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PLACE-BASED POLICY: AN ESSAY IN TWO PARTS

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ABSTRACT:

Place-based policies that increase jobs in local labor markets can have large benefits, but current policies need reforms. Local job growth can have large benefits by increasing local employment-to-population ratios (employment rates). These employment rate benefits are larger if jobs are created in local labor markets that are distressed, or if new jobs are matched to the local nonemployed. Current place-based policies are mostly business tax incentives, provided by state and local governments. These incentives are costly per job actually created by the incentive. More cost-effective job creation are public services to businesses, such as customized job training or business advice or infrastructure. Reforms to place-based policies should increase benefits by targeting distressed areas and the non-employed; and lower costs by placing less emphasis on incentives, and more emphasis on public services to business. The federal government can encourage reforms by capping incentives, and by providing flexible grants for job creation in distressed areas.

JEL Classification Code: R11, R12, J48

Key Words: Place-based policies; state and local economic development policy; local labor markets; unemployment; business tax incentives; job creation

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PART I: SMART PLACE-BASED POLICIES CAN IMPROVE LOCAL LABOR MARKETS

Place-based policies that create local jobs can potentially have net local benefits—they can increase the present value of per-capita earnings for local residents by more than they cost. And if place-based policies have the right goals and design, the net benefits are likely to be higher.

The benefits of a place-based policy should be measured by its effects on people, not the place. The goal of a place-based policy should be to improve the economic lives of the people living in the targeted place, not just to develop the place. A place’s job growth is not the ultimate goal. Job growth is a means to an end goal: helping people in that place get more or better jobs.

To increase net benefits for people, place-based policies should strive to be cost-effective by reducing their cost per job created. But higher net benefits also depend on targeting more of the jobs created on the local nonemployed, who gain more of the jobs created if a place is more distressed, with a greater nonemployment rate. Policies can also strive to target more of the jobs created on local residents—for example, through labor supply programs that develop the local workforce.

Most of this essay takes a local perspective: What policies will maximize net benefits for local residents? At the end, I briefly comment on a national perspective, and how the federal government might improve place-based policies.

WHAT IS MEANT BY “PLACE-BASED POLICIES”?

I focus on place-based policies that help people by improving local labor markets. Why this focus? Because improvements in local labor markets can have major benefits for many

residents' long-term labor market outcomes. If a place-based policy does not improve local labor markets, resident benefits are less clear.

Local labor markets are geographic areas that contain most commuting flows: metropolitan areas or commuting zones, both of which are groups of counties tied together by commuting patterns. Such commuting leads to similar changes in labor market outcomes for similar workers.

I am *not* focusing on other place-based policies that target census tracts or small neighborhoods. Sometimes such neighborhood policies improve amenities such as safety from crime or school quality. Sometimes such policies seek to increase jobs or capital investment in a neighborhood.

These “community development” policies, which target a neighborhood, often have lesser benefits for residents than “economic development” policies, which target overall jobs in a local labor market. Neighborhoods are not labor markets. Most people do not work in the neighborhood they live in. More neighborhood jobs, redistributed from elsewhere in the local labor market, will not necessarily affect the original residents' labor market outcomes. In contrast, policies that affect the number or types of jobs in an entire local labor market can have strong effects on the original residents' local labor market outcomes.

Community development policies also raise greater concerns about gentrification. Mobility is more extensive across neighborhoods within a metropolitan area or commuting zone compared to mobility across metropolitan areas or commuting zones. For a community development policy, even if the neighborhood improves, inter-neighborhood mobility complicates the question of who benefits. Perhaps we are replacing the original neighborhood

residents with more advantaged new residents. Place improvements should not be confused with benefits for people.

NET BENEFITS FROM LOCAL JOB CREATION: STRATEGIES THAT WORK

Place-based policies to boost jobs in local labor markets can have net local benefits if the increase in the original residents' per capita earnings exceeds costs. How can this best be achieved?

