Place-based policies

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Drawing on: Neumark, D and Simpson, H. Place-based policies, chapter 18 in G. Duranton, J. V. Henderson and W. C. Strange (eds.) *Handbook of Regional and Urban Economics, Vol. 5B*, (2015), Amsterdam: North Holland.

Place-based policies

- Aimed at improving economic performance of a specific area
  - Job creation, higher wages
  - Often, but not always, underperforming areas

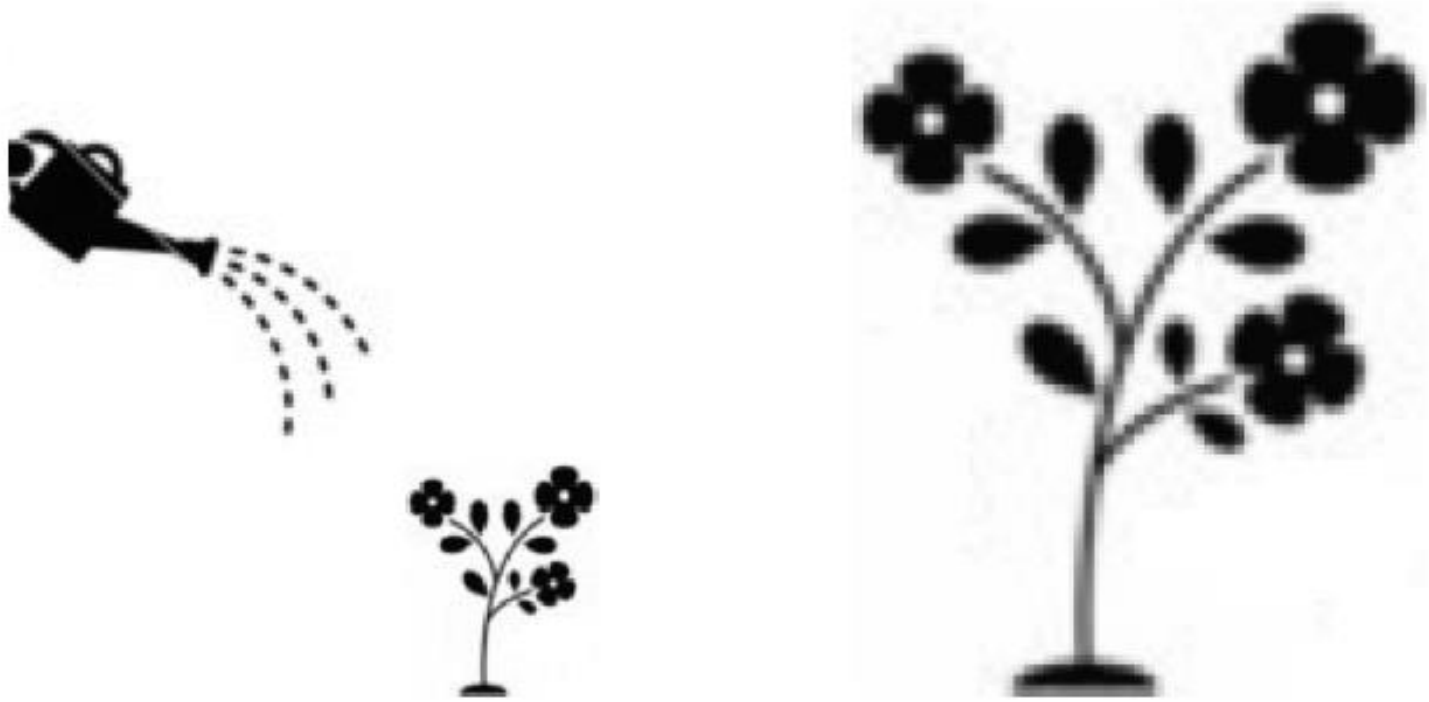
- Examples
  - Enterprise zones: US Empowerment Zones; French Zones Franches Urbaines
  - Discretionary grant schemes: UK Regional Selective Assistance; Italian Law 488

  - Higher education institutions: deliberate decentralisation in Sweden
  - Infrastructure: EU Structural Funds, transport

