Place-Based vs. People-Based Policies in Labor Market Adjustment

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Regional adjustment to economic disruption

Regional adjustment to job loss is a major concern for policymakers, with **AI** poised to make **new demands on workforce development**

Large shocks

Many regions adjusted poorly to **automation, globalization, the GFC, energy transitions**

ADH '13, Charles et al. '18, Yagan '19, Acemoglu-Restrepo '20

Long shadows

Following adverse shocks, **wages and employment recovered slowly**

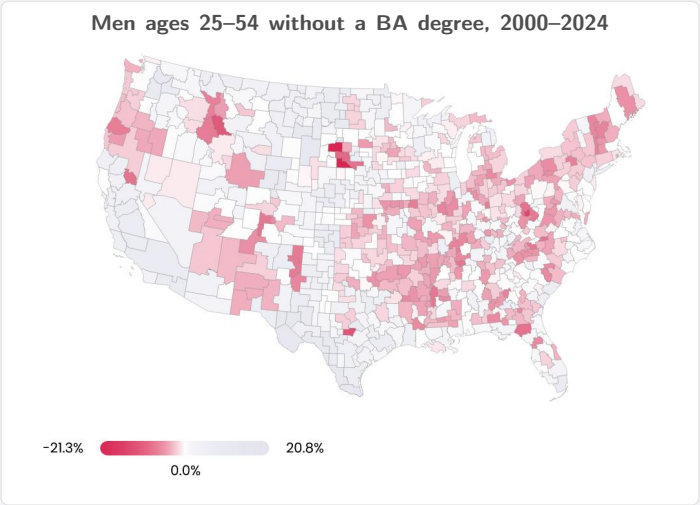
Amior-Manning '18, Notowidigdo '20, Hershbein-Stuart '24, ADHJS '25

Wider costs

Resource misallocation, **social dislocation**, **political polarization**

Wilson '87, Austin et al. '18, ADH '19, ADHM '20, Pierce-Schott '20, Rodrik '22

Change in employment-population ratio by commuting zone



Policy responses to local economic disruption

OPTION 1
Let markets equilibrate

How: interregional migration of labor

Risk: if mobility is weak, adjustment **may take a generation**

Blanchard-Katz '92, Amior-Manning '18, Notowidigdo '20, ADHJS '25

OPTION 2
Target distressed people

How: social insurance, means-tested entitlements

Risk: helps smooth consumption but **may prolong adjustment**

Chetty '08, Ganong-Noel '19, Le Barbanchon et al. '24, O'Connor '25

OPTION 3
Target distressed places

How: subsidize jobs, training, investment

Risk: may create jobs but **risks bidding wars, windfalls, mistakes**

Glaeser-Gottlieb '08, Austin et al. '18, Bartik '20, Rodrik-Sabel '20, Slattery '24, Fajgelbaum-Gaubert '25

What do policies target in practice?

THE QUESTION

How does the full portfolio of policies respond to local economic conditions?

- how do programs **define targets**
- how well do programs **hit targets**

OUR SETTING

Impact of the Great Recession and decline of manufacturing on US commuting zones

- estimate **shock impacts, policy by policy**
- **decompose policy contributions** to change in spatial income distribution

Types of policies that aid labor market adjustment

PEOPLE-BASED

Social insurance

details →

Federal: 62% of gov't transfers

UI, Social Security, SSDI, Medicare

Target: insured risks (age, health, job loss)

Means-tested entitlements

details →

Federal & state: 33% of gov't transfers

EITC, SNAP, SSI, Medicaid, TANF/WIC

Target: low-income households (with children)

PLACE-BASED

Business development

details →

Federal, state & local subsidies, grants

Tax incentive deals, New Market Tax Credits, SBA loans, EDA grants, CDBG, Opp. Zones

Target: distressed firms & communities

Workforce development

details →

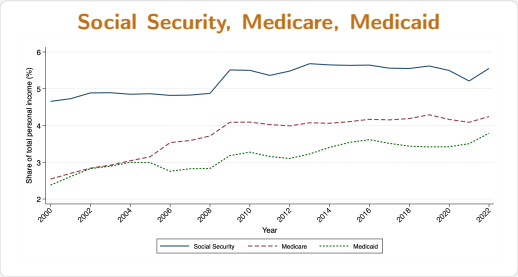
Mostly state & local funding

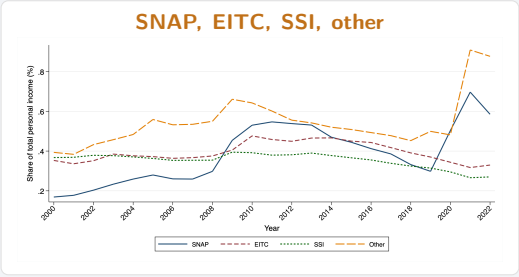
Career & technical training by community colleges (public two-year institutions)

