THE BROOKINGS INSTITUTION
***Metro Blueprint* podcast**

"How can policymakers help communities left behind by globalization and automation?"

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Introduction:

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Episode Summary:

In this episode of *Metro Blueprint,* experts discuss ways to address the regional economic consequences of globalization. Mark Muro, senior fellow at the Brookings Institution, and Gordon Hanson, the Wertheim Professor of Urban Policy at Harvard's Kennedy School, explain how place-based industrial policy can help struggling Heartland economies.

[“doors opening”; music]

PUENTES: Hi, I’m Rob Puentes, vice president and director of Brookings Metro. I’m also the host of Metro Blueprint, a podcast from the Brookings Podcast Network. Every two weeks a different Brookings Metro scholar and a guest will discuss ideas and action to create more prosperous, just, and resilient communities in America.

In recent years, an astonishing 90% of the nation’s innovation sector growth was generated in just five superstar tech regions, while other places across the country saw their economies struggle.

The Biden administration addressed this imbalance by embracing place-based industrial strategies that direct investment into the communities left behind by globalization and automation. For his part, President Trump is taking a different approach with a renewed push for tariffs and protectionism that he says will encourage reshoring of manufacturing.

In this episode of *Metro Blueprint*, Mark Muro, senior fellow at Brookings Metro, and Gordon Hanson, the Wertheim Professor of Urban Policy at Harvard’s Kennedy School, will discuss the current debate and ways to address the regional economic consequences of globalization.

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You can learn more about this podcast on our website, Brookings dot edu slash Metro Blueprint.

And now, here’s Mark and Gordon.

MURO: Hey, thank you, Rob, and hello all. I’m Mark Muro, a senior fellow at Brookings Metro, where I study the interplay of people, place, and technology across the U.S. In recent years, I’ve tracked the stark regional divides that have beleaguered the U.S. for several decades now. Specifically, my work has noted that between 2005 and 2017, just five high-tech superstar metros generated fully 90% of the nation’s new innovation jobs, while virtually all other places went sideways. I worry about these divides, which is why I and others have suggested various policy responses that have informed recent federal efforts to address these gaps.

As a result, we saw the Biden administration embrace what I call place-based industrial strategy before running out of time to see how it all worked. And now, we’re watching President Trump’s unprecedented experiment with tariffs that he insists will encourage companies to onshore manufacturing and revitalize Heartland towns.

In any event, it’s a good time to talk about all of this. What’s more, it’s a truly excellent time to talk with our guest today, Gordon Hanson. Gordon is one of the foremost experts in the world on the questions before us, those of regional economic distress, its causes, and what to do about them. Most notably, Gordon, who helped coin the term “the China shock,” was early to track the regional economic development consequences of globalization. Over time, Gordon has been a leader in assessing what policy responses whether investments or trade might help.

To learn more about all of this go to gordonhansen.scholars.harvard.edu. And so with that, I'd like to welcome Gordon Hansen to *Metro Blueprint*. Thanks for joining, Gordon.

HANSON: Thanks, Mark. It's really a pleasure to be here with you today.

MURO: Excellent. It's great to have you here. So I wanted to orient folks. Can you provide a little background on your research over the years for a bit of context and then we'll dive into these issues.

[3:44]

HANSON: I've been interested in how broader national and global economic developments affect regional economies, going all the way back to my dissertation where I started looking at how Mexico's liberalization of trade affected the role of Mexico City in the economy and the move towards the north of the country as Mexico integrated with the United States.

Fast forward a decade and a half or so, and I had shifted the focus to understanding how China's rise was affecting the U.S. economy, and in particular how rising import competition was causing manufacturing job loss, which had a particular set of industries, and those industries happened to be highly regionally concentrated in the industrial heartland, as you just called it.

My work then looked at what were the short-term and long-term consequences of that job loss and noted some things that I didn't at all expect going in, which was that the pain from job loss is generational. Not something places recover from in three four five even ten years. And that the folks, in particular those with less than a college education, don't adjust to those changes by leaving; they mainly age in place and that aging in place is something that really complicates how you take a place that used to do one thing and help it find the new thing that it's going to do.

What I've been focusing on recently is just trying to understand how can we better serve regional economies that are trying to find their new comparative advantage, the new thing that will help generate good jobs, and it's through that that I discovered your work and the great work being done at Brookings Metro.

