Place-Based Polices in the 21st Century

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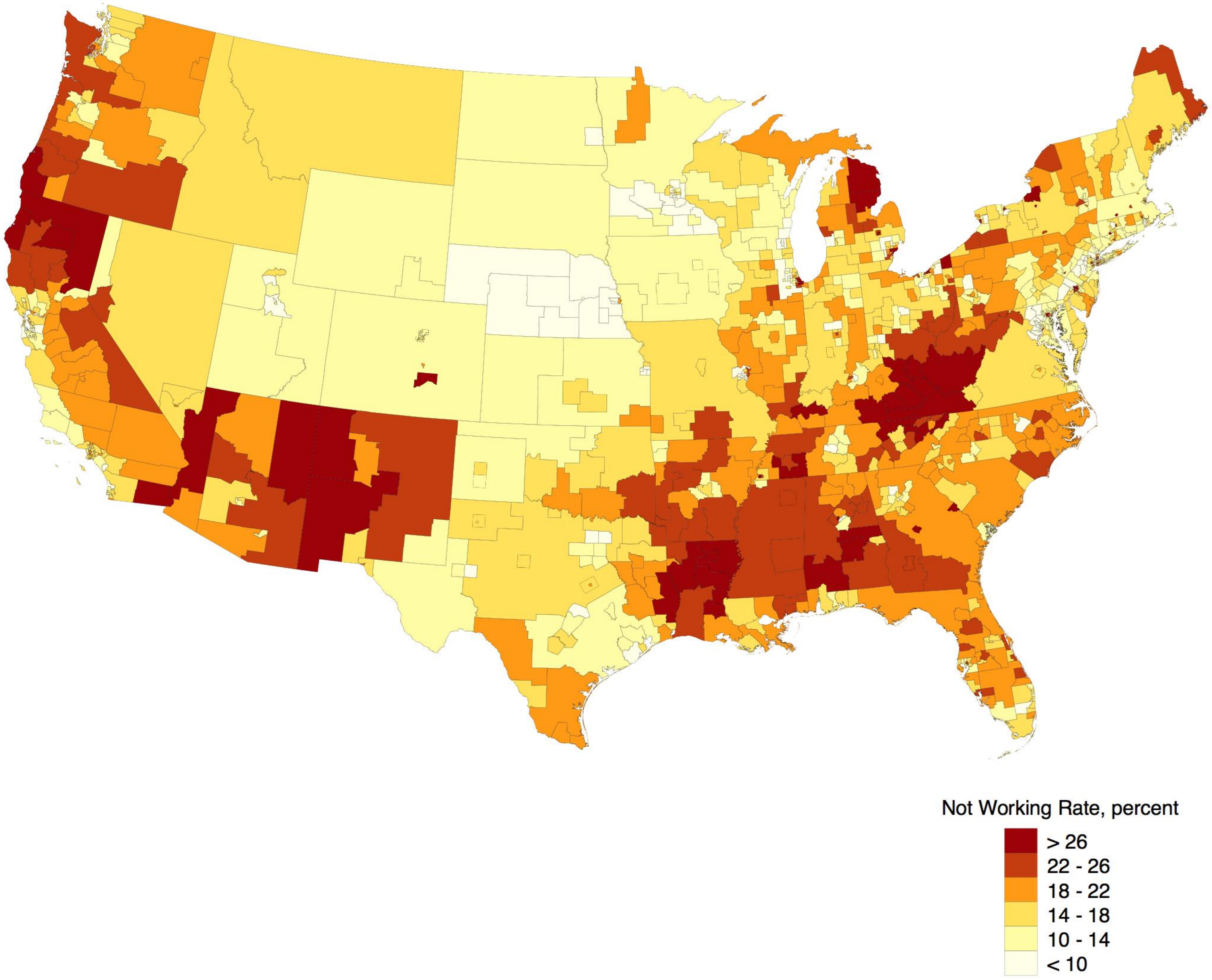
