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The [illegible] and Enterprise Zones

by

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College of [illegible] Science

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Introduction

This paper seeks to determine whether or not there is any evidence to suggest that the tax incentives offered in enterprise zone programs help create new jobs for the underprivileged residents of declining neighborhoods.

Enterprise zones attempt to improve the lot of the poor in low-income neighborhoods through a variety of geographically targeted incentives. The primary goals include job creation and business development but are often expanded to include community and neighborhood development. Classic enterprise zone theory seeks to foster economic revitalization in the inner-city by unleashing the free market. Instead of traditional government spending programs, a variety of tax incentives are used to spur growth in the private sector. These include sales tax credits, income tax credits, and property tax abatements, all contingent on the creation of new jobs and new investment in the zone. Another method of reducing the barriers faced by the private sector in enterprise zones is the elimination or easing of public regulations. The enterprise zone concept, however, has been expanded so as to include geographically targeted government spending on infrastructure, mass transit, police, and low-interest loans.

Concepts:

This author believes that there is no evidence to support the claim that state and locally sponsored tax incentives for enterprise zones succeed in creating new employment for the poor. State and local level tax incentives have proven to be far too weak to overcome other factors economists believe to be more important to the locational decisions of firms, such as access to markets, the price and quality of labor, crime rates, quality of infrustructure, and appropriate sites to meet the physical needs of the firm (Grasso 123; Rubin and Wilder 421; Wolkoff 77-79).

The studies that claim to prove the effectiveness of tax incentives generally assume that the new jobs created in the zones were the result of the zone programs. They ignore the probability that the factors mentioned above were more important. Also, it is quite difficult to separate the impact of the tax incentives from the other benifits provided by enterprise zone programs, such as low-cost loans and marketing. Many experts consider these non-tax related benifits to exhibit a moderate level of success (Urban Affairs 11-12).

Theoretically, the federal government could step in with a federally funded national enterprise zone program offering tax incentives strong enough to alter the locational decisions of business since federal corporate income taxes are much more burdensome than state and local taxes. Also, declining cities suffering from a poor tax base often can not afford to take part in state sponsored enterprise zone programs that often require local governments to provide tax incentives of their own.

Even if enterprise zone programs can create new jobs, these jobs may not necessarily go to the poor. They may very well go to suburban commuters.

More important is the question of whether the tax incentives provided by enterprise zones are the most cost-effective method of using tax dollars to improve the lot of the poor. Regional economists complain that enterprise zone programs emphasize "place prosperity" instead of "people prosperity" (Hansen 21). When a middle class person with marketable skills wants a job, he sends his resumes all over the country and moves to wherever he gets a satisfactory job offer. Nobody assumes that his economic life must revolve around the neighborhood in which he was born. Yet this is exactly what is assumed of the poor. Why can't the inner-city residents find good jobs? They lack marketable skills.

Advocates of enterprise zones assume this is a permanent characteristic of the poor and respond by "bribing" industry into moving into unattractive neighborhoods and providing low skill, low wage, and no benefit jobs to people who would otherwise not be employed. A better solution would be to change the characterists of the poor in terms of their qualifications for employment instead of thinking of poverty strictly in a geographic sense and providing subsidies to businesses to locate in the inner-city without regard for the reason why individuals lack the ability to find jobs. The federal and state governments should provide the poor with equal access to education. Once a poor person obtains marketable skills, he can move to where the jobs are without the need for a lifetime of government aid.

Theories on Tax Incentives:

Tax incentives have existed long before the introduction of enterprise zones. Let us now look at some of the theories regarding the geographic impact of tax incentives.

Michael J. Wasylenko, from Pennsylvania State University, attempts to discover whether different tax rates affect the choice of location of businesses. The locational decisions of companies that moved from Milwaukee to its suburbs between 1964 and 1974 are analyzed. Six industries are studied: "construction, manufacturing, wholesale trade, retail trade, finance, insurance, and real estate, and services" (Wasylenko 240).

