Slow work force growth: A challenge for the Midwest?

Richard E. Kaglic and William A. Testa

Introduction and summary

During the mid-1980s, demographers and work force analysts began forecasting slower work force growth and tighter labor markets as the last of the so-called baby boomers entered the work force and rising female work force participation began to level off (Johnston and Packer, 1987). Employers were warned that the shrinking pool of new workers, along with their increasing diversity, would present new challenges in obtaining and managing a productive work force. In the Midwest, such concerns seemed very remote. Throughout much of the 1970s, 1980s, and very early 1990s, employment demand was weak and migration of workers from the Midwest was the norm. In the late 1990s, however, labor market conditions have changed significantly. Currently 3.0 percent, Midwest unemployment has consistently ranged between 0.5 and 1 percentage point below the national average over the last five years. And many business executives in the Midwest report "finding good help at current wage offers" as the most vexing of current problems (Bank of America, 1998).

In this article, we examine whether the current tight labor markets in the Midwest are likely to continue. We conclude that, although a part of this labor market tightness is transitory, the Midwest will experience slower work force growth accompanied by continued strong demand for workers.[1] After a severe shock in the early 1980s, the region's mainstay industries have restructured and found ways to compete. Auto and truck production have reconcentrated in the mid-section of the nation due to a complementarity between the industry's new emphasis on just-in-time delivery and the region's advantageous location and dense highway infrastructure. Supply-side limitations also suggest labor market tightness will continue. The region's robust work force growth of the past ten years has come about, to a significant extent, through reemployment of an underemployed population rather than new workers. Net migration of workers from other regions and other countries does not appear to be as significant in the Midwest as in many regions of the South and West. Meanwhile, like other regions, the Midwest is expected to continue to experience a tepid pace of entry of young adults into the work force.

What are the implications of ongoing labor market tightness for the region's businesses and policymakers? Because tight labor markets bring both benefits and costs, policy initiatives to stimulate work force growth will not be uniformly favored. For example, while business and property owners might favor policy actions to encourage workers to migrate to the region, such measures might adversely affect Midwest workers by putting downward pressure on wages. On the other hand, workers have much to gain from tight labor markets—rising real wages and incomes and better job opportunities. Despite these reservations about expanding labor supply, work force growth can benefit indigenous workers, particularly in areas where population growth may be needed to sustain declining towns, cities, and industries. In addition, incoming workers with specific skills may help generate demand for groups of indigenous workers with related or complementary skills who may be underemployed.

Policies to ease labor-constrained growth by expanding the skills and education of the region's existing population may be less contentious than those aimed at boosting migration. Such policies are

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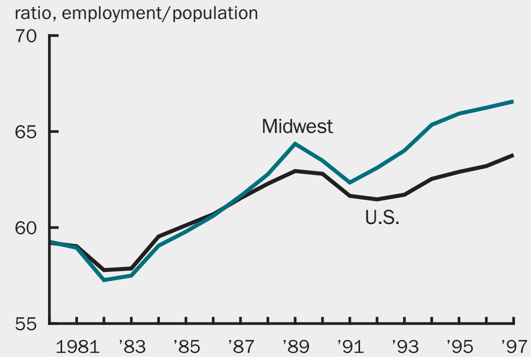
also more likely to raise wages and per capita incomes on a sustained basis, because they are based on improvements in worker productivity. Labor market participation rates may also be increased through improvements in transportation between inner cities and suburbs offering new job opportunities and other programs that facilitate the entry of low-income groups into the work force.

Midwest labor market tightness: A transitory problem?

Now into its ninth year of expansion, the U.S. economy is enjoying the longest run of uninterrupted growth in modern history. Concerns about work force availability might be expected to characterize such a period and, to some extent, may reflect the transitory nature of a peaking business cycle rather than a fundamental change in the labor market. As economic expansions develop, worker participation rates increase, supported by rising wages and employment opportunities. The robust pace of recent economic expansion, with gross domestic product growing at 3.7 percent annually over 1996–98, has been especially conducive to work force participation. In 1997, the national participation rate among those aged 16 and older reached 64 percent, an all-time high. In the Midwest, the rate reached 67 percent. (Figure 1 shows the trend for 1981–97; table 1 shows participation rates for all age groups.)

FIGURE 1

Work force participation



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *Local Area Unemployment*.

Clearly, a portion of the region's labor market tightness is cyclical rather than secular. Figure 1 reveals that the Midwest's participation rate rises during strong periods of national growth and wanes during recessions. This is due to the highly cyclical nature of the region's mainstay sector—durable goods manufacturing. The Midwest economy is 35 percent to 40 percent more concentrated than the nation in durable goods production.[2] Consequently, studies report that a swing in employment at the national level is associated with a more than proportionate swing in the employment levels of Midwest states.[3] The cyclical element of the Midwest's labor market tightness might discourage workers from migrating to the region.[4] Accordingly, labor tightness is likely to ease as the economy's cyclical strength abates.

Furthermore, while manufacturers remain more heavily concentrated in the Midwest, the industry's share of total employment continues to decrease in the region as well as across the country.[5] Figure 2 shows the percentage of the regional and national work force that is engaged in manufacturing. Current projections indicate that manufacturing and farm employment will continue to decline, reducing some of the demand pressure in the Midwest labor market.[6]

Case for continued labor market tightness

We believe that any easing of labor demand in goods-intensive industries will be more than offset