MURO: Well, we'll take a compliment. But let's dig into this. Homing in on U.S. growth and distress patterns, I wanted to ask you first just about the nature and causes of the really painful epidemic of regional dislocation that the nation has struggled with over the years going back at least to the 1980s. I think you were on on to this early. You and your colleagues were early to diagnose dynamics that really kind of hollowed out hundreds of U.S. communities, especially in the Heartland, the Rust Belt, Upper South. Now, I'd say your work really validated the work of a number of us who were beginning to see in communities, beginning to research these trends, and begin to think about what might be done. So why don't you talk a bit about what you saw happening in these communities, foreshadowed it a little bit.

[6:11]

HANSON: Sure. So think about where the U.S. economy was in 1980, really at the end of more than a century of intense industrialization. And that was responsible for the tremendous income growth the United States enjoyed over that magical century and the creation of the middle class, the ability for folks with just a high school education to be able to buy a car, own a home, send their kids to college, go to Disney World once a year–live the American Dream, something that they'd been promised or their parents had been promised earlier in the century, and it had really come about.

By the time we got to 1980, the wheels were beginning to get shaky and then over the next two decades, they really came off the bus. Part of that was early on the impacts of technological change and just the steady process of making production and manufacturing ever more capital intensive. And that steadily released labor from manufacturing, really going all the way back to the 1950s. But it was a slower process. It didn't really concentrate on particular regions. So it mattered for what was going on in manufacturing. It mattered for inequality at the national level, but it didn't necessarily hollow out specific places.

What came next was first NAFTA, and then China's accession to the World Trade Organization, and its just dramatic rise on the global scene in which it went from accounting for 1% of global manufacturing exports in the early '90s to 20% of global manufacturing exports by around 2010. And that sudden and dramatic rise really did end up targeting places that were specialized in apparel and footwear and furniture, simple consumer goods. And the hollowing out that resulted was highly regionally concentrated and resulted in decades of elevated joblessness, which then led to the social dislocation that you just alluded to.

MURO: Yeah, and clearly political implications as well. Let's turn to the question of response. It strikes me that we have seen and are seeing several major attempts to address at least some of the aftermath of the dislocations you've described, different schools of thought, you can say. One was the Biden administration's investment of more than $40 billion in place-based industrial strategy, often into drifting post-industrial economies. This is something we've both tracked. And I want to call out Gordon's excellent review of place-based policy in the United States, recent. And the other, meanwhile, is President Trump's current trade war. So we have two models on the table here. Knowing that you're an expert on both approaches, I want to ask you about each. Starting with the embrace of place-based economic development, I'm interested in your view of the strengths and weaknesses of the recent Biden experiments.

[9:16]

HANSON: Just as a preface to that, say there's really a third policy too, and that's to rely on traditional social insurance programs, which do end up going to places in distress because there are more poor people and people who qualify for federal programs in those places. And this is something we looked at, the extent to which food stamps through SNAP, Temporary Assistance to Needy Families, the Earned Income Tax Credit, and then other forms of government income support, did they respond to elevated joblessness caused by globalization and other origins of manufacturing job loss?

The answer is really no. Those programs are spartan to begin with. They became more spartan after welfare reform in 1996. And the primary government policy response in terms of safety net programs to elevated joblessness was increased uptake of social security benefits and Medicare, which is indicative of folks using retirement as a way of adjusting to the disappearance of manufacturing jobs. So the social protections we had in place, which would look very different, say, in a country like Denmark, just weren't all that operative in response to that job loss.

So what that meant was we're now coming back two decades after those jobs disappeared and trying to clean up the mess. And we have the Donald Trump approach, and we have the Joe Biden approach. The Trump approach really started first. That was round one of the Trump tariffs with the U.S. trade war on China beginning in 2018. Those tariffs targeted the industries in which China's exports to the U.S. had exploded and which were just right in the center of that manufacturing job loss.

