

The Economics of Place-Based Policies

Introductory Material

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August 2025

Introductory Chapter

Our initial perception at the outset of this project was that long-standing skepticism toward place-based policies has been giving way to growing policy efforts aimed at reshaping local economies. Policymakers seem increasingly willing to adopt such policies, as evidenced by recent widely discussed initiatives such as Opportunity Zones (proposed under President Barack Obama, passed into law under President Donald Trump), and Build Back Better and the Inflation Reduction Act (both passed under President Joe Biden), all of which incorporate place-based elements, either explicitly or implicitly. One might expect—or perhaps hope—that this shift reflects new research providing evidence in support of place-based policies. However, while some recent studies provide empirical and theoretical support for certain place-based approaches, these remain the exception rather than the norm.

Research has made progress in identifying which features of place-based policies are associated with different economic outcomes, but these relationships are often complex and context-dependent. There is no single, widely accepted set of conclusions that can directly guide policy design. Instead, the literature highlights a range of mechanisms, trade-offs, and varying effects, making institutional details and implementation strategies central to shaping policy outcomes. Complicating matters further, place-based interventions policies are often implemented as packages. Research has little to say about the nature of complementarities

¹ We are grateful to two reviewers for helpful comments and suggestions, and many scholars and practitioners who provided valuable feedback on these chapters.

among policies.

Place-based policies encompass a broad and heterogeneous set of interventions. Some aim to directly subsidize employment or investment in specific areas, such as through hiring credits or capital tax breaks. Others involve regulatory relief, direct infrastructure investment (including transportation, broadband, and new energy installations), or broader public goods provision. Still others target specific populations or institutions within places—such as colleges, hospitals, or business accelerators. This volume considers both traditional place-based policies and broader policies with spatially concentrated effects.

Economists have historically been skeptical of place-based policies for several reasons—both empirical and theoretical. In terms of empirical evidence, as summarized in detail in the chapter by Freedman and Neumark, and earlier by Neumark and Simpson (2015), many past iterations of place-based job creation policies have been viewed as ineffective, although there are some exceptions. For example, the most widespread and most-studied place-based policy is enterprise zones (EZs). An extensive body of research generally finds little or no impact on employment (although some evidence indicates positive employment effects of the federal Empowerment Zone program in the United States), weak evidence of positive distributional effects, and some indication of negative spillovers on areas near those targeted by program incentives in part through business relocation (of which there is evidence for the United States and France).²

However, some recent innovations in place-based policymaking have drawn on lessons from past research and implemented changes, or new programs, which might be or have proven to be more effective. A prime example is the California Competes Tax Credit (CCTC), which

² See, e.g., Busso et al. (2013); Givord et al. (2013); Hanson and Rohlin (2013); Neumark and Kolko (2010); and Reynolds and Rohlin (2013)

replaced the state’s ineffective enterprise zone program with a quite different hiring (or investment) tax credit program. The CCTC includes what some research suggests are more effective features—like allowing administrators some discretion in awarding credits, and having strong provisions for clawing back tax credits when goals are not met. This program appears to have significant positive effects on jobs, although it does have less of a specific place-based focus (see, e.g., Hyman et al., 2023).

Paralleling developments on the empirical side, theory offers several rationales for place-based policies, as well as reasons to be skeptical of their effective implementation. A central rationale is the presence of local externalities—such as agglomeration spillovers. If these are present and under-internalized, spatially targeted interventions may enhance efficiency. Such spillovers can arise from thick labor markets, local knowledge diffusion, or scale economies in infrastructure and public goods. In theory, subsidizing locations with stronger spillovers can improve aggregate outcomes (see for instance Fajgelbaum and Gaubert, 2020).

However, acting on these insights requires estimating the key parameters that govern externalities. The design of place-based policy hinges on empirical measurement: How strong are local spillovers? What is their nature? How far do they reach? How do they vary across space? Addressing these questions is essential for assessing when and how place-based interventions are likely to be effective. A further challenge is communicating the conditions under which such policies are more likely to achieve their intended goals.

