Discussion of “Place-Based Policies and the Geography of Corporate Investment” by Cameron LaPoint and Shogo Sakabe

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Place-based policies (PBPs) are generally policies that target specific places instead of specific people.

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What do we know about place-based policies?

- Place-based policies (PBPs) are generally policies that target specific places instead of specific people.
- Commonly used around the world, PBPs can manifest as wage subsidies, tax breaks, relaxed regulations, etc.
- ... but economists *rarely agree on impacts and efficiency*.

What do we know about accelerating depreciation?

- Original question in corporate tax literature (Hall and Jorgenson, 1967)

- Modern takes seem to indicate investment can be quite responsive, although there are still lingering concerns about intertemporal shifting

Source: Zwick and Mahon (2017)
What do we know about the interaction of the two?

- Nothing other than this to my knowledge!
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- **Great line of inquiry:** depreciation mainly matters for large, long-lasting investments—maybe depreciation is particularly well suited as a PBP.

- **Natural Experiment in Japan:** Technopolis and Intelligent Location offer accelerated (bonus) deprecation incentives to firms in certain locations to certain types of firms in the 1980s and 90s
What This Paper Finds and Why We Should Care

- First, firms who have plants in eligible areas and are in eligible industries seem responsive, particularly if constrained
  - Increases in bonus uptake, OCF, employment, investment
  - Decrease in ineligible land
- Second, when looking for indirect impacts, non-targeted local firms do not benefit
- Third, the firms that do benefit seem to invest evenly in targeted and non-targeted areas

Punchline: targeted bonus stimulates investment and employment, but may not be effective as a PBP!
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Feedback

1. Framing: Targeted vs. Broad Local Subsidies
2. Unused variation in firm exposure
3. Within firm transfers
4. Miscellaneous comments
Motivation of Foxconn was a case of a targeted subsidy going to one firm to induce entering a jurisdiction.

- The Regional Selective Assistance program (Devereux, Griffith, and Simpson, 2007) and other grant programs are of this sort.
- Slattery and Zidar (2020) review the US literature on targeted subsidies finding *mixed impacts*.
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Many PBPs are of the sort that target all firms of a type in an area.

- Opportunity and Enterprise Zones in the US (Kennedy and Wheeler, 2021)
- The GRW in East Germany (Siegloch, Wehrhofer, and Etzel, 2021)
Framing: Targeted vs. Broad Local Subsidies

- The Japanese policy seems much closer to a broad PBP
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I think this tension can build a more compelling motivation for bonus as a potential PBP to use in other markets
Also, this paper directly speaks to both literatures
Variation in Technopolis Eligibility

- Treatment requires “the firm controls one plant located in an eligible Technopolis area.” (page 17)
- Some firms completely benefit, while other firms have a relatively small scope to benefit
- Why not use a continuous measure of treatment instead of the discrete? (at least in OLS version)
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- This is also related to Hadlock and Pierce financial constraints
  - Smaller and younger firms have a higher share of treated activity conditional on treatment, are they just “more” treated?
Within firm transfers

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- Section 5.5 is my favorite part of the paper—quasi-experimental evidence that multi-plant firms claim place-based benefits at one plant but the marginal growth is likely in another!
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- Coolest takeaway: bonus seems like a natural PBP, and it has long lasting impacts, **but most of the induced investment is happening elsewhere in the firm**
Timing of effects are much slower than Zwick and Mahon (2017) despite very similar policy, why?

Entry can be an important margin often targeted by PBP. Shows up in aggregation without restricting to a balanced panel (and Figure 7), so this could be highlighted.

Difference with the US is also inclusion of commercial buildings. This can be highlighted earlier, but doesn’t seem like a complete reason why $\omega$ is defined.

Financial controls can be fixed pre-treatment and interacted with year fixed effects as well.

There are a few ways in which fiscal cost could be understated (firm closure, decreasing tax rate environment, etc.), but fiscal costs are very close to Zwick and Mahon estimates, comforting!

Jobs in cost-per-job should be scaled by the employment of eligible firms, not total listed employment (typo or my misunderstanding?).
Miscellaneous Stylistic Comment

- “[T]he effects are scaled so that $\beta_t$ captures the growth in a monetary variable relative to the pre-sample baseline that can be attributed to the firm becoming eligible for Technopolis bonus claims.” (Page 21)

- Why is there a 6% decrease in local employment in year -1 or am I misinterpreting normalization?
Conclusion

- Extensive paper on an important topic in a great setting
- Bonus depreciation seems to have lasting, positive impacts on Japanese firms (yay!)
- Benefits seem to accrue to exposed firms, not so much the targeted local markets (oops!)
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- **Punchline:** targeted bonus stimulates investment and employment, but may not be effective as a PBP!
- **General punchline:** multi-plant firms can directly benefit from place-based policies without benefiting the place.