TABLE 1

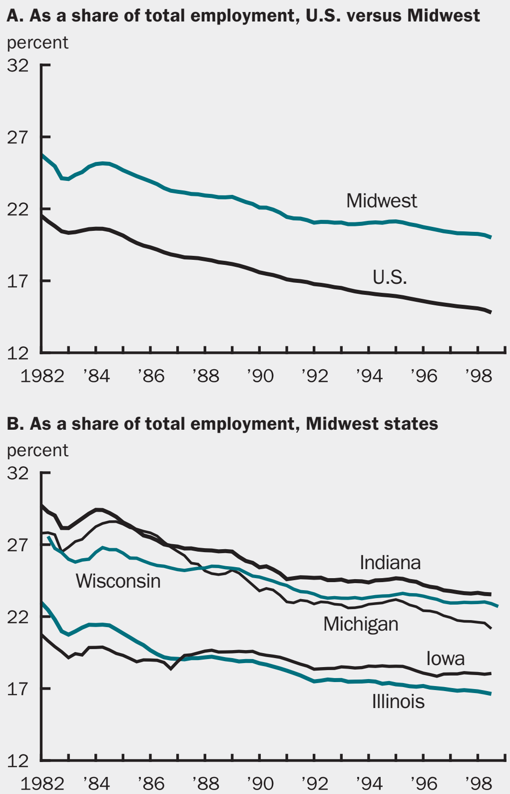
Ratio of employment to population

	Rest of U.S.		Midwest		Illinois		Indiana		Iowa		Michigan		Wisconsin	
Age	1989	1997	1989	1997	1989	1997	1989	1997	1989	1997	1989	1997	1989	1997
16–19	0.47	0.42	0.53	0.52	0.51	0.46	0.58	0.53	0.57	0.60	0.52	0.56	0.58	0.60
20–44	0.79	0.78	0.79	0.82	0.78	0.79	0.80	0.84	0.84	0.87	0.77	0.80	0.85	0.87
45–54	0.78	0.80	0.78	0.82	0.79	0.83	0.80	0.84	0.82	0.88	0.76	0.81	0.83	0.85
55–64	0.54	0.57	0.53	0.58	0.57	0.61	0.56	0.60	0.64	0.69	0.47	0.51	0.61	0.62
65+	0.12	0.12	0.11	0.12	0.15	0.13	0.10	0.11	0.15	0.13	0.09	0.09	0.10	0.15
All	0.63	0.63	0.63	0.65	0.64	0.65	0.64	0.67	0.66	0.69	0.61	0.64	0.67	0.71

Source: Authors' calculations from U.S. Department of Commerce, Bureau of the Census, 1989–97, *Current Population Survey*.

FIGURE 2

Manufacturing employment



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *State and Area Payroll Employment*.

by 1) the resurgent long-run performance of the region's economy and 2) national and regional demographic trends that will slow the growth of available workers.

Although the region remains more heavily concentrated in manufacturing than the nation as a whole, its industrial sector has not been counted on as a major driver of job creation since the 1960s. Rather, the bulk of new employment opportunities have come from service-producing industries—such as the finance, insurance and real estate sector; wholesale and retail trades; and the rapidly expanding business services sector. Since 1990, for example, the services sector has expanded by 32 percent in the region, creating nearly 1.2 million jobs. At the same time, manufacturing payrolls have grown at only one-eighth that rate. Demand for workers from the services sector, then, has more than made up for the comparatively anemic pace of manufacturing job creation.

A recent assessment of the Midwest economy's recovery since the 1980s, conducted by the Federal Reserve Bank of Chicago, concludes that much of this recovery is due to fundamental changes.[7] The region's industries have adopted new technologies and management practices to become globally competitive, while keeping costs in line with market realities. Midwest payroll employment growth outpaced that of the nation from 1990 through 1996, rising 10 percent compared with national growth of 9 percent. Although it is somewhat characteristic for the Midwest to come out of a recession at a fast pace, its above-average performance in the 1990–91 recession and the duration of its subsequent recovery indicate the beginning of a long-term competitive trend relative to other parts of the U.S.

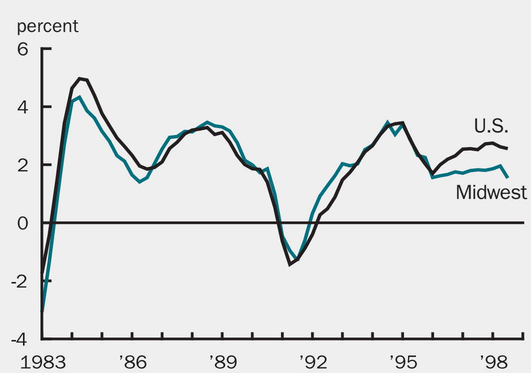
Since 1996, employment growth in the Midwest has slowed relative to the nation (figure 3). However, the evidence indicates that this is largely as a result of work force capacity constraints, and that demand for labor remains strong.[8] Indeed, surveys of the hiring plans of Midwest companies and help wanted advertising in the region's newspapers point to growing demand for labor. Furthermore, falling levels of initial claims for unemployment insurance indicate fewer job losses in the region.

Supporting evidence for continued tight labor markets also arises from demographic trends that will slow the growth of available workers in the nation and, to an even greater extent, in the Midwest. National forecasts, based on both the age structure of the population and work force participation rates, indicate a slower rate of work force growth in the decades ahead.

The so-called baby boom generation of Americans began entering the work force en masse during the 1970s. Owing to both this population bulge and to climbing work force participation rates for women, the work force grew at a pace of 2.2 percent per year

FIGURE 3

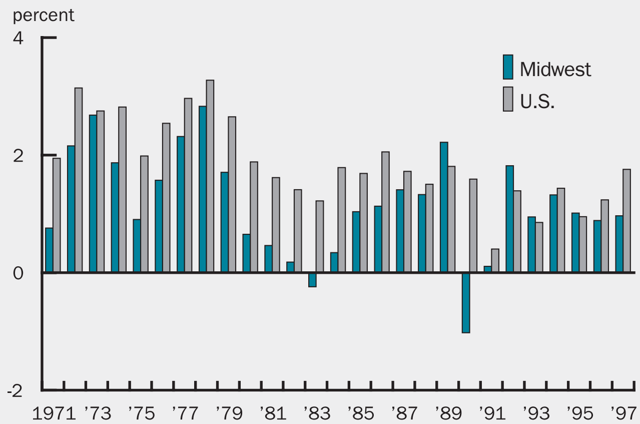
Total nonfarm employment growth



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *State and Area Payroll Employment*.

FIGURE 4

Work force growth



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *Local Area Unemployment*.