In work I did with David Autor, David Dorn, and Anne Beck, we looked at whether the Trump tariffs in the first Trump administration helped jobs recovery in places that seem to have been targeted by the Trump administration. The answer was just no. Part of the reason for that is that they were just tariffs on China. And so imports from China just got diverted to imports from other countries. Part of it was the fact that jobs weren't going to come back to places that had been wallowing in two decades of joblessness. They'd go to new, expanding places, and the jobs that would come back would be far less per dollar of output than the jobs in the factories that were lost because in the intervening two decades, production just gotten a whole lot more capital intensive.

So that first round of Trump tariffs, I think, presages what the impact of the new tariffs is going to be, is not a lot in terms of employment creation in return for tremendous economic dislocation and really upending global supply chains the U.S. has spent the better part of 40 years constructing.

MURO: And do you see that dislocation having these regional implications? Sounds like you do.

[12:18]

HANSON: We don't know yet. Part of the reason we don't know is we don't exactly know what Trump Two tariffs are going to look like. Trump One tariffs were pretty easy to study because they kind of just switched on all of a sudden in late 2018. The trade war with China rapidly escalated and then they stayed in place. So from the point of view of empirical research, we had really good leverage to understand their consequences on regional economies, and we just didn't find much.

This time around, everything is still in play. Are we gonna have 145% tariffs on China, as though it looked a few weeks ago? Are we going to have 30% tariffs on China as it looked couple of weeks after that? Will we then evolve to new lower or higher tariff levels? We don't really know. So the primary impact of Trump trade policy to date has been dramatically heightened uncertainty. And that will just get in the way of understanding its ultimate long run impacts because nobody wants to invest in an environment of high uncertainty.

MURO: Yep, very interesting. What's your verdict on the Biden efforts to implement a kind of place-based, both industrial strategy and recovery strategy in some ways for places? And given your recent work really putting this in context through decades of United States policy, I wonder how you view the Biden approach at this point. What were strengths and weaknesses?

[13:46]

HANSON: The strengths were focusing very hard on the programs that the Biden administration was going to approve to make sure you had good policy design on the ground. And that was true with things like Build Back Better, money that was targeted to distressed regions trying new ways of generating economic recovery. And it was true of the CHIPS and Science Act, which involves selecting places that would qualify for tax credits for semiconductor manufacturing. So that's on the plus side.

On the minus side, what the Biden administration did in terms of helping distressed regions was never going be an across the board solution. The money was too small, and it went to too few places. So that was true of Build Back Better and it was true the later Recompete program, both of which targeted places that were experiencing economic distress of one form or another and in which consortia of nonprofits and university actors and some public sector entities came together to propose novel solutions for their places.

The novel solutions are great, but those are really demonstration projects. If you want them to matter for place-based policy in general, then what we need is a mechanism in place that takes the learning from what those places are doing—and we're talking about like three dozen regions, communities slash regions in total—and find ways of diffusing that knowledge to the rest of the country.

Diffusing knowledge is hard to do for the federal government today because every four years we recently are undergoing these massive changes. So the consequence is interesting experiments, but it's not clear how much they're going stick because the next administration has just walked away from them. And I don't want to say that's a novel thing. It's a long history in federal policy of one administration walking away from what the other administration has done, Trump tariffs being an exception.

So I think there are some really important things we can learn from the Biden experiments on the place-based policy side, but somebody's got to do the work of the learning and the codifying and the diffusing. And I think that's going to fall on universities and think tanks and other nonprofit entities because it's not something the federal government can credibly do right now. So, long run impact on distressed regions, it's still to be seen. It depends on there being resources and it depends on good diffusion of good policy practice.

On the CHIPS side, this is never gonna be a solution for distress regions where it's too few places. And it's really about taking on China. It's really about dealing with issues of national security and bringing semiconductor production back to the United States. I think there are ways in which we could have achieved our national security objectives and achieve taking on China without spending nearly as much money, perhaps saving some money so that we could do more diffusing of that knowledge. But I give the Biden administration real credit for very careful evaluation of who got the money, avoiding the pitfalls of picking winners and all the other pitfalls associated with standard critiques of place-based and industrial policy.

MURO: It sounds like your main debit is this inability to find a way for large-scale evaluation and sharing of information and so on to build a truly national response.

[17:09]

HANSON: I wouldn't push even the evaluation so hard, because when you say evaluation, that just sounds like a full employment act for economists. Trying to figure out what to do, hire us, and five years from now we might tell you. One of the things that I've learned, and I'm sure that you've seen over the decades of the work that you have done, is the solutions for what to do are there. People have figured out novel approaches to worker training; how to invest in low-income communities; to how to support small business in order to generate growth in a region that's going to stick.

