Bond Case Briefs

Municipal Finance Law Since 1971

A Better Way to Revive America's Rust Belt.

The government should spend money on research, not life support.

Harvard economists Benjamin Austin, Ed Glaeser and Larry Summers think the U.S. government should do more to help the country's struggling regions. It's a great idea, but their specific policies could use some work.

Many economists believe in focusing policies on people, rather than places — essentially, having the government help the poor and disadvantaged, but letting the market sort out where people live and where economic activity is concentrated. There are several arguments for this approach. First, even if aid is aimed at a struggling area, it might benefit some richer individuals — few people want to see their taxes being spent on millionaires, even if those millionaires live in Detroit.

Second, many worry that it's foolish to fight the vast, unstoppable forces of economic geography. Monkeying with the highly complex web of trade, clustering and specialization could prop up cities that have no business existing, causing continued struggle for the people living there, and costing taxpayers a bundle as well. According to this conventional wisdom, if a place is in decline, the best thing the government can do is help people move away. I myself have advocated pro-mobility policies. But those policies can also come with a big downside.

When huge numbers of people flee a region, the people who are left behind suffer. Neighborhoods dotted with empty houses become centers of drugs and crime. A dearth of taxpayers makes it impossible to pay for upkeep on roads, water pipes and other essential local infrastructure. Inadequate tax revenue also makes it hard to pay the pensions of city workers, police and firefighters, requiring painful municipal bankruptcies. Shopping centers without a critical mass of customers become wasting assets. Life in a declining region is not the best, but life in a half-depopulated declining region is far worse.

Thus, more economists are starting to think about place-based policies. The election of Donald Trump was a startling wake-up call: Even though identity issues were a bigger factor explaining why Michigan, Ohio, Pennsylvania and Wisconsin flipped to Trump in 2016, the long-term economic decline of the Rust Belt probably contributed substantially to an overall climate of discontent.

In a paper presented at the Brookings Institution this past weekend, Austin, Glaeser and Summers don't single out the Rust Belt. Instead, they identify the struggling region as the "eastern heartland," meaning non-coastal states admitted before 1840. The authors show that by a number of measures — employment rates, per capita GDP, mortality rates, and self-reported life satisfaction — the eastern heartland has done somewhat worse than either the coasts or the interior west over the last two to four decades.

This regional breakdown is too arbitrary and broad. There's no reason we need to think about the country in terms of three vast regions when focusing on declining places, when we can pick out specific cities and states that are struggling. But the general principle is correct — helping lagging regions is a good and important idea.

The next question, though, is what kind of help to provide. The authors discuss an array of ideas. One that they zero in on, unsurprisingly, is infrastructure investment. Another is the relocation of government offices from coastal enclaves to interior regions. They suggest an array of federal tax credits and wage subsidies for people living in distressed areas. And they call for the strengthening of community colleges to provide targeted training.

These are all ideas worth thinking about. With the exception of relocating government offices, however, most of these would impose large costs on the American taxpayer. This is true even of infrastructure — a road in an economically growing, thriving place will often pay for itself, but a road in a depopulated region with no one to drive on it is a white elephant project. As for tax credits and employment subsidies, these could end up keeping whole regions of the country on permanent fiscal life support.

Committing to long-term expenditures on economically unproductive regions can have dramatic fiscal consequences. Few nations know this better than Japan, where the central government in Tokyo has long pandered to outlying regions with lavish redistribution. Partly as a result, Japan now has the world's highest public debt, which forces it to keep interest rates permanently at zero.

Using direct fiscal lifelines to support struggling places should therefore be a last resort. Instead, governments should focus on trying to make these places as economically productive as possible.

The best approach is to spend more money on research at universities. Evidence shows that such spending boosts local economies. Top institutions like Carnegie Mellon in Pittsburgh are widely credited with industrial revivals in previously hard-hit Rust Belt areas. A flood of research dollars from the federal government, targeted at universities in struggling areas, has the potential to turn the region around. This should be matched with encouragement of immigration to declining areas, which will help shore up local tax bases and keep city services running.

There may come a time when some U.S. regions are doing so badly that they need to be kept on life support. But that time has not yet come. There is still a chance to make struggling American towns productive again.

By Noah Smith

March 13, 2018

Bloomberg View

Noah Smith is a Bloomberg View columnist. He was an assistant professor of finance at Stony Brook University, and he blogs at Noahpinion.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.