

# THE AGENDA

## FUTURE OF PROSPERITY

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A POLITICO WORKING GROUP REPORT

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### THE GEOGRAPHY OF OPPORTUNITY

How to ensure all communities have access  
to good jobs and a prosperous future

# The Geography of Opportunity

A POLITICO working group report

**W**ORK HARD AND GET AHEAD. That, in a nutshell, is the American dream. For that bargain to thrive, Americans need access to the kind of jobs that reward hard work, or a local economy that lets them start a business. And increasingly those opportunities are not spread evenly across the American landscape. Virtually all the jobs created in the past decade have occurred in a handful of U.S. cities, and business creation is at a 30-year low.

What this means is that the American dream is alive and well for some Americans, and out of reach for others. And which group you're in depends greatly on where you live.

You might assume these disparities are a recent phenomenon, triggered by the Great Recession that began in 2008. But economists who've studied the problem have found that its roots go back decades. Before 1980, there were richer and poorer areas of the United States, but income growth tended to be roughly equivalent, and the regions were even converging. But starting around 1980, that trend reversed. Some cities and communities, primarily on the coasts, continued to add jobs and increase wealth. Other cities and communities, often in the

heartland or dependent on industry, began to stagnate or decline.

This isn't just a problem for the areas left behind. Economists are increasingly concerned about the effect of geographic disparities on the country as a whole. Reduced labor force participation costs federal and state governments more in the form of higher social-welfare spending and health care. The growing imbalance infects our politics. And it could be a significant drag on the nation's gross domestic product for years to come.

To tackle this issue, POLITICO convened a bipartisan group of 14 business leaders, thinkers and policymakers to explore the problem and identify solutions that have a realistic path forward in today's political environment. Meeting under Chatham House rules to encourage candor, the group concluded that leaders in Washington have quite a few tools at their disposal, and several paths forward that could gain bipartisan support.

The group identified nine possible tools and policies Washington could wield to improve economic opportunity in America. They are detailed later in this report, but they fall into three broad groups:

**Virtually all the jobs created in the past decade have occurred in a handful of U.S. cities, and business creation is at a 30-year low.**

**Expand financing for startups.** Many federal regulations designed to shore up the financial sector have disproportionately hurt cities and regions trying hardest to attract new capital investment. Finding ways to ease those rules on affected communities without increasing risk elsewhere in the system could increase the amount of capital available for projects that create jobs.

**Improve labor mobility.** Right now, it's hard for workers to move from places with few opportunities to those with more, sometimes because their credentials don't transfer between states, sometimes because housing costs are prohibitive. Moreover, many don't start businesses or work as contractors for fear of losing access to health care and other employer-sponsored benefits. Federal policies like credential reform, curbing noncompete agreements, providing housing subsidies and making benefits like health care more portable could make it easier for more workers to move to better jobs.

**Rethink infrastructure.** One of the most important functions of any transportation system is to connect workers to jobs. Yet all too often, transit systems wind up reflecting bureaucratic turf or prioritizing other interest groups. Solutions that work in dense, coastal cities make little sense in sprawling cities in the heartland, and vice versa. Refocusing Washington's discussion of transportation around the needs of workers could forge new solutions. So could expanding the infrastructure policy debate to include more types of connection, such as broadband, which can allow more workers to work from home and access thriving markets wherever they live.

Working-group members also agreed on what doesn't work, such as promoting competition between cities or regions via tax breaks. Those policies tend to just move jobs from one state or region to another, redistributing the jobs pie without making it bigger. Said one participant: "If a big company, like Amazon, decides to move its headquarters from one city to another, any local spillovers and benefits that went to the host city will be given to the new city, but the nation doesn't necessarily benefit."

Instead, the goal should be to promote the kind of development that fosters net job growth while still directing it to struggling communities whose resources aren't fully developed. "Talent

is equally distributed, but opportunity isn't," said another participant.

