

Discussion of LaPoint and Sakabe's
“Place-based Policies and the
Geography of Corporate Investment”

Edward L. Glaeser

Harvard University and NBER

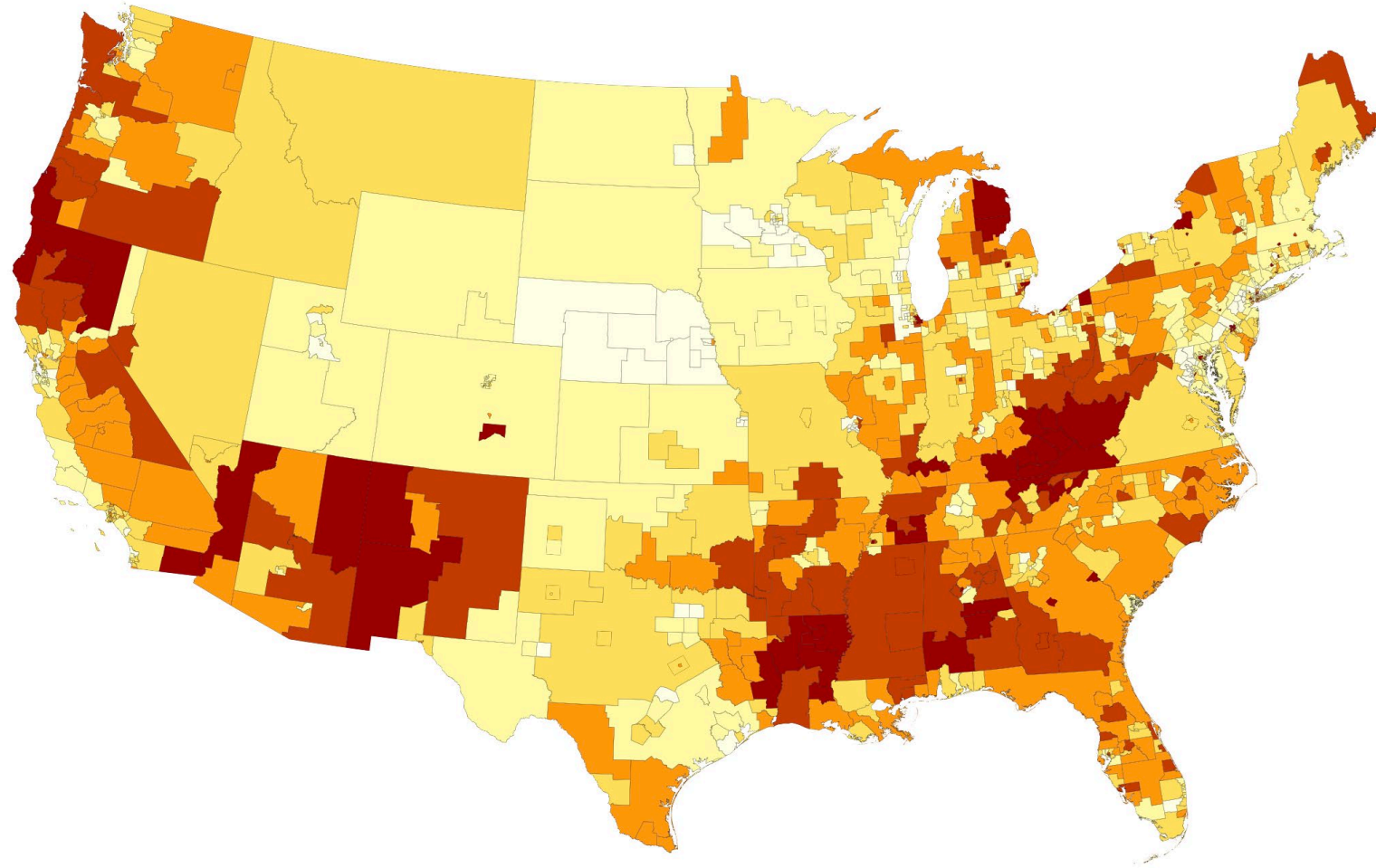
Place-Based Argument # 1: Externalities and Efficiency

- Agglomeration economies are now generally accepted by urbanists ($d\log(\text{wage})/d\log(\text{density})=.06$ 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.

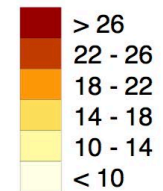
Place-Based Argument #2: Insurance (Equity)

- 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.

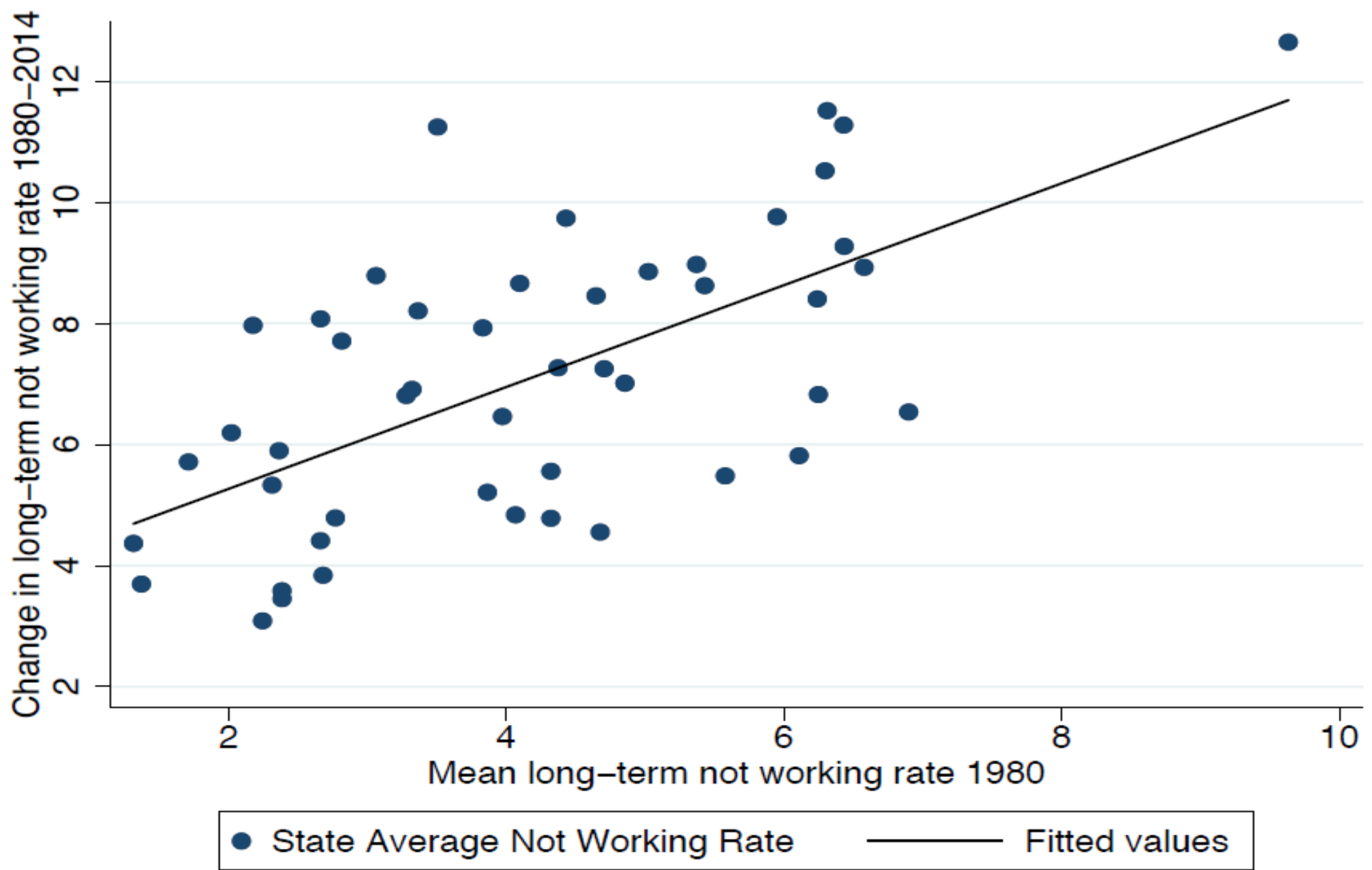
Geography of not working: Prime men 2015