Another theoretical argument in favor of place-based policies is one of redistribution. In particular, when poverty or unemployment is concentrated, subsidizing specific places may enhance the government’s redistributive capacity (Gaubert et al., 2025).

At the same time, theory highlights several potential pitfalls. First, place-based policies

distort mobility decisions, potentially trapping individuals in low-productivity areas. Second, the benefits may not accrue to the disadvantaged residents the policies are meant to help. For instance, higher productivity in subsidized areas may be capitalized into land values. Moreover, when people move in response to subsidies, the welfare gains are typically concentrated among inframarginal individuals—those who already most value living in the targeted areas—who may not be the disadvantaged populations the programs aim to support.³

Moving beyond the purely economic view of these policies, place-based policy implementation may be captured by special interests—as appears to be the case with some business recruitment efforts commonly used by state and local governments—such that policy intent and policy execution end up being only weakly related. Even where policy choices may be free from political distortions, practitioners must understand the economic environment sufficiently well to direct the resources to the right places. Yet, policies are often made in environments in which information about the relevant economic mechanisms is scant.

Against this backdrop, the goal of this book is to bring together both empirical and theoretical economic research on place-based policies. It includes surveys of existing evidence on their effects in the U.S. and Europe, analyses of the institutional and political processes that shape their development, theoretical analysis of when and why they might be justified, and empirical studies evaluating their impacts. In selecting contributions, we aimed to go beyond conventional place-based policies to include research on broader interventions that, while not explicitly designed to target disadvantaged areas, may still have meaningful spatial effects. Looking at these policies through a wider lens helps clarify how public interventions shape local economies and what lessons these interventions offer for efforts to support struggling regions.

³ For elaboration, see, e.g., Kline and Moretti (2014a) and Neumark and Simpson (2015).

The chapters in this book take a broader perspective than the empirical policy evaluations that dominate economic research on public policy. While several chapters present and analyze such evidence, the book also emphasizes the role of policy design, implementation, and institutional context in shaping economic outcomes. Rather than offering broad assessments of policy impacts, these chapters focus on specific mechanisms and contextual factors that influence how place-based policies operate. In this sense, the research presented here serves as a resource for policymakers, providing an overview of recent advances in understanding these policies and their implications for local economies. It also lays a foundation for future academic research on place-based interventions.

One useful way to frame a good deal of the information, evidence, and insights of the contributions in this volume is that they address three central dimensions in the design of place-based policies:

- (1) *where* the policies are targeted, including both the spatial scope of the policies and the selection process for the places targeted;
- (2) *what* the policies are, including the mix of tax and other benefits provided to entities located in zones;
- (3) and *how* incentives are distributed, and in particular the mechanism for determining who receives the incentives offered in designated areas.

As examples, Fajgelbaum and Gaubert develop theoretical insights regarding the efficiency implications of where place-based policies are targeted. Hanson et al. discuss the factors that shape what place-based policies are chosen as well as how they are implemented. Berkowitz et al. provide a comprehensive discussion of place-based policies in the E.U., and contrasting them with the U.S., on all three dimensions. Corinth et al. compare how two

competing place-based policies (Opportunity Zones and the New Markets Tax Credit) in the U.S. end up distributing benefits across targeted areas. And the chapters by Garin, Freitas, and Akee et al. study non-traditional and hence potential alternatives to what place-based policies more typically look like (a broad industrial policy, relocation of public-sector jobs, and casino gaming on Indian reservations).

Within that framing, and more broadly, the chapters address several key questions, including:

- What insights from recent economic theory help clarify the impact of place-based policies on welfare? Which place-based policies may be justified on efficiency or equity grounds, according to economic theory?
- How does the institutional context shape U.S. place-based policymaking, and what can be learned from the policymaking process?
- What features of past U.S. place-based policies have been associated with growth in jobs and related economic outcomes, and to what extent are these findings reflected in current policies?
- How does place-based policymaking in the U.S. compare to that in the European Union, and what insights might be drawn from the European experience?
- How well do current U.S. place-based policies target distressed areas, and what factors influence their reach?
- What can be learned from “non-traditional” place-based policies, such as large-scale federal investment in production facilities, the relocation of government employment, and economic policies on Indian reservations?

