Has the time for place-based policies finally arrived?

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Motivation

"Has the time for place-based policies finally arrived?"

- Like we have never done it?
- I'm pessimistic about what PBP can achieve but not against targeting
- First, I'll give some context
- Second, I'll go into some mechanics

American cities circa 1950

- The richest cities in America were Detroit, Cleveland, Pittsburgh, Trenton, Providence...
- Prosperous cities were specialised in key manufacturing sectors, and vertically integrated

The first wave of shocks: 1950-1980

- Changes in telecommunications, transportation, and firm management practices made it possible to operate many things from a distance
- This led to a separation of 'production' and 'management' (headquarters, business services, innovation, etc)...
- ... leading in turn to 'management' cities and 'production' cities
- Many cities suffered, including places like NYC when they lost their manufacturing base
- Eventually, cities doing management and innovation gained and expanded, perhaps fuelled by strong agglomeration tendencies in these activities...
- ... while cities left with production lost, because the agglomeration pull for these activities was less strong as plants could be relocated in the South

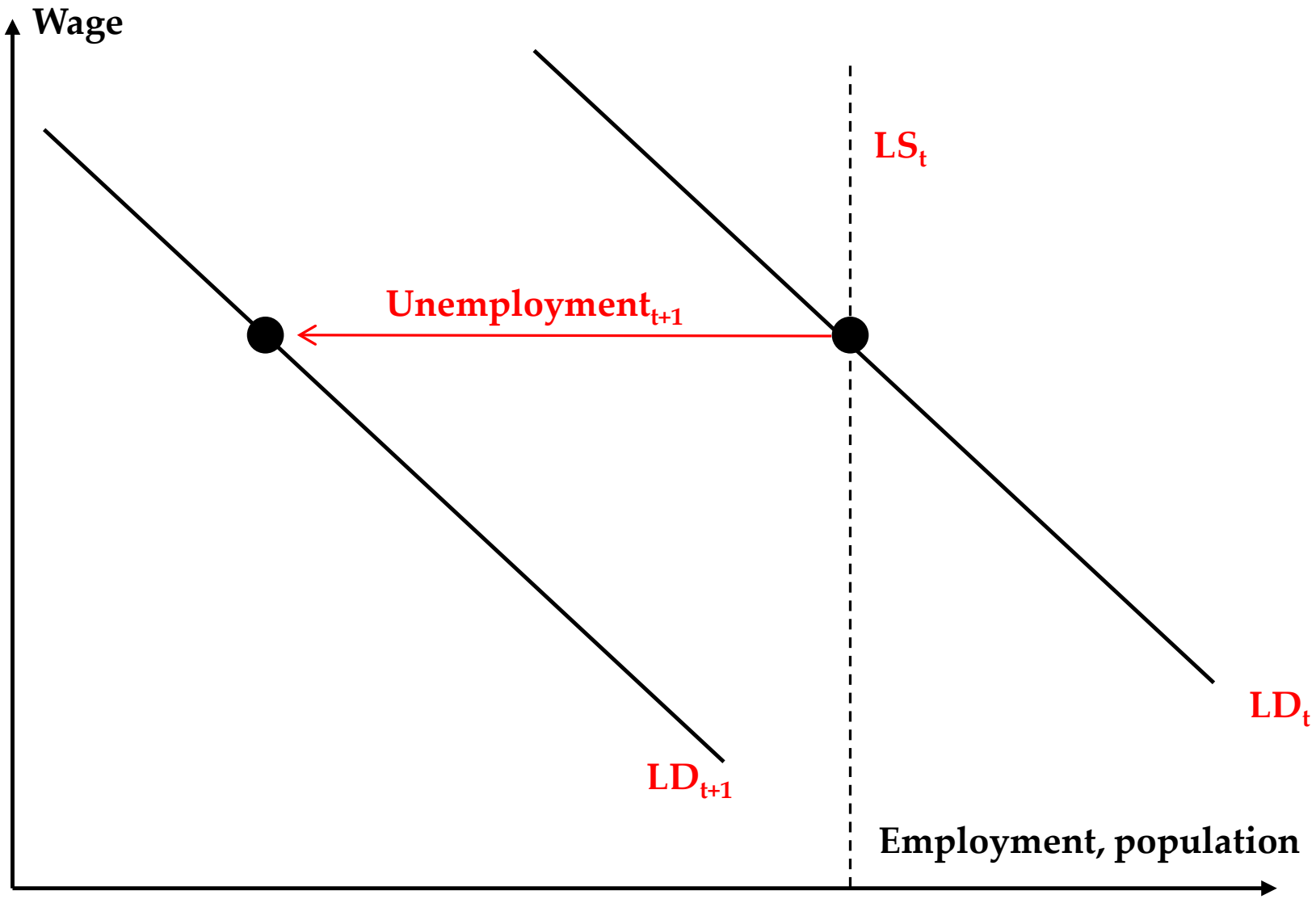
The second wave of shocks: 1980-to date

- Adding to the woes of the losers:
  - Manufacturing fell victim of its productivity miracle. It ability produce goods increased much faster than demand. Employment in 'production' collapsed
  - Manufacturing also got competed away by international trade, Japan, SE Asia, and then China
- Management and innovation / tech cities:
  - The gains from globalization went to them
  - Some winner cities in the South decided to expand in population
  - Winner cities on the coasts became more restrictive in their land use...
  - ...and property prices went up.
  - Now, only the richest and most educated can afford these places