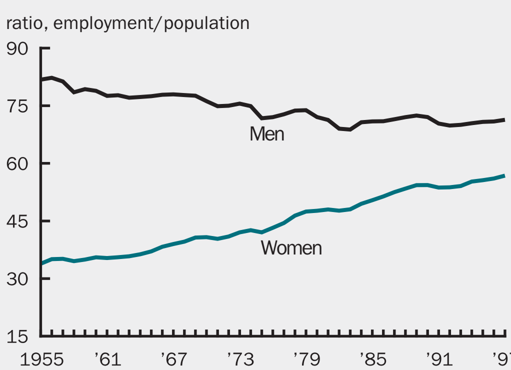
from 1970 through 1986, but slowed thereafter (figure 4). As early as the mid-1980s, research by the Bureau of Labor Statistics (BLS) and the Hudson Institute indicated that these demographic changes would cause labor markets to tighten. However, the demographic factors were obscured by the more obvious impact of the 1990–91 recession. Now, as we approach the end of the decade, the long-term trends are reasserting themselves. National work force growth has averaged an anemic annual rate of 1.1 percent in the 1990s. Most estimates put work force growth at only 1 percent per year in the decade ahead, possibly stagnating in the following two decades.[9]

Such forecasts can be made with reasonable confidence, based on known birth and death rates. More uncertain issues are future work force participation rates and immigration levels. Work force participation rates for women have been climbing since the 1950s, almost doubling to a current level of 57 percent (figure 5).[10] These increased participation rates have been accompanied by (and attributable to) greater educational attainment among women, rising wages relative to men, delayed age of marriage and first childbirth, and expanded occupational opportunities. Meanwhile, participation rates among men have been falling steadily, a trend that has been less widely studied. At least part of the decline is due to the rapid fall in jobs in the goods-producing sectors, where men still account for the bulk of the work force (73.1 percent). In addition, rising incomes among older male workers and their families (due to economic growth and social security) have allowed many men to retire or temporarily withdraw from the labor force. Analysts at the BLS are forecasting modest increases in the work force participation rates of workers aged 55 and over in the next ten years.[11] Figure 6 shows that participation rates among older workers have already started to pick up.[12] The improving general health of seniors, rising educational levels, and the economy's occupational shift away from manual labor are allowing workers to remain on the job longer.[13]

The Midwest work force remains blue collar, slightly undereducated, and older relative to the rest of the U.S. (see table 2). In 1996, the region's population share in the 25–34 age group was smaller than

FIGURE 5

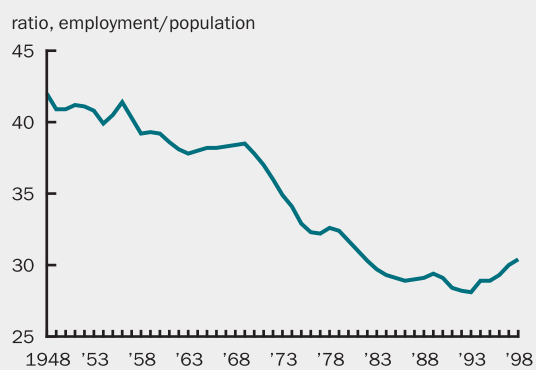
Work force participation by gender



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *Local Area Unemployment.*

FIGURE 6

Work force participation, age 55 and over



Source: Authors' calculations from the U.S. Department of Labor, Bureau of Labor Statistics, 1999, *Local Area Unemployment.*

TABLE 2

Percent of persons 25 years and over by education, 1990

	<High school	High school graduate	College	Advanced degree
U.S.	24.8	30.0	13.1	7.2
Illinois	23.8	30.0	13.6	7.5
Indiana	24.4	38.2	9.2	6.4
Iowa	19.9	38.5	11.7	5.2
Michigan	23.2	32.3	10.9	6.4
Wisconsin	21.4	37.1	12.1	5.6

Source: U.S. Department of Commerce, Bureau of the Census, 1990, *Census of Population*.

that of the rest of the nation (table 3). While participation rates may increase among older workers in the Midwest and elsewhere, this will not be enough to offset the growing demand for better educated, high-skilled workers.[14] Indeed, the aging of the population will be a chief contributor to slowing work force growth across the U.S. in the coming decades. Another significant contributor for the Midwest will be the migration of younger, well-educated workers out of the region.

Except for Illinois, which contains the Chicago metropolitan area, the percentage of the Midwest's population having college and advanced degrees fell short of the national level at the last Census in 1990. At the same time, Midwest high school graduation rates tend to be *above* the national average. Apparently, many college-educated Midwesterners—especially younger graduates—have tended to migrate to other regions in search of suitable employment.[15] Since 1969, the Midwest's share of U.S. population has declined from 16 percent to slightly over 13 percent. Labor market imbalances are a prime determinant of migration flows. In the early 1980s, when jobs were scarce and layoffs common, the region lost an average of 250,000 people per year. This outflow slowed as the economy recovered, and even became a small net inflow during the early 1990s (figure 7), as coastal states experienced slower job growth. Now that coastal labor markets have tightened, the region is again experiencing a net outflow of workers.

The Midwest is experiencing a small positive net migration from the Northeast, but population outflows toward the South and West are expected to continue. According to the Census Bureau, states in the South are expected to gain between 10 percent and 30 percent in population by 2015 and in the West, 20 percent to 45 percent. The Census Bureau forecasts population growth of 0 percent to 10 percent for the Midwest (figure 8). To some extent, these flows are related to a general shift of jobs away from goods-producing regions.[16] Of course, workers are also attracted by the warmer climates of the South and West and, at least in the South, the relatively low cost of living. Edmondson (1997) finds that of the 272 U.S. metropolitan areas that had population increases in excess of 10 percent between 1990 and 1995, only 18 were prone to extremely cold winters.[17] In addition, 15 of the 21 metropolitan areas that experienced a decrease in population were in areas characterized by extremely cold winters.