In our view, the research presented in this book highlights several key insights. Some are more relevant to policymaking, while others are more directly connected to academic research, though there is naturally some overlap.

Insights relevant to policymaking include:

- When agglomeration effects enhance productivity, theory suggests that place-based interventions may improve economic efficiency by internalizing spatial externalities. Whether such interventions increase efficiency when directed toward more productive locations or toward lagging regions depends on how the strength of spatial spillovers varies across locations. Under the most standard assumptions—namely, that agglomeration forces rise with population density at a constant elasticity—efficiency is increased in theory by subsidizing actors in productive regions. However, with more complex spillover structures, targeting lagging regions can be efficiency-improving, in addition to enhancing redistribution. The chapter by Fajgelbaum and Gaubert develops these theoretical insights using a stylized spatial equilibrium model.
- Understanding the roles of different actors in the development, formulation, and implementation of place-based policies helps clarify the conditions under which these policies emerge and evolve. The chapter by Hanson, Rodrik, and Sandhu examines these institutional dynamics in detail.
- The specifics of policy design matter. The choice of policy instruments and their implementation shape economic outcomes, and research provides insights into these effects. The chapter by Freedman and Neumark synthesizes evidence on business incentives for investing in low-income communities, highlighting cases

where U.S. place-based policies—both longstanding and newly implemented—incorporate lessons from past research, and where they do not.

- The European Union offers a contrasting approach to place-based policymaking, with policies being designed and implemented in a top-down manner that contrasts with the U.S. approach in which state and local actors play a major role in policy delivery. The chapter by Berkowitz, Storper, and Herbertson explores these differences, how they are influenced by national context, and the insights these differences provide for evaluating alternative policy strategies.
- Designing policies that succeed at targeting the most economically distressed areas remains a challenge. Some recent programs, which place less emphasis on precise targeting, do not appear to reach these areas as effectively as older policies. The chapter by Corinth, Coyne, Feldman, and Johnson compares targeting strategies in programs such as Opportunity Zones and the New Markets Tax Credit. Given the near-absence of policies explicitly targeting the most distressed areas, evaluating the effects of place-based policies on such areas remains difficult. This underscores the potential value of small-scale trials to test new approaches before broader implementation.⁴
- At the same time, it is important to consider a broader set of policies that have spatial implications. The evidence on their effects is mixed, but some research points to potential benefits from large-scale industrial development (see the chapter by Garin), the geographic allocation of government employment (chapter by Freitas), and policies for local economic development on American Indian

⁴ Examples include the Rebuilding Communities Job Subsidies proposal (Neumark, 2018).

reservations (chapter by Akee, Jones, and Simeonova).

- More generally, we emphasize that building evaluation mechanisms into place-based policies is critical. Even when policies incorporate lessons from past research, their actual effects are uncertain. Ongoing evaluation is necessary to understand their impact and make adjustments over time.

Some key takeaways for researchers include:

- Empirical research often measures the effects of policy on market outcomes, but a key challenge is identifying the size and heterogeneity of spatial spillovers—crucial for designing place-based policies that achieve their goals. Newly available granular data on social interactions creates important opportunities to make progress on this front.
- While theory offers clear predictions about efficiency-enhancing policies in stylized settings, the relevance of these models to real-world contexts—and the practicality of implementing the implied policies—remains uncertain. A key research priority is to evaluate how well “second-best” policies, which account for difficult-to-change institutional and political constraints, can approximate the outcomes suggested by theoretical benchmarks.
- Although existing research tends to examine place-based interventions on a case-by-case basis, practitioners are often charged with implementing policies across a range of domains at the same time (e.g., worker training, promoting small business, attracting major investment projects). There would likely be important payoffs from a better understanding of the tradeoffs practitioners face in making choices of which policies or combinations of policies to support.