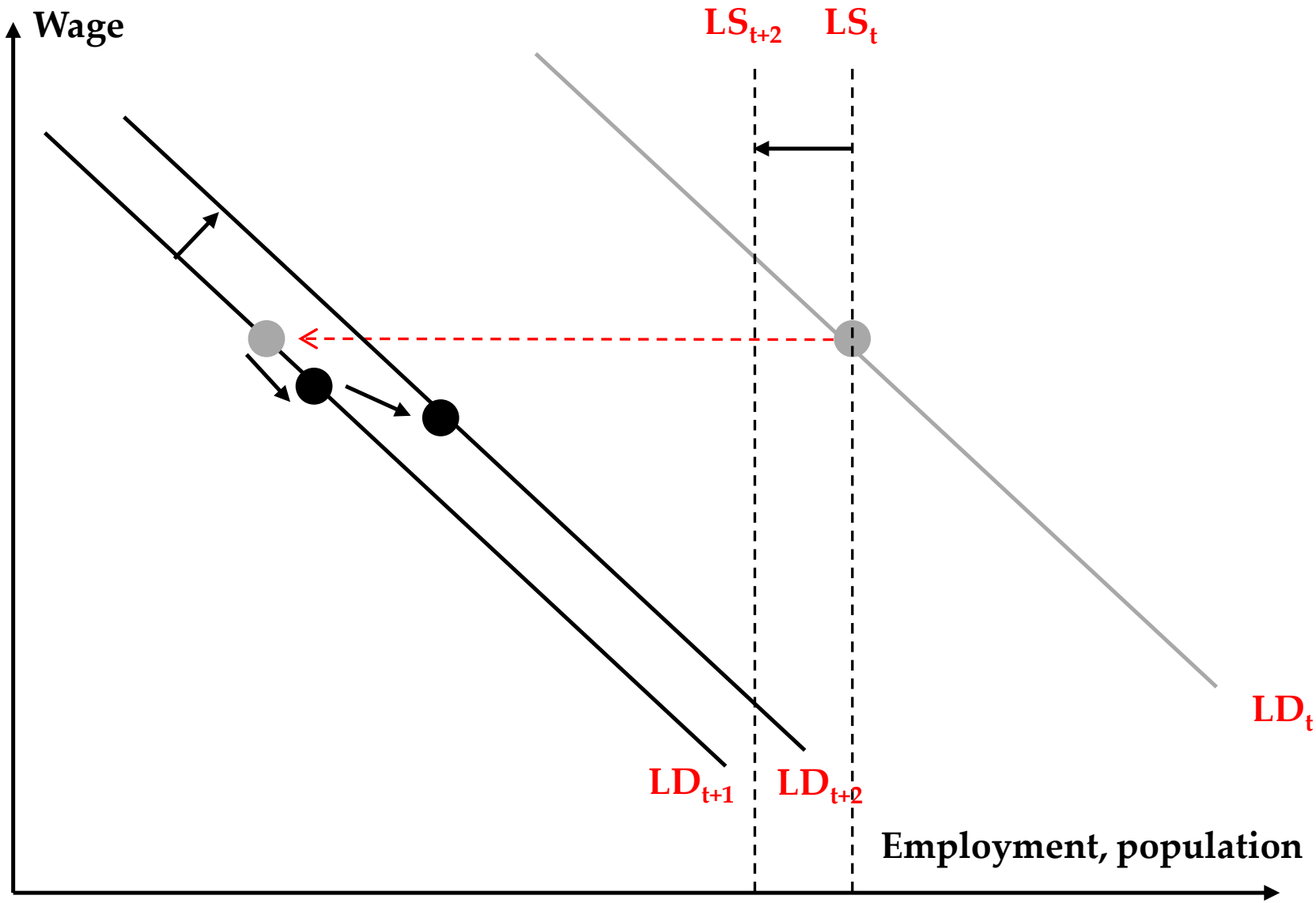
Other relevant mechanisms

- The end of agricultural employment
- The loss of 'anchor tenants' industry
