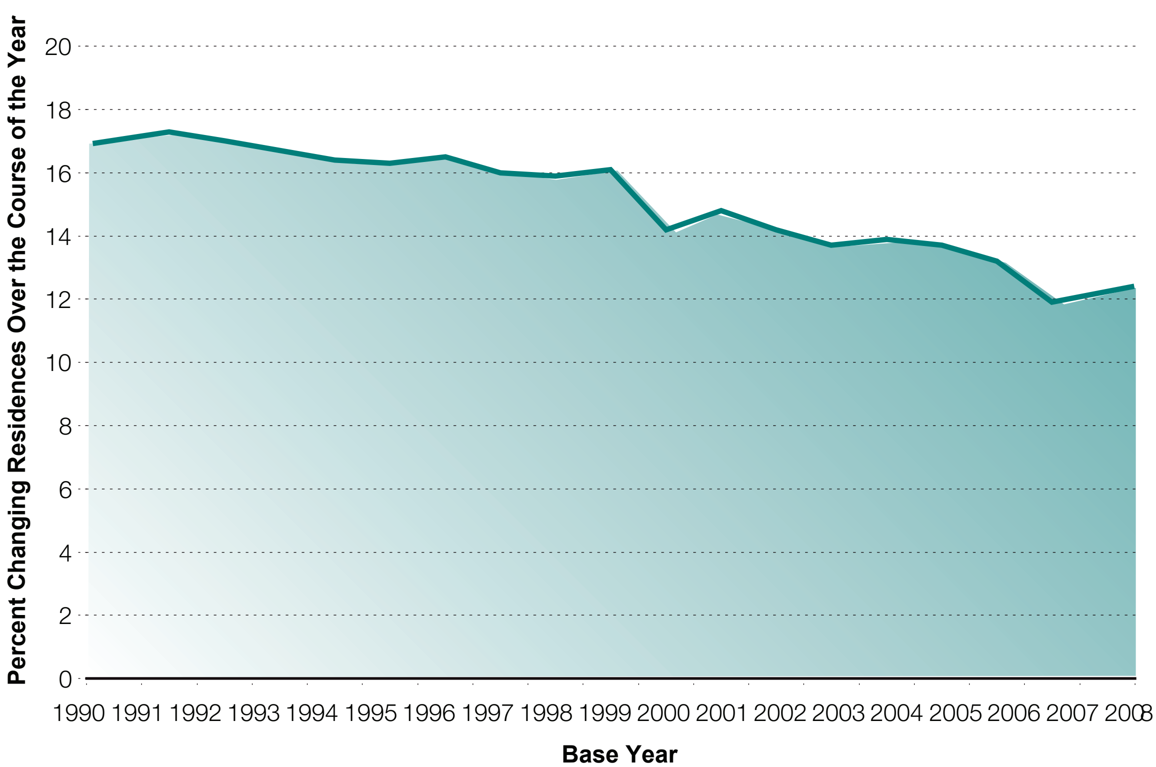
Ideally, mobility would rise during recessions when economic adjustments are needed. However, the opposite is true: faced with lower income, depleted savings, and reduced access to credit, individuals are less able to "invest" in moving. In the current recession, mobility is particularly low. In 2008, only 12.5 percent of U.S. residents changed residences during the year, down from about 15 percent in 2001 and 17 percent in the early 1990s.

Ludwig and Raphael view moving as if it were any other human capital investment, such as going to college. The benefits to an unemployed or underemployed worker of moving to a better labor market include the potential for a steady job and higher wages. However, a combination of low savings or a lack of access to credit makes it nearly impossible for most unemployed workers to finance a move. This may be particularly true for less-educated workers who have much lower mobility rates after job loss compared with college graduates.

Workers who cannot move are likely to suffer in terms of their reemployment prospects. Ludwig and Raphael find that the reemployment difference between those who move after a job loss and those who do not is about 12 percentage points, even when holding constant key factors such as educational attainment, duration of unemployment, gender, marital

FIGURE 1.

U.S. Mobility Rates, 1990 through 2008



Frey (2009)

status, and household characteristics. Although there may be other differences between movers and nonmovers, the results suggest that increasing mobility could help the unemployed find work more quickly.