Target: residents seeking occupational skills or transfer to university

Federal entitlement transfers as a share of total personal income

Median CZ: government transfers rose from 17% to 25% of personal income 2000 to 2022





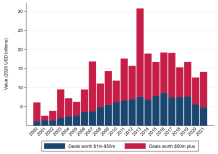
Funding of place-based programs

Program funding levels (units and scales differ across panels)

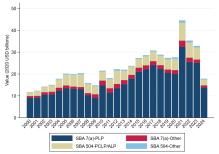
BUSINESS DEVELOPMENT

WORKFORCE DEVELOPMENT

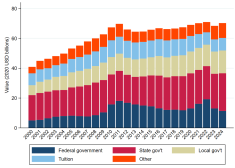
State/local subsidies



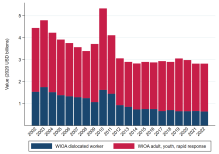
SBA loan guarantees



Com. college revenue



WIOA training



54%
of community college revenue from **state & local** gov't

17%
of community college revenue is **federal** (Pell Grants)

$3bn
a year for **WIOA** training vs. $70bn for community colleges

▸ other programs

Why delivery of people-based and place-based policies may differ

1 Different targets

Entitlements: insured risks, poverty, children

Place-based: credit constraints, spillovers, endemic distress

2 Different funders

More place-based funding is **state & local**

Shocks **raise demand** for but **lower supply** of funds; pay-as-you-go rules

3 Different deliverers

To deliver policy, Feds **use local intermediaries**

Capacity and incentives of local organizations determine local access

Hanson et al. '25

Potential targets for people-based and place-based policies

Target 1 Labor market conditions

Labor market strength index

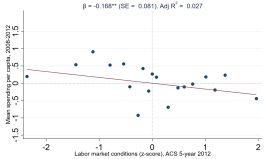
- **Earnings:** CZ fixed effect from Mincer wage regression
- **Employment rate:** CZ fixed effect from LPM for being employed
- **Poverty:** 1 − share below poverty line

Larger value = better conditions

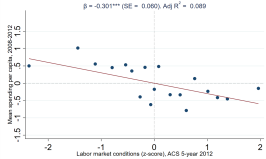
Entitlements per capita & labor market strength by commuting zone

Entitlement transfers are larger in distressed places (bin scatters, 2008–12)

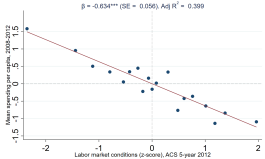
Social Security



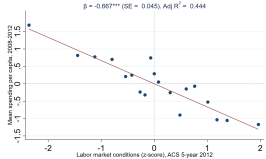
Veterans' benefits



Earned Income Tax Credit



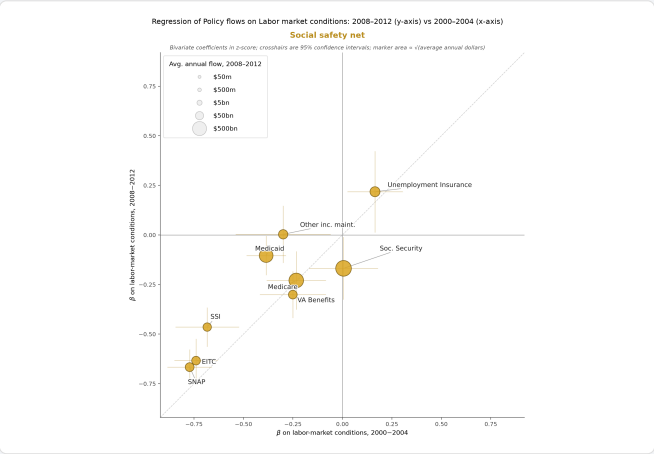
SNAP (food stamps)



▸ 2000–04

Entitlements per capita & labor market strength by CZ

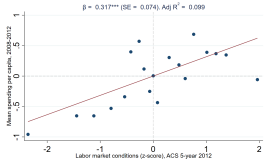
Comparing cross-sectional correlations in 2008–12 and 2000–04