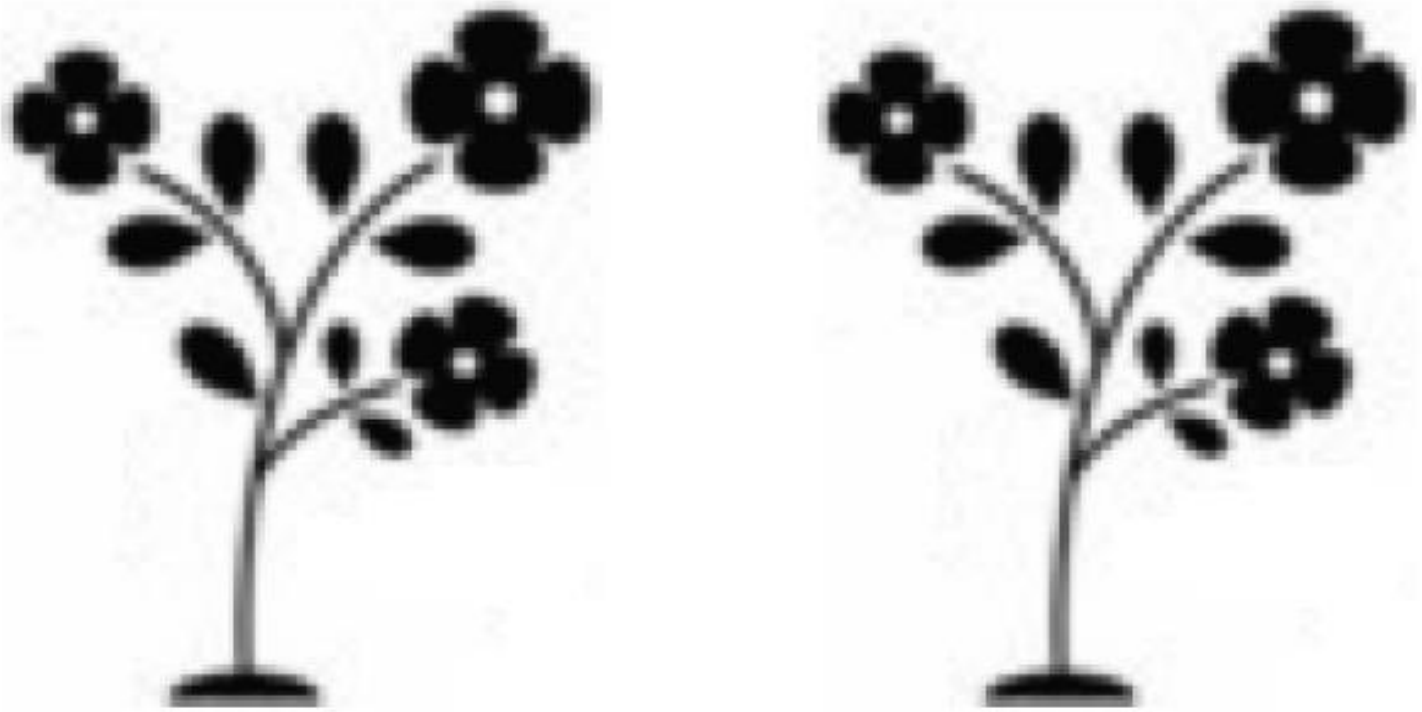
Theoretical rationales for intervention

- Agglomeration economies
  - 'Thick' markets for labour, intermediate inputs
  - Knowledge spillovers
  - Positive externalities, dynamic effects may rationalise the use of subsidies, or a 'big push' policy
  - But where to push? Where is the elasticity of productivity with respect to agglomeration highest?
  - Policy making at a local versus national level →