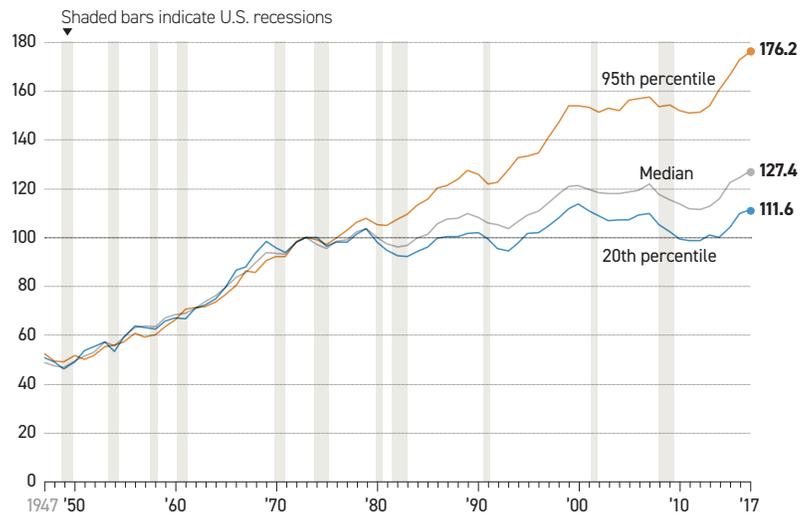
This POLITICO working group report summarizes the discussion and details the solutions the group arrived at, as well as some of the obstacles it identified. It's part of a yearlong journalism series called the Future of Prosperity, exploring the long-term challenges facing Americans' financial well-being.

*Note: Under the ground rules of the discussion, the list of participants is public and appears at the end of this document, but POLITICO is not attributing specific views and comments to individuals.*

## 1. WHAT'S THE TROUBLE?

In essence, the United States has a mismatch between where jobs are and where workers live. Virtually all the jobs created since the 2008 financial crisis have occurred in communities already considered prosperous, while the number of jobs in distressed communities remains lower than before the recession.

**The economic tide no longer lifts all boats** | Before 1980, economic growth improved the standard of living of all Americans more or less equally. Since 1980, that hasn't been the case. Instead, the benefits have started to diverge, with some prospering and others left well behind.



Source: Center for Budget and Policy Priorities

**CREATING JOBS**

One way to fix that problem is to find a way to move jobs to where there are workers who need them. But getting companies to set up shop in disadvantaged communities isn't easy. Working group participants mentioned a number of factors that keep business investment at bay: A tendency for venture capital to prefer known locations (primarily San Francisco, New York and Boston), which can hurt opportunities in "flyover country"; and bias against startups run by women and people of color, which limits opportunity in many urban areas.

"Capital flows to where it feels comfortable," said one participant. "We have to come to terms with inherent biases in the way we think about business formation and the fact that wealthy folks and investors typically invest in those [communities] that they look like and that they're comfortable with."

Another problem is the natural tendency for businesses to "agglomerate" in certain areas, primarily the richest cities. "Density fosters trade and specialization, and creates high-paying job opportunities," said another participant. "This is not a new idea. It was recognized by Plato, writing in ancient Athens, and by Adam Smith, writing in Edinburgh, Scotland in the 18th century."

Still, there are federal policies that worsen these trends, participants said, hampering attempts to invest in less fortunate communities, particularly in areas off the coasts. For instance, one participant noted that the Volcker rule, part of the post-financial crisis Dodd-Frank law, imposed restrictions on bank investment in venture capital funds in an effort to curb risk-taking. But the participant noted that in the Midwest and other regions off the coasts, big banks are often the only investors with the ability to do due diligence on new ventures and clear the way for other investors—and they can't legally make those investments. "It's the first money in, but it's also a vote of confidence" that then attracts other investors, the participant said.

Several participants praised new legislation passed last year as part of the Trump administration's tax reform bill that creates



"Opportunity Zones" – designated zip codes where businesses will be able to defer capital gains taxes for up to 10 years. One participant described the incentives "very meaningful." Still, Opportunity Zones are just being formed, so it remains to be seen how they work in practice.

**FOSTERING MOBILITY**

The second way to address the mismatch is to make it easier for workers to move to new jobs, either within their current city or region, or relocating entirely. But Americans are moving for jobs at about half the rate they used to – while about 20 percent of workers moved each year to take a new job in the years after World War II, only 10 percent of U.S. workers move now.

For some workers, the price of housing in high-growth areas like Silicon Valley or Boston is a major obstacle. But even in less expensive regions, housing costs are a struggle. "Lower-cost areas are not actually affordable areas for their lowest-income workers," said one participant. "You need to pay the rent where you are, and not a single county in the U.S. has enough housing that's affordable for its

**"It's really hard to get around if you don't have a car."**

lowest-income workers, even with federal assistance.”