Not Working Rate, percent



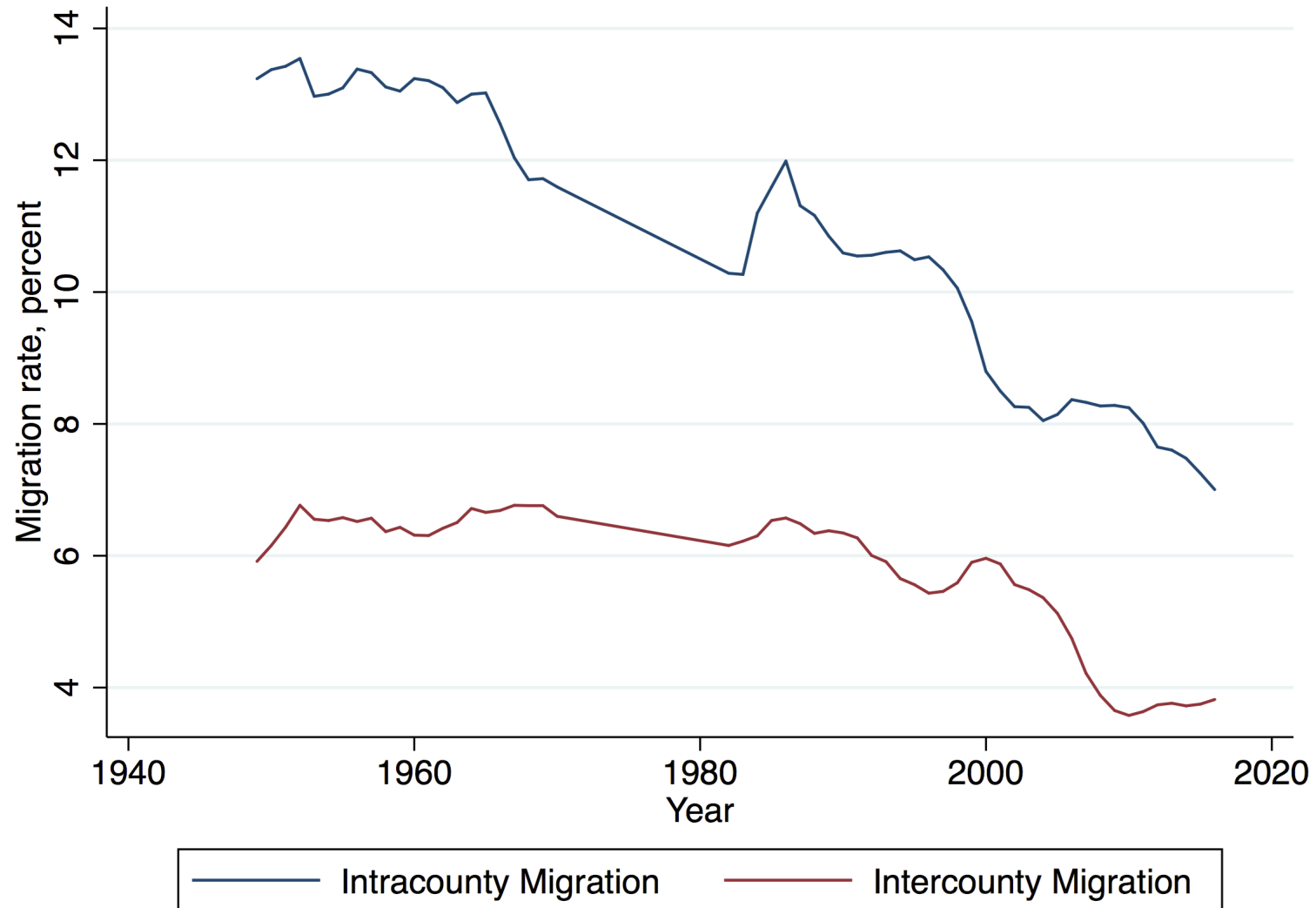
Prime age men not working rates, 1980-2014