TABLE 3

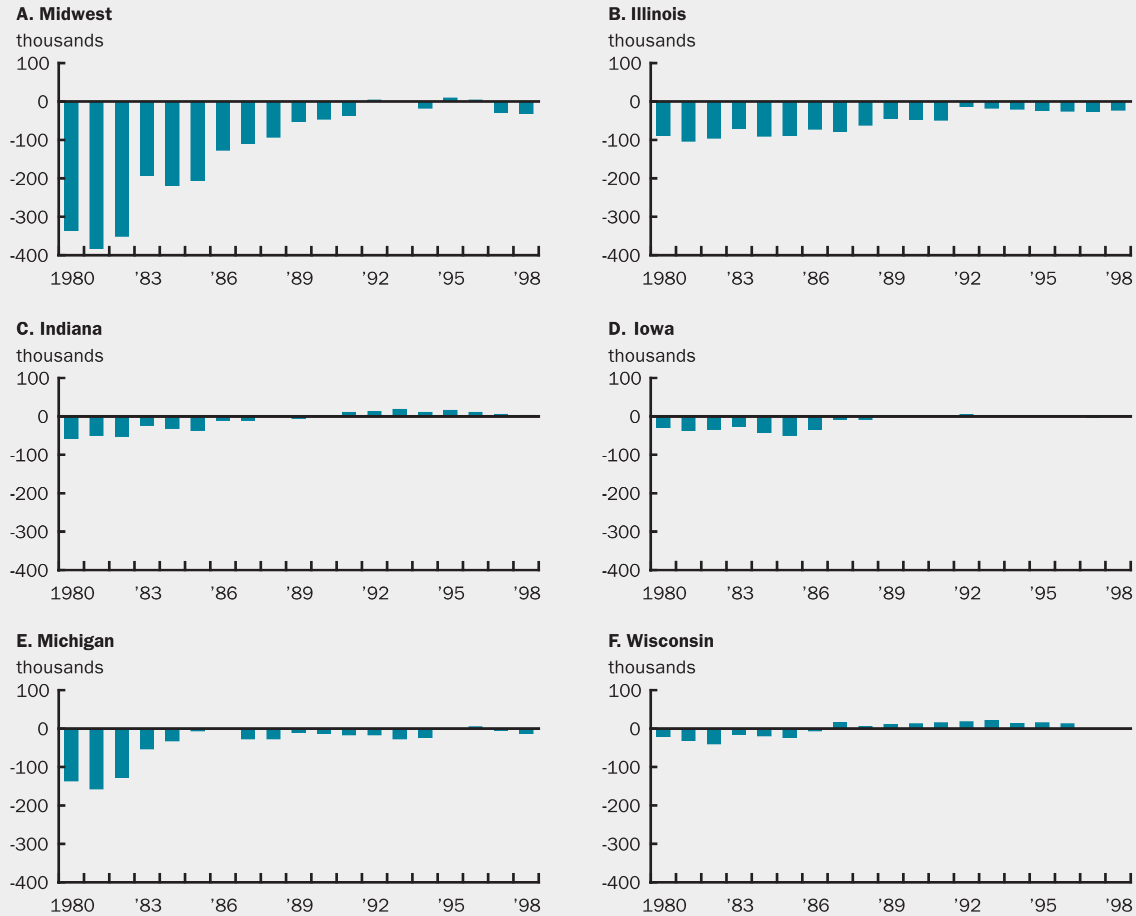
Age groups as a percent of total population, 1996

Age	U.S.	Midwest	Illinois	Indiana	Iowa	Michigan	Wisconsin
<5	7.3	7.1	7.7	7.0	6.4	7.0	7.1
5–17	18.8	19.1	18.9	18.6	18.8	19.4	19.1
18–24	9.4	9.4	9.3	9.8	9.5	9.4	9.4
25–34	15.2	14.8	15.2	14.9	13.5	14.8	14.8
35–44	16.4	16.4	16.3	16.3	15.7	16.5	16.4
45–54	12.2	12.2	12.0	12.4	12.1	12.4	12.2
55–64	8.1	8.1	8.0	8.4	8.8	8.0	8.1
65–74	7.0	7.0	6.8	7.0	7.7	6.9	7.0
75–84	4.3	4.4	4.3	4.2	5.4	4.2	4.4
>85	1.4	1.5	1.5	1.4	2.1	1.3	1.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Columns may not total due to rounding.
Source: Authors' calculations from U.S. Department of Commerce, Bureau of the Census, 1996, *Current Population Survey*.

FIGURE 7

Net migration to Midwest



Source: U.S. Department of Commerce, Bureau of the Census, 1998, "Geographic mobility," *Current Population Report*.

Positive immigration from abroad has helped to offset net migration from the Midwest. This, along with natural increase (births over deaths), has kept the region's population growing in absolute terms.[18] On average, 171,000 individuals per year have moved to the North Central Census region from other countries in the 1990s. However, the flow of immigrants to other parts of the U.S. utpaces that to the Midwest (figure 9).

In summary, the evidence suggests that the Midwest's work force growth prospects will remain relatively weak in the coming decades, while its strong economy implies continued growth in demand for labor, particularly for workers with high levels of education and skills. As a result, employers will find it increasingly difficult to hire the workers they want at the wage levels they prefer. This marks a significant change from the past ten to 15 years, when the Midwest was able to grow its labor supply largely through increased participation among its existing work force. That reservoir of underemployed workers is now running low.

Policy responses to labor market tightness

How should Midwest public policymakers respond to tight labor markets? What are the factors that will shape popular support for policy alternatives? Of course, one possible response to the era of tight labor markets is to make no policy adjustments whatsoever. In light of the slow growth and high unemployment that the region experienced in the 1980s, an era of tight labor markets looks awfully good. For workers, tight markets can mean plentiful job opportunities and rising incomes. Indeed, we find some evidence of recent Midwest gains—per capita income has risen to slightly above the national average in the 1990s

TABLE 4

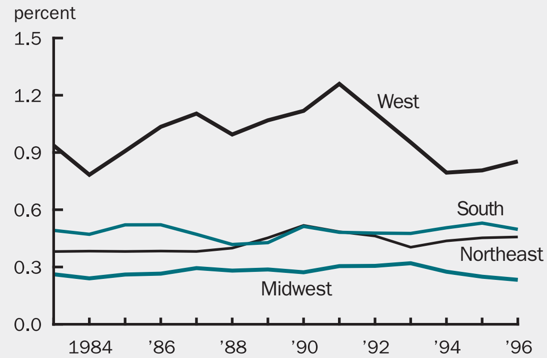
Change in employment costs
(percent change, year over year)

	Dec. 1997	Sep. 1998	Dec. 1998
U.S. total compensation	3.3	3.7	3.4
Wages and salaries	3.8	4.0	3.7
U.S. Consumer Price Index	1.7	1.5	1.6
Midwest compensation	3.6	3.5	3.3
Wages and salaries	4.2	4.0	3.8
Midwest Consumer Price Index	1.3	1.5	1.6

Note: Midwest is defined herein as the East North Central and West North Central Census regions.
Source: U.S. Department of Labor, Bureau of Labor Statistics, 1997–98, compensation and working conditions statistics.