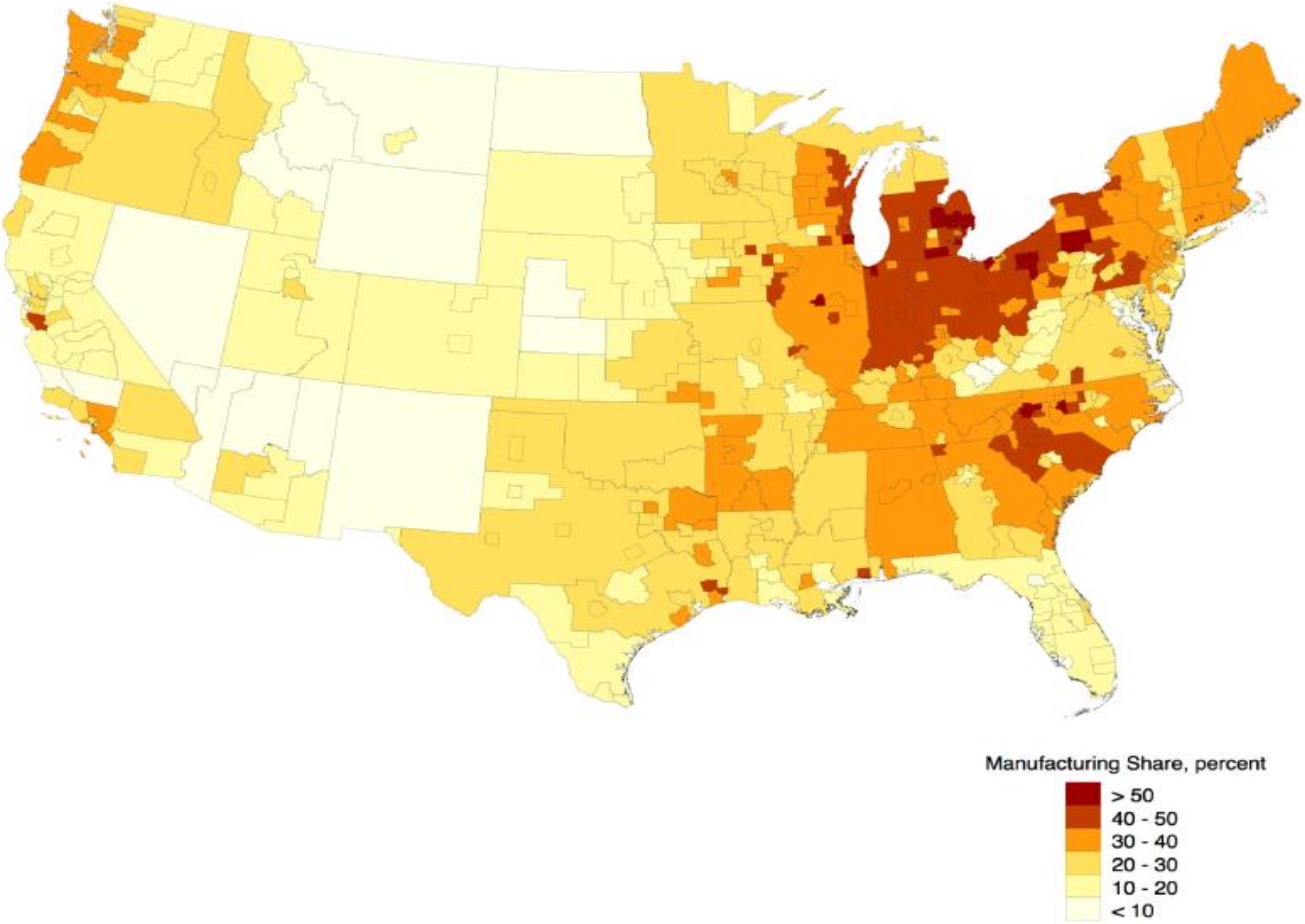
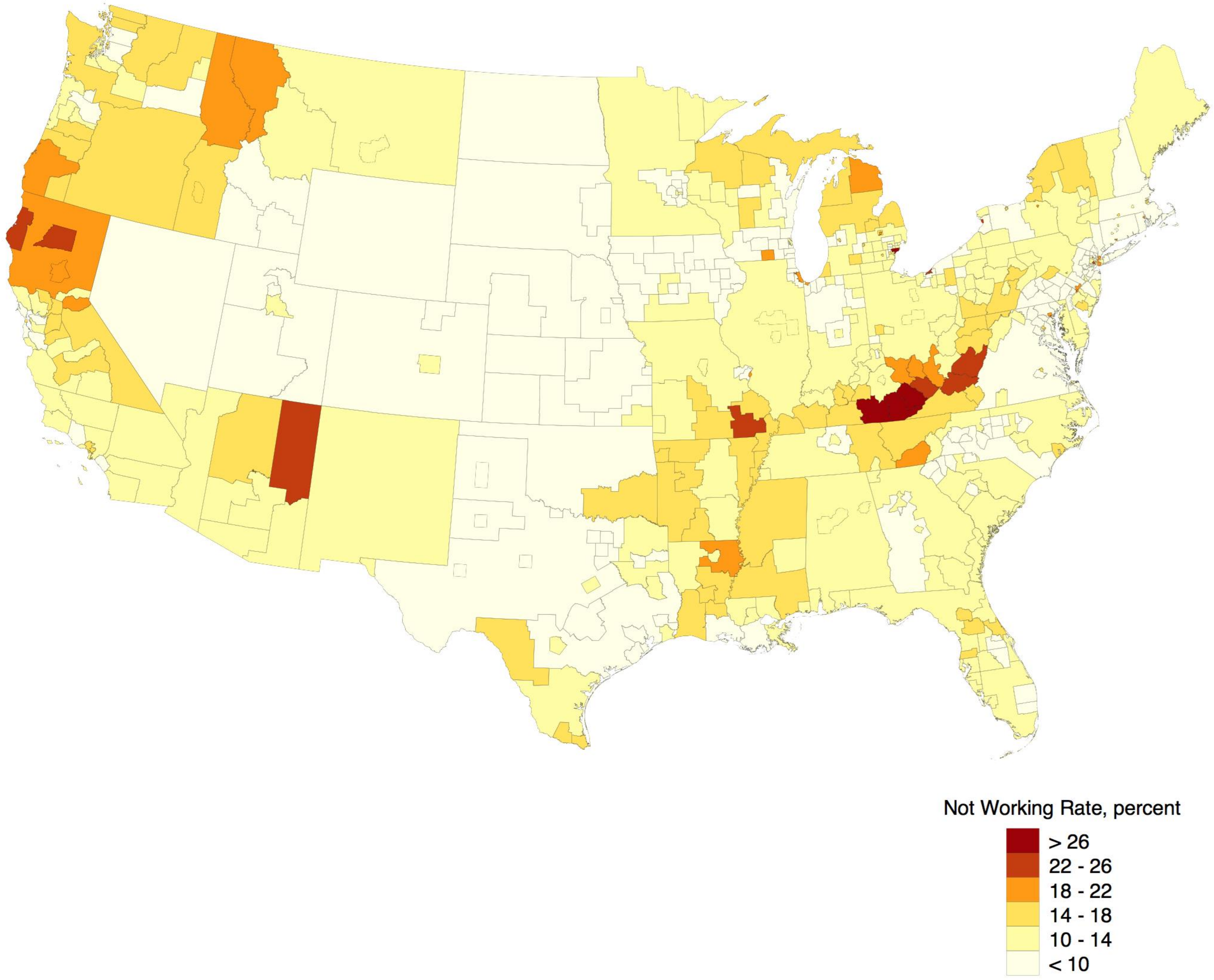
Geography of not working: Prime men 2015