Industries are divided into two types. The first type involves those for which demand for the firm's output is not related to the firm's intrametropolitan location. Locational impact only involves the cost of doing business. The construction, manufacturing and wholesale trade industries are of the first type. The second type of industry involves those for which both demand for the firm's output and the cost of doing business are related to the firm's intrametropolitan location. The retail trade, finance and services industries are of the second type (Wasylenko 240).

Wasylenko says that firms of the first type seek to minimize their costs as they relate to intrametropolitan location. Cost factors include land costs, the property tax rate, and labor costs. Firms do not simply choose the cheapest land. Site characteristics are traded for land prices. The cost function must include both price and characteristic factors. Site characteristics include distance to the Central Business District, the percentage of land that is used by industrial and commercial establishments, the percentage of vacant land, and highway access (Wasylenko 241).

[illegible] of the [illegible] are said to add [illegible] demand to the other cost factors in order to make intrametropolitan location decisions (Wasylenko 241).

Wasylenko uses a [illegible] statistical logistic model to determine the relationship between Milwaukee firms' decisions to relocate, between 1964 and 1974, to various suburban definitions and the above cost and market factors (Wasylenko 24?).

Wasylenko comes to the conclusion that tax variables can affect the relocation decisions of manufacturing and wholesale trade firms in a statistically significant way. That is not said to be the case for construction, retail trade, finance and service firms (Wasylenko 243).

It is important to emphasize that Wasylenko's analysis only applies to location decisions. It does not determine whether tax cuts are creating new economic activity. Such tax differentials are merely shifting economic activity around. Of course this is important on a local level. No municipality would want to be at a disadvantage when it comes to competing with nearby localities. It is still important, from a local level, to determine whether the benefits derived from new firms are worth the costs in lower tax reciepts. Attracting firms that would have located elsewhere in the metropolitan area to a municipality through tax cuts does not guarantee that the municipality's residents will get the jobs. Commuters from nearby suburbs and cities may get the jobs.

This is important to think about when federal income tax incentives are proposed for a national enterprise zone program. No new economic activity will necessarily be created. Federal tax dollars should be used to create jobs, not just relocate them.

Michael J. Wolkoff, from the University of Rochester, provides an effective analysis of the impact of property tax abatements. He argues that these abatements are awarded indiscriminantly and in an inefficient manner. Localities tend to place few conditions on tax abatements. Firms are treated uniformly. "Local officials have forgone the opportunity to distinguish between applicants that require an incentive and those that do not" (Wolkoff 77-78).

Wolkoff points out that local tax differentials are of only minor significance in firm location decisions. Labor supply and access to consumers is much more important. Tax incentives can only influence firms that are making marginal comparisons between localities that are otherwise equal. Wolkoff quite properly points out that the importance of tax differentials is inflated by the popular media, thus putting pressure on local governments to grant tax abatements in order to attract firms (Wolkoff 79).

It is noted that localities feel pressure to match the tax abatements offered by nearby municipalities. If one city offers tax incentives, its neighbors will soon join in (Wolkoff 79). Of course, when everybody is offering tax abatements, they cancel each other out in terms of their ability to create a special competitive advantage for a locality.

Wolkoff argues that tax abatements should only be granted to firms where they will influence investment location decisions. Other firms will invest without the provision of tax abatements. It is also important to measure the cost of the investment in terms of traffic, sewage capacity, and crime (amongst other things) when deciding what size tax abatement to grant an individual firm (Wolkoff 80).

It is difficult to determine which firms can be influenced by tax differentials. Wolkoff suggests distinguishing between firms that are dependent upon a location due to market factors and present capital investment, and those firms that are highly mobile (Wolkoff 80).

In contrast with the above suggestion Wolkoff provides examples of what he calls "the illogic of local abatement policy." He notes that ninety-five percent of the applications for tax abatements in New York City were granted. Applications for tax abatements in Detroit are almost never turned down. Also, the maximum abatement was always granted. The same is true around the country (Wolkoff 80-81).

In the area of cost-benefit analysis Wolkoff makes the proper suggestion that tax abatements be tied to job creation requirements. This helps insure that firms collecting tax incentives create some level of minimum benifit (Wolkoff 83).

It should be pointed out that this is another situation in which economic development is thought of in terms of the relocation of firms as opposed to the creation of new activity that would not otherwise exist.