- The increase of efficient city size vs. weak aggregate demographics

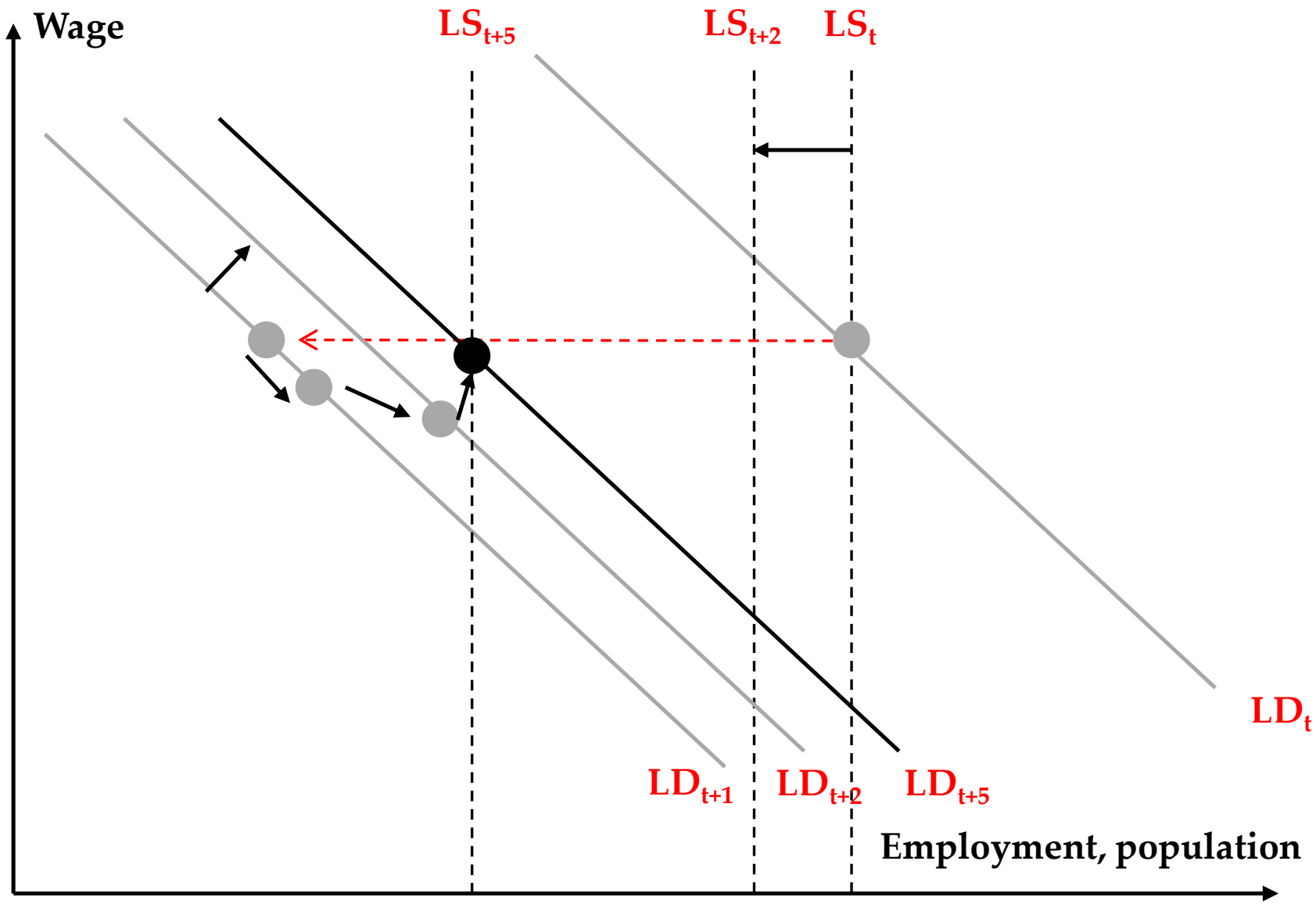
The happy world of Blanchard and Katz circa 1985