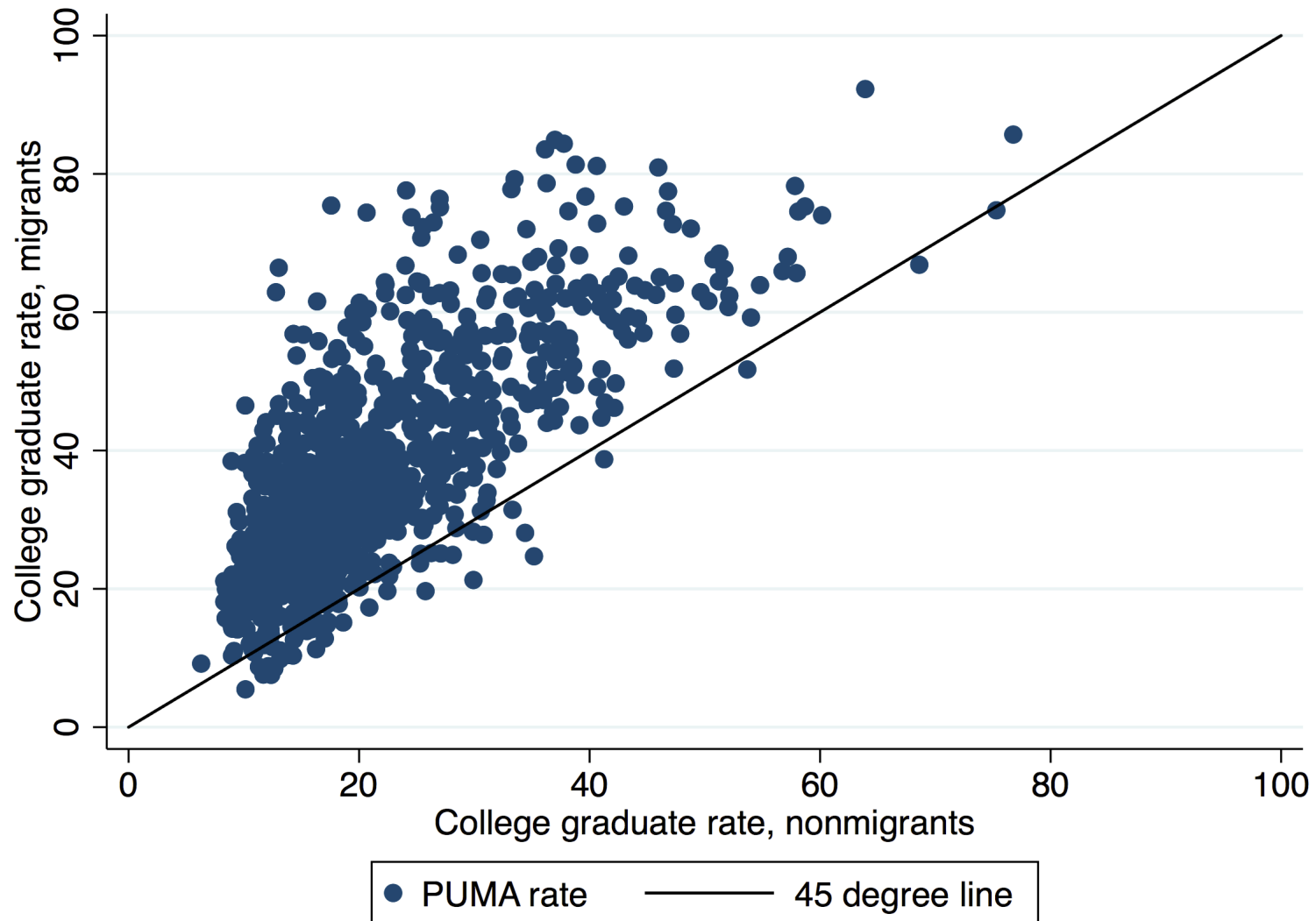
Place-Based Argument # 3: Different Elasticities Should Mean Different Policies

- 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?

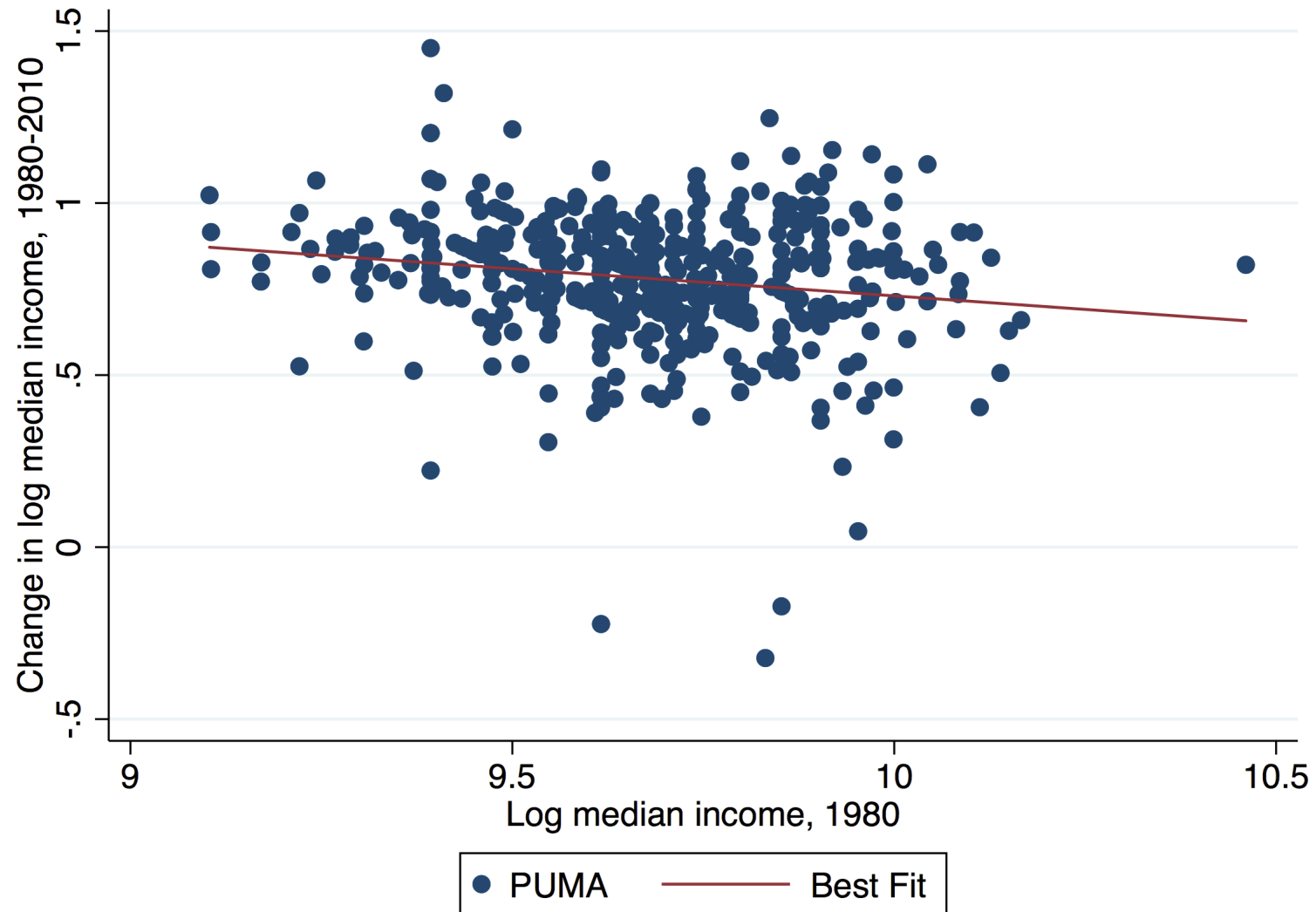
The decline in migration and geographic sclerosis