Housing and transportation are linked, several participants said. For many workers, a lack of reliable transportation is a major impediment to employment, particularly for lower income workers. Car ownership and gasoline costs can be expensive. Many can afford housing only in outer suburbs where public transportation is sparse or nonexistent.

“We’ve created cities that are not very dense, especially in the middle of the country,” said one participant. “It’s really hard to get around if you don’t have a car.”

But public transportation is complicated, with competing local and state jurisdictions and mercurial federal incentives. And while there is sometimes support for new projects like rail lines or streetcars, cities and regional transit systems struggle to figure out how to pay for ordinary operations and routine maintenance. The result is that outside denser older cities, public transportation is rarely a reliable link between home and work.

“Both employers and employees identify transportation as the biggest [infrastructure] gap,” the participant continued. “People have unreliable transportation, so they lose their jobs.”

Transit in particular can get tied up in party politics, said one participant: “There’s too many people, particularly [Republicans], who see transit as a handout,” the participant said. “I see it as economic mobility.”

And then there are incentives in public policy that reduce job-shifting. For instance, a workers who might want to leave a job to start his or her own business faces serious financial risks because of a lack of access to employer-sponsored benefits like health insurance and retirement plans. And for a growing number of workers who need state credentials in order to work in their field, a lack of credential portability between states also curbs mobility. Noncompete agreements, including for low-income workers, also restricts the ability of workers to move between employers or be hired away by competitors.

“It basically means you can’t leave from McDonald’s and work at Burger King,” said one participant.

When workers can’t leave their current job to take a better position at another workplace, that constrains their economic mobility considerably.

**BUILDING COMMUNITIES**

Finally, several participants said policies that try to attract jobs to a city might have the equation backward, because increasingly, jobs flock to workers instead of workers flocking to jobs.

“When I grew up, somebody gave you a job, you moved to the job. That’s not what happens today,” one participant said. These days, “young people move to the kind of city they want to live in. They move to the quality of life and then they want to make their life there.”

In other words, the participant said, to attract business, city leaders need to first attract workers through good public amenities including transportation: “Companies will come in, as long as the workforce is there.”

And sometimes workers don’t want to move at all — perhaps because of a spouse’s job, perhaps for financial reasons, and perhaps because of family or social ties to the community. But the decision to stay put doesn’t have to be a problem for their careers. Some participants noted that technology is making it possible for more workers to live wherever they’d like and work remotely, or to start a home-based business using technology to connect to clients or customers.

“Everybody should be connected,” said one participant. “You still have 34 million Americans who are without access to the internet.”

What constrains that option, however, is also access to benefits, since many “gig” workers are contractors and the self-employed have limited options. Obamacare has expanded access to health insurance for many of those workers, but they still have trouble accessing benefits such as retirement plans.

**20%**  
percent of Americans moved each year for work in the years after World War II

**10%**  
of Americans today move for work each year

**2. WHAT CAN BE DONE?**

Working group participants said federal officials, both in the administration and in Congress, have quite a few tools they can use to improve opportunity in America’s struggling communities, and that many of those policies would get support from both Democrats and Republicans.

Here are nine ideas proposed by working group participants:

**Improve benefits portability.** There was broad agreement among participants that allowing workers to take their benefits with them as they change jobs would greatly improve worker mobility. But there was little agreement on how exactly that might work, whether state or federal government might step in as a provider, or whether third-party providers would take over.

**Make professional credentials more transferable.** About 25 percent of American workers need a license to do their job, and those licenses are not usually transferable between states. There are professions where this makes sense, such as nurses and cosmetologists, but the number of professions requiring licensing has continued to increase to include businesses like florists and tattoo artists. Increasingly, the difficulty of transferring credentials between jurisdictions has become a significant deterrent for workers seeking to go into business or relocate.

**Revise the Volcker rule.** In the wake of the 2008 financial crisis, Congress passed the Volcker rule, which restricts the kinds of risky trades and investments that banks can make using federally insured funds. An unintended consequence has been to limit the amount of capital that banks can invest in venture capital funds, which are groups of investors who fund entrepreneurs. That doesn’t create problems in parts of the country with lots of wealthy investors, but in other regions, banks are a key source of capital for startups. Revising the Volcker rule to make it easier for banks to participate in venture capital funds could provide new funding for growing businesses outside of existing finance centers.