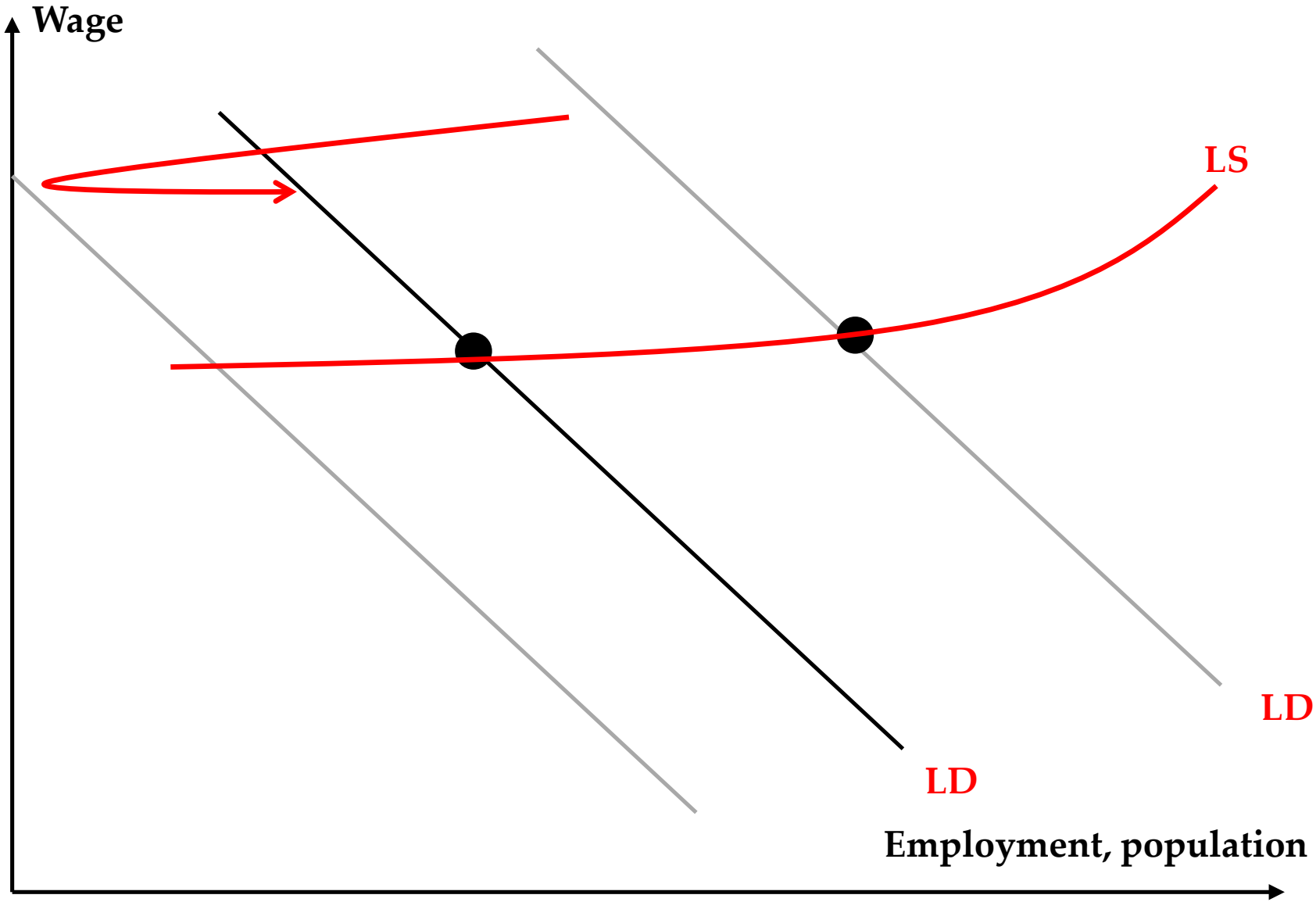
The happy world of Blanchard and Katz



The happy world of Blanchard and Katz



The happy world of Blanchard and Katz: the long run



The happy world of Blanchard and Katz: a summary

It's a world of:

- Flat labor supply curve with high population/labor mobility
- Bouncing-back labor demand curves
  As wages adjust down:
  - Local entrepreneurs create and expand local firms
  - Outside firms move in

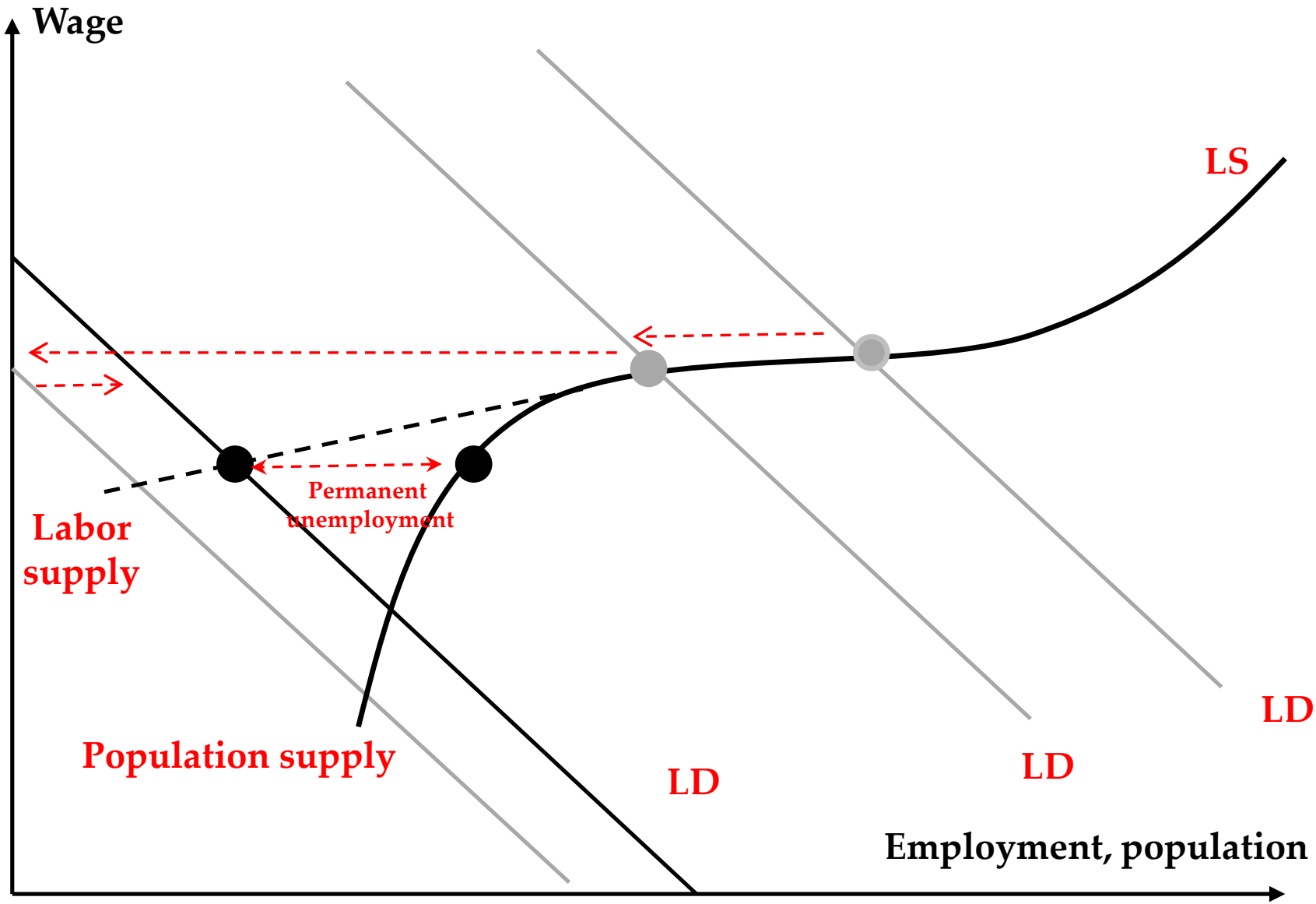
The happy world of Blanchard and Katz: implications for PBP