Research has extensively focused on the effects of local job creation that are caused by local labor demand shocks—for example, shocks to national demand for a place's specialized industries. Based on that research, local job creation has long-run effects on local labor force participation, thereby boosting local earnings per capita.

These long-run labor force participation effects are between 10 and 40 percent of the job creation. For every 100 local jobs created, 10–40 go to local residents who otherwise would not be in the labor force, and the remainder to in-migrants to the local area (Bartik 2019a). In the short run, local employment rates are also increased by lower local unemployment, but these local unemployment effects dissipate in the long term.

These long-run effects probably result from short-term job experience. When people get jobs, this sometimes reshapes their life's trajectory, reducing problems such as substance abuse, and increasing their skills.

These long-run effects are at least two-thirds higher in distressed local labor markets compared to nondistressed areas (Austin, Glaeser, and Summers 2018). In distressed areas, more new jobs go to the nonemployed.

In addition, more jobs will go to the nonemployed if this is encouraged by public policy. For example, some areas impose “first source hiring agreements” on businesses receiving tax incentives. The incented business must *consider*, for entry-level positions, persons referred through the local workforce system. As another example, if firms creating jobs hire through local training programs, these programs may include local unemployed in the training pool.

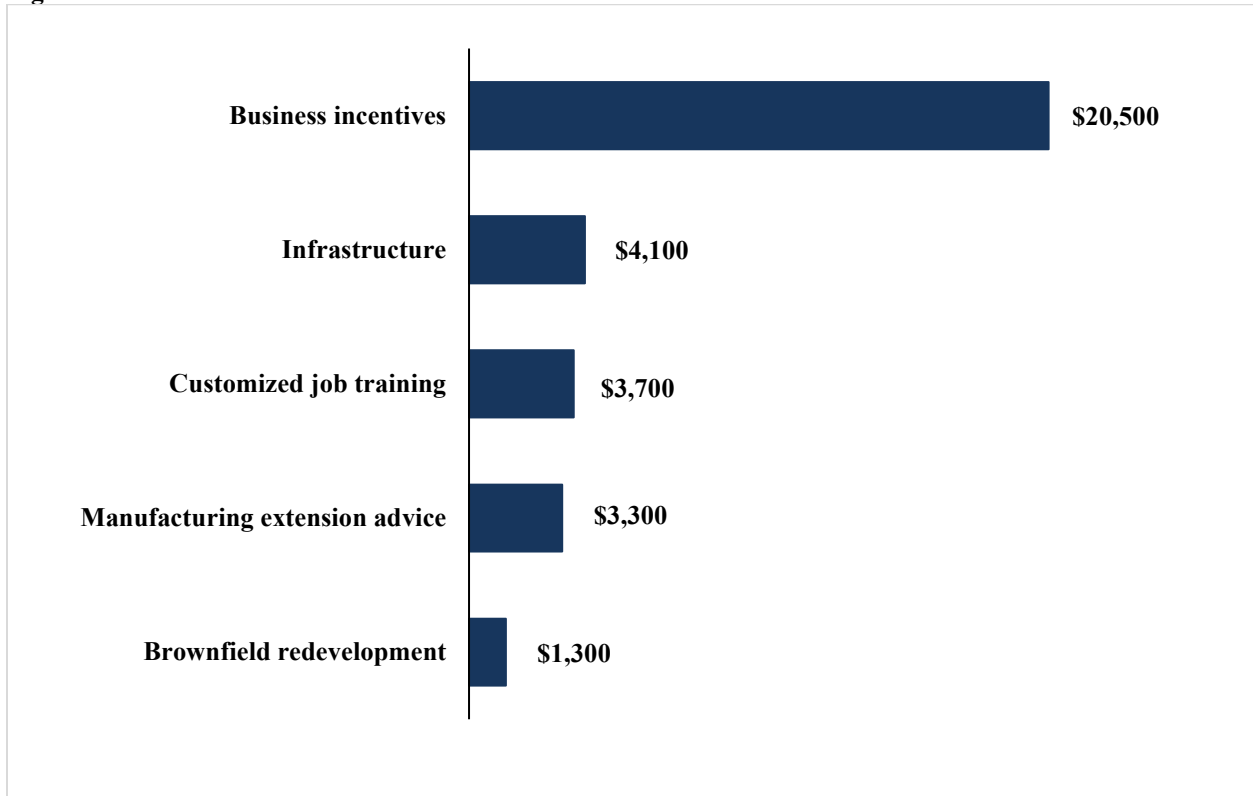
These long-run effects lead to earnings benefits. Here’s one way to *roughly* estimate these benefits: if new jobs average \$60,000 per year in salaries, annual long-run earnings benefits from participation rate effects will equal 10–40 percent of the wages paid, or \$6,000–\$24,000 per job-year created, depending on what proportion of the new jobs go to the local nonemployed. When one adds in other benefits from job creation—increases in real wages and property values, short-run reductions in unemployment, increases in tax revenues that exceed public service needs—local benefits might double, to an equivalent of between \$12,000 and \$48,000 (Bartik 2018a, 2019b).