Skilled migration

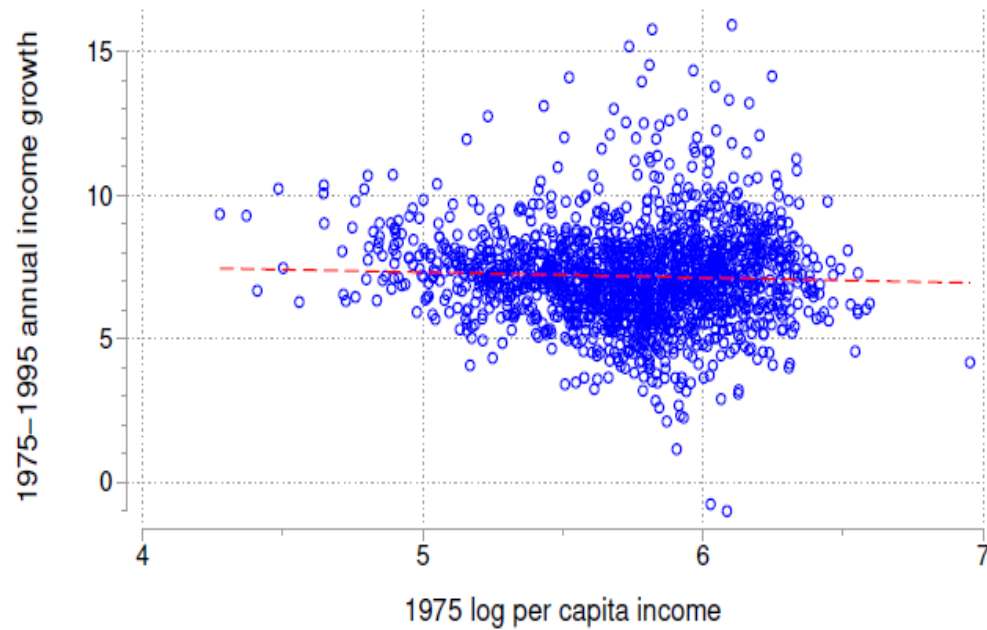


Income convergence has declined (Berry and Glaeser, 2006, Ganong and Shoag, 2017)



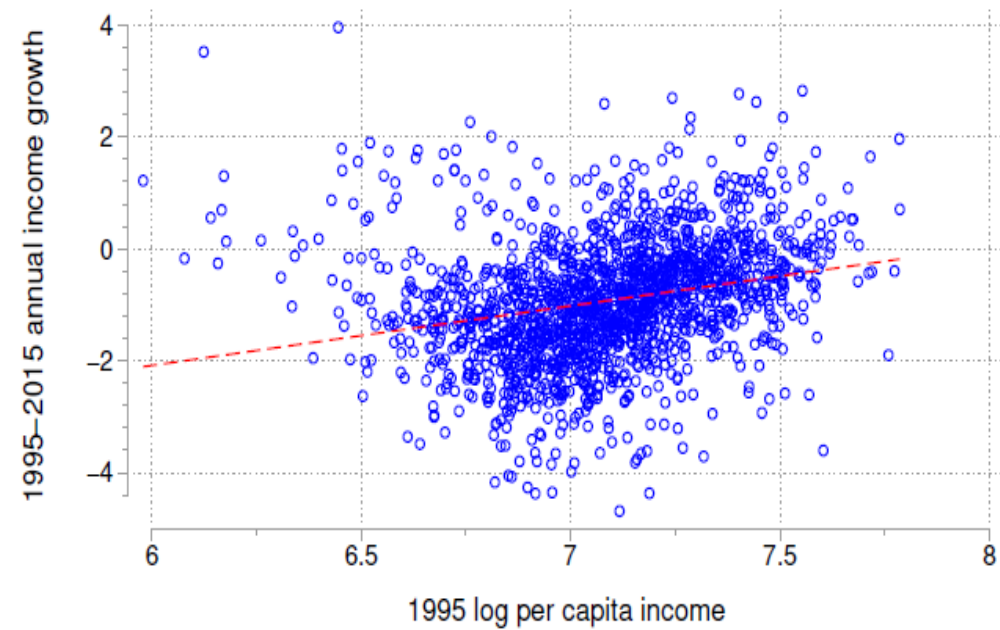
In Japan (these facts in the paper are great)

