

Beyond the Local Impacts of Place-Based Policies: Spillovers through Latent Housing Markets

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Abstract

It is common to study the direct effectiveness of place-based policies, which target geographic areas often to foster economic development. Ignoring indirect impacts due to responses of households and firms that propagate within similar markets (e.g., housing markets) may result in incorrect conclusions of the overall effectiveness. I propose an approach to estimate indirect effects on non-targeted areas that are in the same markets as the targeted areas. To determine latent market structure, I apply a network theory method to data on household movement. I illustrate the approach and discuss the economic framework using a widespread, place-based policy, Tax Increment Financing (TIF). I apply my approach to data on household moves to characterize the latent housing markets. With the data-driven characterization, I estimate the “market” spillover effects to non-targeted areas within the same housing market. TIF is locally effective at increasing property values within the targeted area. However, the market spillover effects estimated using my approach indicate a negative impact on non-targeted areas within the same housing markets. This implies that the policy relocates investment that otherwise would have occurred elsewhere. I analyze outcomes related to household and firm characteristics and find support for the relocation mechanism. I combine the direct and spillover effects to calculate a back-of-the-envelope estimate of an overall effect that is close to zero. I discuss the implications of these results for place-based redistribution.

*Department of Economics, Duke University. E-mail: anna.ziff@duke.edu. [Link to Current Appendix](#). I am thankful for comments from the members of my committee, Patrick Bayer, V. Joseph Hotz, Matt Masten, Arnaud Maurel, Michael Pollmann, and Chris Timmins, as well as participants of the public and labor workshops at Duke.