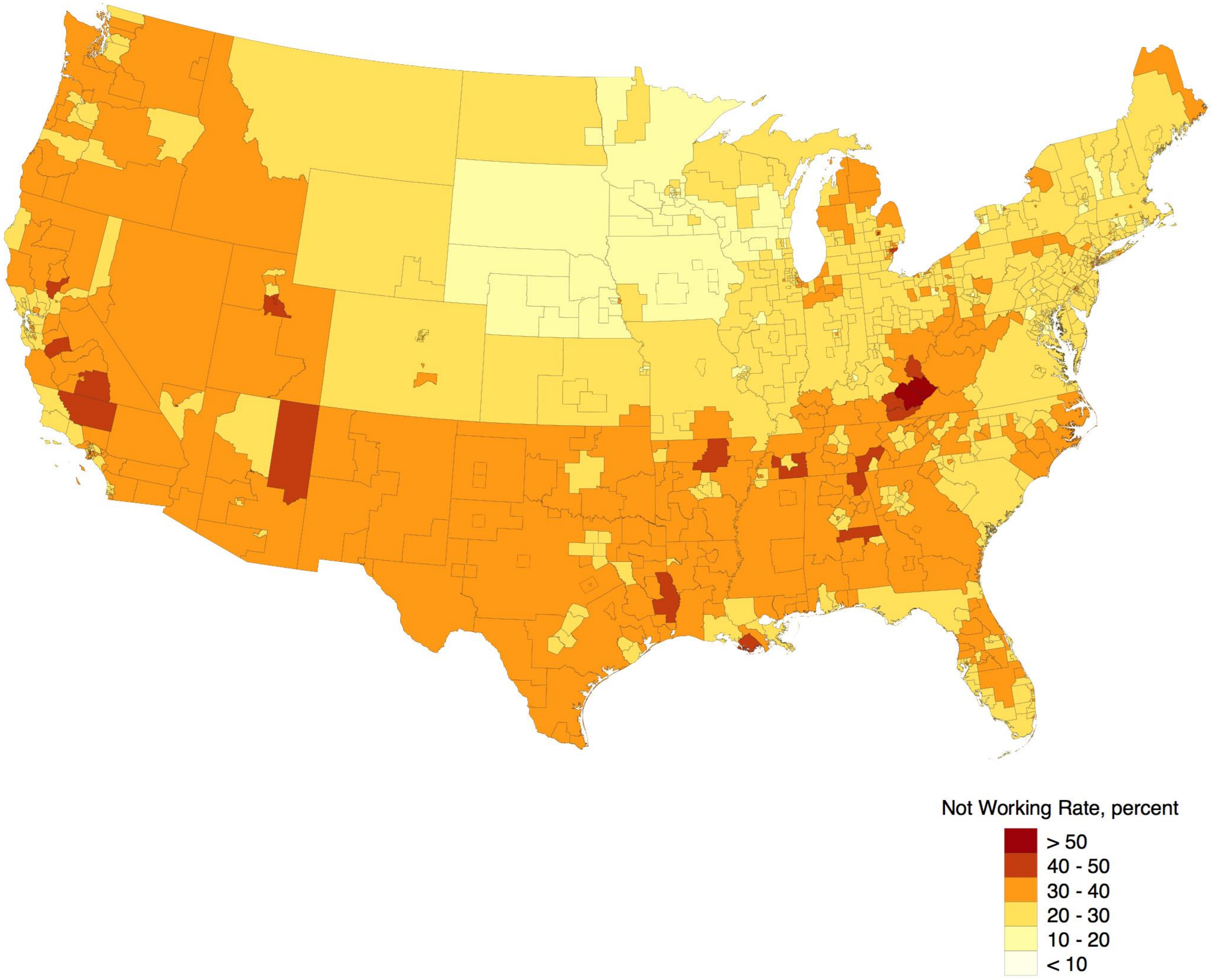
Prime age men manufacturing share of employment, 1980



