

## Reconsidering the Role of Regionally Targeted Investments in the Face of Concentrated Poverty and Inequality

### An Introduction to Place-Based Policy

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It is a long-held expectation in the United States that, over time, living standards will rise and each generation will do better than the generation before it. In recent decades, however, economic growth has slowed and [wages have stagnated](#). Additionally, [intergenerational rates of economic mobility are stubbornly low](#).

In order to reverse these trends, policymakers have generally tended to focus on *person-based* investments aimed at increasing human capital, through initiatives such as primary and secondary school reform, expansion of early childhood education, and increased support for post-secondary education and training. However, there are other complementary approaches available, including efforts to adopt “place-based” strategies aimed at reviving local economies by targeting specific sectors and groups of workers.

The Opportunity Lab's initiative—[Inequality and Place: Promoting Opportunity and Growth through Place Based Policy](#)—is working to build a research ecosystem around our world-class faculty working on issues of local and regional development, to disseminate research findings to policymakers and stakeholders, and to contribute new evidence to ongoing debates around anti-poverty and economic mobility strategies in the U.S.

The following document lays out some of the key concepts and debates motivating this initiative, as well as some additional resources and outstanding questions for future research in the field.

### What is Place-based Policy?

Place-based policies address poverty and economic development needs via solutions tailored to specific geographic areas. Governments [around the world](#) make widespread use of place-based policies, targeting areas ranging from neighborhoods to entire nations and regions. In the United States, for example, programs such as the federal [Empowerment Zone Program](#) and the [Opportunity Zone program](#) aim to attract investments in low-income neighborhoods by eliminating certain taxes associated with opening businesses in the targeted areas. At a larger scale, place-based policies can take the form of infrastructure investments targeting larger underdeveloped regions, such as the [European Regional Development Fund \(ERDF\)](#) in the European Union, where nearly [one-third](#) of the budget is dedicated to equalizing economic activity and standards of living across countries and regions.

Place-based policies are typically justified on grounds of efficiency or equity reasons. On the efficiency front, proponents argue that geographically-based interventions can create positive spillover effects, such as increased clustering of productive industries, which can both increase economic productivity and reduce negative effects from congestion. In terms of equity, because [regions are heterogenous](#) in

terms of income, environment, and other opportunities, place-based policies can enable the transfer of resources from more advantaged groups to less advantaged groups.

Whatever the intervention or its motivation, the assumption underpinning place-based policies is that some given areas' residents share enough in common that they will all benefit from the same type of intervention. For policy analysts and researchers, the question is whether a place-based policy has identified the true cause of a problem and whether that cause is indeed geographically-based. It also means assessing whether residents not in need of the intervention may have still received it due to where they lived. Perhaps a business in an enterprise zone would have invested there without the tax cut, for example, or perhaps public aid targeted to a low-income area is also flowing to a relatively affluent person who has moved there to live near her family. Although some scholars have been [skeptical](#) of place-based policies for these reasons, more recent research has demonstrated that well-designed, place-based remedies [can succeed in stimulating economic growth](#) and creating opportunities for communities in need.



### Why Study Place-based Policy?

As income inequality has become a defining issue in the United States, it has also become increasingly clear that inequalities in wages, wealth, and opportunity are geographically concentrated. Research by O-Lab faculty Emmanuel Saez and Gabriel Zucman has found that real market income in the [bottom half of the income distribution barely budged from 1973 to 2014](#). This broad view on the growing wealth and income gap masks stark regional variation, however. Metropolitan areas in California and the Northeast, for example, are still seeing upward mobility among different generations, while households in the [South are becoming poorer from one generation to the next](#). [Average wages of high school and college graduates also vary widely](#) depending on the metropolitan region. And as Enrico Moretti outlined in his 2013 book, *The New Geography of Jobs*, regional divergence of wages is linked to geographic variability in human capital and employment opportunities. This geographic variability of economic prospects underpins the increasing focus on the potential for place-based policies to redistribute resources to meaningfully address inequalities.

## Research Findings

Recent research on economic inequality has focused on both (a) *describing* the ways in which inequalities are distributed geographically, and (b) *evaluating* the effectiveness of policies designed to address these inequalities.

In the first category, for example, research has shown that events such as [mass layoffs at a large firm](#) can depress employment rates in an entire region for years to come. Similarly, the [addition of manufacturing capacity](#) in a region can elevate productivity of existing plants in the long term.