As always, welfare transfers to attenuate the pain of the transition (perhaps at the cost of slowing it down)

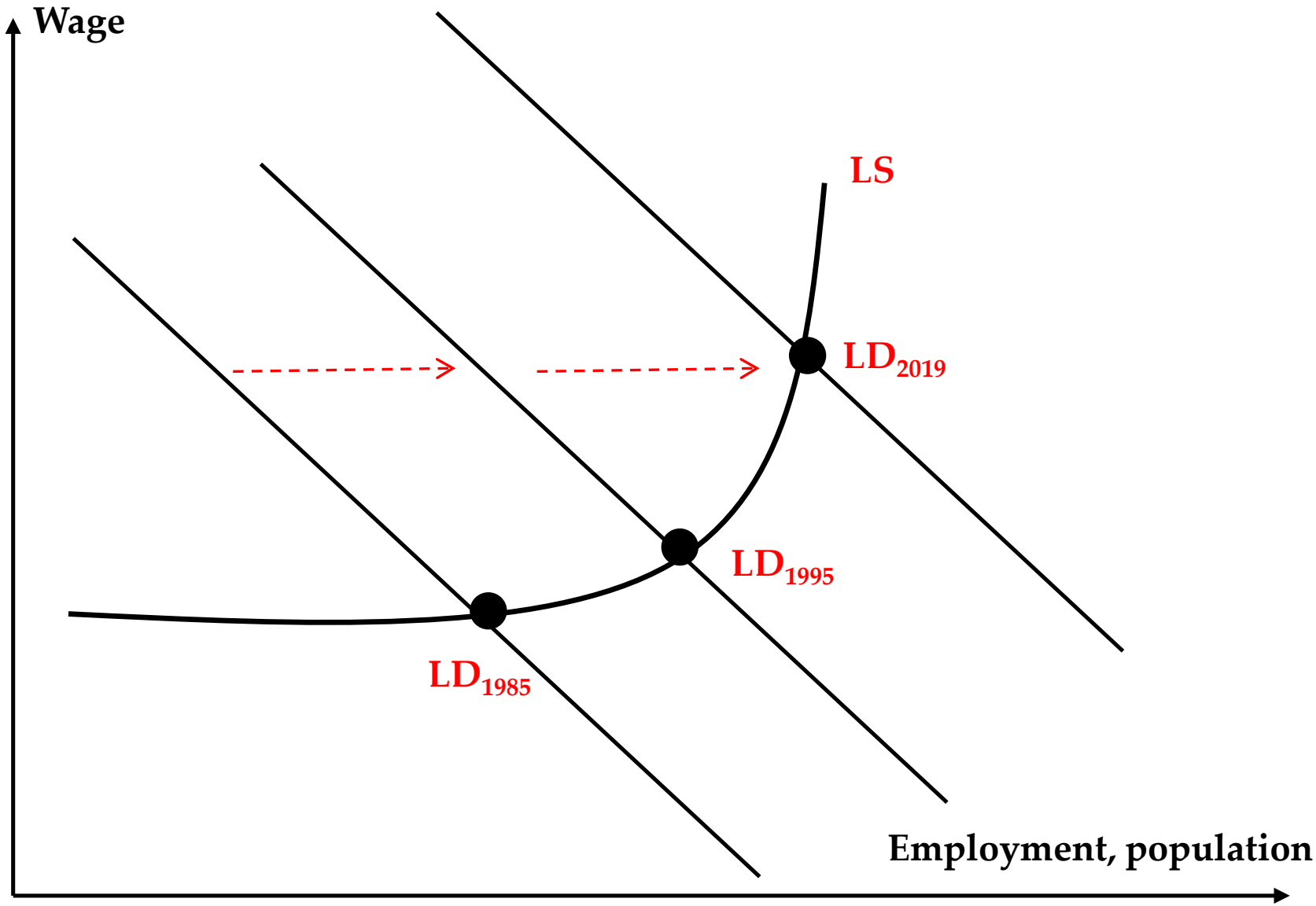
Small case in favor of PBP to accelerate the bounce-back of the labor demand curve