Cumulative effects of intervention can make an economic case for *local* policy

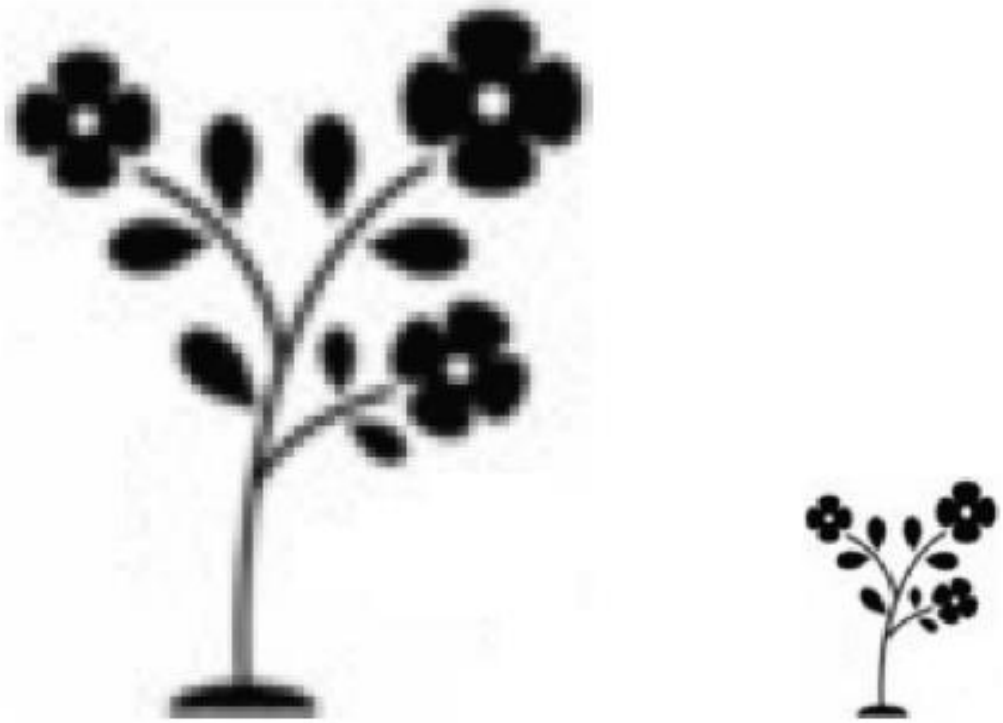


With the hope of achieving this….



But from an aggregate perspective was there a problem in the first place?

And a highly effective might policy simply result in this….



Theoretical rationales for intervention

- Evidence largely consistent with agglomeration economies, even accounting for identification issues
  - High-skill workers locate in more productive, denser regions (instrument with historical density, and local geography; and use panel data): elasticity of wages w.r.t. density .02 to .05 (Combes et al., 2010)
  - Results not driven by selection from stronger competition in large cities (Combes et al., 2012): elasticity of TFP w.r.t. density .03
  - Greenstone et al. (2010) on winners vs. runner-ups for large new plants
  - But, evidence in Kline and Moretti (2014) does not support spatial heterogeneity in the elasticity
- Equity motivations
  - Mobility and incidence. Who ultimately benefits from these policies?

Policy evaluation

- What makes evaluation of policy effects difficult?
  - Targeted areas deliberately non-random
  - Finding appropriate control areas: 'near miss' areas; future designated areas; geographically close areas? →
  - 'Spillovers' to adjacent areas
  - Multiple interventions
  - Crude characterisation of policy instruments
  - Evaluating one-off, substantial infrastructure investments

- Areas where evaluation could do more:
  - Longer-term effects
  - Heterogeneous effects
  - Distributional effects
  - Improved welfare analysis