Income Convergence: 1975 – 1995



$\beta = -0.19$
s.e. = 0.10
N = 1710
R-squared = 0.00

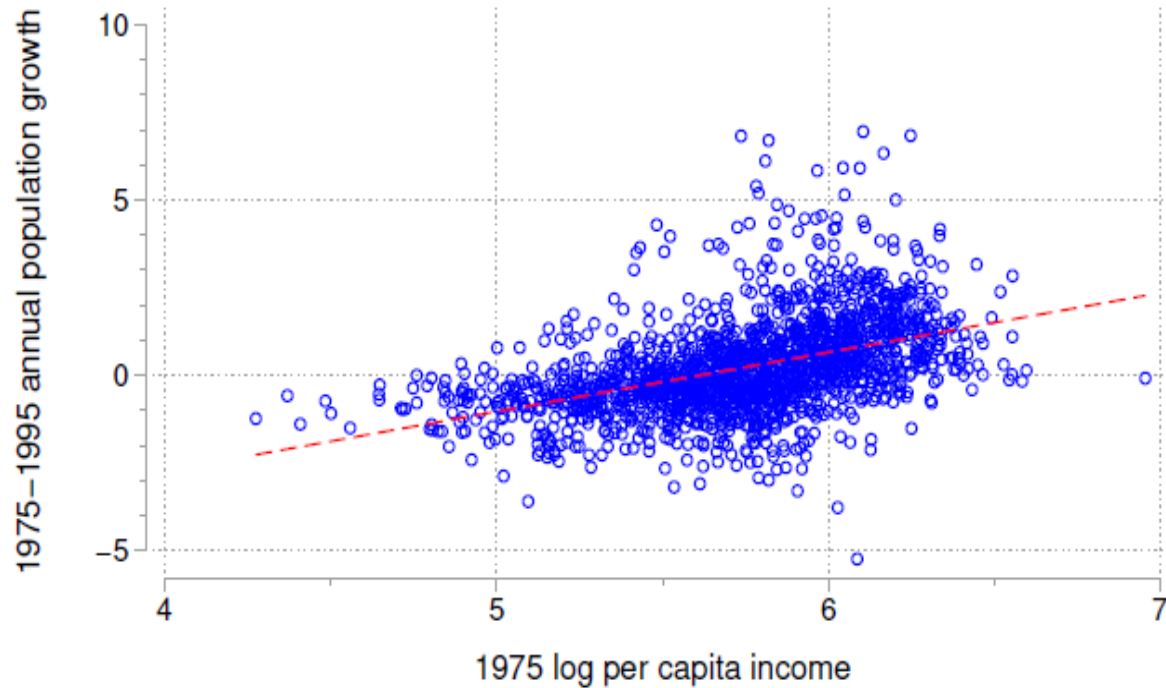
Income Convergence: 1995 – 2015



$\beta = 1.06$
s.e. = 0.13
N = 1710
R-squared = 0.06

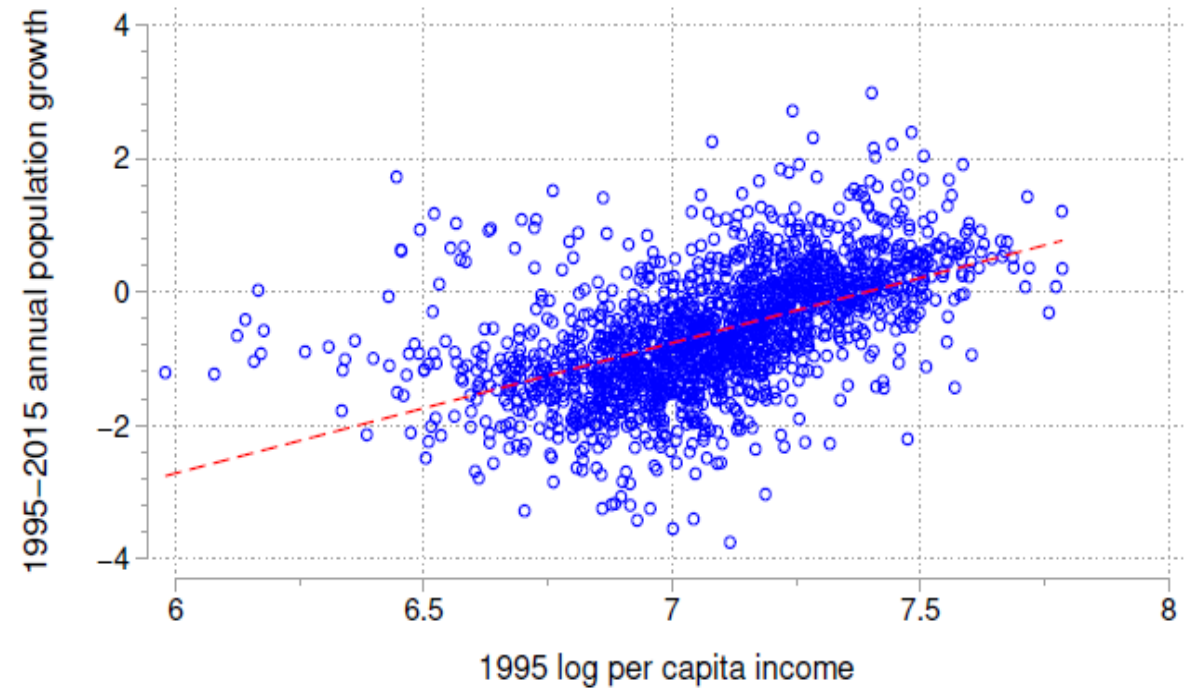
But directed migrations remains in Japan

Directed Migration: 1975 – 1995



$\beta = 1.69$
s.e. = 0.07
N = 1710
R-squared = 0.20

Directed Migration: 1995 – 2015



$\beta = 1.95$
s.e. = 0.09
N = 1710
R-squared = 0.29

Japan's Technopolis Program

- Program rolled out in the 1980s “aimed both to promote its competitive power in world markets through technological innovation and to adjust Japan’s internal socio-economic balance by relocating innovative industries to the remoter areas of Japan” (Yazawa, 1990).
- This is an important place-based policy with relevance both for industrial policy in the US today and technology cluster policies globally.
 - I am going to omit discussing the “Intelligent Locations” policies since they do to.
- The great challenge for identification is non-random selection of locations and “some prefectural governments had been making efforts to construct Technopolis-type industrial development areas before attaining official Technopolis status” (Kyaw, 2001).
- The great challenge for interpretation is that these very extremely hybrid policies.

This seems like a hybrid treatment (Kyaw, 2001)

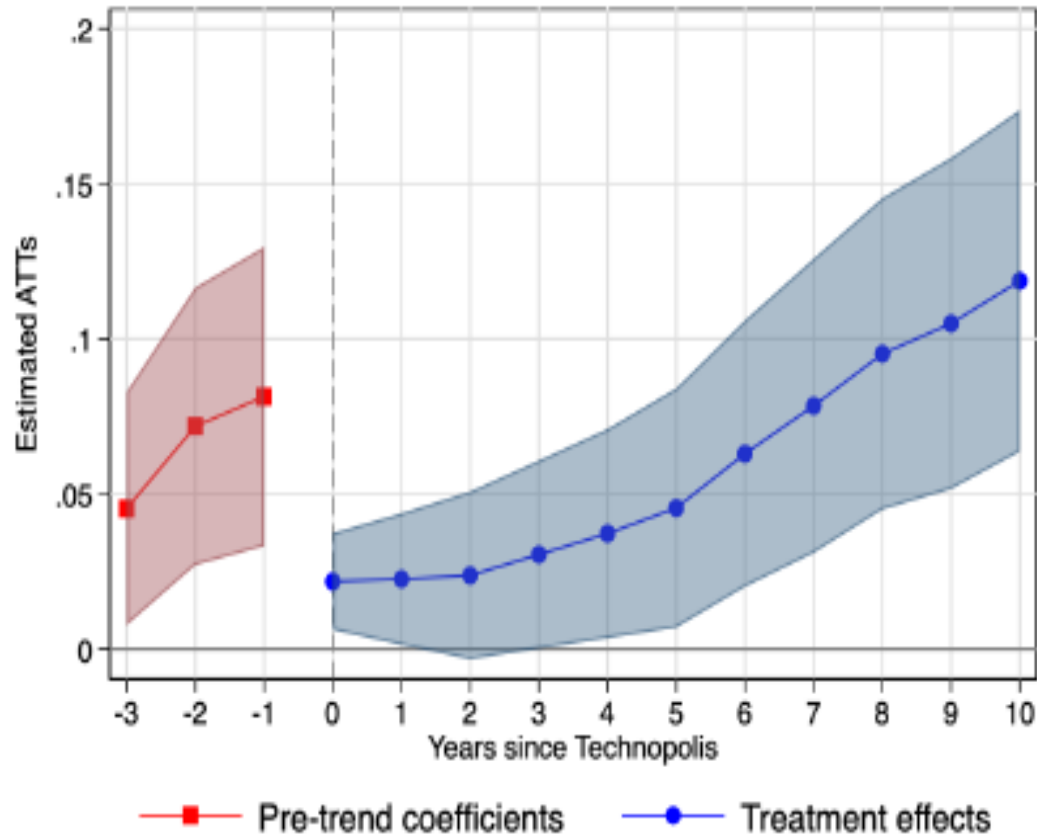
“To realize the Technopolis development plan, a "Technopolis Development Organization (TDO)" was formed in each Technopolis area as the principal organization for advancing the construction of the Technopolis . To attract the high-tech industries , construction of new industrial estates and research parks is carried out as hard -infrastructure by the local government. To incubate local industries, loan guarantees for research development , financial assistance to the industry-university research cooperation and assistance to develop new technology, are provided by each TDO. In addition, some Technopolis areas attract private research facilities into the "Research Park", and provide for the formation of "Prefectural Industrial Technology Centers " at the prefectural level. Also , "Research Cooperation Centers" are formed at the national university in some Technopolis areas in accordance with laws passed to enable further technological development (Itch *et al* . 1995) .”

