Place Based Policies

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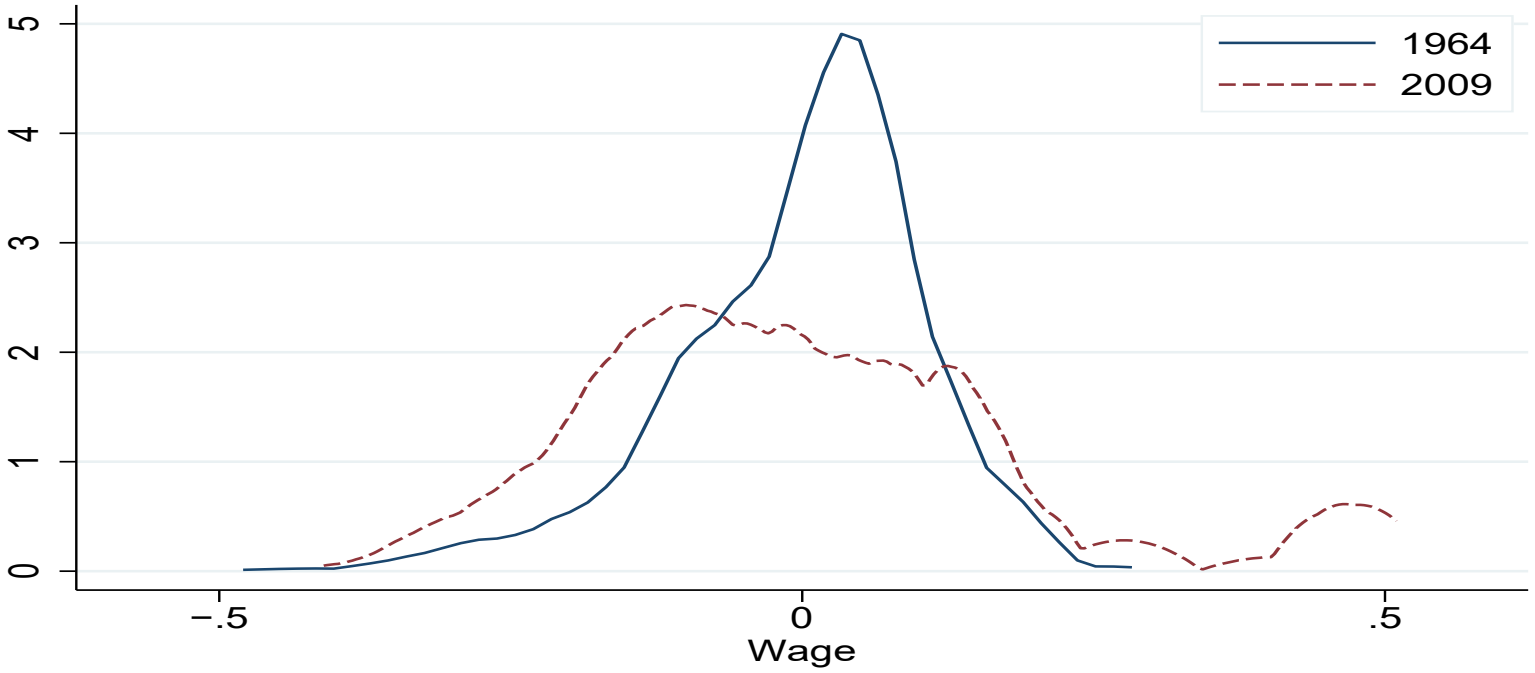
Growing Spatial Inequality



Growing Spatial Inequality

- Not just US
- Not just wages:
  - Health and longevity
  - Children outcomes
  - Politics
    - 2016 US election
    - Brexit referendum
    - Gilet Jaunes

Place Based vs. Person Based

- Most government programs provide income or services to particular groups of individuals.
  - "Person based"

- Local Economic Development programs attempt to redistribute resources towards particular geographic areas
  - "Place based"

Examples

- Enterprise Zones
  - State business incentives in designated areas (Papke, 1994; Neumark and Kolko, 2010; Ham et al., 2011).
- Empowerment Zones
  - Federal spatially targeted grants and subsidies (Busso, Gregory, and Kline, 2012)

Examples

- Regional Development Authorities (Regional Big Push)
  - Tennessee Valley (Kline and Moretti, 2014)
  - Appalachia (Ziliak, 2011)
- Regional transfers
  - Canada (Albouy, 2012)
  - European Union (Ehlirich and Overman 2020)
- Special Economic Zones
  - China (Wang, 2011)

Outlays in the US

- Federal government: >$15 billion per year (GAO, 2012).
- State and local governments > $80 billion per year (Kline and Moretti, 2013).
  - Both red and blue states
  - Zero-sum competition
- ~Three times the outlays for UI in a typical non-recession year (CBO, 2013)

Equity and Efficiency

Equity:

- Seemingly obvious motivation for place-based policies: Raise wages and create jobs in economically distressed areas
- But why target places and not individuals? Poor areas have some rich residents and rich areas have some poor residents

  "*Subsidizing poor or unproductive places is an imperfect way of transferring resources to poor people*." (Kline and Moretti, 2013)

- Incidence is complicated

Equity and Efficiency

Efficiency:

- Does it make sense to move workers and firms from the most productive places in a country to the least productive places in that country?
- What types of market failures arise in economic development?