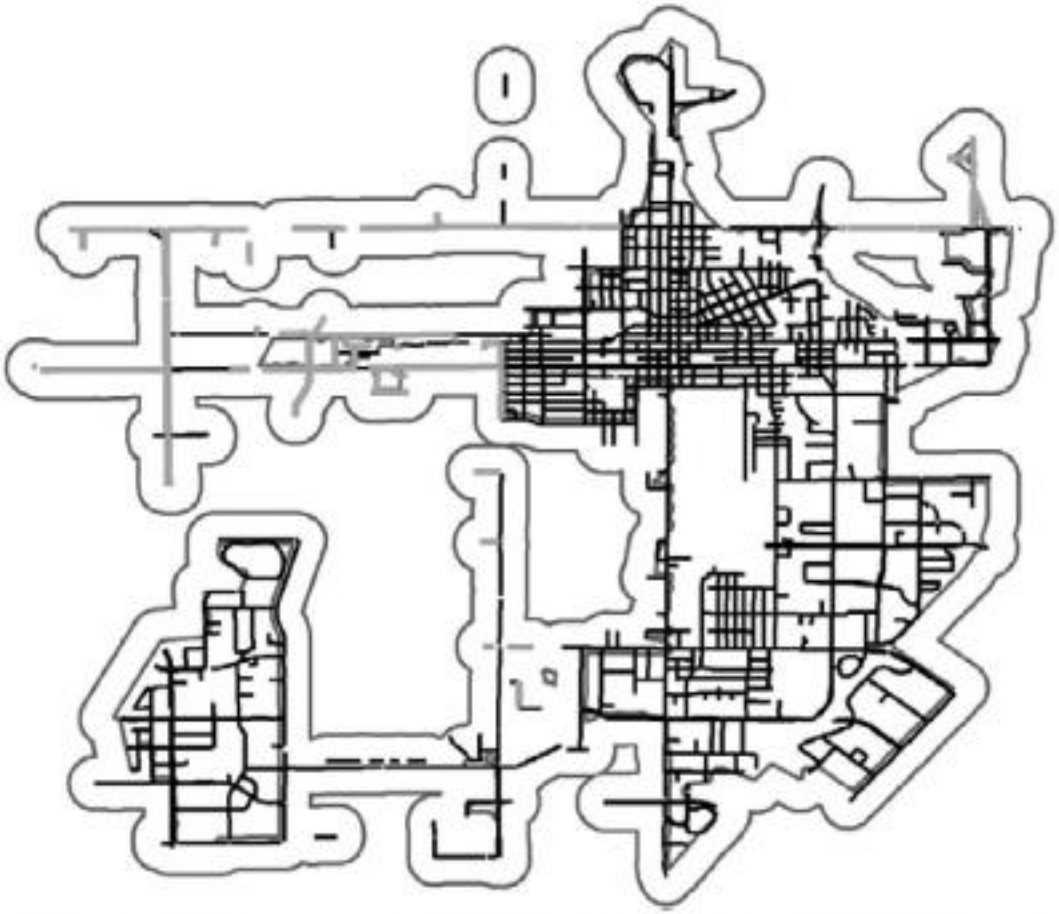


Figure 18.1 Santa Ana Enterprise Zone, initial 1993 designation (thick black lines), 1994 expansion (light gray lines), and control ring (dark gray outer envelope).

Source: Neumark and Kolko (2012)

Evidence: Enterprise zones

- US state level enterprise zones
  - Whole states or disadvantaged areas within states
  - Policy: hiring credits to business for recruiting workers from specific areas; other tax credits e.g. for investment….
  - No employment effects: Neumark and Kolko (2010), Elvery (2009)
  - Positive employment effects: Freedman (2013), Ham et al. (2011)
- US Federal Empowerment Zones
  - Census tracts with high poverty and unemployment rates
  - Policy: hiring credits; block grants for business assistance, infrastructure….
  - Busso et al. (2013) positive effects on job growth in establishments, employment and wages, not offset by in-migration and rent increases
  - Hanson and Rohlin (2013) negative spillover effects on geographically or economically close areas - displacement
  - Reynolds and Rohlin (2013) positive effects on mean household income but not median – distributional effects of the program?

Evidence: Enterprise zones

- French Enterprise Zones
  - Municipalities meeting certain criteria including high unemployment rates and high fraction of population with low skills
  - Policy: property tax and corporate tax relief; wage tax relief conditional on hiring local employees

  - Givord et al. (2013), Mayer et al. (2012) positive effects on business creation and relocation to EZs, but offset by negative effects in contiguous areas – displacement
  - Briant et al. (2015), heterogeneous effects according to areas' spatial isolation. Positive effects on employment and firm creation in more integrated areas – better transport access