- Despite the challenges, more research is needed to rigorously assess how specific features of place-based policies shape economic outcomes. A key difficulty is that policy variation is often complex, making it hard to categorize policies in a way that can be reliably analyzed with available data.⁵
- While institutions play a central role in shaping economic outcomes, empirical evaluations of place-based policies have yet to fully account for institutional heterogeneity. The chapter by Hanson, Rodrik, and Sandhu highlights regional variation in organization capacity for place-based policymaking, pointing to the potential for new research that examines the origins of regional differences and their consequences for effective policy delivery.
- Comparative research on alternative place-based policies remains limited. Rather than evaluating policies in isolation, direct comparisons—examining differences in targeting, implementation, and outcomes—can provide insights that help practitioners make more informed choices. The chapter by Corinth, Coyne, Feldman, and Johnson, which compares Opportunity Zones and the New Markets Tax Credit, illustrates the value of this approach. Extending it to explicit comparisons between U.S. and E.U. policies could be particularly informative.
- An important question in place-based policymaking is whether interventions have lasting effects after the initial policy ends. Some research, such as the evaluation in the chapter by Garin,⁶ has addressed this question, but it remains under-explored in studies of more traditional, narrowly targeted place-based policies.

⁵ See, for example, Neumark and Young's (2021) study of state enterprise zone policy variation.

⁶ See also the evaluation of the Tennessee Valley Authority by Kline and Moretti (2014b).

- Expanding access to new data sources is essential for better evaluating place-based policies. For example, research on Opportunity Zones has been hindered by restricted access to tax data—a limitation that the chapter by Corinth, Coyne, Feldman, and Johnson successfully addresses.
- While there is some evidence of success of policies that are broader than traditional place-based policies, others have not yielded the intended results. Further research is needed both to evaluate these types of policies more systematically and to identify the specific design features that shape their outcomes.
- Whereas in the United States, place-based policy is often a complicated mix of federal, state, and local actors, sometimes working in concert and sometimes not, policy choices in the European Union tend to be made in a hierarchical fashion based on a common set of principles that are applied across all member countries. Researchers can learn more about the design and implementation of place-based policy, and how these affect outcomes, from better understanding the tradeoffs between the more decentralized U.S. approach versus the more centralized E.U. approach to place-based policy.

In the remainder of this introductory chapter, we describe and summarize the contributions in the other chapters of this book, and then close with some final thoughts.

Fajgelbaum and Gaubert

In “Place-Based Policies: Lessons from Theory,” Pablo Fajgelbaum and Cecile Gaubert revisit the theoretical rationale for place-based policies, basing their analysis on a canonical

urban economics framework that incorporates agglomeration spillovers as the source of potential inefficiency. They derive several key insights that challenge some conventional wisdom about spatial efficiency and policy interventions.

A central conclusion of the chapter is that the market allocation of economic activity is generically inefficient even when spillover elasticities are constant across regions. This runs counter to the common view that if agglomeration economies are uniform, the spatial allocation is efficient. Instead, the authors show that the dollar value of spillovers, which depends on both productivity and agglomeration elasticities, varies across locations, creating scope for efficiency-enhancing interventions. Under constant and positive spillover elasticities, the optimal policy that reaches efficiency is a subsidy that is (on net) higher in high-wage areas. This policy reallocates economic activity towards higher-wage, higher-productivity regions, in contrast to many real-world place-based policies that favor lower-wage areas. More generally, the first-best labor subsidy rate in a given region equals its spillover elasticity, ensuring that firms and workers internalize agglomeration benefits.

The chapter also explores conditions under which favoring low-wage locations can be justified on efficiency grounds, beyond equity reasons. This occurs, for instance, when negative effects of density (congestion) outweigh agglomeration benefits, or when spillover elasticities are higher in low-wage locations, meaning that agglomeration gains are stronger in lagging areas.

Finally, the authors discuss the limitations of investment incentives and housing policies as substitutes for direct employment subsidies when agglomeration spillovers depend on employment density. While these tools may increase welfare in a second-best manner, they cannot fully correct distortions caused by spillovers related to labor density. Likewise, housing supply elasticities—while important for the incidence of policy—do not affect the fundamental

design of first-best spatial interventions.