A New Approach

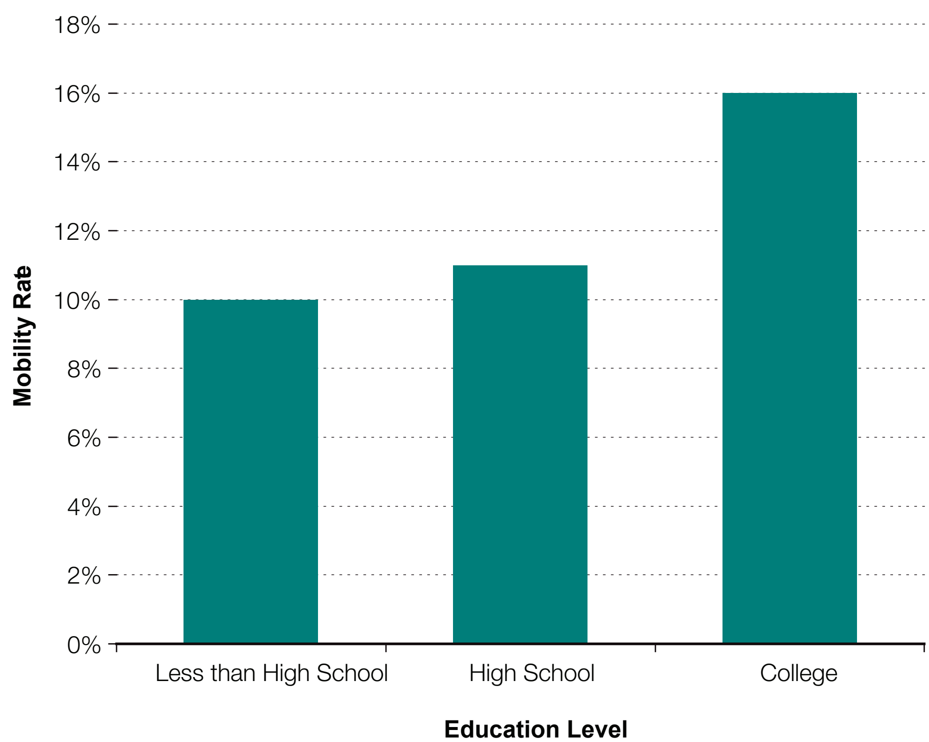
Ludwig and Raphael propose to facilitate mobility among unemployed workers who may be facing cash and credit constraints. A "mobility bank" could break the logjam by helping finance the residential moves of U.S. workers who are having difficulty finding new or better employment in their local labor market. The program would offer loans of up to a maximum of $10,000 to individuals who are willing to move from depressed labor markets; most loans would be for less. The loans could be used by the worker to pay for the moving costs of a job that she had already obtained or to move to a new area to search for a job. Loan recipients would not have to start repaying the loan until she found a job, and the payments would be capped at a low percent of total income. The loans would encourage people to take a chance on moving to a new location by significantly lowering the costs associated with moving.

A "mobility bank" could break the logjam by helping finance the residential moves of U.S. workers who are having difficulty finding new or better employment in their local labor market.

To further aid workers in deciding to move and search for a new job, the authors concurrently propose to make national job searches a more routine part of the reemployment system. Although national job banks already exist, the default in many job search assistance sites and web search engines sponsored by state workforce agencies is a local job search. Prodded to search more broadly using national job resources and backed by a loan, job seekers would be more likely to learn about job openings in other cities and to have the resources to pursue those opportunities.

FIGURE 2.

Mobility Rates for Displaced Workers



Author's Estimates using January 2008 Current Population Survey (CPS) Displaced Worker Supplement (DWS). Includes individuals displaced sometime between 2005 and 2007 who had moved by January 2008.

The Loan

Mobility loans would leverage a variety of government programs and regulations already in place that have a proven track record. The loan value would be based on the individual's circumstances. For those who had already found employment in their new location—for example through an online search—the loan value would cover only moving costs and perhaps the cost of a security deposit for housing. For those moving to look for work, the loan value would depend on the worker's savings and assets and the costs of moving to the desired destination. The authors place a cap of $10,000 on the loans but suggest the typical loan would be around $5,000. The loan would amortize over ten years. The rules for the loans would closely mimic those for the well-established federal student loan program. For example, just as with student loans, loans from the proposed mobility bank could not be discharged in bankruptcy court.

Eligibility

Workers living in cities with unemployment rates in the top one-third of the national rankings would qualify for the mobility bank, subject to some additional qualifications: the workers must have been laid off from a job in the past five years, have been eligible for unemployment insurance at the time of the job loss, and be moving to a destination at least fifty miles away. The qualifications are quite broad, leaving eligible those currently on unemployment benefits, those who have already exhausted benefits, and those who have never collected benefits. Those who are reemployed but have been on unemployment benefits in the past five years would also be eligible—although currently employed, the recently unemployed may still be *underemployed*, working fewer hours than they would like or for less pay than they earned in a previous job. Helping these workers move to locations where they can earn more improves their labor market situation while freeing up a job for someone else. This improved allocation of jobs lowers unemployment and increases total earnings, resulting in higher consumption and greater economic growth.