- Overall evidence is pretty inconclusive

Evidence: Discretionary grants

- Within EU countries available for example in Objective 1 areas
- Aim to create jobs via subsidies to capital investment linked to job targets
- Bringing in innovative and high productivity firms? Evidence for France and UK suggests limited effect on location decisions of MNEs, Crozet at al. (2004), Devereux et al. (2007)
- UK, Criscuolo et al. (2016):
  - Positive effects on employment and reductions in unemployment at area level
  - No evidence, on average, of displacement from neighbouring areas
  - No evidence of effects on TFP or wages
- Italy, Bernini and Pellegrini (2011), Bronzini and de Blasio (2006):
  - Increased growth of output, employment and investment in firms that received subsidies, during period which subsidy was paid
  - Bringing forward investment that would have happened anyway
  - Evidence of negative effects on labour productivity and TFP growth

Evidence: Discretionary grants

- Overall
  - Policies seem relatively successful in meeting employment objectives
  - Subsidies paid conditional on meeting targets – costly monitoring?
  - Although over what time period? Some US evidence that attracting large plants generates agglomeration externalities which might prolong effects
  - Potential distortionary effects?
    - To firms' input choices? Subsidising relatively unproductive investment? Hiring lower productivity workers?

Evidence: Higher Education Institutions, clusters policies and local growth

- Evidence on HEIs implies positive effects on local economic outcomes
  - US: Positive effect of university expenditure on non-education sector wages in US counties (Kantor and Whalley, 2014)
    - But, industry and skill mix in the area, and university characteristics matter
  - UK: Some effects of HEI presence on the clustering of innovative firms (Abramovsky and Simpson, 2011)
    - But, firm industrial sector, departmental research quality, and science parks matter
  - Sweden: Effects of HEI decentralisation and expansion on local labour productivity (Andersson et al., 2004, 2009)
    - But, effects of expanding research presence greater than effects of expanding student numbers, and effects diminish with distance
    - Positive effects on innovation measured by patents

Evidence: Higher Education Institutions, clusters policies and local growth

- Clusters policies

- France: Local Productive Systems, (Martin et al., 2011)
  - No effects on firm performance
  - Small scale, participants in underperforming industries / areas
- Germany: Bavarian High-Tech Offensive (Falck et al., 2010)
  - Funding to public innovation infrastructure and private sector firms
  - Positive effects on innovation outputs, and innovation efficiency
  - Appeared to target co-operation and networking between firms

- Overall
  - Evidence of positive effects of HEIs on wages, labour productivity, innovation
  - But variation in the magnitude of effects across industries, and locations
  - Can HEIs be used as an economic development tool?....Much evidence is based on long-established universities in relatively affluent locations

Evidence: Infrastructure and regional aid

- EU Structural Funds, Becker et al. (2010, 2012)
  - (2010) RDD design exploiting EU regional eligibility criteria
  - Positive effects on growth in per-capita income
  - (2012) Examine the generosity of funding – treatment intensity
  - Funding could have been allocated more efficiently
  - But would have conflicted with convergence objectives
- Overall
  - Positive effects of infrastructure investment
  - Cost-effective
  - But how long-lasting?
  - And what type of public investment?

Evidence: Transport infrastructure

- To reduce congestion in high-productivity locations, versus to promote economic development
- Evidence that rail and roads have a positive impact on local employment, start-ups, wages and productivity…and house prices
  - RER in Paris: Mayer and Trevien (2015) connected municipalities increase in employment and firm location, but not population location. Garcia-López et al. (2016) spatial reallocation (decentralisation) of employment
  - Frankfurt-Cologne High Speed Rail: Ahlfeldt and Fedderson (2015) increase in GDP in counties with intermediate stops, due to business locations
  - UK High Speed commuter service into London: Heblich and Simpson (2017) increase in (skilled) population and house prices
  - UK road projects: Gibbons et al. (2016) positive effects on employment, and number of businesses from UK road improvements
- Need a clearer picture on displacement and aggregate growth

Discussion

- Where we need to know more
  - Not just *what* works, but *why* and *where*
- Longer-term effects
  - Do these policies create self-sustaining gains?
  - Public-good infrastructure investment – most likely to generate productivity benefits?
- Better characterisation of policy instruments in evaluation
  - Which features make them effective? And which create distortions?
- Wider welfare outcomes
  - Distributional effects
- Merits relative to other policy levers