FIGURE 9

Immigration trends



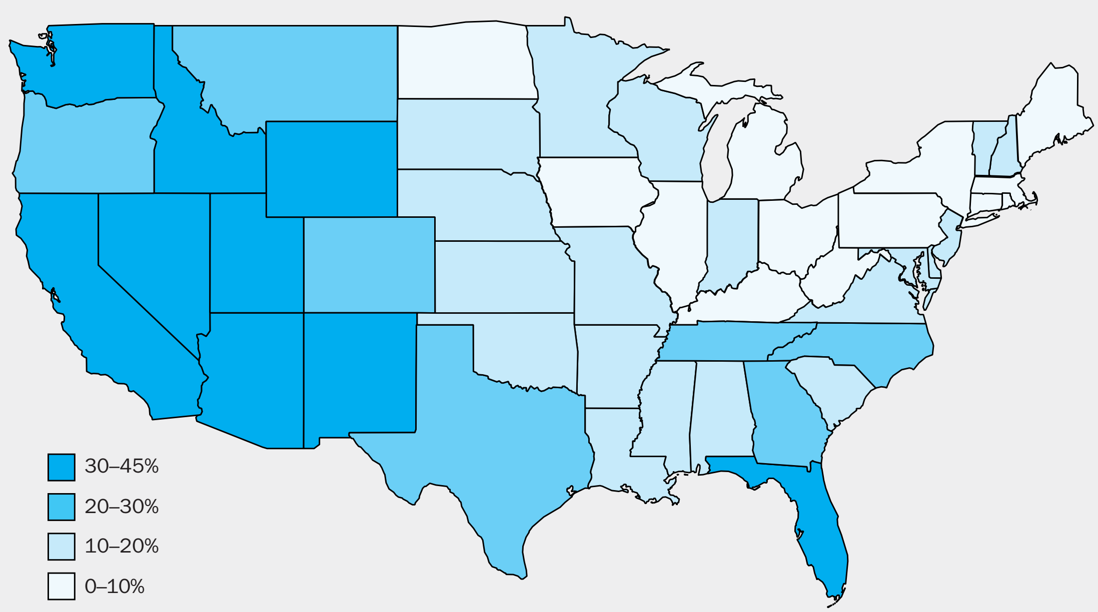
Source: Authors' calculations from U.S. Department of Commerce, Bureau of the Census, 1999, journey to work and migration statistics.

(see figure 10). The employment cost index values for private industry workers have been growing of late in both the region and the nation (table 4).

Despite these gains, policymakers may consider measures to encourage growth, because continued wage growth is by no means assured. For one thing, the increasingly global economy may limit wage increases for the region. As wages are bid up, the competitive rigors of product markets will tend to shift production and production capacity to competing regions. Furthermore, the recent rise of wages and incomes could be interpreted as a recovery from a temporary economic shock in the early 1980s. If so, wages and incomes should now revert toward their average or "equilibrium." This would be consistent with models of interregional growth that point to eventual convergence of incomes and wages across

FIGURE 8

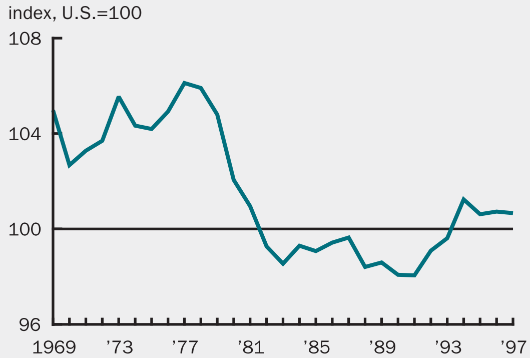
Projected population growth, 1995–2015



Source: U.S. Department of Commerce, Bureau of the Census, 1998, *Projections of Total Populations of States: 1995–2025.*

FIGURE 10

Midwest per capita income



Source: Authors' calculations from U.S. Department of Commerce, Bureau of Economic Analysis, 1998, "National income and product accounts," *Survey of Current Business*.

U.S. regions. Public policy alternatives that passively allow tight labor markets to materialize in a low-growth environment may, therefore, do little to enhance the material well-being of the Midwest population. For this reason, the region's policymakers may pursue measures to enhance work force availability and promote economic growth.

Encouraging migration to the Midwest

Encouraging migration from other regions or countries may facilitate growth in output and total income. However, it may also put downward pressure on the wages of some types of workers, to the extent that migrant workers act as substitutes for indigenous workers.[19] So too, depending on its demographic characteristics, the incoming population can create a fiscal burden for state and local governments. In particular, for lower paid migrants who contribute little in state and local taxes, the costs of public services, such as education, can be high.[20] Because not all job expansion necessarily benefits the local population, work force expansion policies that encourage movement of workers into the region may not receive universal public support.

In spite of these pitfalls, there are reasons why growing the labor supply might produce broad benefits for the work force. For example, in some cases, newcomers may help a region's economy to achieve economies of scale or scope in a critical industry, thereby raising wages and income. New workers also generate income, some of which is spent within the region. Such expenditures may improve the well-being of all the region's residents, much as trade and specialization tend to do. More generally, to the extent that labor market recruitment programs attract the professions that are most needed, overall labor demand may be raised for complementary professions of indigenous workers. Today, the greatest demand in the Midwest is for workers with technical skills; such workers may be needed to attract industrial development that would also provide jobs for lower skilled workers.

In some areas, general increases in population may allow small towns to survive and provide necessary support for the agricultural economy. Like most of the U.S., the Midwest has seen its rural population shrink throughout most of this century. Among Midwest states, Iowa has been the hardest hit by rural population losses. It follows that Iowa, along with other heavily agricultural states, has been at the forefront of public policies and public–private partnerships to encourage recruitment from outside the region and abroad. One example of such a public–private initiative is The Iowa Human Resource Recruitment Consortium, which is funded by the Iowa General Assembly. The program is employer-driven, with staff assistance from the Iowa departments of Workforce Development and Economic Development.[21] It is designed to attract professional and technical job seekers to Iowa through alumni contacts from the state's universities.