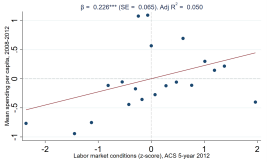
Place-based policy flows & labor market strength by CZ

Place-based flows are smaller in distressed places (bin scatters, 2008–12)

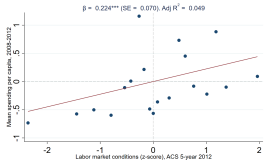
SBA 7(a) loan guarantees



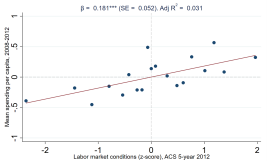
Community Development Block Grants



SBA 504 loan guarantees



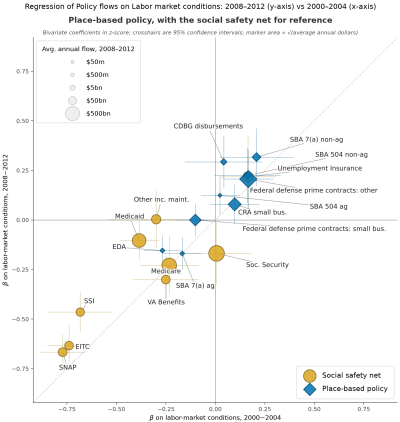
New Market Tax Credit (real estate)



▸ 2000–04

Place-based business subsidies & labor market strength by CZ

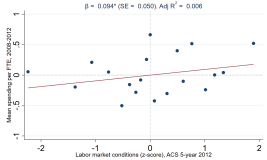
Comparing cross-sectional correlations in 2008–12 and 2000–04



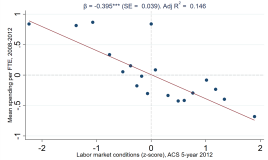
Community colleges & labor market strength by CZ

The countercyclical exception among place-based policies (bin scatters, 2008–12)

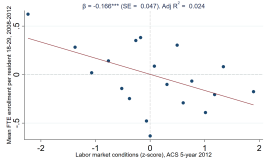
Total expenditure per FTE enrollee



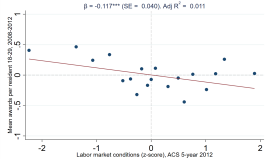
Federal revenue per FTE enrollee



Full-time equivalent enrollment



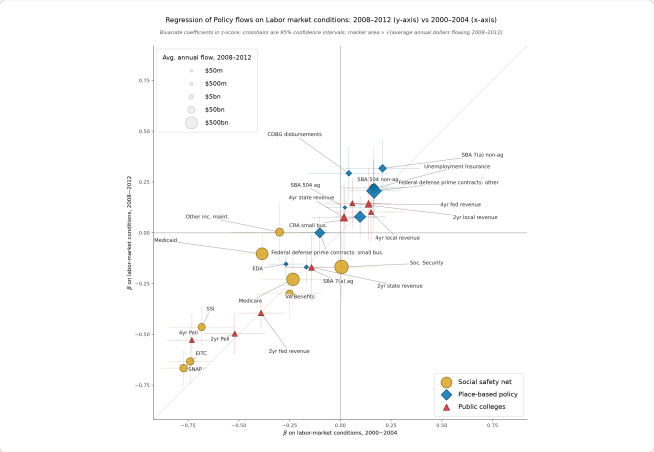
Career & technical degrees, certificates



▸ 2000–04

Policy flows & labor market strength by CZ

Comparing cross-sectional correlations in 2008–12 and 2000–04



What cross-sectional patterns on policy targeting show

Entitlement transfers: **larger in distressed places**

Place-based flows: **smaller in distressed places** (except com. colleges)

Potential drivers of place-based targeting (beyond economic distress):

- Private, nonprofit **intermediation** (local organizational capacity may bind)
- Constrained **local public finance** (funding tends to be procyclical)
- **Competing considerations** (innovation potential, politics, elections)

Estimating policy responses to the Great Recession

$$y_{i,t+h} - \overline{y}_i = \alpha_h + \beta_h \Delta U_{i,\tau} + \overline{\mathrm{X}}_i \gamma_h + \epsilon_{i,h}$$

Δ outcome y in CZ i from 2006 to each year 2007–2019 on **2007–09** Δ **unemployment** $\Delta U_{i,\tau}$