Geography of not working: Prime aged men 1980



Geography of not working: Prime aged women 2015



Opioid consumption, 2015

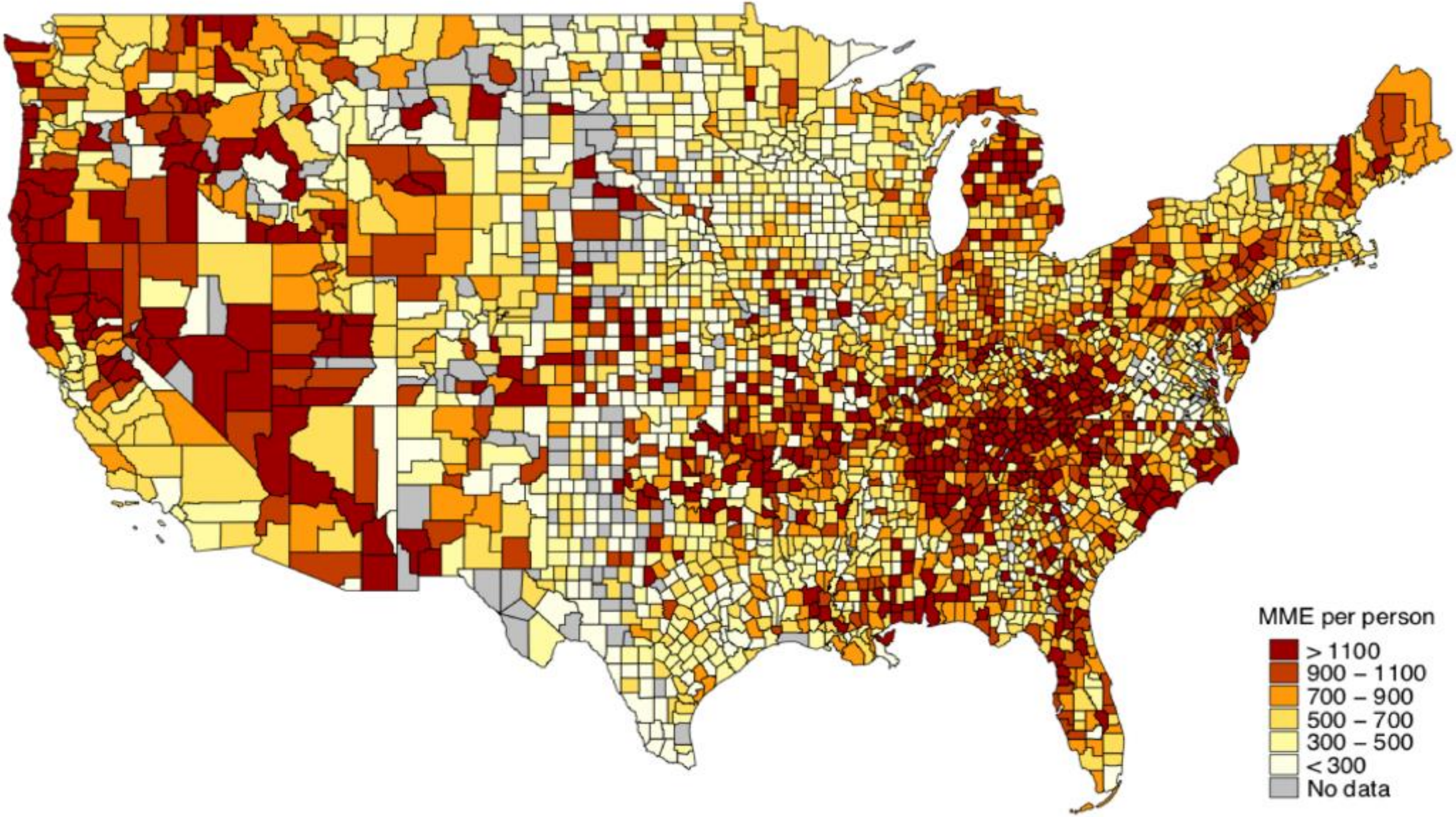
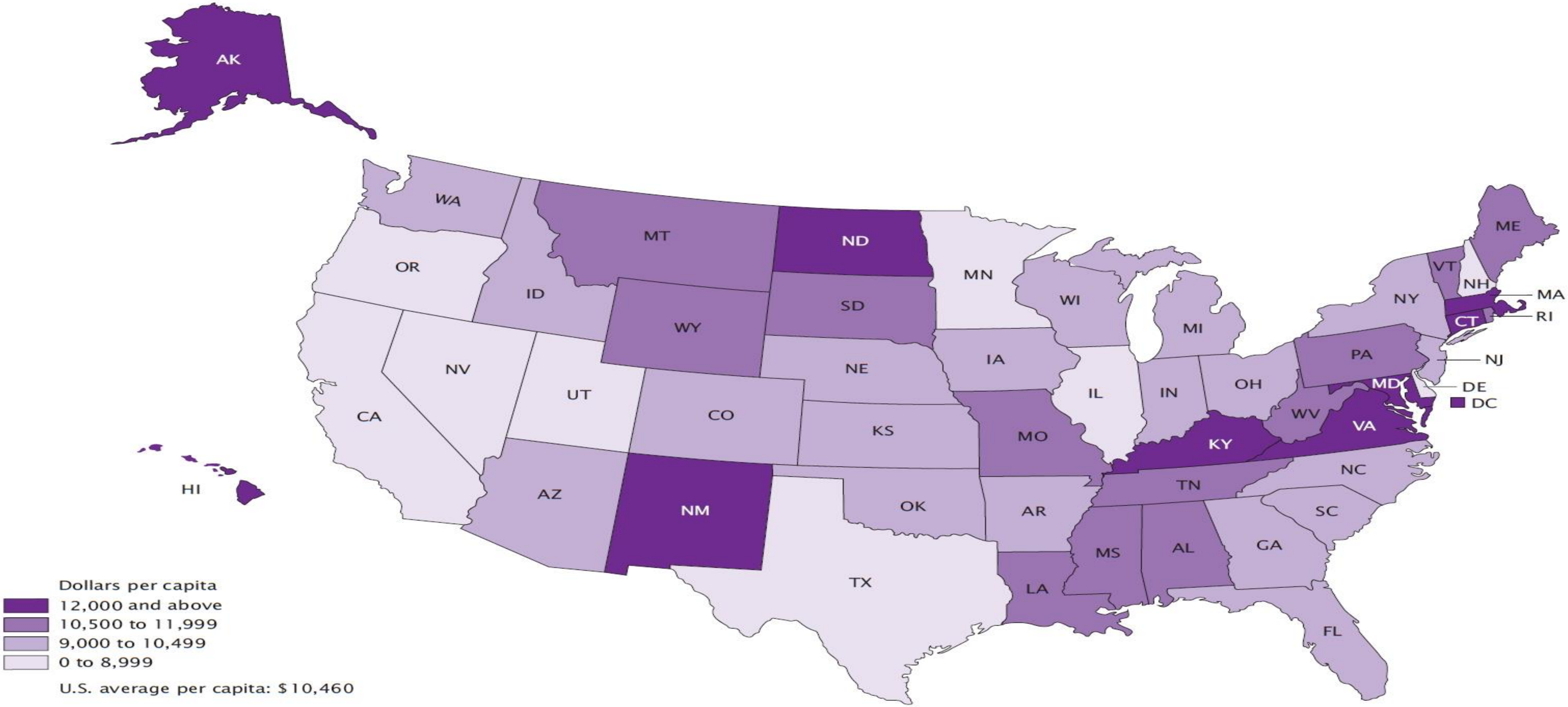


Figure 1.

Federal Government Expenditure, Per Capita Ranges by State: Fiscal Year 2010



Note: For additional information, see the Summary of Methodology in this report.
Source: U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010*. Data are not subject to sampling error, but for information on processing and response error, see the Reliability of Data section in the Introduction.

Place-Based Argument # 1: Externalities and Efficiency

- Agglomeration economies are now generally accepted by urbanists (dlog(wage)/dlog(density)=.06 or so).
- Congestion externalities are also quite real (pollution, traffic, etc.).
- Human capital externalities may be more contentious, but also appear big.
- These externalities mean that a decentralized spatial equilibrium is unlikely to be a social optimum.
- But we don’t know– and are unlikely ever to know– enough about their shape to know the direction that we are off.
  - Should we move New Yorkers to West Virginia or vice-versa?
- The best identification strategies (Soil attributes, Million Dollar plants) seem unlikely to nail the full set of functional forms needed to implement.