If policymakers decide that attracting more workers from outside the region is desirable, one way to promote such migration is to focus on quality of life or residential amenities. Although studies have found that job availability and wages are often the dominant motivators of migration,[22] regional amenities may be an important secondary factor in workers' location decisions.[23] For example, research suggests climate is significant in motivating interstate and inter-metropolitan migration of workers and retirees. While little can be done to eliminate the Midwest's cold-climate disadvantage, policy initiatives with respect to built environment are another matter. These include land use policies that optimize amounts and types of open space and recreational opportunities. Improving public services, such as surface transportation and schools, may be just as important. Publications aimed at those considering a move[24] also cite regional cost of living as an important factor in location decisions. In this, the Midwest region fares well. As of 1997, median home prices in the Midwest were below those in the Northeast and the West. In any case, from a policy perspective, a focus on quality of life is a positive- sum endeavor, at least to the extent that cost-effective improvements in public amenities raise the consumption wages of residents.

Improving education and training

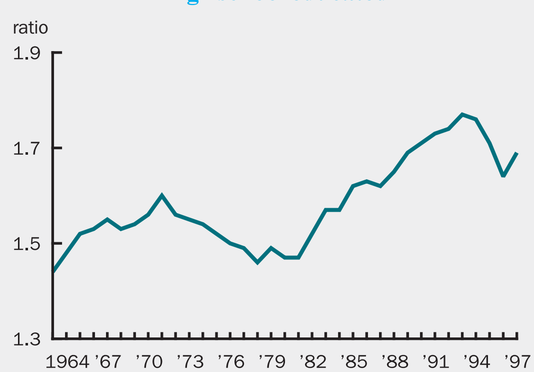
At present, highly educated workers are being paid a growing premium for their productivity, as reflected in the average weekly wages of college educated versus high school educated workers shown in figure 11. It is perhaps no accident that the personal computer/information highway revolution coincided with a runup in this premium from 47 percent in 1978 to 69 percent in 1997. Evidence from employer surveys indicates that newly created jobs require higher skills than existing jobs.[25] Therefore, removing barriers to educational achievement would increase available skills while also boosting wages and income. Moreover, rising wages might not be confined to those attaining higher education levels; a declining supply of less skilled workers (as more of them reach higher skill levels) may put upward pressures on the wages of these workers as well.

The importance of raising the number of skilled workers is reflected in several midwestern states' strategic development plans for growth and development. For example, the Indiana Economic Development Council's (IEDC) recent blueprint for 1999–2004 includes plans for state funding of a credit/debit card and lines of credit that could be used by young adults for education and training in a wide spectrum of state programs. Another IEDC initiative focuses on providing consumers with timely information on the performance and outcomes of schools and training programs.[26]

In addition to enhancing workers' skills, greater educational attainment is associated with greater work force participation. In 1997, U.S. unemployment rates of college graduates averaged only 1.7 percent, versus an average of 7.0 percent for those without high school diplomas (see figure 12). This is not to say that all of the gaps in work force participation can be closed by education and training alone. Significant supplemental investment may be required to help workers overcome other factors, such as disabilities or social environment factors, that limit their ability to benefit from education and training. For example, a review of the effectiveness of publicly sponsored training programs to date suggests that the amounts invested have been modest relative to what would be needed to boost participants out of long-term poverty.[27] Programs also vary in effectiveness by target group, with those directed toward women showing more promise so far than those aimed at youth or men. Based on the somewhat limited evidence to date, it is far from clear whether more intensive investments, such as classroom training and extensive on-the-job training, are effective or as effective as more modest training and job-matching services that are often provided to the unemployed.

FIGURE 11

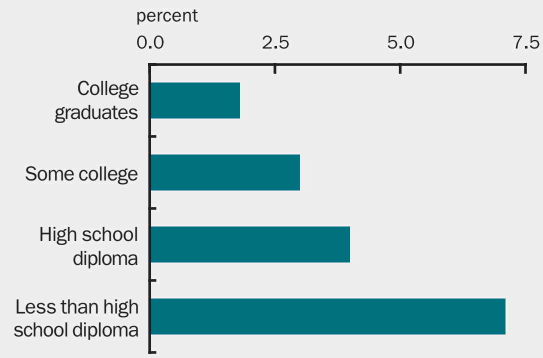
Wage premium, college versus high school educated



Source: Authors' calculations from U.S. Department of Commerce, Bureau of the Census, 1998, "Historical income," *Current Population Survey*, tables.

FIGURE 12

Unemployment by education, 1997



Source: U.S. Department of Commerce, Bureau of the Census, 1998, "Educational attainment in the U.S.," *Current Population Survey*, March.

Welfare-to-work initiatives

Welfare-to-work policies represent another way to access untapped labor in the Midwest, but moving welfare recipients into the economic mainstream poses many significant challenges for policymakers. However, with unemployment rates running well below the national average and employers searching for workers, Midwest state governments have been some of the most innovative and responsive to federal welfare policy changes in the nation. Midwestern states took the lead when the federal government began allowing states more freedom to "experiment" within federal parameters of welfare policy in the mid-1980s. As a result, when welfare reform legislation was passed in 1996, the region was already moving forward. Wisconsin's initiative, *Wisconsin Works* (W-2), is widely credited with being the first comprehensive and detailed plan under the new state block grant system. The W-2 plan, which has become somewhat of a blueprint for other states to follow, is based on four main principles. First, it ties eligibility for nearly all cash assistance to some form of employment. Second, it tailors cash assistance to what individual recipients ask for, rather than all they are eligible for. Third, W-2 programs are implemented quickly. Lastly, W-2 shifts responsibility for moving welfare recipients into the work force from the Department of Health and Social services to the Department of Workforce Development.[28]

Some Midwest states have expanded the Earned Income Tax Credit, which provides income tax refunds to low-income families. Other states have reduced disincentives to work by increasing the vehicle asset limit (a limit imposed on the value of a vehicle owned by cash assistance recipients).[29] Some states have tailored programs for specific groups of welfare recipients. For example, Indiana's Welfare to Work program earmarks funds for moving those with problems of substance abuse, poor work history, or significant educational deficiencies into the work force.

The results of these and other programs are encouraging. Statistics released by the Illinois Department of Human Services show that the state's welfare caseload declined 22 percent from November 1997 to November 1998, while the number of case cancellations resulting from employment jumped 41 percent. Michigan reports that its welfare caseload has been reduced by more than 200,000 since 1992 as a result of excess earnings. However, much of this success has come during an exceptionally robust economic expansion. Further research is needed to gauge the long-term success and cost-effectiveness of the region's welfare-to-work experiments.