Place-Based Policies with No Market Failures

- Rosen-Roback (1982):
  - Perfectly mobile workers
  - Full employment
- Place-based polices are a bad idea by assumption
  - Equity: all benefits captured by landowners, not workers
  - Efficiency losses (standard DWL)

Place-Based Policies with Market Failures

Place based policies can improve welfare (Kline and Moretti, 2013)

- Unemployment
- Frictions to mobility
- Externalities: Agglomeration economies
  - Multiple equilibria
- Coordination Failures in Investment
  - Murphy, Shleifer, Vishny (1989)

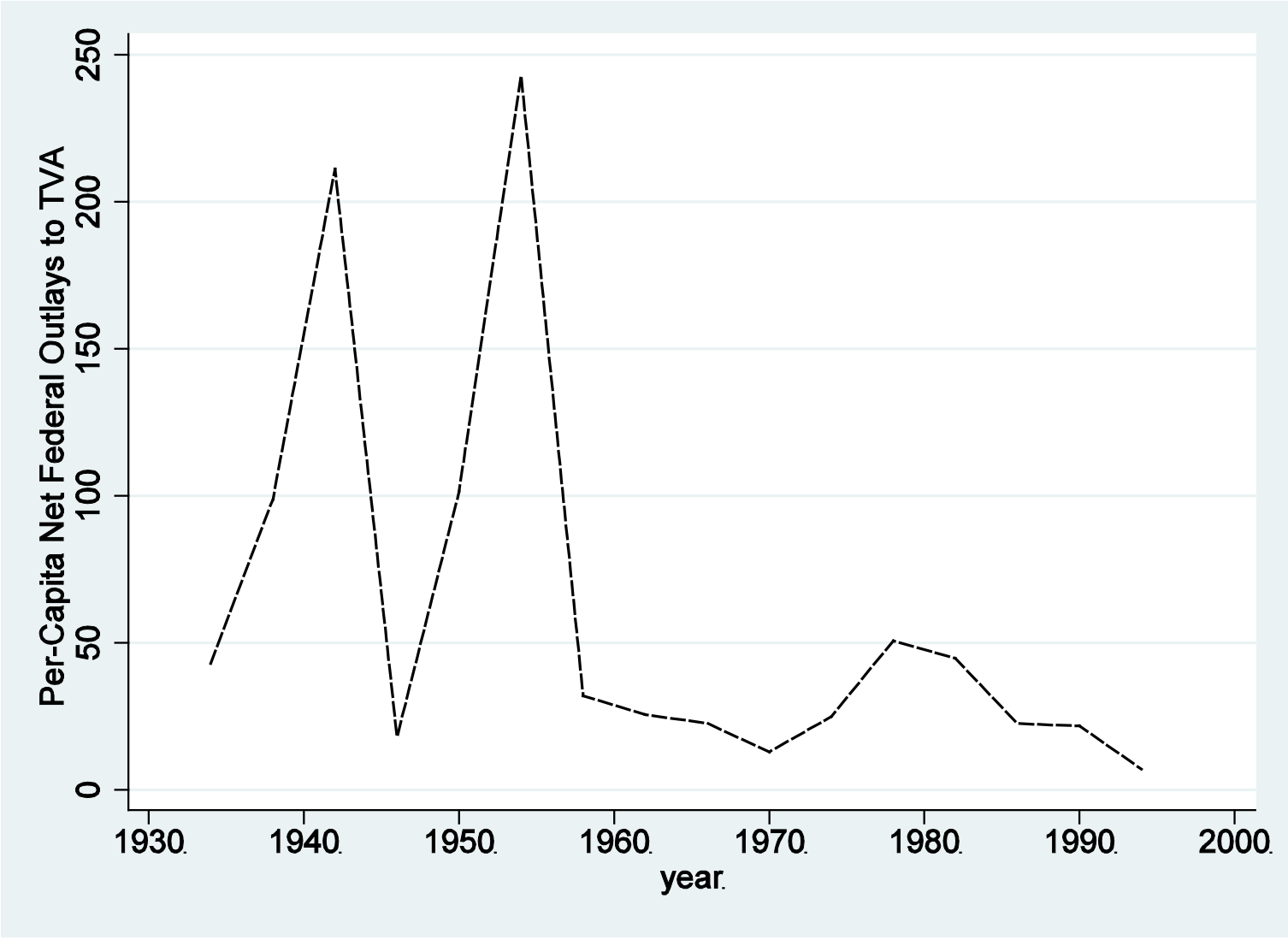
The Most Ambitious Place-Based Policy in US history

- Tennessee Valley Authority
- Among poorest regions in the US in 1930
- Roosevelt: TVA was intended to modernize the economy of the region by “touching and giving life to all forms of human concerns.”
- What TVA did:

  (i) Dams and cheap electricity; (ii) new roads;