Place-Based Argument #2: Insurance (Equity)

- In 1969, Detroit was slightly richer than Boston, today Boston incomes are 40 percent higher.
- Surely insuring individuals against shocks to the local economy would be welfare improving.
  - Pretty non-distortionary if based on place-of-birth, but place-of-birth is pretty inconceivable as a policy.
- A related argument is that place may be a marker for low income and less distortionary than low income itself.
- The big limitation is that states explain only 1.2 percent of income variability. Consequently, the upside is limited.
  - PUMAs explain 7.1 percent but PUMA based subsidies would distort far more.

Place-Based Argument # 3: Different Elasticities Should Mean Different Policies

- Example # 1: Federal Construction Subsidies. Perhaps appropriate in MA and CA, but madness in places where housing is elastic like TX or where housing is priced below construction costs (Detroit).
- Example # 2: Hot Spots Policing. Police departments throw more resources and places where there is more crime, presumably because the marginal effect of a police officer on the level of crime is higher there.
- Example # 3: Subsidizing Employment (EITC) vs. Non-employment (Disability Insurance, Implicit Taxes from SNAP, Section 8, etc.).
  - In high employment markets, policies that deter employment may not matter.
  - In high non-employment areas, policies that deter employment may have awful consequences.
  - Is the marginal impact of an employment subsidy higher in West Virginia than in Seattle?

Opportunity Zones vs. Empowerment Zones

“Empowerment Zones (EZs) are designated areas of high poverty and unemployment that benefit from tax incentives provided to businesses in the boundaries of the EZ. Businesses operating in EZs qualify for a variety of tax incentives including a tax credit of up to $3,000 per year for each of its employees who resides in the EZ, a Work Opportunity Tax Credit for hiring 18-39 year-old residents of the EZ, a deduction of $35,000 for the cost of eligible equipment purchases under section 179 of the Internal Revenue Code of 1986, and tax exempt private purpose "EZ Facility bonds" for commercial development.”

Opportunity Zones

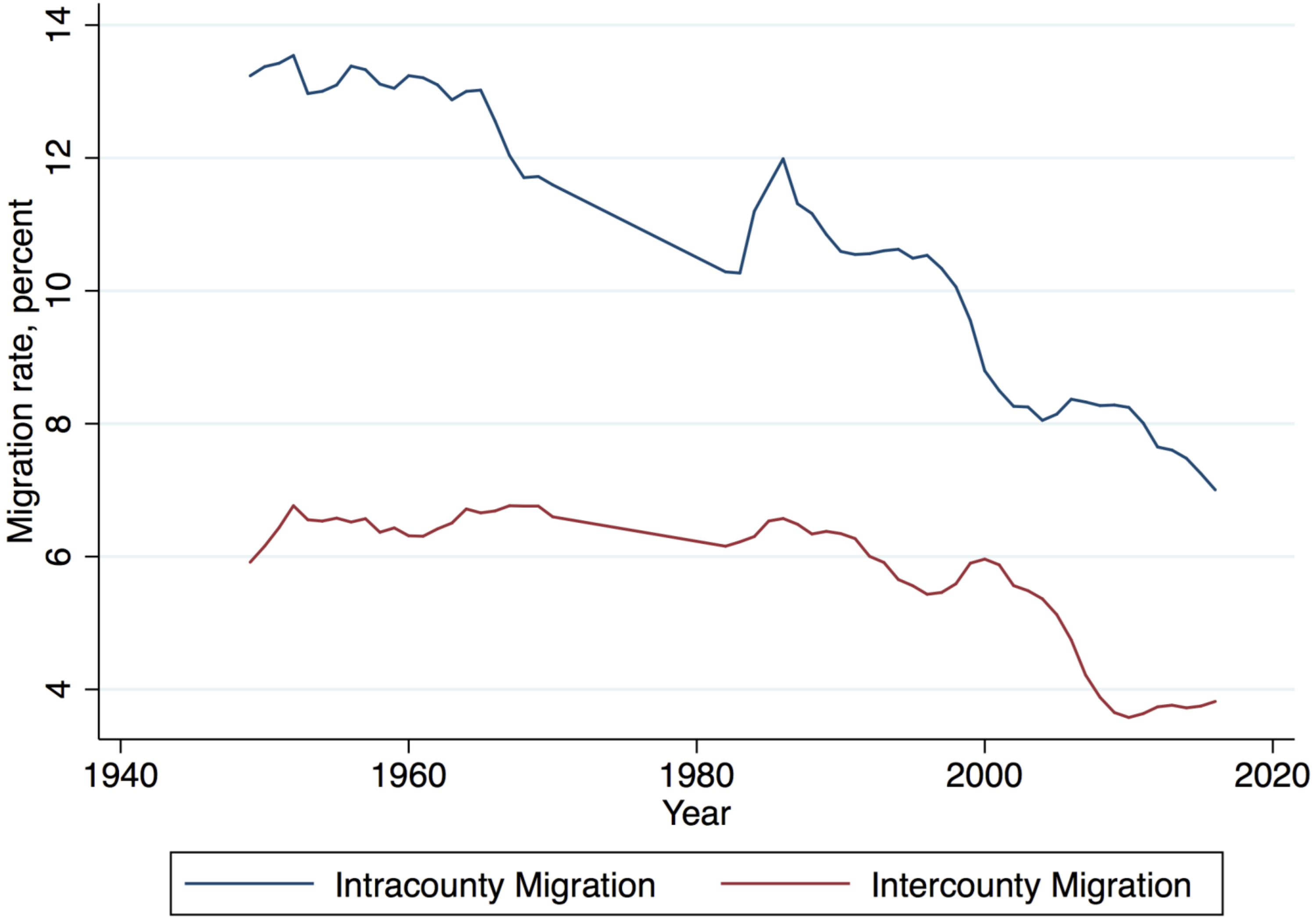
"First, an investor can defer tax on any prior eligible gain to the extent that a corresponding amount is timely invested in a Qualified Opportunity Fund (QOF). The deferral lasts until the earlier of the date on which the investment in the QOF is sold or exchanged, or December 31, 2026. If the QOF investment is held for at least 5 years, there is a 10% exclusion of the deferred gain. If held for at least 7 years, the 10% exclusion becomes 15%. Additionally, the amount of eligible gain to include is decreased to the extent that the amount of eligible gain you deferred exceeds the fair market value of the investment in the QOF."