BOX 1

Case A

Worker A borrows $5,000 and quickly finds a job paying $30,000.

At a 3 percent interest rate, the worker's monthly loan payment is $48—1.9 percent of monthly earnings (which is below the 3 percent interest rate cap).

The worker repays $5,794 over 120 payments.

There is no government subsidy.

Case B

Worker B borrows $5,000 and finds a job paying only the minimum wage—approximately $14,500 per year.

At a 3 percent interest rate, the $48 monthly payment exceeds 3 percent of the worker's $1,208 monthly earnings.

Due to the interest rate cap, the worker pays only 3 percent of income toward the loan—initially about $36 monthly.

Assuming the worker's earnings rise by 3 percent each year, the government provides a subsidy of $730 in present value.

The loans could be used to pay for a variety of job search costs and moving expenses following rules defined by the IRS for taxpayers who deduct moving expenses or itemize job-search costs. These tax benefits often accrue only to higher-income individuals. The mobility bank can be seen as a way of extending these benefits to those with fewer resources.

Basing Repayment on Reemployment and Earnings

Repayment of the loan would not begin until the worker had found new employment. In the authors' plan, the loan would amortize over 120 payments (ten years) at a market interest rate. Monthly payments, however, would be capped at 3 percent of household earnings. Capping the payment at 3 percent has two key benefits: First, such a small payment is less likely to create a disincentive to find a job or to take a higher-paying job. Second, because the loan is capped, those unable to find a higher-paying job are not unduly burdened with unsustainable debt payments. Box 1 provides two examples that show possible loan repayment schemes, depending on the job seeker's outcomes.

Ludwig and Raphael's proposal is unique because it offers funding for people to search for a job as well as assistance for those who have already found a job in another location but lack the resources necessary to move closer to that job.

A Unique Approach to Economic Recovery

The authors' proposal differs markedly from past and current experiments with relocation assistance. Relocation assistance has never been tried on a national scale. The only direct form of relocation assistance currently available is the Trade Adjustment Assistance (TAA) program for workers who have lost jobs due to foreign trade. Workers eligible for TAA may have their moving costs reimbursed if they find a job elsewhere in the country. Experiments of relocation assistance for other unemployed populations have typically followed this model.

Ludwig and Raphael's proposal is unique because it offers funding for people to search for a job as well as assistance for those who have already found a job in another location but lack the resources necessary to move closer to that job. Because loans to cover such expenses are difficult to find in the private market, Ludwig and Raphael propose providing assistance through a government-sponsored loan program. While loans are less advantageous to individuals than are grants, loans make it possible to expand the program's total assistance and make the plan cost effective. At the same time, the loan is designed to reduce hardship on workers and their families: if the worker does not find a well-paying job or becomes unemployed again, the loan is subsidized.

The authors estimate that the proposal could put 62,000 unemployed workers back to work each year, reducing the duration of unemployment of these workers by eighteen months each at a net cost between $500 and $800 million. These job gains are generated by matching searching workers to employment sooner than would otherwise occur. The cost per worker matched to a new job would be a little over $10,000. The cost assumes that 30 percent of program participants default because they do not find a job in their new location. This is based on the share of people who currently move after job displacement and do not find a new job within one year. For those who do find a job, the authors assume that on average the government ends up receiving $505 less than the value of the loan plus inflation.

Publicizing the Mobility Bank and Encouraging National Job Searches

Facilitating geographic mobility from areas of high joblessness to areas of low joblessness requires information about jobs and labor market conditions throughout the United States. However, existing resources for nationwide job searches are not always used. Instead, the default option is for job seekers to look for and be directed to jobs in their local areas. State workforce agencies and the U.S. Department of Labor could improve their efforts at enabling job seekers to search for jobs nationally by better promoting these national job resources, providing more staff-assisted services aimed at making job seekers aware of different regions where there are more jobs, as well as changing default rules to encourage job searchers to expand their job search.

Key Highlights

The Proposal

Ludwig and Raphael propose a "mobility bank" to help individuals finance moves to areas of greater economic opportunity. Features include the following:

Targeted help: Workers living in cities with the highest unemployment rates would qualify for the mobility bank if they have been laid off from a job in the past five years. Those who are reemployed but have been on unemployment benefits in the past five years would also be eligible.