Freedman and Neumark

In “Lessons Learned and Ignored in U.S. Place-Based Policymaking,” Matthew Freedman and David Neumark survey the evidence on traditional place-based policies focused on job creation, with an emphasis on and framing around Enterprise Zones in the United States. They then extend their discussion to newer versions of place-based policies including Opportunity Zones and the California Competes Tax Credit, as a way of illustrating how policy and policymakers have sometimes heeded the lessons of past experience with place-based policies—but not always.

The authors first develop a “taxonomy” of place-based policy design features, and give many examples from Enterprise Zone and other program, including: the geographic targeting of incentives (e.g., narrow vs. broad), the incentives offered (hiring credits, other tax incentives, regulatory relief, etc.), and the mechanisms and decisions for distributing incentives (“by right” or an entitlement, discretionary, etc.). More substantively, they discuss considerations in the choices of these features of policy design, and which are more likely to lead to job creation. For example, Freedman and Neumark suggest that narrow geographic targeting may be more precise regarding where benefits go but can also lead to dissipation of effects from spillovers and relocation. They suggest that if the goal is job creation, policies that subsidize hiring are likely to be the most effective, unless the distortions that restrain hiring are on margins less related to labor costs. And they suggest that more discretionary allocation mechanisms are more likely to reduce windfalls and lead to actual job creation.

The authors then turn to a survey of evidence on Enterprise Zones, trying where possible

to glean what lessons can be learned about design features that made these more effective or less effective at creating jobs.

Finally, they offer some evaluation of newer versions of place-based policies based on how well these lessons have been absorbed. They briefly discuss modifications of state programs—sometimes still structured as Enterprise Zones, and sometimes not—that appear responsive to concerns raised in earlier research. Turning to Opportunity Zones, they suggest that these have, at least so far, proven ineffective at creating jobs, likely because of a failure to directly subsidize job creation, and an absence of discretionary funding for investments most likely to create jobs. They contrast this with the California Competes Tax Credit, which appears quite effective for the opposite reasons; it subsidizes job creation directly, and it has a strong discretionary component.

Berkowitz, Storper, and Herbertson

Whereas much place-based policy in the United States has grown out of a desire to attract new productive investment to low-income communities and regions, in the European Union the motivation has been to ensure the success of the continental project of economic integration. As Peter Berkowitz, Michael Storper, and Max Herbertson explain in “Place-based Policies of the European Union: Contrasts and Similarities to the U.S. Experience,” with the launch of the single market project in the early 1990s and the preparation of the introduction of the Euro in 1999, shortly after the E.U. was formed in 1992 there was concern that once labor, capital, and goods and services were free to move across national borders, more developed regions would pull resources out of less developed ones, leading to greater prosperity in the center and less in the periphery. In such an event, integration would lead to greater regional economic inequality in

the E.U., an outcome deemed antithetical to its mission. By establishing an explicit policy for economic cohesion creating the Cohesion Fund, the E.U. established a framework for targeting lower-income regions for resource transfers based on criteria that were applied across all member states. This approach has since been extended to new policy domains, including helping regions to address distress, adjust to the energy transition and promote technological innovation.

Berkowitz, Storper, and Herbertson compare place-based policy in the E.U. and U.S. in terms of motivation, actors, and design. Differences between the two regions abound. The E.U. tends to be rules based (i.e., establishing eligibility criteria that are applied throughout the union), to take a long-term view in evaluating policy impacts (since policy rules and procedures do not change with presidential administrations), and to involve a well-defined framework for European Commission interactions with national and regional government partners. The U.S., by contrast, appears to freely mix rules and discretion in determining who is eligible for benefits, to implement policy based on relatively short electoral cycles, and to provide state and local actors with wide latitude in policy implementation. Despite these apparent substantial differences in place-based policy in the E.U. and U.S., ranking their relative performance is a challenge.

Berkowitz, Storper, and Herbertson use their comparative approach to deepen our understanding of the potential for the E.U. and U.S. to deliver on their long-run policy promises.