"Second, if the investor holds the investment in the QOF for at least 10 years, the investor is eligible for an adjustment in the basis of the QOF investment to its fair market value on the date that the QOF investment is sold or exchanged. As a result of this basis adjustment, the appreciation in the QOF investment is never taxed. A similar rule applies to exclude the QOF investor's share of gain and loss from sales of QOF assets. See Q&A 28, below."

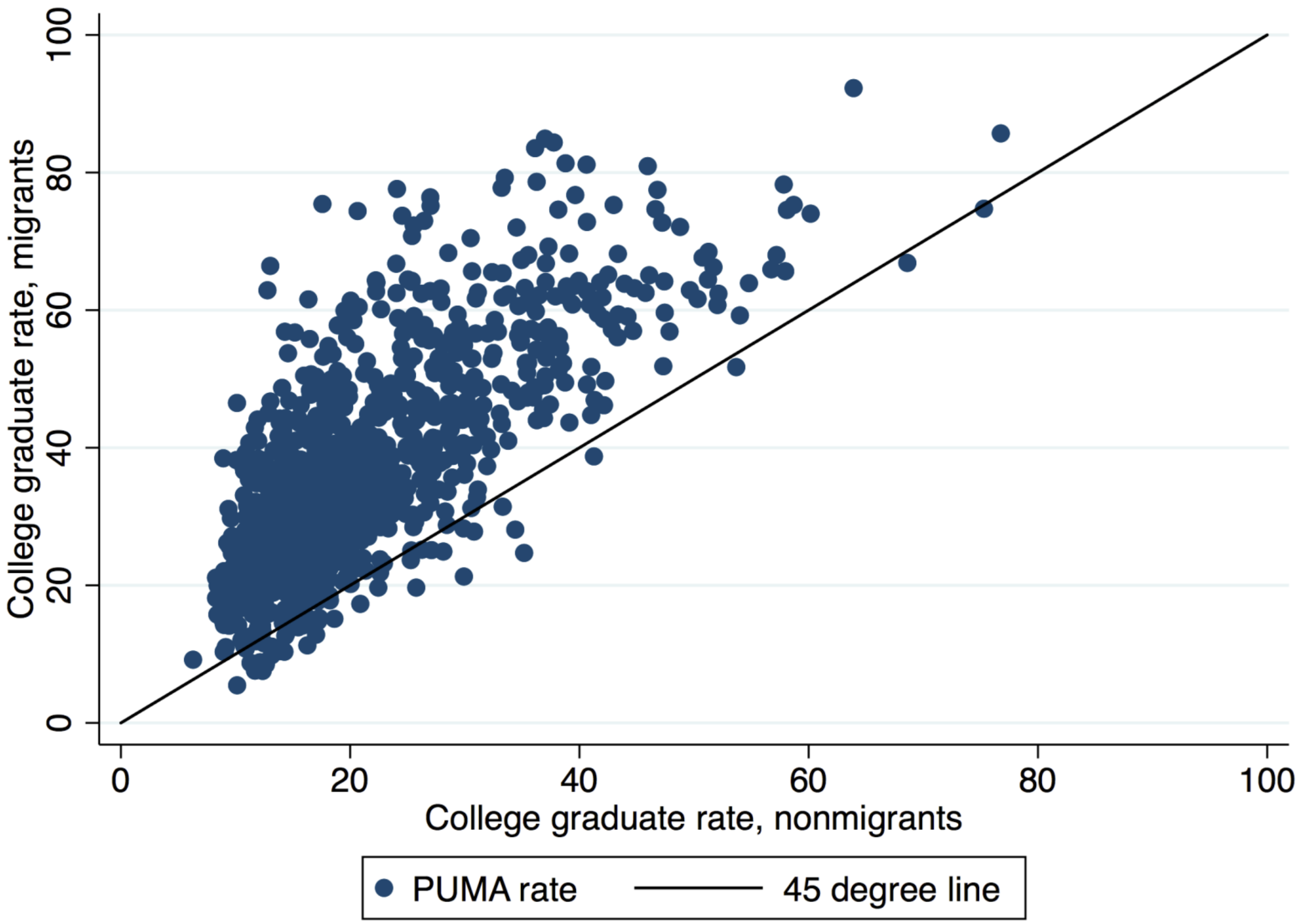
Conceptual Issues

- With empowerment zones, we were focused on employment vs. real estate values (Busso, Gregory and Kline). What was the incidence?
- With opportunity zones, there should be a direct impact on property values (from the tax advantage).
- And an indirect negative effect (from increased construction).
- The impact on employment depends on both (1) the actual impact on capital investment in the OZ and (2) the complementarity between capital and labor.
- Is this the right response to America's geographic sclerosis?