Loans not grants: Loans up to a maximum of $10,000 would be available to individuals willing to move to areas with better labor market conditions.

Risk sharing by the government: Recipients would not have to start repaying the loan until they found a job, and the payments would be capped at a low percent of total income.

National labor markets: To aid workers in their moving decisions and job search, the authors concurrently propose to make national job searches a more routine part of the reemployment system.

Benefits

Facilitates matching: Nationwide, mobility loans could put 62,000 people in distressed areas back to work sooner than might have been possible without relocation assistance, reducing the length of time each of those workers spends unemployed by eighteen months.

Lowers costs: The cost to the government of putting an individual back to work for one year through the mobility bank would be $10,365, which compares favorably to the estimated costs of other federal government job-creation efforts.

Improves local conditions: The program has the potential to improve job prospects for those who stay behind in distressed areas and to reduce the prevalence of social problems in those areas and nationwide.

Questions and Concerns

Doesn't the program just encourage people to move but not become reemployed?

No. A mobility loan operates like a student loan. Moving to find a job or attending school is an investment in future earnings. Moreover, the cap on payments means that loan payments would be only a small fraction of future income. Borrowers still face unreimbursed costs of moving—such as leaving friends or family—so they must be personally invested in their move.

Moreover, eligibility criteria are set to identify those with a fairly strong attachment to the labor force. Research on the responsiveness of work effort to small changes in wages suggests that among those with strong attachments behavioral responses are small. In other words, those with a strong work orientation are unlikely to withdraw from the labor market due to the costs of repaying back such a small loan. But more importantly, by capping loan repayment amounts at 3 percent of gross income and amortizing these loans over a long period (ten years), the program tries to keep the net "tax" on program participants as low as possible. Given the targeting of the program and this design feature, we do not anticipate large adverse labor supply responses to such a loan.

What if the program is less effective than assumed?

The authors' cost estimates already include a high default rate—about 30 percent—because some individuals will not be able to find jobs in the new location and some will return home.

Even if the program was only one-quarter as effective as already assumed, it would still match jobs to around 16,000 individuals every year (around 10 percent of the number of jobs normally created every month by the American economy).

Conclusion

Many unemployed Americans remain in economically distressed communities because of the up-front costs associated with relocating to places with better economic conditions and opportunities. These unemployed or underemployed workers may lack access to savings or credit that would finance a move to areas with better employment prospects. A "mobility bank" would reduce sources of inequality in residential relocation, with a focus on those parts of the country where local economies have been hit the hardest. The mobility bank proposal has the potential to address barriers to mobility by providing subsidized, income-contingent loans to unemployed and underemployed workers to seek opportunity and better job matches in the national labor market. Promotion of national job searches complements the mobility bank by making opportunities in other areas more visible to unemployed workers. In addition to the substantial financial costs of moving, there are significant psychological costs as well; many workers may never consider a move unless they see better options and know that there are resources available to help them take a chance.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, The Mobility Bank: Increasing Residential Mobility to Boost Economic Mobility, which was authored by:

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Additional Hamilton Project Proposals

Bringing Jobs to People: How Federal Policy Can Target Job Creation for Economically Distressed Areas

This paper proposes three solutions to bring jobs to distressed areas: Customized job training programs for businesses and employees, advice and consulting services through the Manufacturing Extension Partnership program, and a package of grants for local services and tax breaks through a reformed and revitalized Empowerment Zone program. Built upon evidence from regional economics research, these policies provide investments and incentives that increase employment and productivity in distressed areas. These programs, directed largely toward small- and medium- sized enterprises can have large effects on worker productivity and business competiveness, encouraging sustained employment and rising wages. Because these programs offer investments in workers, firms, and local services, they provide a higher return on government spending and are more cost effective than programs that focus on incentives alone.

Retraining Displaced Workers

Displaced workers can experience significant permanent earnings losses. For these workers, the challenge is finding another job that pays as well their previous job. Schooling or vocational training can function as a relatively efficient way to compensate some workers for these losses. Six interconnected proposals would expand and improve the quality of training. They include (i) a new displaced worker Pell Grant program that subsidizes retraining even if they take new jobs; (ii) a mechanism to fund community colleges during economic hard times; (iii) adjusting community college funding to direct funds to higher return training; (iv) targeting training-ready displaced workers; (v) linking financial aid to performance; and (vi) a commission that fosters, disseminates, and evaluates standardized courses for displaced workers.

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving economic policy in recent years—calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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