Can place-based policies have net benefits? In other words, using this rough calculation, can places create jobs at a cost of less than \$12,000–\$48,000 per job-year? Yes, but currently we don’t sufficiently emphasize the job creation policies that are the most cost-effective.

Figure 1 shows costs per job-year created for various place-based policies. These place-based polices include business incentives that provide individual businesses or industries with tax breaks or cash grants to create jobs. These place-based policies also include various types of public services to business to promote job creation. Public infrastructure programs improve such inputs to business productivity as transportation networks or utilities. Customized job training programs have community colleges provide individual businesses with free job training customized to the individual business’s needs. Manufacturing extension programs provide

smaller manufacturers with free or subsidized advice on improving the firm’s competitiveness. Brownfield redevelopment programs clean up contaminated sites and make the land available for redevelopment.

Figure 1 Annual Cost Per Job-Year Created



SOURCE: The derivation of these numbers is explained in Bartik (2018a). The numbers are adjusted here to 2018 dollars, and to an effective multiplier of 1.71 (Bartik and Sotheland 2019). The infrastructure numbers here correct for an error in Bartik (2018a). We assume each policy is financed by half tax increases and half spending cuts.

This figure is based on calculations in Bartik (2018a), which in turn is based on many prior research studies. For business incentives, costs per job are based on a large prior research literature on the effects of state and local business taxes and incentives, summarized in Bartik (2018c).

For infrastructure, our evidence includes a comparison of the Tennessee Valley Authority region with regions that were unsuccessfully proposed for similar assistance (Kline and Moretti 2013). For customized job training, our evidence includes a study that compared successful

versus unsuccessful business applicants in a program that distributed funds on a first-come, first-served basis (Holzer et al. 1993). For manufacturing extension, our evidence includes a study that compared firms whose probability of assistance varied with distance to the nearest extension office (Jarmin 1999). Costs for brownfield redevelopment are based on case studies (Paull 2008).

As Figure 1 shows, costs per job created are much higher for business incentives compared to targeted public services to business. These public services help overcome various private-market failures. Infrastructure is a public good. Private markets on their own do not necessarily provide a sufficient quality or quantity of job training or business advice, particularly for smaller businesses. Cleaning up brownfields deals with the market failure of pollution.

Net local benefits are probably far higher for public services to business than for incentives. Does this mean that places should abandon incentives and rely solely on targeted public services to business? No. Targeted public services to business have some natural limits to their size. Infrastructure is sometimes a bridge to nowhere. Not all small businesses need job training, and not all manufacturers need advice. Only some sites are brownfields.

In contrast, cash incentives to business are easier to scale up, as they are valued by all businesses. But consider that business incentive costs per job created are over \$20,000, while local benefits are between \$12,000 and \$48,000, depending on what proportion of the jobs created go to the local nonemployed. As these rough calculations suggest, the local benefits and costs of incentives are likely to be closely balanced. Business incentives are more likely to have net benefits if the local labor market is distressed, or a first source hiring agreement or other policy helps target more jobs on the nonemployed.