Hanson, Rodrik, and Sandhu

If place-based policy in the E.U. emerges from a process that appears well-ordered and hierarchical, the U.S. approach would seem to defy easy categorization. When seen in its totality, the U.S. approach encompasses not just business tax incentives and Enterprise Zones, but also workforce development, small business promotion, technology hubs, and regional planning and

strategy. Partly as a result, place-based policy in the U.S. involves a cacophony of actors across multiple levels of government and spanning the public, private, and non-profit sectors. In “The U.S. Place-Based Policy Supply Chain,” Gordon Hanson, Dani Rodrik, and Rohan Sandhu chart the institutional development of place-based policy in the U.S. from its origins in land-grant colleges and local-level business recruitment in the late 19th and early 20th centuries to the present day in which local economic development organizations orchestrate much activity on the ground and in which public, private, and non-profit actors coordinate decisions.

Modern place-based policy is the cumulation of top-down innovations spearheaded by the federal government, which has created many of the federal agencies that continue to fund place-based interventions, and bottom-up innovations by state and local actors that have created new policy instruments, new organizational capacity, and new methods of coordinating actions across multiple policy domains. Modern policy practitioners manage diverse policy portfolios and therefore make choices about complex combinations of policies that are rarely studied by academic researchers. They also rely on local organizations for policy delivery, which makes local organization capacity an important if under-appreciated determinant of whether place-based policies achieve their goals. Hanson, Rodrik, and Sandhu discuss how modern policy practice originated and describe how it is designed and implemented across the full set of policy domains that place-based policy practitioners are responsible for managing.

Corinth, Coyne, Feldman, and Johnson

Opportunity Zones, enacted as part of the 2017 Tax Cuts and Jobs Act, are the more recent incarnation of federal place-based policies. They provide tax incentives for investment in low-income Census tracts deemed eligible based on criteria regarding high poverty or low

median family income and then chosen for eligibility by state governors. Concerns have been raised about targeting of Opportunity Zone tax incentives; although the eligibility criteria ensure that the investment flows to lower-income areas, governors' selections among the eligible tracts may not focus on those tracts most in need. In "The Targeting of Place-Based Policies: The New Markets Tax Credit Versus Opportunity Zones," Kevin Corinth, David Coyne, Naomi Feldman, and Craig Johnson study the targeting of Opportunity Zone tax incentives based on compilation of investment data from confidential tax data—valuable new evidence on its own.

In addition, they compare the targeting of Opportunity Zones with that of the New Markets Tax Credit—a longer-standing federal program (created by the 2000 Community Renewal Tax Relief Act, and which grew out of earlier experiments in the 1990s). The NMTC aims to stimulate investment and economic development in disadvantaged areas of the United States. The funding flows through Community Development Entities (CDEs) that must meet a number of criteria regarding serving low-income communities. Tax credits then flow through the CDEs from the U.S. Department of the Treasury—which also approves the CDEs.

As the authors explain, these two programs are very different models for place-based policies. Opportunity Zones largely entail selecting places and then leaving decisions to private investors. The NMTC is much more centralized, with the government playing an active role in where the investment goes (and potentially, via selection of CDEs, the nature of the investments made). Past criticism of place-based policies for not targeting disadvantaged places that can gain the most might suggest that NMTC credits will be better targeted. Corinth et al. provide the needed evidence to compare the NMTC with Opportunity Zones.

Overall, the evidence indicates that despite using two very different models, the targeting of Opportunity Zones and the NMTC is not strikingly different. Both end up targeting areas with

higher poverty, lower family income, and weaker labor markets. Of course, there have to be some similarities because of program design, so the interesting question is really how credits are distributed across the most disadvantaged tracts. More surprisingly, perhaps, the targeting to these tracts does not differ that much across the two programs. However, Opportunity Zone investments are more likely to target disadvantaged tracts located in more prosperous counties, faster-growing regions, and areas with already high levels of private investment, indicating that Opportunity Zone investment often flows to places where it would have happened regardless. This may result in greater windfalls for investors and fewer benefits for the intended communities. This evidence to some extent confirms some criticisms of the Opportunity Zone program, while also indicating that the program still does increase investment in disadvantaged areas—just not the most distressed areas that are not, on their own, primed for investment.