Local projections

- $\overline{y}_i$, $\overline{\mathrm{X}}_i$: means over $t-1$ to $t-5$
- $h < 0$ traces pre-trends, $h > 0$ the response (Dube et al. '25)
- controls: industry shares, 1970–80 pop. growth, demographics, region
- wted by pop. 16–64, clustered by state

Two approaches to identification

OLS: shock as realization of unanticipated risks (Yagan '19, Rinz '22, Hershbein-Stuart '24)

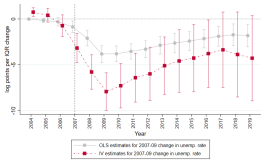
Bartik IV: $B_{i,\tau} = \sum_k \overline{s}_{i,k} \Delta \ln E_{-i,k,\tau}$, CZ industry shares (2002–06) $\times$ national industry shocks (2007–09); 1st-stage $F = 68.3$

Reading figures: **IV in red**, **OLS in gray**; impacts compare CZs at 75th vs. 25th percentile of shock

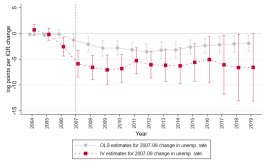
Impacts of Great Recession on employment and income

Employment rates and per capita income stay depressed for 10+ years, transfers expand

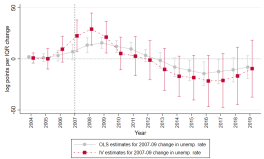
Log wage & salary emp./pop. 18–64



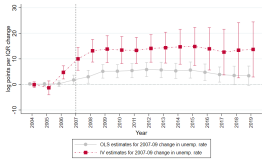
Log personal income per capita



Log UI benefits/pop. 18–64



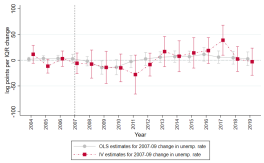
Log government transfers/personal income



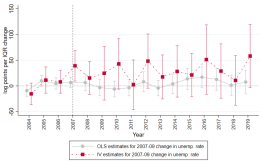
Impacts of Great Recession on business development policies

Business development subsidies do not rise with unemployment

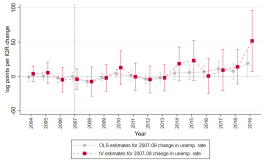
Log SBA 7(a) loans per capita



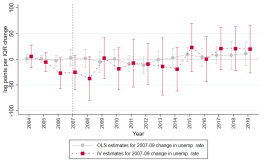
Log SBA 504 loans per capita



Log CDBG per capita



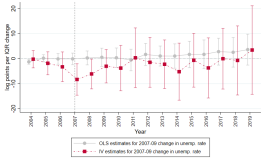
Log defense prime contracting per capita



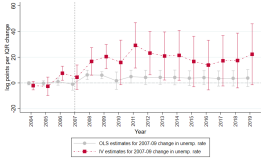
Impacts of Great Recession on workforce development funding

Community college spending falls; federal aid, enrollments, completions rise

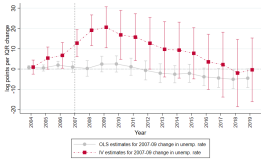
Log total expenditure per FTE



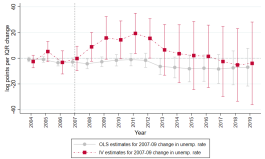
Log federal student aid per FTE



Log FTE enrollment per person 18-39



Log CTE awards per person 18-39



Interpreting place-based responses

Business development: mostly procyclical

- ▼ **SBA 7(a):** declines over 2007–2011
- ▲ **SBA 504:** weakly increases
- ≈ **CDBG** little change
- ▼ **DoD contracting** short-run decline

Workforce development: supply vs. demand

- ▼ Total expenditure per enrollee declines: **funding is procyclical**
- ▲ Federal revenue per enrollee rises: **Pell Grants are countercyclical**
- ▲ Enrollments and completions rise: **training uptake is countercyclical**

Entitlements expand with need; **place-based funding** largely doesn't, except workforce development

Discussion

Entitlements target distress

In practice, most entitlement programs **target regional distress**

By design they are **automatic stabilizers**: take-up isn't costless, but funding supply is elastic

Place-based flows do not

By statute, **place-based policies** target people or places in distress

But aggregated to CZ level, most policy flows **aren't countercyclical**

Who pays, who decides

What separate policies: **who pays and who decides**

Private lenders allocate credit, **states** fund training; problem is **allocation** in space/time

Preparing for AI: although people-based and place-based policies *tend not to work in concert*, simple fixes could *make them more complementary* in speeding adjustment to adverse shocks