  (iii) 650-mile navigation canal; (iv) schools

Federal Investment in TVA dropped off after 1960



Effects of TVA (Kline and Moretti, 2014)

- 1940-1960: Significant short run gains in manufacturing employment and wages
- 1960-2000: Once subsidy stops, gains in manufacturing intensify
  - Agglomeration economies
- Structural transformation: TVA moved region away from low wage sector (agriculture) toward high wage sector (manufacturing)

Effects different once investment stops

Table 4: Decadalized Impact of TVA on Growth Rate of Outcomes Over Two Sub-Periods

	Outcome	Entire U.S. (1940-1960)	South Only (1940-1960)	Entire U.S. (1960-2000)	South Only (1960-2000)
(1)	Population	0.037	0.042	-0.008	-0.000
(2)	Average Manufacturing Wage	-0.005	-0.003	0.014*	0.010
(3)	Average Retail/Wholesale Wage	-0.011	-0.006	0.039	0.065**
(4)	Agricultural Employment	0.106***	0.106***	-0.134***	-0.130***
(5)	Manufacturing Employment	0.114***	0.116***	0.033**	0.035*
(6)	Other Employment	0.060	0.063	-0.000	0.006
(7)	Value of Farm Production	0.076*	0.081**	-0.030	-0.044
(8)	Median Family Income	N/A	N/A	0.017	0.016
(9)	Average Agricultural Land Value	0.027	0.018	-0.017	-0.015
(10)	Median Housing Value	0.019	0.010	-0.003	0.005

Note: Point estimates obtained from Oaxaca-Blinder regression of 1940-1960 or 1960-2000 change in outcomes divided by two or four respectively on TVA dummy and interacted controls as in Kline (2011). All outcomes besides share variables are transformed to logarithms before taking difference. Stars based on standard errors clustered by state (entire U.S.) or spatial HAC estimates (South Only) using technique of Conley (1999) with bandwidth of 200 miles. Legend: * significant at 10% level, ** significant at 5% level, *** significant at 1% level.

TVA Benefits and Costs

- Net present value of
  - benefits: $23.8 billion
  - costs: $17.3 billion.

→ Positive return on public investment. TVA paid for itself

Equity and Efficiency

- TVA clearly improved equity
  - 2000 mean household income significantly higher

- There were no efficiency losses.
  - Evidence of important market failures: agglomeration economies

Broader Lessons

Large scale place-based policies can be efficient: TVA, the railroad system, federal highways, the Hoover dam.

These large investments yield low marginal cost and increased economic activity – supply creates its own demand.

Multiple equilibria: Government is essentially selecting a new equilibrium for the target region.

Temporary distortions associated with financing of these projects may be tolerable if they can permanently knock a community out of a bad equilibrium (poverty trap).

A Big Push For the Rust Belt?

- Gruber and Johnson (2019): advocate for large federal investment to create high tech clusters in Rust Belt states
  - Spatially targeted federal subsidies and grants
  - Direct investment (federal labs, etc)
- "We must ensure that the new high-tech jobs do not follow the pattern of the past forty years and fall into just a narrow set of "superstar" cities on the East and West Coasts."

Caveat #1

- We can't take parameters from Kline and Moretti (2014) and apply them to a big-push policy today
  - TN in 1930: obvious lack of infrastructure
  - Rust Belt today: less obvious what to do
    - Engineering a high-tech cluster from scratch in a region that does not have high tech firms or workers is much more difficult than building roads and dams

Caveat #2

- Efficiency costs of spatial redistribution are likely higher today than in 1930
  - Agglomeration economies stronger in high-tech sector than manufacturing (Moretti, 2012)
- Moretti (2020) estimates large productivity losses from moving high-tech jobs from existing high-tech clusters to Rust Belt cities

Small Push: Empowerment Zones

- Target: distressed urban neighborhoods

- Employment tax credit
  - EZ employers are eligible for a 20 percent wage credit for employees who live and work in the EZ.

- Social Services Block Grant Funds (SSBG)
  - Infrastructure investment, improving access to credit, job training

Effects of EZ

- Busso, Gregory, Kline (2012) use tracts in zones that applied for an EZ and were rejected as controls for EZs.
- Big jobs increases for local residents and commuters.
- Wage increases for local workers.
- Negligible increases in local cost of living
- Negligible increases in population
- Suggests many workers are willing to commute to zone but that few are willing to move there.

Before EZ

Camden (inside EZ), New Jersey, *1993*

After EZ

Same street in Camden (inside EZ), New Jersey, *2003*

Equity Gains
No Efficiency Losses

- Local workers appear to be capturing rents.
- No gentrification: unambiguous equity improvement.
  - Reason: Wage credits were contingent upon the employment of local residents.
  - It may be possible to design even more stringent eligibility criteria that are easy to enforce and target the desired populations.

Conclusions

- Growing inequality across communities
  - US
  - Europe
- Large scale big push policies that target entire regions (like TVA) were successful in the past but may have larger efficiency costs today
- Small scale big push policies that target neighborhoods (like EZ) are effective