

Can Place-Based Subsidies Improve Labor Market Efficiency?

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Abstract. Place-based subsidies are often targeted to firms in distressed regions on the premise that local labor is underutilized. This paper studies how wage-setting institutions shape the incidence and efficiency of a large investment subsidy program in Italy. Funding was allocated to firms based on rankings and fixed budgets, which we exploit at two levels: a regression discontinuity across participating firms, and a recentered instrument across labor markets. Combining application records, longitudinal firm data, and matched employer–employee data, we show that funded firms expand employment by 13% without raising average wages or upgrading workforce composition. Incumbent workers benefit primarily through additional weeks of employment, especially those with weaker labor market attachment, while wage gains are concentrated among workers earning above their contractual floors. We find no evidence of competitor firms increasing wages in the same labor market, and no detectable in-migration. Together, these findings suggest that contractual minimums bind for most workers, yielding employment rationing. While the subsidies alleviate the underemployment generated by rationing, the program’s cost still outweighs its estimated social benefits.