Although incentives sometimes have net local benefits, current place-based policies underemphasize public services to business, and overemphasize business tax incentives and cash

grants to businesses. Of the \$60 billion in government resources in the United States devoted to place-based policies, \$50 billion is provided by state and local governments, and over 90 percent (\$46 billion) of those state and local resources go to business tax incentives and cash grants (Bartik 2019b). Reallocating some incentive dollars to public services to business could lower average costs per job created, which would increase net local benefits.

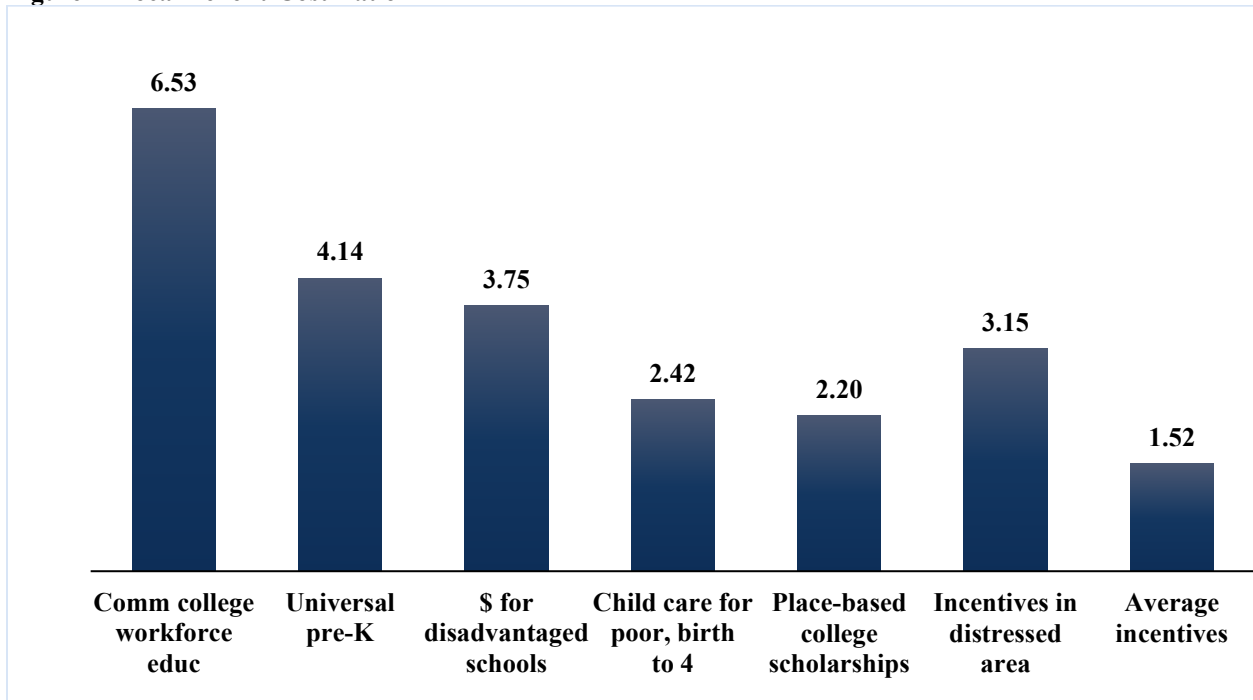
Why do state and local governments favor incentives over services to business? Cash is easy to hand out. Delivering quality services to businesses can be more challenging. The political rewards are greater for handing out cash to a few large firms; larger firms are much more likely to get cash incentives (Slattery and Zidar 2020). Highly visible cash incentives to large firms makes voters more likely to support a governor or mayor (Jensen and Malesky 2018). Services to smaller firms have less politically visible benefits.

IMPROVING RESIDENTS' SKILLS

Directly creating local jobs is only one way to boost local earnings per capita; an alternative is to boost residents' skills. Better resident skills will attract higher-wage firms and improve local living standards.