**Increasingly, jobs flock to workers instead of workers flocking to jobs.**

**Pay to fix the sewers.** (Seriously.) A little-appreciated problem for many U.S. cities is that economically crucial infrastructure projects are getting caught behind a costly federal mandate to upgrade sewer systems. Though the upgrade is environmentally important, limiting the amount of raw sewage that can flush into waterways during heavy storms, there’s no federal funding available to help cash-strapped older cities. The resulting municipal debt, several participants said, can increase local taxes and depress the amount of funding for other infrastructure for decades. Republicans as well as Democrats in the group agreed that it makes more sense for the federal government to pay for the remediation than for cities to bear the costs. “These are the single greatest infrastructure spending programs in many of America’s most impoverished cities,” said one participant. “There are very few problems that you could throw money at and fix it. This is actually one of them.”

**Rethink transit spending.** Transportation is the critical link between home and work, as well as a key factor in how attractive a city is for businesses and workers. But developing and maintaining transportation systems is a complicated job that too often pits different layers of government against each other. Working group participants said the federal

government needs to provide block grants with fewer strings attached and allow local officials to make decisions based on the geography and needs of their communities. In some areas, that might mean public support for on-demand rides like Uber. In others, it could be streetcars or high-speed buses or new freeways. And in many cases, it might not mean building something new but instead paying for boring maintenance like filling potholes or painting train stations. This issue inspired some partisan finger-pointing, with the accusation that politicians, particularly Republicans in Washington, find it too easy to portray public transit as a handout.

**Prioritize connectivity.** More and more jobs are dependent on good access to high-speed internet, and businesses are unlikely to locate to areas that don't have it. Moreover, for people who want to start businesses or work from home, broadband offers the ability to reach a large customer or client base. Yet millions of Americans still lack access to broadband internet, most of them in poor, rural communities with low population density and few job opportunities.

**Ease zoning restrictions in some cities ...** Many economists blame zoning restrictions for keeping down the supply of affordable housing in high-growth regions. They argue that increasing density in existing neighborhoods would ease housing prices and reduce sprawl. Federal officials have few tools to influence local zoning ordinances, but working group members said that tying job creation incentives to increasing housing density might be one way to encourage the construction of more affordable housing.

**... and rethink housing rehabilitation policies in other cities.** Some cities, particularly those hard hit by the housing collapse that began in 2006, have a large supply of vacant housing but it is in need of rehabilitation. Current incentives in federal lending programs, particularly the Low Income Housing Tax Credit program, make it more profitable for developers to buy properties that need major rehabilitation and convert them to higher-end housing. By tweaking the rules, federal officials could make it more economically viable for developers to purchase existing affordable housing that needs only light to moderate

rehabilitation and keep prices for the units more affordable.

**Curb noncompete agreements.** Roughly 1 in 5 American workers is covered by a noncompete agreement with their employer, which usually limits their ability to go to work for a competitor. Once restricted to highly paid executives who could take proprietary information elsewhere, they now apply to a broad swath of workers and effectively restrict their ability to move up by being hired by a competitor. Some states have already moved to curb noncompete agreements and others are considering it.

**3. WHAT'S NEXT?**

Working group participants found significant common ground on these ideas, but also identified a few political red lines that could impede any bipartisan deals.

For instance, on improving benefits portability, participants acknowledged that Democrats are unlikely to agree to portable benefit plans that offer less-comprehensive health coverage or make it easier for employers to shed the responsibility for providing benefits at all.

"There has to be some safeguard for workers," said one participant. "There is definitely a benefit to employers for making this more portable or even offloading it to the government."

On the other side, Republicans said their red line would be having government take over the benefits business. In other words, promoting portability between employers is fine but establishing federal or state programs is not.

Republicans "are not going to support government taking over and starting to manage retirement plans and things like that," said one participant. "But [easing] rules and regulations that may inhibit more portability between employers, sure. We could look at that."

Any adjustments to the Volcker rule would also be politically fraught, no matter how rational the changes, because of perceptions among Democrats that big banks have gotten too light a touch from federal regulators.

22%

of American workers need a license to do their job

18%

of American workers are covered by a noncompete agreement with their employer, which usually curbs their ability to go to work for a competitor

“The optics are very, very challenging,” said one participant, who suggested that a lot of work would need to take place ahead of time to explain the problem to Democratic lawmakers and their constituents.