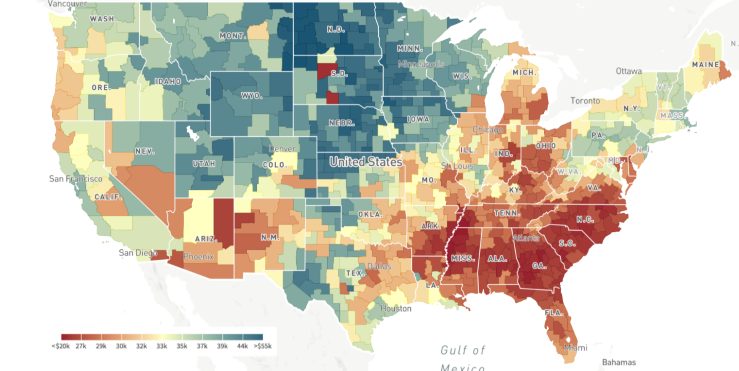
Such remedies, however, can cause substantial equity and efficiency trade-offs depending on the state of the local markets, such as whether the private sector there is providing enough public goods or whether a single company or group of companies have amassed market power. Addressing the second category, other research has demonstrated the effectiveness of some place-based policies such as [Empowerment Zones](#) that offer business tax credits and block grants to boost local employment and infrastructure.

Most recently, O-Lab faculty and graduate fellows have generated important research demonstrating that, when poverty is locally concentrated enough, [the equity gains to place-based transfers can outweigh any costs in efficiency](#). This is an important finding with tremendous implications for how we target investments in high-poverty areas in the industrial midwest, in Appalachia and the south, and in distressed urban areas throughout the country. Along the same lines, O-Lab graduate fellows Patrick Kennedy and Harrison Wheeler have provided [the first early evidence](#) on the performance of the 2017 Opportunity Zone program, showing that (a) the program in most cases did not lead to increased investment and, that (b) in the cases when OZs did experience increased investment, it was in areas that were already experiencing upturns prior to the tax breaks put in place through the OZ program. This project received [high-level media coverage](#) and will be an important piece of evidence informing future local economic development policies.

## Who's Advancing Place-based Policy Research?

Opportunity Lab researchers at UC Berkeley have helped lead the way in place-based policy research over the past decade. These researchers include Cecile Gaubert, Patrick Kline, Enrico Moretti, Reed Walker, and Danny Yagan, who together are leading the O-Lab's [Initiative on Inequality and Place](#). The initiative is also working with other UC Berkeley faculty such as Emmanuel Saez, Ellora Derenoncourt, Hillary Hoynes, Jesse Rothstein, and Gabriel Zucman.

### Household Income of Children with Low Income Parents



Source: [The Opportunity Atlas](#), from the U.S. Census Bureau, and [Opportunity Insights](#). The map shows household income from 2014-2015 for children born between 1978-1983 to parents in

## Faculty Leads for the O-Lab *Initiative on Inequality and Place*



*Patrick Kline*



*Enrico Moretti*



*Reed Walker*



*Cecile Gaubert*



*Danny Yagan*

UC Berkeley faculty have also collaborated with researchers across the U.S. who are exploring place-based policies, including University of Chicago economist Michael Greenstone and Harvard economists Raj Chetty and Nathaniel Hendren.

### Knowledge Gaps & Research Priorities

In addition to the findings that O-Lab faculty and fellows have already generated, they are also leading the field in new directions, examining questions such as: (a) the migration patterns of people who leave economically distressed areas, and whether they in fact end up moving to areas with more economic opportunity; (b) what kinds of local factors (education programming, training, proximity to urban centers) contribute to local economic recovery following plant closures in “company towns”; and (c) how aspects of people’s geographic locations constrain their choices when it comes to energy use and carbon emissions. These are just a few of the kinds of questions we are actively working to answer, and we expect these and other questions to play an important role in informing economic policy over the coming decades.

### Learn More

This initiative has been made possible with generous support from The Smith Richardson Foundation. For more information regarding O-Lab’s *Initiative on Inequality and Place*, please read more on the [O-Lab website](#) or contact O-Lab at [info.olab@berkeley.edu](mailto:info.olab@berkeley.edu).