Linking jobs with workers

Policy measures that facilitate matching job seekers with job openings may also be important in an era of labor market tightness. Currently, employment rates and earnings gaps are especially stark between low-income and minority neighborhoods of central cities and suburbs. Differences in education, age, and family structure play a large role in these gaps. However, while the research is not definitive, many observers believe that geographic isolation has also depressed earnings and work participation rates in inner cities.[30] Residents of low-income inner city neighborhoods find it more difficult to learn of job openings and to travel to work, often having to rely on public transportation. Also significant are the peer group effects of income and racial segregation on long-term residents of low-income neighborhoods. Lack of successful role models, isolation from mainstream culture and values, and the physical hurdles of crime and safety are thought to have created, or expanded, an underclass of adults who are not "job ready." Bringing these adults into the work force, and helping them to succeed once employed, may require programs specifically tailored to their needs.[31] While it is difficult to gauge the precise impact of residential segregation on work force participation, the trends are not encouraging. Black families remain highly concentrated in central cities and this trend has declined only slightly since the 1980s.[32] Furthermore, the slightly downward trend is explained by the suburbanization of higher income and middle income Black families, while the lowest income families have become even more concentrated in central cities.

Some metropolitan areas are addressing the spatial mismatch between workers and jobs by improving access to transportation and information about jobs for city residents. For example, some areas are creating informational networks to inform workers about distant job opportunities and to screen workers for job openings. (These networks may also allow firms to reliably identify high-quality workers by establishing ongoing relationships with program intermediaries.) One such program is the Chicago City/Suburban Job/Link program. The program not only identifies suburban jobs for city residents and provides transportation to and from the jobs, but offers clients assistance in developing employable skills and in certifying a consistent record of employment. Some governments are also considering measures to develop more affordable housing in proximity to job locations. For example, a recent comprehensive policy and land use plan for the Chicago metropolitan area recommends that the metropolitan area's major employers agree by compact to favor, in their site location decisions, suburban locales that provide adequate affordable housing.[33] In response to feedback from program participants (both cash assistance recipients and employers), Michigan initiated a pilot project in early 1999 to provide welfare recipients with rental assistance. The plan pools the resources of two state agencies to provide up to $200 a month in cash assistance to recipients for up to two years if they need to relocate for employment or to be closer to transportation or high-quality child care.

An alternative to helping workers to access suburban jobs is to bring more jobs into the central cities. Some policymakers believe that job redevelopment in depressed neighborhoods benefits all the residents.[34] Little is known about the effectiveness of public policies to draw businesses into inner city neighborhoods. One policy approach being tried is supporting (for example, through subsidies) the environmental remediation of formerly contaminated sites, so-called brownfields.[35] For example, Illinois provides a 25 percent income tax credit, capped at $150,000 per site, to developers that restore contaminated sites; Cook County, Illinois, offers a companion 25 percent credit for such sites; Indiana permits localities to designate affected zones for special tax abatements; Michigan allocates general obligation bond proceeds for brownfield purposes; and Wisconsin cancels back taxes for those willing to clean up abandoned and contaminated property.

Federal and state governments are also extending favorable tax and regulatory treatment to firms that locate or invest in distressed neighborhoods. The designated areas are often called enterprise zones (or renaissance or entrepreneurial zones).[36] The evidence on the effectiveness of such initiatives is mixed.[37] Some studies, such as Sridhar's (1996) evaluation in Illinois and Papke (1994) in Indiana, find that the programs result in incremental economic activity, while others find a very modest impact at best (Dowall, 1996). Furthermore, it is unclear whether the associated economic activity is being created or merely shifted from one location to another.

Other programs focus on development opportunities for retail and business services in low-income neighborhoods. Studies have found that local markets for such services are much more lucrative than official statistics suggest and, further, that siting stores and offices in inner city neighborhoods can successfully be accomplished by tapping the knowledge of local neighborhood organizations.[38] For example, a recent analysis of low-income neighborhoods in Chicago argues that the personal income of residents is underestimated by standard governments statistics; hence, these areas may offer greater market success that is commonly recognized by large, nationally branded retailers.[39] Another study of Chicago's neighborhoods documents the "underservicing" of business service firms, such as photocopy shops, mailing/packaging outlets, and accounting services.[40]

Conclusion

The advent of tight labor markets was anticipated in the latter half of the 1980s, but the concern was temporarily forgotten when the economy slowed in the early 1990s. Robust economic growth since then has alerted researchers, businesspeople, and policymakers to the likelihood that labor market tightness will continue. Labor demand has revived after many decades as the Midwest's industries have returned to global competitiveness. At present, the region's unemployment rate is almost 1 full percentage point below the nation's. Although the goods-intensive nature of the region's industry mix suggests lower demand for labor, work force growth will be slower in the Midwest than elsewhere. Currently, work force participation rates are higher in the region than in the nation. But, long term, the relatively older and less educated composition of the region's work force will lower participation rates. More importantly, net migration out of the Midwest continues, as younger workers, especially, move to warmer regions. Although work force growth is aided somewhat by immigration from abroad, the inflow of immigrants to the Midwest is relatively weak.

Quality of life initiatives present an attractive policy alternative for state and local governments both to retain and to attract workers—at least to the extent that such initiatives are cost-effective.

As employers increasingly require higher skilled workers, promotion of further educational attainment is an important tool to boost labor availability. Work force participation rates among educated workers continue to grow. The possible downside of educational investments by state or local governments is that workers, once educated or trained, are free to move away. However, the downside potential is probably lower for lower skill levels, such as high school and just beyond, where the Midwest's present occupational structure matches its own industries rather than those of other regions.

Most Midwest states have aggressively begun programs to substitute work-support assistance for cash welfare grants. Policymakers believe the benefits of bringing the welfare population segment into the work force will flow to the Midwest rather than to other regions.

Public policies to assist the functioning of the labor market might also be important to overall work force availability. Work force participation rates in central cities remain low, especially in poor and minority neighborhoods, while job opportunities continue to move to distant suburbs, which often provide little housing for low-income residents. Although the evidence is not definitive, living at a significant distance from one's place of work seems to adversely affect earnings and employment rates, as well as imposing hardships such as longer commuting times.