A challenge on the other side of the political spectrum would be getting Republicans to endorse new spending on public transit. One solution is to talk about it as part of a broader policy approach. “You’d have to roll it into a discussion around infrastructure,” one participant said.

And of course, there will be a money problem. Working group participants warned that Congress’ 2017 tax cuts mean that lawmakers will have even less money than in the past, even for proposals with bipartisan support for new funding—including federal block grants for broadband, transportation and infrastructure.

“You have a very large bipartisan consensus around that,” one participant said. “That’s a very achievable area, [but] with tax reform, we’re running trillion-dollar deficits and domestic discretionary [spending] is getting squeezed.”

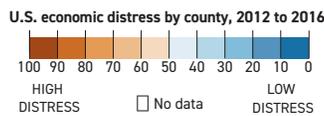
But the good news is that at least some of the ideas on the list could be implemented without new legislation. For instance, the Federal Reserve and Securities and Exchange Commission are considering changes to the Volcker rule that could be adopted without going to Congress. And there are measures the federal government could take to improve the recognition of credentials between states or curb the prevalence of noncompete agreements, or tweak existing mortgage and housing programs to encourage denser construction or spur more rehabilitation of existing housing.

A key insight, the group concluded, is that geographic disparities in access to opportunity can’t be seen as just a jobs, housing, or transportation problem.

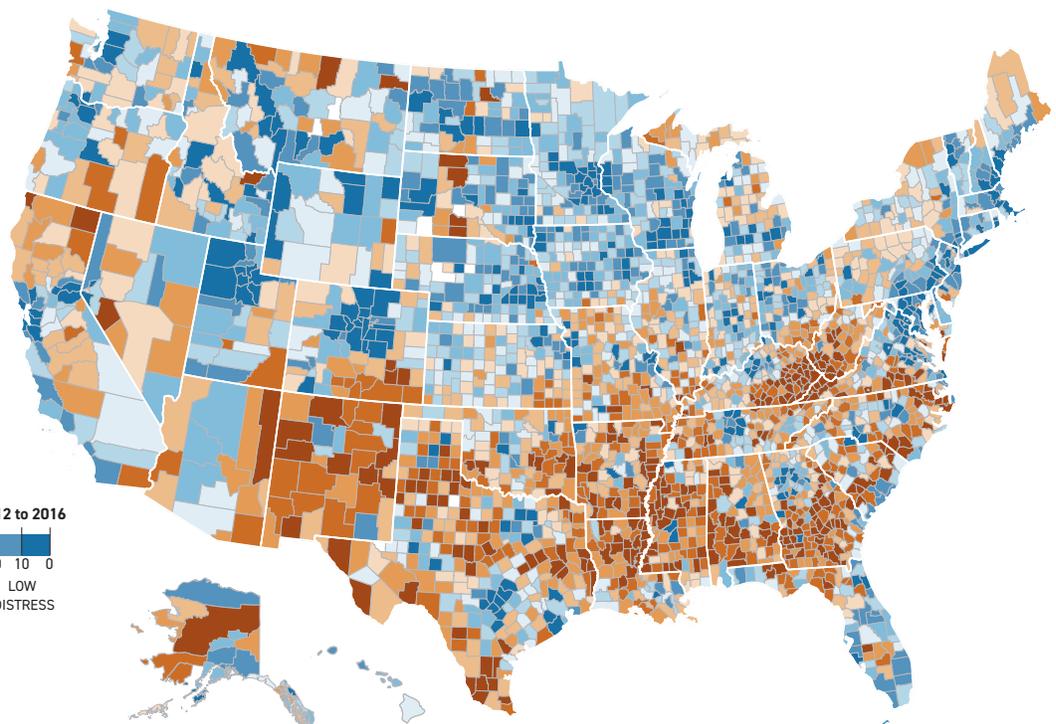
As one participant put it: “We need to think about policy solutions that marry job and transportation and housing incentives in a way that all of these three actually fit together in people’s lives.”

**Where the pain is**

A new think tank, the Economic Innovation Group, sought to quantify “distressed” areas by looking at income, education, job and business growth and other factors. This county-by-county map shows how unevenly that distress is spread across the country.



Source: Economic Innovation Group



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