Is it just a tax treatment? The Hybrid Problem

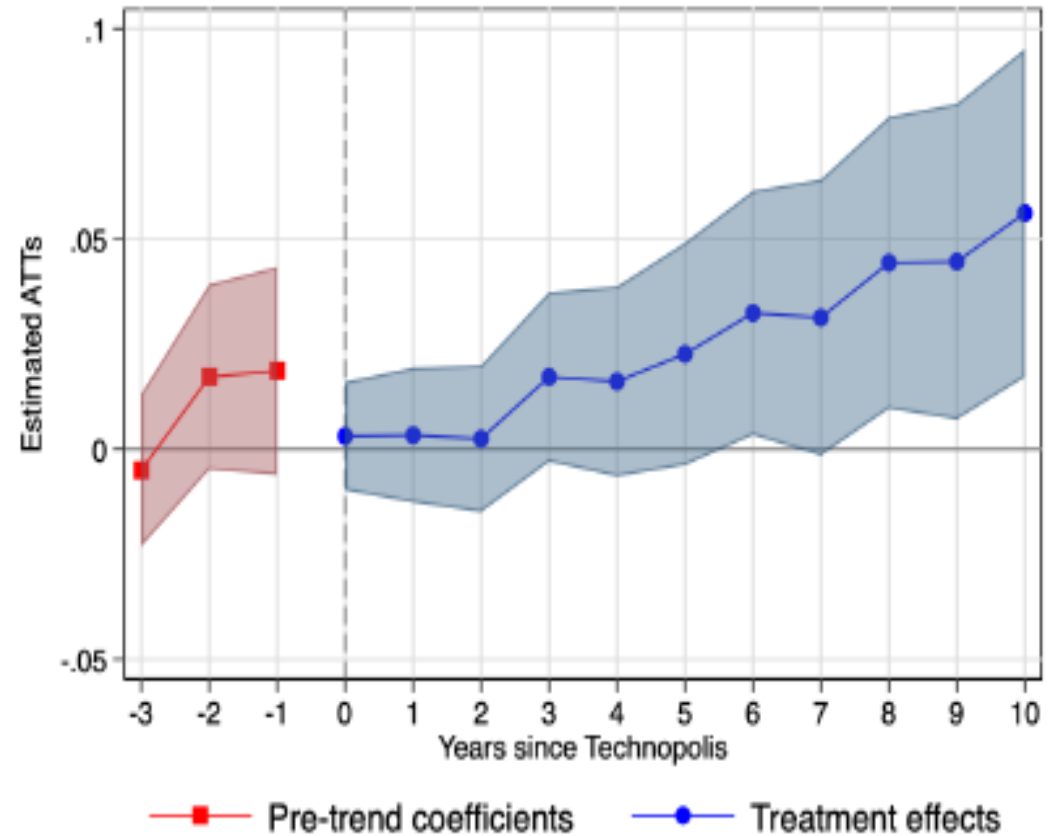
- This paper “Rather than featuring direct subsidies to either firms or local governments, Technopolis locations offered businesses a bonus depreciation schedule, where the bonus percentage declined beginning five years after the initial eligibility date.”
- Masser (1989) concurs with the prime role of the “bonus depreciation” schedule but also highlights “loans at favorable interest rates,” the “expansion of local R&D facilities,” of which the Federal government contributed up to one-third of the cost and Federal support paying for the local government to set up the TDO.
- The authors can address this by documenting that these other figures are small – or by highlighting industrial differences (although the R+D could also have treated specific industries).
- I don’t really understand the political economy of local government but in China, if Beijing says do this – it usually gets done – with or without national funding and if this were true, then the treatment effect includes spending by the local gov’t.