Figure 2 shows the local benefit-cost ratio of skill development programs, compared with two different incentive policies. The local benefit-cost calculation focuses on the ratio of the present value of earnings increases for local residents who stay in the local labor market, compared to program costs.

Figure 2 Local Benefit-Cost Ratio



SOURCE: The derivation of these numbers is explained in Bartik (2018a, 2019b). The numbers here are adjusted to local labor markets by assuming only 40 percent of participants in skills programs stay locally.

These skills programs include

- community college workforce programs that target jobs in demand in the local labor market;
- high-quality universal preschool at age four;
- public-school spending increases in districts with many disadvantaged students;
- high-quality child care for children in low-income families, from birth to age four; and
- place-based college scholarships for local high school graduates.

These benefit-cost calculations for skills programs reflect three types of estimates: 1) how these programs affect skills; 2) how many persons with higher skills will stay in their same local labor market; and 3) spillover benefits of higher skills in some workers on the entire local labor market.

The calculations for the skills programs are explained in Bartik (2018a, 2019b). Evidence on community college workforce education is based on propensity score matching to persons with similar prior earnings histories (Hollenbeck and Huang 2017). The preschool calculations are based on a review of preschool research (Bartik 2011). For public school spending on the disadvantaged, quasi-experimental evidence is available owing to court orders mandating spending (Jackson, Johnson, and Persico 2016). The child care benefit-cost ratio is based on evidence from a randomized control trial, the Abecedarian program (Bartik 2011). For place-based scholarship programs, evidence is available for the Kalamazoo Promise, by comparing eligible versus ineligible students after the Promise began with similar students before the Promise (Bartik, Hershbein, and Lachowska 2019).

The incentive calculations are for the same incentive package, but in two different areas: an average local labor market and a highly distressed local labor market (Bartik 2019b). These incentive calculations are a more elaborate version of the rough estimates presented previously. The rough estimates simply looked at the cost per job created and the long-run effects of job creation on labor force participation rates. These more elaborate calculations simulate how local labor markets, housing markets, and local tax revenues and spending needs will evolve over each year of an 80-year simulation period, in response to an incentive program. The bottom line ends up being similar: for an average local labor market, local benefits and incentive costs are similar, whereas net benefits are much higher in distressed local labor markets.

If Figure 2 had plugged in the cost per job numbers of public services to business, local benefit-cost ratios would often be off the chart. With costs per job created that are often less than one-fifth of incentives, public services to business might have local benefit-cost ratios exceeding 10-to-1 (Bartik 2019b).

Based on Figure 2 and this discussion, local skills programs might have higher local benefit-cost ratios than average incentive programs. But targeting distressed areas, or otherwise targeting more jobs on the nonemployed, makes incentives' benefit-cost ratio more competitive. Public services to business also can have attractive local benefit-cost ratios.

The time pattern of benefits might matter. The values in Figure 2 are based on an annual discount rate of 3 percent, but some residents might place greater weight on the short term. Skills development programs have more of their benefits in the future, as earnings increase over a career. Job creation programs have more benefits up front, in lower unemployment, fiscal benefits, and property value boosts.

Target groups also differ. Skills programs help younger workers more. Job creation programs help both younger and older workers. Helping diverse age-groups is easier with a mix of skills programs and job creation programs.

WHAT SHOULD PLACES DO?

Different local labor markets need different solutions; one size does not fit all. Some areas have low employment rates and need jobs. If an area already has high employment rates, job growth is less likely to automatically go to residents who still lack good jobs. But first-source hiring agreements and job training can target new jobs toward residents.

Some areas have many residents who lack skills. These areas need job training attuned to the needs of local employers.

Some areas have K–12 schools with low college attendance. These areas need to transform educational expectations through place-based scholarships and high-quality preschool.

Some areas may have unmet infrastructure needs or a shortage of high-quality business sites. These areas may benefit from investments in high-quality sites, by cleaning up brownfields, by providing utilities, and by developing good transportation links.