So it's not so much a question of policy design. It's matching the right design to the places in need and then resourcing those efforts in the appropriate way. We can find plenty of examples of success. Those examples tend to be concentrated in places that have strong civil society, that have good relations between the private sector and the public sector and the nonprofit sector, and things are just working. Our challenge is to figure out how do we take those recipes and have them used in other places. And that's much more about implementation than it is about design and evaluation.

MURO: I've also always thought that it's a strange idea to think we would have a single model for place-based territorial development when we have multiple challenges, different kinds of places with problems, different types of labor market issues. I think there's some gesture to that in the difference between Recompete and the tech hubs and so on. But it seems like there's also a need for a more tailored set of solutions or classes of approach. Give me a sense, what would your recommendations then for boosting the nation's regions looking forward? I guess it sounds like it would look somewhat like what we saw from the Biden administration with some pretty significant adjustments as well.

[19:08]

HANSON: You have to think about what first principles should be here. You want policy to work through a set of institutions which don't have to be made from scratch. You want there to be potential for continuity in the policies that are adopted. And you don't want to have to rely on moonshot type investments and stuff because moonshots only happen once every two generations.

So I guess I would bring it back to basics. What's the problem we're trying to solve? We want to create more jobs, and we want to create higher wage jobs in places where jobs are scarce and good jobs are especially scarce. So that means improving the skills of the folks who are there. The frontline actors to pull that off are community colleges through the career and technical education that they provide. And our top performing community colleges know how to do this.

The problem is the median commuting college in the United States probably isn't doing this. So this would be about taking that best practice and figuring out how to then match it to different community colleges in different places. And as you suggest, there's not gonna be a single recipe for every community college. Smaller, less urbanized, more rural places are going to need one set of solutions. More urbanized places that have concentrated pockets of poverty and perhaps higher levels of urban blight are going need a second set of solutions. So that's working on the labor side. How do we promote the accumulation of human capital that makes places more attractive to investment and enhances the productivity of the people who are there?

You then need to help that capital formation occur. And what we've learned from decades of research is that most net new job creation originates in young, small firms. The young, small firms overwhelmingly rely on not on raising equity or venture capital. They rely on bank loans; they rely on personal wealth. And they're very exposed to what's going on in credit markets. In places that are in distress, we see banks getting out of the business of lending rather than expanding the business of lending. So we need to make sure that potential businesses in these places have access to the credit they need to do the things they need to do.

We actually have programs and funding in place to do this through the Small Business Administration. They give out $40 billion dollars of loan guarantees each year. But the problem is their targeting is quite poor. They target small firms in general, not the young firms that still have growth potential in front of them. And they have devolved all authority over lending to approved creditors who just mimic what the private sector does. So there's almost no reallocation of capital being engendered by the loan guarantees the Small Business Administration provides. So those are two places I would really focus on to start.

MURO: Really interesting, really helpful. I think this is a good place to wind this down. I will just say I think your work has really helped us over time and will help us with the next shocks that we anticipate and expect. And in any event, thank you. And thank you all the listeners for tuning in.

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Let me say, if you'd like to learn more about work at Brookings on regional economies and place-based responses, do check out the Brookings website, Brookings dot edu slash Metro. Otherwise, thank you, Gordon, and thank you all for listening.

HANSON: Thanks, Mark. I really appreciate it.

PUENTES: *Metro Blueprint* is a production of the Brookings Podcast Network, found online at Brookings dot edu slash podcasts. Thank you for listening.

My thanks also to all the scholars and guests for sharing their insights and expertise, and to the team at Brookings that makes this podcast possible including Fred Dews, producer; Erin Raftery, associate producer; Gastón Reboredo, audio engineer; Daniel Morales, video editor; Leigh Balon, Brookings Metro’s director of communications; Carie Muscatello, our graphic design and web publishing manager; as well as our government affairs and promotion colleagues in the Office of Communications. Katie Merris designed the beautiful logo, and Phoebe Copeland recorded the doors audio.

For more information about us, please visit Brookings dot edu slash Metro.

I’m Robert Puentes.

[“doors closing”]