Garin

One of our core goals in this book was to elicit research that goes beyond traditional place-based policies in considering other policy interventions that might help economically-distressed areas. Andrew Garin’s chapter—“Do Place-Based Industrial Interventions Help “Left-Behind” Workers? Lessons from WWII and Beyond”—is proof of the value of this endeavor, as are the chapters by Dimitria Freitas and by Randall Akee, Maggie Jones, and Emilia Simeonova. Each of these chapters considers what would surely be viewed as non-traditional place-based policies: Garin studies a large-scale industrial intervention in the ramp-up to World War II; Freitas explores the relocation of public-sector jobs, and Akee et al. examine Indian gaming casinos. While these types of interventions are not appropriate for place-based policies scaled to a large number of areas, they still include some important potential lessons. In addition, Garin’s

chapter delves into the mechanisms by which the intervention he studied changed economic outcomes, and for whom.

Garin’s chapter begins by noting the U.S. policy shift away from laissez-faire production policy and towards production policy intended to address national needs with regard to security, green energy, and developing domestic industries more robust to international competition. While these policies are clearly less explicitly place-based, they may of course affect the locations where they are concentrated, and in some cases there may be mixing of place-based goals with the broader national goals, such as the concentration of cleantech manufacturing investments in more rural (and conservative) districts as part of the inaptly-named Inflation Reduction Act.⁷

Garin’s focus, thus, is on what he terms an “industrial intervention.” In particular, he studies that component of mobilization for World War II in which the federal government paid for the construction of new manufacturing plants to produce key products for the war effort—plants that were often sold to private investors for conversion to civilian use after the war. Location decisions were not based on place-based policy objectives, but rather strategic objectives leading them to be geographically scattered. Given the primacy of the latter strategic objective, these facilities often went to locations where workers were untrained for the work, which led to employers creating opportunities for training. Moreover, given that this effort came after New Deal-era labor law, and that the government was set on avoiding labor stoppages, unions were able to organize the plants (albeit with no-strike pledges).

The evidence (drawing on Garin and Rothbaum, 2025) indicates long-lasting impacts,

⁷ See, e.g., <https://www.bloomberg.com/graphics/2024-opinion-biden-ira-sends-green-energy-investment-republican-districts/> and <https://home.treasury.gov/news/featured-stories/the-inflation-reduction-act-a-place-based-analysis> (both viewed February 17, 2025).

although they differed from the initial impacts. At first, manufacturing employment rose sharply—not surprising given the investments being made. Population growth also occurred via migration, but more slowly. In the longer-run, the population increase persisted, but the share of manufacturing reverted to the same as other counties, as did the employment rate, although the participation of men ended up higher. In addition, there was a long-term increase in manufacturing wages, but not wages in other sectors. Still, this change in manufacturing led to higher median family incomes, driven by higher wages in semi-skilled blue-collar occupations. The authors attribute the longer-term wage impacts at least in part to the role of unions. Perhaps most intriguingly, linked Census data files point to positive long-run effects on earnings of men from low-income backgrounds, with the effects arising for those who remained in the counties where the investments occurred.

This was perhaps a unique episode in U.S. history, so a key question is whether we can draw general conclusions from other large-scale, localized industrial investments. Garin’s survey of the evidence indicates that more recent policies that use incentives to attract new plant investment to target regions did not lead to higher wages, even when job growth was spurred. Nonetheless, drawing also on evidence on job training and placement, Garin concludes—appropriately cautiously, in our view—that “big push” interventions that couple investments with coordinated efforts to create higher-skill, higher-wage jobs, may be more productive.

Freitas

In “The Potential of Public Employment Reallocation as a Place-Based Policy,” Dimitria Freitas examines the role of relocating public-sector jobs as a tool for regional development. While traditional place-based policies often rely on tax incentives or infrastructure investments,

public employment reallocation—moving government jobs from capital cities or economic centers to struggling regions—offers an alternative approach that leverages the large size of the public sector in terms of employment.