Mobilizing to meet local needs requires leadership. The right local leadership will encompass everyone's interests in the local labor market. This requires cooperation between different local governments, and between educational institutions, training organizations, and businesses.

Research shows the importance of local leadership. In *Why the Garden Club Couldn't Save Youngstown*, Sean Safford compared the response of Youngstown, Ohio, and Lehigh Valley, Pennsylvania, to the collapse of their steel industry base in the early 1980s (Safford 2009). The Lehigh Valley was more successful than Youngstown in rebounding. Why? Largely because of local leadership that mobilized support for diversifying the local economy through investments in business parks, brownfield redevelopment, job training, and knowledge-based industries.

A BROADER GEOGRAPHIC PERSPECTIVE

But does the nation benefit? Or is this a zero-sum game because some places take jobs away from other places? If we imagine that all areas follow sensible place-based policies, then this competition for jobs does yield benefits for the nation.

If all places optimally subsidize job creation, through incentives or public services to business, up to the point at which added local benefits from one more job just equal the added subsidy costs, then any redistribution of jobs away from other places has no net efficiency costs.

The place that loses jobs will have reduced benefits from that job loss, but will also save on the costs of job creation programs.

In this imaginary optimal job creation system, more distressed places will have more aggressive job creation programs to reflect higher local benefits. The place competition will redistribute jobs to where the nonemployed are, which will lower national nonemployment.

But this optimum is not the real world. The geographic variation in incentives has little relationship to local economic distress (Bartik 2019b). For example, Indiana offers incentives as a percent of payroll that are twice as great as Illinois, even though these states' labor market conditions are similar.

Also, as already mentioned, places overinvest in cash incentives and underinvest in public services to business.

The federal government could help by encouraging more targeting of distressed places, and encouraging less use of cash incentives and more use of public services to business.

One possible approach is a federal "stick." As is done in the European Union, the federal government could cap the magnitude of cash incentive offers as a percent of payroll or investment, and make that cap more stringent for less distressed local labor markets (LeRoy and Thomas 2019).

Another approach is a federal "carrot." The federal government could offer a block grant to state and local governments in distressed local labor markets, which would be used for public services to businesses to encourage job creation.

But even without federal intervention, it is in local residents' best interests to have more sensible place-based policies. Sensible policies will promote job creation more in distressed

places, rely more on public services to business, and try to target more jobs on the local nonemployed.

PART II: TARGETING JOBS TOWARD THE PEOPLE WHO NEED THEM

David Neumark and I agree that place-based policies should be judged by whether they help improve job opportunities for people. We agree that current place-based policies are poorly designed but can be improved. However, our essays are discussing apples and oranges: we are discussing two very different types of place-based policies. Despite the differences, our policy recommendations are complementary, as I will discuss.

APPLES VS. ORANGES

My essay discusses place-based policies, such as business incentives, that aim to create jobs in a local labor market, such as a metropolitan area. David Neumark's essay discusses place-based policies, such as enterprise zones, that aim to create jobs or other economic activity in a neighborhood. I discuss local economic development policies; Neumark discusses local community development policies.

Local economic development policies are far larger than local community development policies. Recent estimates of the annual costs of incentives range from \$30 billion (Slattery and Zidar 2020) to \$46 billion (Bartik 2019a). In contrast, the current federal version of enterprise zones, Opportunity Zones, costs \$1.5 billion annually (Bartik 2019a). At the state and local level, enterprise zones are less than 10 percent of development assistance to business (Wen 2019).

WHY ENTERPRISE ZONES DON'T HELP NEIGHBORHOOD RESIDENTS

David Neumark provides an excellent review of the evidence that enterprise zones don't help the zone's original residents. Part of the problem, as he discusses, is that some EZ-style policies, such as Opportunity Zones, subsidize capital investment, not job creation. Another problem is that in many distressed neighborhoods, encouraging job creation with subsidies alone is ineffective, given the neighborhood's problems.¹ But here is the biggest issue: even if jobs are created in a distressed neighborhood, the neighborhood's original residents are unlikely to benefit.