Their more standard analysis

A. Employment

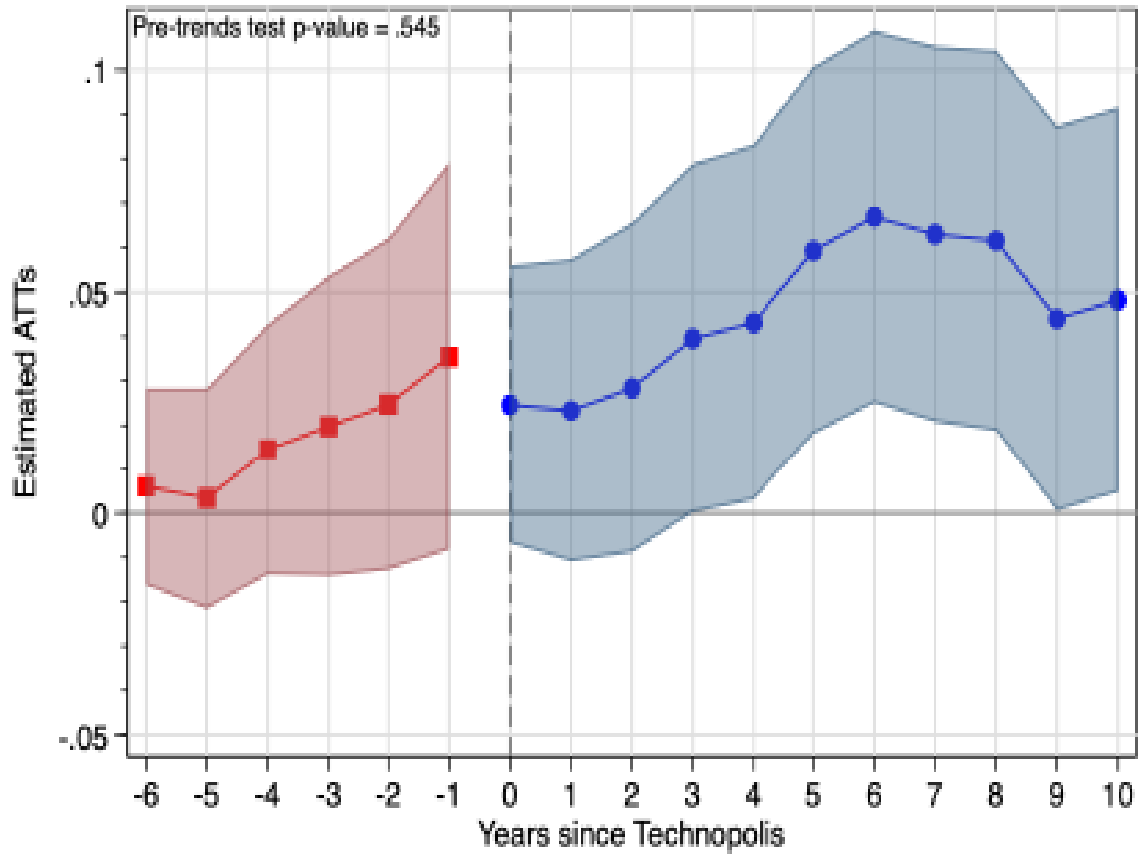


B. Number of Establishments

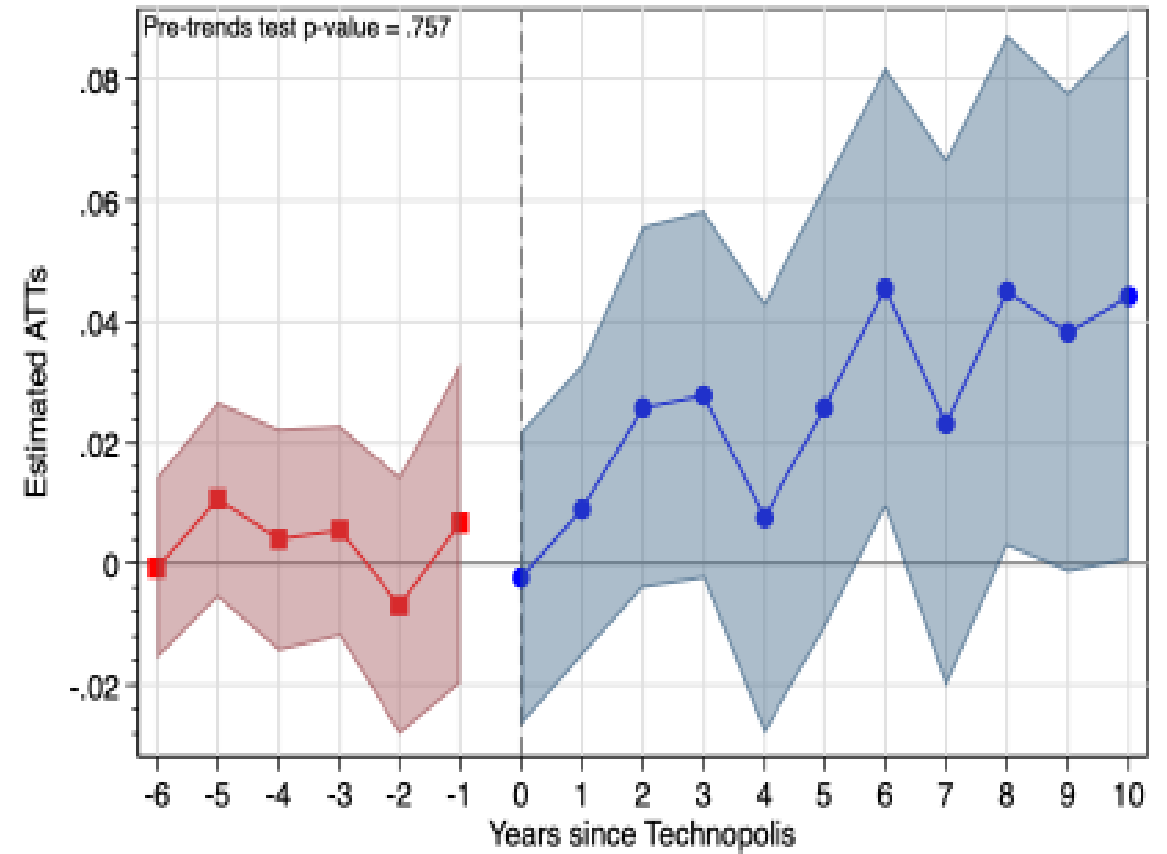


Their Creative Use of Firm-Level Data

A. Bonus depreciation probability



B. Operating cash flow

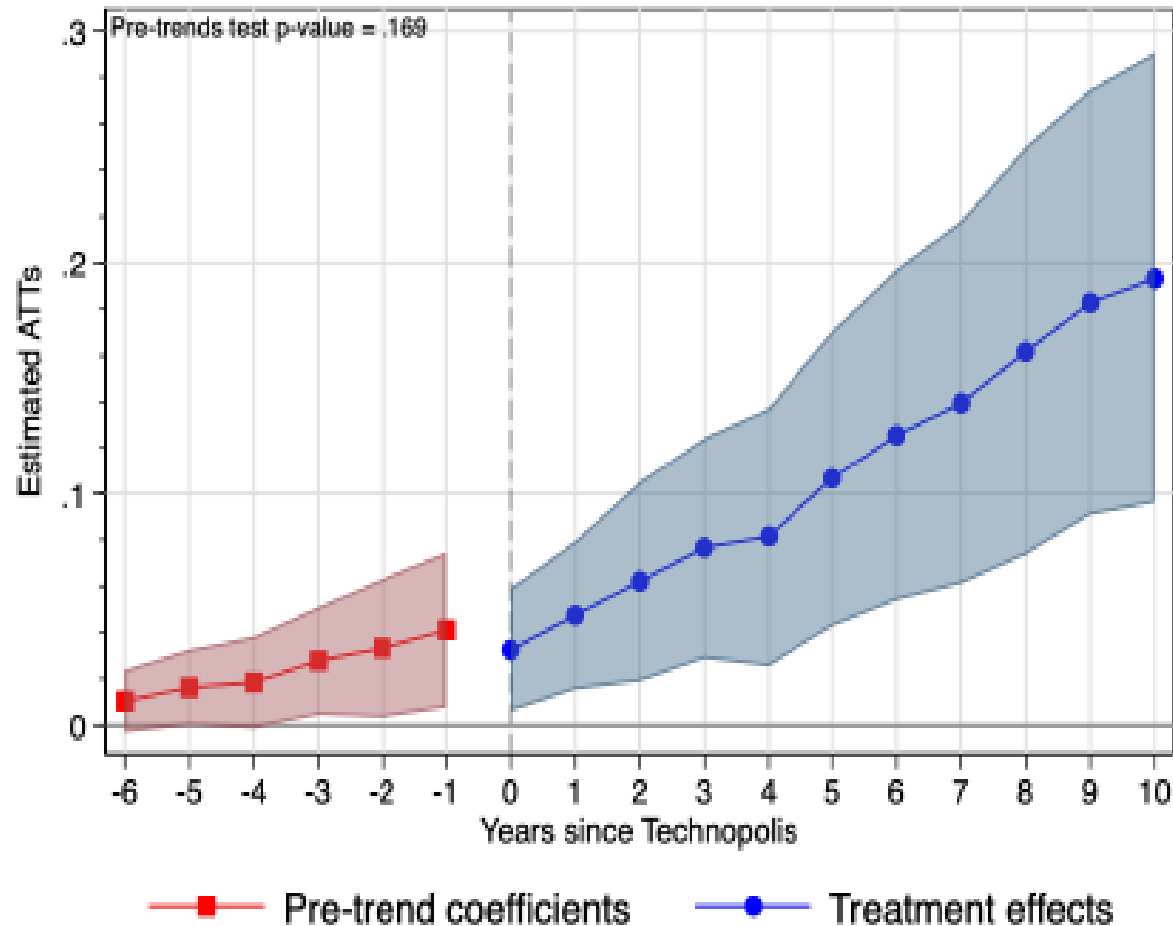


■ Pre-trend coefficients ● Treatment effects

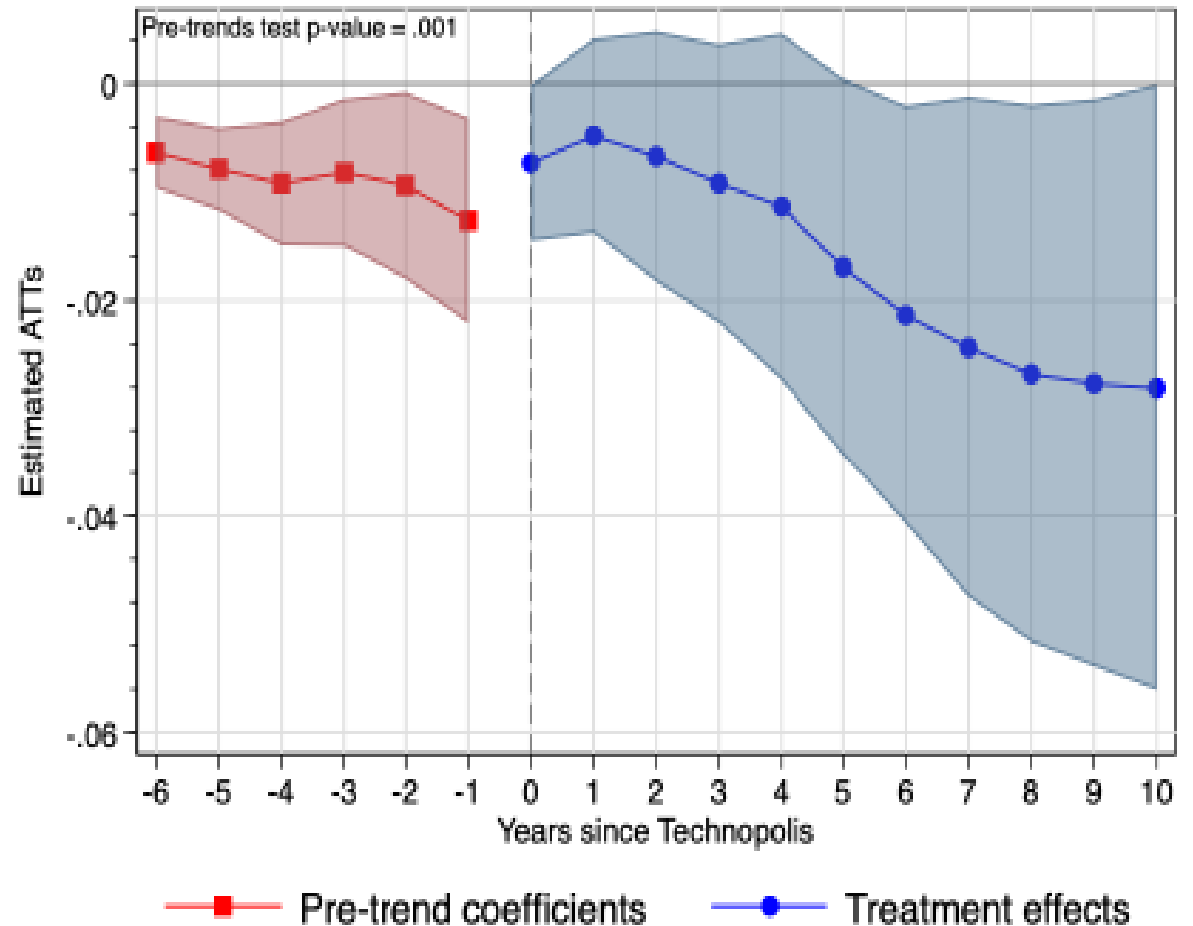
■ Pre-trend coefficients ● Treatment effects

Perhaps their most compelling graphic

E. Non-real estate purchases



F. Land acquisition



Using the Triple Diff: Jobs go up in these firms, but are these jobs created....

	Construction			Non-RE purchases			Employment		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>Treatment</i>	0.166**	0.111*	0.221***	0.184***	0.145***	0.189***	0.070**	0.035	0.074**
	(0.072)	(0.067)	(0.077)	(0.046)	(0.039)	(0.046)	(0.030)	(0.028)	(0.032)
Estimator	OLS	<i>BJS</i>	<i>BJS</i>	OLS	<i>BJS</i>	<i>BJS</i>	OLS	<i>BJS</i>	<i>BJS</i>
Firm FEs	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial controls		✓			✓			✓	
Controls × year FEs			✓			✓			✓
N	26,996	24,408	26,985	36,396	32,829	36,383	38,340	34,578	38,326
# Firms	1,416	1,318	1,415	1,499	1,399	1,498	1,508	1,408	1,507
Adj. R^2	0.702	0.723	0.702	0.948	0.957	0.949	0.954	0.964	0.955

This is particularly nice

	Bonus claim		Construction		Non-RE purchases		Employment	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Treatment × LL – Firm</i>	0.096*** (0.029)	0.089*** (0.028)	0.166** (0.074)	0.170** (0.074)	0.180*** (0.048)	0.171*** (0.049)	0.077** (0.031)	0.076** (0.031)
<i>Treatment × SL – Firm</i>	-0.011 (0.104)	0.028 (0.109)	0.169 (0.261)	0.160 (0.273)	0.245** (0.097)	0.265*** (0.094)	-0.037 (0.111)	-0.004 (0.106)