- Local capacity building for local entrepreneurs and worker retraining
- Effort to attract outside firms

The less happy world of the second shock in the heartland



Meanwhile in the zoned zone



The less happy world of the second shock in the heartland: a summary

It's a world of:

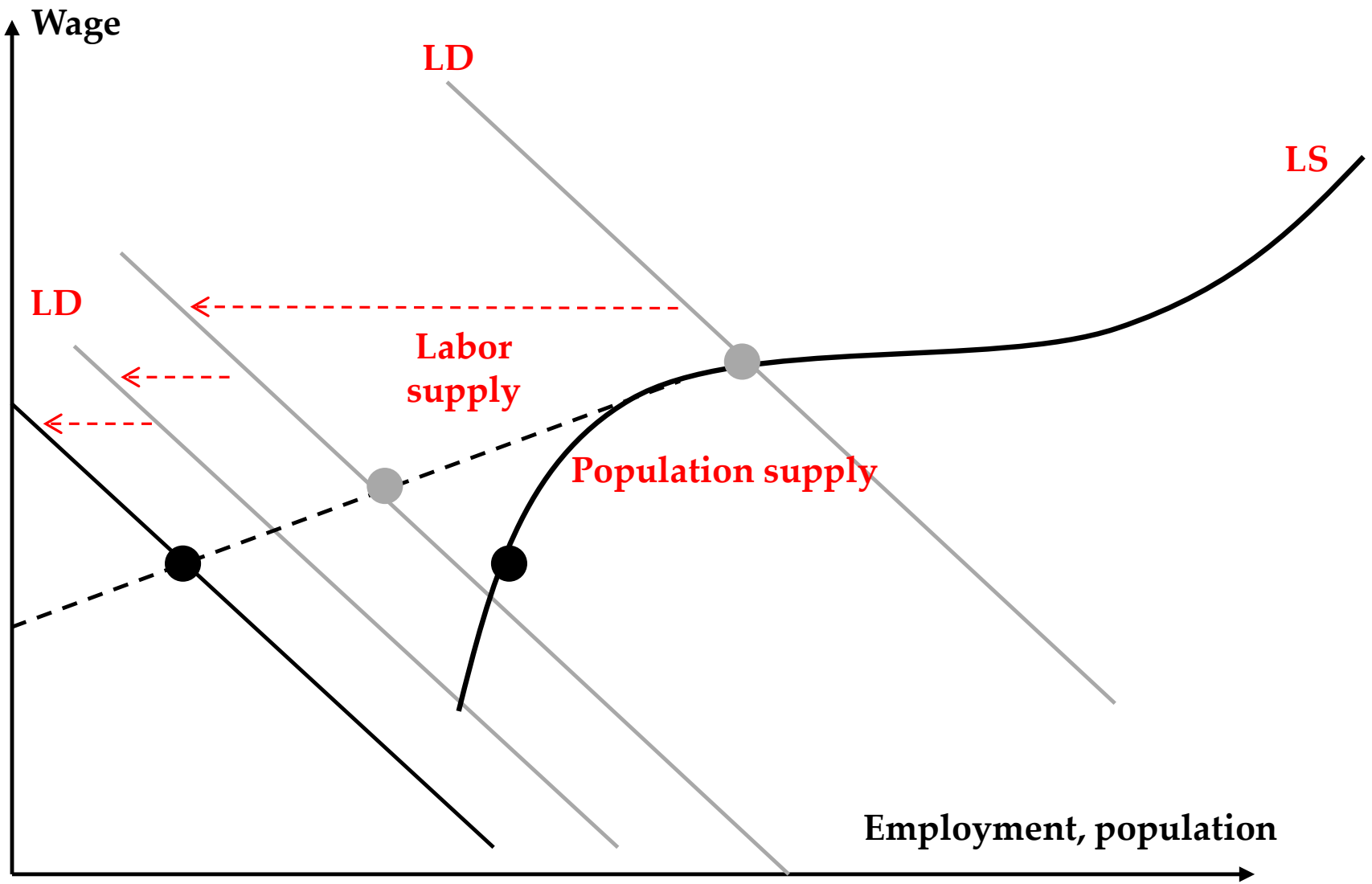
- Steep population supply, everyone mobile has moved out
  - Those that remain face weaken incentives to move out as property prices fall to zero
  - Opportunities in prosperous cities are unaffordable
  - For many potential movers, opportunities elsewhere may not be that great
  - Labor may be immobile but labor supply may be pretty elastic
  - We end up with half depressed wages and low labor market participation
- Weak labor demand bounce back
  - Limited wage adjustment
  - Human capital has moved and local entrepreneurship is weak
  - There are only so many hundred-million-dollar plants

The less happy world of the second shock in the heartland: implications for PBP

The prima facie case for PBP is much stronger

- Extended misery arguably requires welfare transfers
- But you don't want this to extend across generations
- Which justifies some targeting
- In absence of mobility and slowly rebounding labor demand:
  - Attracting jobs may have a key role to play
  - But how many jobs can be attracted?

The really unhappy world of the multiple negative shocks



The really unhappy world of the multiple negative shocks: a summary

- Urban economies experience agglomeration economies
- To determine real wages (and location decisions for residents), both agglomeration effects and urban costs matter
- But for production, it's all about agglomeration
- After multiple shocks, employment in local industries may fall below some critical threshold
- Leading to further employment losses, leading eventually to a death trap

The really unhappy world of the multiple negative shocks: PBP implications

- The case for PBP may seem reallt strong but it's an uphill battle...
- Key tradeoff: Long painful transition ; transfers will alleviate the pain but slow down the transition
- No appealing solution beyond that:
  - Infrastructure
  - New clusters of activity
  - University research
  - Land use and demolition interventions for dying places

  All have clear drawbacks

The really unhappy world of the multiple negative shocks: PBP implications

- Despite not having much hope of a turnaround, I still believe we should be doing something
  - Well-targeted welfare
  - Even before that, it's about making welfare acceptable
  - Labor supply interventions, not only education
  - Not giving up on mobility, but what do we do with the last remainers?
  - Make the zoned zone more affordable and more accessible