Why is this so? Subsidies in distressed neighborhoods tend to redistribute jobs from elsewhere in the metro area, because it is far easier to get a firm to choose a different location within a metro area than to choose a different metro area (Bartik 1991).

Therefore, when we create jobs in a distressed neighborhood, we are mostly moving jobs around within the metro area. This doesn't help neighborhood residents much, because there is sufficient commuting within a metro area that overall labor demand in the metro area matters more than where the jobs are located within the metro area (Bartik, forthcoming). If the job creation is accompanied by improved neighborhood amenities, as Neumark discusses, then this might encourage gentrification.

NEUMARK'S PROPOSAL

As an alternative, David Neumark proposes a jobs program targeted at residents of particular neighborhoods. In high-poverty neighborhoods, low-income residents would be

¹ Empowerment Zones might have been better at creating jobs (Busso, Gregory, and Kline 2013) because they included a \$100 million grant for public services in each Zone, which addressed neighborhood problems (Bartik 2010; Neumark and Simpson 2015).

eligible for public-service jobs for 18 months, followed by subsidized private-sector jobs for 18 months.

I agree with Neumark that subsidies that increase job experience might lead to increased skills and earnings in the long run; I wrote a book on this theme (Bartik 2001). Evidence shows that subsidized job experience can improve long-run labor market outcomes. A meta-analysis of over 200 studies of active labor market programs found that subsidized private jobs had among the largest and best-supported evidence of long-term effects on employment rates and other labor market outcomes (Card, Kluve, and Weber 2018).

Neumark's subsidized jobs proposal complements my place-based policy proposal for local labor markets. In my essay, I suggest that job creation programs in local labor markets make more sense when we target more jobs on the local nonemployed. Focusing on distressed local labor markets is one way of doing so. Other ways, however, could include subsidized job experience, which might direct more jobs to the local nonemployed.

WHEN SHOULD POLICY BE PLACE-BASED?

Neumark's proposal raises many issues,² but I focus here on whether a subsidized jobs program should be place-based at the neighborhood level. Why condition eligibility not only on being low-income, but also on living in a high-poverty neighborhood? This makes sense if the benefits of subsidized jobs vary by neighborhood, but whether this is so is unclear.

² For example, Neumark's proposal has a longer subsidy term than other subsidized jobs programs. In addition, other subsidized jobs programs put more emphasis on immediate placements in private jobs (Bartik 2001). Another issue is political feasibility: it seems more feasible to reform state/local economic development policies than to enact a federal subsidized jobs program.

Evidence suggests that children's future labor market prospects vary with neighborhood characteristics, including the employment rate (Chetty et al. 2020). Jobs for unemployed neighborhood residents could have spillover benefits for others in the neighborhood.

But do these spillover benefits vary by neighborhood? Does an additional employed resident have greater spillover benefits in a neighborhood with a 50 percent poverty rate than in one with a 20 percent poverty rate? A plausible hypothesis, but I am unaware of rigorous evidence that supports it.

In contrast, for economic development programs, organizing policies at the local labor market level makes sense because optimal design is likely to vary greatly across diverse local labor markets. Research cited in my initial essay shows that the benefits of job creation vary with the local labor market's distress. In areas with higher nonemployment, a greater share of the jobs created will go to the local nonemployed, so these areas should be more aggressive in their job creation policies.

Targeting job creation policies by place makes the most sense when the net benefits of job creation policies vary by place. This is clearly true at the local labor market level, but it is unclear whether it is true at the neighborhood level.

Target distressed local labor markets? Yes. Target the nonemployed within those local labor markets? Yes. Extra targeting if the nonemployed live in distressed neighborhoods? Maybe.

Timothy J. Bartik is a senior economist at the W.E. Upjohn Institute for Employment Research and codirector of the Institute's place-based research initiative, Investing in Community Prosperity (e-mail: bartik@upjohn.org).

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