NOTES

[1]Unless otherwise specified, the Midwest is defined as Illinois, Indiana, Iowa, Michigan, and Wisconsin.

[2]Measured by the ratio of the region's share of total income from manufacturing relative to the national share.

[3]For example, Blanchard and Katz (1992) regress annual changes in state payroll employment on changes in national employment from 1948–90. Industrial states of the Midwest report a coefficient greater than one. Commodity base (farm and mineral) states are generally found to be out of sync with national business swings. One Midwest state, Iowa, displays such a tendency.

[4]Hojvat-Gallin (1998) offers evidence that regional labor market disequilibrium in U.S. states adjusts through migration and labor supply, and that migration responds differently to permanent versus transitory shocks.

[5]Using the U.S. Census Bureau's definition of multistate regions, only New England approaches the Midwest in manufacturing intensity.

[6]For some modifying views, see Cohen and Zysman (1987) and Testa (1998).

[7]See Federal Reserve Bank of Chicago (1997).

[8]For further discussion, see Kaglic (1997).

[9]See Lommel (1997) and Fullerton (1997).

[10]Midwest trends in work force participation by gender are not significantly different from national trends.

[11]Fullerton, op. cit.

[12]Currently, the incentive structure embedded in OADSI discourages work force participation of eligible retirees by reducing payments as earned income rises. Pressure for seniors to remain in the work force will come if social security payments decline after 2010 when the system faces the heavy demands of the retiring baby boom generation.

[13]See Hubler (1999). Note also the tendency of participation rates to pick up during cyclical expansions.

[14]The region has already attained employment/population ratios for workers aged 54–64 that are slightly higher than the national average (table 1).

[15]For details on the education and skills of workers who migrate versus those who do not, see Borjas, Bronars, and Trejo (1992). Odland (1990) reports on young entrants to the labor force (1975 to 1980), who resided in the five-state East North Central Census region in 1975. Managers and professionals were the most likely to migrate, while operatives and laborers were the least likely. Migration from small towns and rural areas was most prominent.

[16]For a discussion, see Rosen (1993). Also, Kim (1997) documents the fact that the industry mix among manufacturing industries has sharply homogenized over the course of this century. In part, this shift in specialization away from the Midwest may be attributed to falling transportation costs, increased factor mobility, and production methods that are less resource-intensive.

[17]Edmondson (1997) uses the Federal Emergency Management Agency definition of "extremely cold," which is reaching below freezing temperatures on 90 or more days in an average year. For an extensive treatment of climate and migration, see Graves (1979). Greenwood and Hunt (1989) argue that job-related factors are much more important. Hojvat-Gallin (1998) finds that labor demand shifts predominate in long-run regional growth.

[18]The Chicago metropolitan area ranks fourth in the country as a destination for legal immigrants. Cities, suburbs, and rural areas alike have benefited from immigration in the 1990s. Central cities continue to experience net out-migration of domestic population. In rural areas, population growth from domestic and foreign migration now exceeds natural population increase. See Johnson (1996).

[19]See Frey (1998), Jaeger (1996), and Borjas, Freeman, and Katz (1997).

[20]For a review of local fiscal impact of residential land development in metropolitan areas, see Oakland and Testa (1995).

[21]See Iowa Business Council (1999).

[22]For example, recent evidence shows that the early 1990s migration of workers from California owed more to job availability than to declining "quality of life" (due to congestion). See Gabriel, Mattey, and Wascher (1995).

[23]The weight of evidence favors the importance of economic variables. See Greenwood and Hunt (1989). Employment growth and rising wages tend to covary, indicating labor demand rather than supply shocks, although there are important exceptions in states like Florida and California, where foreign immigration has been heavy (Hojvat-Gallin, 1998, and Blanchard and Katz, 1992). Moreover, Mueser and Graves (1995) find that amenities often carry equal weight in explaining regional population growth. Barro and Sala-i-Martin (1995) find that climate variables, such as "heating degree" days, are significant. The relative importance of amenities versus jobs and wages varies over time and from place to place. Over the long run, the pull of migration related to amenities can dominate.

[24]Savageau (1997).

[25]For example, see Holzer (1996) .

[26]See Indiana Economic Development Council, Inc. (1999).

[27]See LaLonde (1995).

[28]For a more complete review of Wisconsin's welfare initiatives, see Wiseman (1996).

[29]Other states have been slow to recognize the disincentives to work that are inherent in their state income tax structures. According to a recent report, Illinois, Indiana, and Michigan continue to tax the income of families earning at or below 75 percent of the poverty line. See Center on Budget and Policy Priorities (1999).

[30]In addition to barriers relating to transportation and informational costs of employment, inner city residents are subject to environmental effects that are more difficult to measure, for example, lack of role models and absence of a culture of job-readiness. For a thorough review, see Mayer (1996). Workers who seek to relocate to suburbs offering jobs also face barriers.

For example, to avoid having households that do not pay enough in taxes to cover the cost of public services, wealthy suburban communities engage in large-lot zoning and other exclusionary devices. In the process, central city and older suburbs become the default locations for low-income households, which, in turn, drives up tax rates and discourages business property (and job) development. Firms do not demand affordable housing (and labor force) in individual suburbs, at least to the optimal extent, because they draw on a larger labor pool than the individual suburb in which they locate. That is, in a system of small suburbs, people do not live where they work. See Oakland and Testa (1995).

[31]See Wilson (1990).

[32]Mayer (1996).

[33]See Johnson (1999).

[34]For a review of the literature and recent evidence on the effects of nearby job locations in Chicago, see Immergluck (1998).

[35]See Bartsch (1998).

[36]Enterprise zones were proposed by British urban planning expert Peter Hall in the 1970s and implemented in the UK. The concept was introduced in the U.S. by Stuart Butler of the Heritage Foundation and proposed as a bill by Representatives Kemp and Garcia in 1980. Since then, many states (37, according to Boarnet and Bogart, 1996) have adopted some form of enterprise zone program.

[37]For a review of this literature, see Sassaris (1999).

[38]See Porter (1995).

[39]Social Compact (1997).

[40]Boston Consulting Group/Initiative for a Competitive Inner City (1998).

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