Freitas provides a survey of the literature investigating the evidence on public job relocations, including capital city moves (such as Brazil’s relocation from Rio to Brasília), and decentralization programs (many of which are pursued in Europe). Both policies increase population and private sector activity at the new site, but capital relocations do not seem to sustainably alter the overall spatial distribution of population as initially expected. While the benefit of such programs measured in terms the monetary value of private sector wages generated can be substantial, the overall costs are variable and hard to predict.

A takeaway from the chapter is that public employment reallocation seems to have a measurable but modest impact on local private-sector job creation in the short run, with an estimated employment multiplier of 0.7—meaning that for every ten government jobs relocated, about seven private-sector jobs are created. These effects are concentrated in the local non-traded sector (such as retail and services), while impacts on the traded sector (such as manufacturing) and unemployment remain ambiguous. Initial conditions, such as the unemployment rate in receiving areas and the geographic distance from the sending location, correlate strongly with the strength of these multipliers. Former capitals or administrative centers often maintain economic stability, even after government employment declines. Overall, there is limited evidence of adverse effects on sending areas, though the literature on this aspect is still scarce. The review suggests that while public employment reallocation is not a panacea, it may be a valuable component of broader place-based policy strategies.

Prior to the 1990s, most government efforts to promote local economic development on tribal lands appeared to have had little success. Poverty on Indian reservations remained endemic and finding gainful employment often seemed to require moving elsewhere. The Indian Gaming Regulatory Act (IGRA) of 1988, which paved the way for large-scale tribal gaming, appears to have changed that reality. As Randall Akee, Maggie Jones, and Emilia Simeonova discuss in their chapter, “Place Based Economic Development and Tribal Casinos,” the creation of Indian gaming casinos on tribal lands has brought in large revenue flows to tribal nations, most of which have been directed to tribal members or to investments in tribal communities. The consequence has been rising educational attainment among Indian youth, increased employment local opportunities, and return migration by tribal members who had moved to other regions.

Indian gaming casinos would thus seem to be among the most successful place-based policies implemented in the United States in the last 30 years. Yet, there is much we still do not know about their impacts, as Akee, Jones, and Simeonova explain. More research is needed to evaluate the spillovers from gaming casinos to other forms of economic activities on tribal lands and in neighboring communities, how different methods for revenue sharing by gaming casinos affect impacts on local economic well-being, and what types of complementary policies may enhance the impact of Indian gaming on local economic development. Another caveat is that the opportunities provided by gaming casinos specifically may be unique to the situation of Indian reservations. In that sense, there may also be value in exploring innovative approaches that replicate some of the successes of these policies but in different industries. Akee, Jones, and Simeonova describe a fascinating area for additional research on place-based policy and inventive approaches to constructing data to study these impacts.

Closing Thoughts

The chapters in this volume highlight the many forms place-based policies can take, from infrastructure investments to business incentives to public employment strategies. Economic theory provides a clear rationale for certain interventions, but in practice, the ability of these policies to achieve their goals, as implemented, remains uncertain. Some programs have credible evidence supporting them, but for many others, the evidence is limited, inconclusive, or nonexistent. This is not just a technical challenge: evaluating spatial policies is inherently difficult, as their effects unfold over long periods of time, and interact with broader economic forces. But the lack of rigorous evidence has real consequences. Without a clearer understanding of which policies work, governments risk misallocating resources, failing to achieve their goals, or even worsening regional disparities.

Addressing these gaps requires both stronger evaluation and policies designed with evaluation in mind. Some programs already include data collection or periodic reviews, but these are often insufficient for drawing firm conclusions. More systematic efforts—such as randomized rollouts, quasi-experimental designs, or better use of administrative data—could improve the ability to measure policy effects. At the same time, closer collaboration between policymakers and researchers could make rigorous evaluation more feasible.

Beyond empirical work, a more systematic theoretical study of models that reflect the policies governments actually implement would also be valuable. Much of the existing theory focuses on idealized first-best solutions, while real-world policies are constrained by political, administrative, or fiscal limitations. Developing second-best models that account for these constraints could provide more practical guidance. The goal is not just to produce more research,

but to ensure that place-based policies are designed and implemented with a stronger foundation, making them more effective tools for addressing regional economic challenges.

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