p-value on difference	0.319	0.586	0.991	0.971	0.542	0.367	0.323	0.465
Firm FEs	✓	✓	✓	✓	✓	✓	✓	✓
Controls × year FEs		✓		✓		✓		✓
N	38,374	38,360	26,996	26,985	36,396	36,383	38,340	38,326
# Firms	1,508	1,507	1,416	1,415	1,499	1,498	1,508	1,507
Adj. R^2	0.535	0.551	0.702	0.702	0.948	0.949	0.954	0.955

Local Spillovers

	Bonus claim		Construction		Non-RE purchases		Employment	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Treatment</i>	0.100***	0.084***	0.139*	0.145*	0.151***	0.136***	0.080**	0.076**
	(0.028)	(0.028)	(0.074)	(0.074)	(0.047)	(0.047)	(0.031)	(0.030)
<i>TreatedCity</i>	0.029	-0.004	-0.087	-0.083	-0.105***	-0.129***	0.029	0.014
	(0.016)	(0.017)	(0.065)	(0.068)	(0.033)	(0.036)	(0.021)	(0.022)
Firm FEs	✓	✓	✓	✓	✓	✓	✓	✓
Controls × year FEs		✓		✓		✓		✓
N	38,374	38,360	26,996	26,985	36,396	36,383	38,340	38,326
# Firms	1,508	1,507	1,416	1,415	1,499	1,498	1,508	1,507
Adj. R^2	0.535	0.551	0.702	0.702	0.948	0.949	0.954	0.955

Interpreting these results

- As a paper documenting how firms respond to tax incentives, this is excellent and compelling. The industry/time/place identification works for me and yields quite plausible estimates.
- As a paper documenting the power of a place-based policy on place, I am far less sure. Firm level estimates don't work well since they can reflect hires from other firms – the city-level estimates are ambiguous.
- Moreover at the place-level, there seem to be other treatments going on at the same time since I have doubts about \$16,000 per job.
- This shouldn't take away from the great value of the paper – just limit the paper's use as an excuse for place-based tax bonuses.

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