The decline in migration and geographic sclerosis



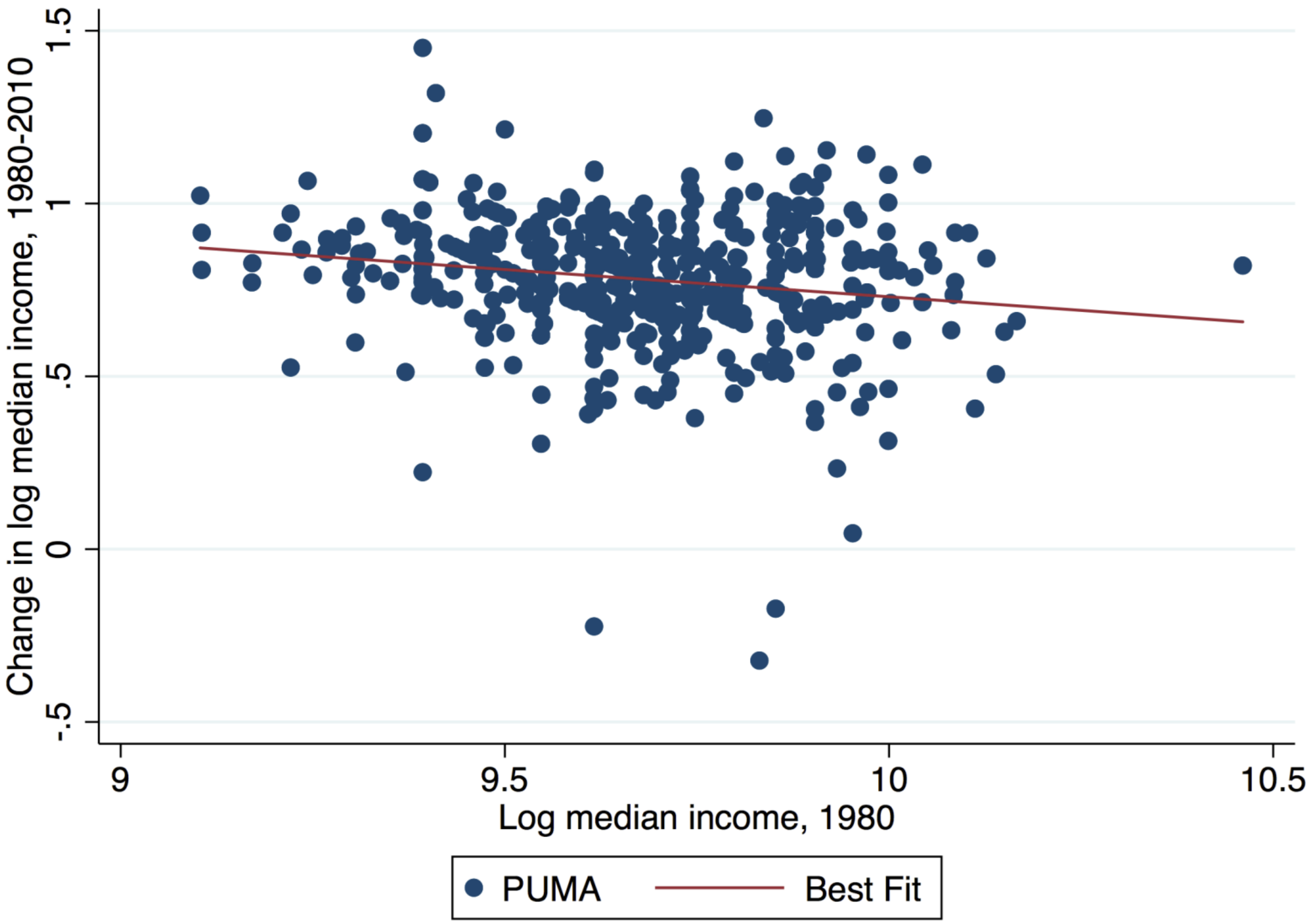
Skilled migration



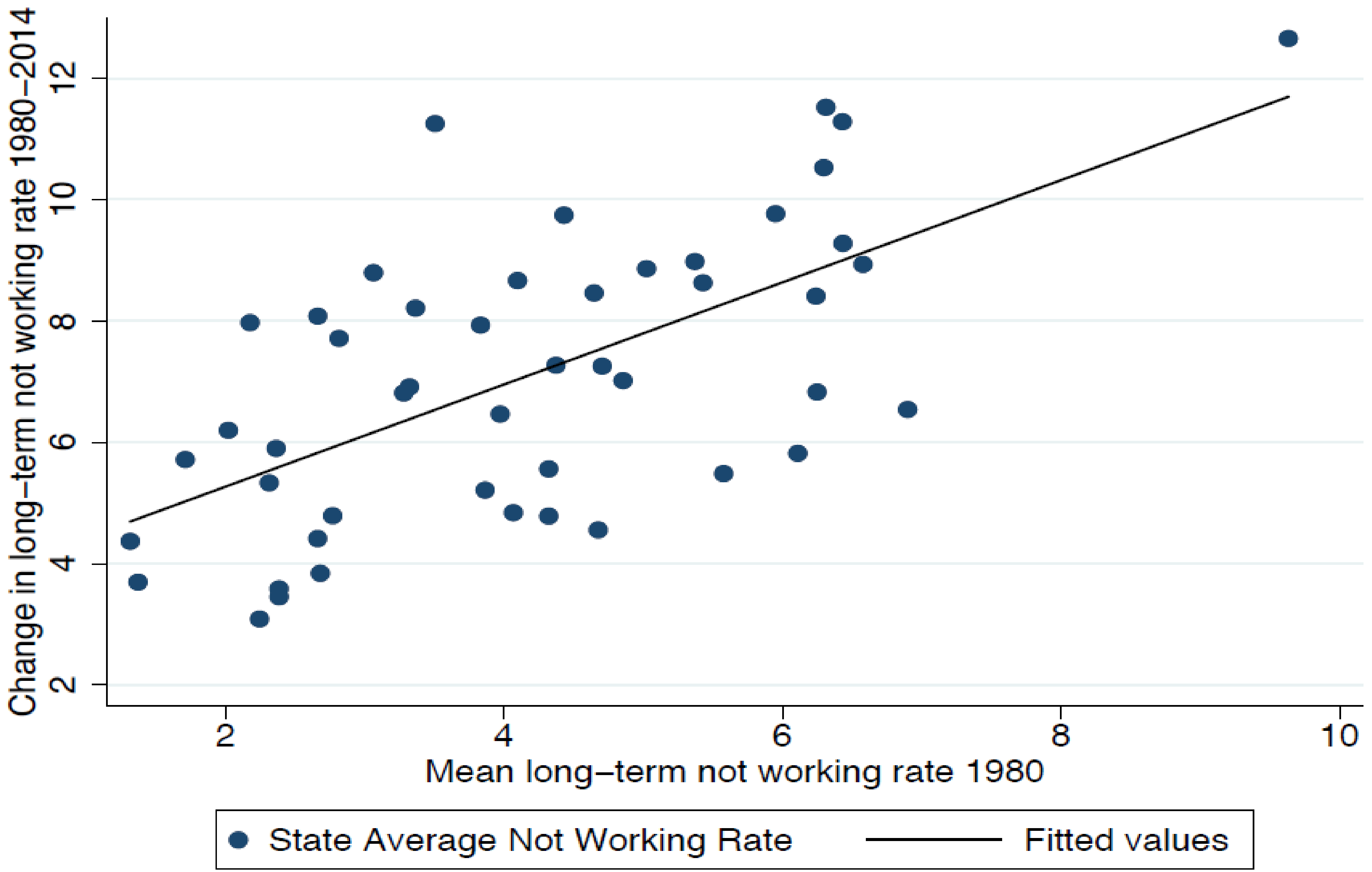
Added Changes

- Migration (especially migration of the less skilled) is not directed towards high wage areas (Ganong and Shoag, 2017)
- Successful areas make it increasingly difficult to build low cost housing (Glaeser, Gyourko, Saks, 2005), leading to spatial mismatch (Hsieh and Moretti, 2016).
- Change in share with college degrees positively correlated with initial share of population with college degrees (Moretti, 2004).
- Income convergence across metropolitan areas or PUMAs has slowed or disappeared entirely (Berry and Glaeser, 2006)
  - $\text{Log}(Y_{2010}/Y_{1980})=.02^{*}\ \text{Log}(Y_{1980})$ (IV with 90th and 10th percentile in 1980).

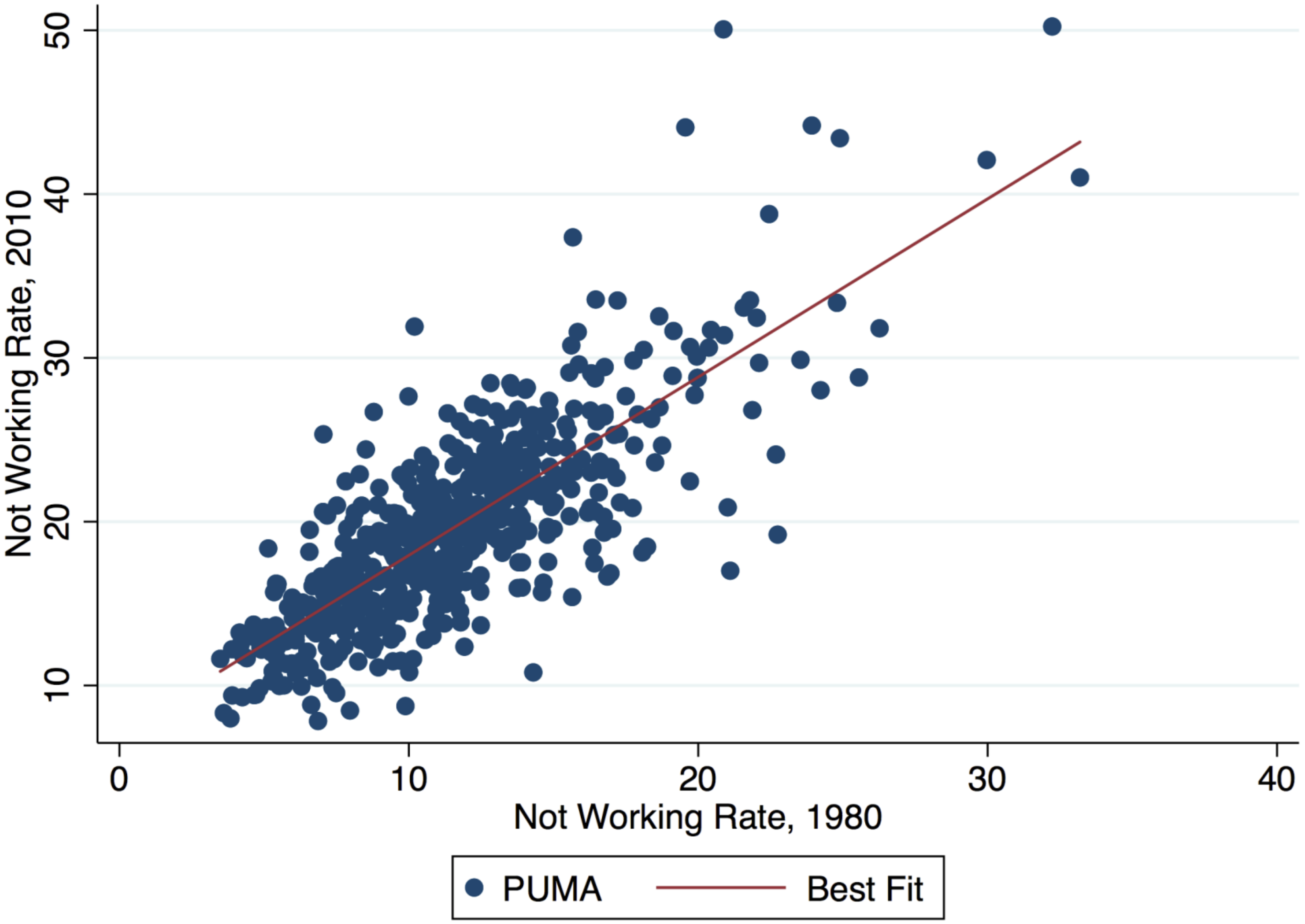
Income convergence has declined



Prime age men not working rates, 1980-2014



Persistence of not working rates



Is Geographic Sclerosis an Excuse for Revisiting Place-Based Policies?

- Counter-argument # 1: Subsidizing declining places keeps people in dysfunctional local economies.
  - Less important with lower migration rate.
- Counter-argument # 2: Subsidizing any places leads to capitalization in rents. The poor tenant who doesn't like contemporary art may well hurt by the Bilbao Guggenheim.
  - Again, as people are less mobile this may be less important.
- The relative importance of capitalization vs. distorted migration depends on housing supply elasticity.
  - Some declining places (Detroit) have fixed housing supplies.
- Counter-argument # 3: Some place based policies can create pockets of high unemployment and low human capital.
- Counter-argument # 4: Infrastructure place-based policies can lead to monumental waste.

Well the last one is certainly still true

Detroit tried to reverse its decline with foolish investments like its People Mover, which here glides over essentially empty streets.

Dennis MacDonald/ World of Stock

The Artsy Approach
(Bilbao's Unemployment Rate was 18.7% before COVID-19)

Image by Edwin Poon

At least that museum's good: Sheffield's "National Center for Popular Music" closed quickly