Susan B. Hansen, from the University of Pittsburgh, notes that, unlike many European countries, very little is done in the United States to help underpriviledged workers relocate to where the jobs are. It is true that the states publicize job openings but these services are quite limited. Hanson suggests emulating the Canadian nation-wide computerized job search. It is pointed out that job-hunting trips can be quite expensive for the poor. The price of new housing and the cost of moving is also quite a barrier to mobility. The poor are thus forced to search for employment within their own neighborhoods. Hanson observes that Sweden helps subsidize the moving and housing costs of the unemployed. Unfortunately, the United States has traditionally attempted to bring work to the poor within their own already run-down neighborhoods instead of helping them to move to where the jobs are (Hansen 18-19).

Case Studies:

Next, let us look at some of the case studies on individual enterprise zones and state enterprise zone programs.

Michael Brintnall, from the American Political Science Association, and Roy E. Green, President of REG Management Resource Group, provide an interesting framework for comparing and evaluating enterprise zone programs. First they propose that enterprise zone programs can be compared along seven major dimensions:

1. The extent to which state and local governments intervene in the management of the zones.

2. The level of private-sector involvement in the design and management of the zones.

3. Is the goal of the enterprise zone program limited strictly to the creation of jobs or does it also include community development?

4. Is the enterprise zone program willing to take risks?

5. The level of innovation.

6. The extent to which the enterprise program is marketed.

7. The level of support and consensus regarding the enterprise zone program (Brintnall 76-77).

Brintnall and Green tend to focus on the degree of state management and the level of public-private cooperation. Although the original concept behind enterprise zones was that they be "self-executing" through the free market, many states have actively involved themselves in the program. Brintnall and Green measure the degree of state involvement through a number of factors, including: state modification of local zone applications, state requirements of local managers, and state provision of technical assistance to local zones (Brintnall 78-79).

Brintnall and Green measure the degree of public-private cooperation on the basis of the following factors: the active involvement of nongovernmental groups in the design of the enterprise zone program, requirements for the agreement of community groups, and whether the state required the enterprise zones to create public-private partnerships

(Grintnall 79-80).

Now that a comparison framework has been presented, we can look at the zone programs.

The Florida Department of Revenue's 1989 Annual Report on the Florida enterprise zone program provides an obvious example of how governments erroneously claim success for their enterprise zone programs. The Annual Report claims that the "Enterprise Zone Property Tax Credit" has been particularly successful at creating new jobs. This provides a fifteen percent tax credit on corporate income based on the wages of employees living in the zone, employees receiving Aid to Families with Dependent Children (AFDC) benefits, and employees determined to be "economically disadvantaged" (Logan 90).

It is noted that the number of businesses located within Florida enterprise zones increased by thirty-two percent between 1987 and 1989. Between 1987 and 1989 2,954 building permits for new construction and 11,234 building permits for rehabilitation were granted. It is implied that much of this new business activity is the result of the enterprise zone program (Logan 10). No evidence is provided to back that up.

The Annual Report says that 41,689 jobs were created as a result of the Enterprise Zone Property Tax Credit. These jobs cost the state $20.4 million in tax credits or $702 per job through 1990. There is no reason to believe that most of these jobs would not have been created but for the existance of the enterprise zone tax credit, therefore, it is impossible to determine the true cost per job.

A more sophisticated attempt at proving the effectiveness of enterprise zone tax incentives comes from Marilyn Marks Rubin, of the John Jay College of the City University of New York, whose efforts have unfortunately attracted the attention of the media. Despite a complicated analysis of job data, she still makes unfounded claims regarding the relationship between tax incentives and economic growth.

Rubin presents a study of the New Jersey Enterprise Zone Program. She uses Brintnall and Green's comparison framework and determines that New Jersey's Program involves a moderate combination of state management and public-private cooperation. Just as Brintnall and Green pointed out, the major objective of all enterprise zones is job creation. This is true for New Jersey as well. Rubin notes that community development was also a goal. (Rubin 1991).

Although the enterprise zone program involves some regulatory streamlining, the most important incentives involve tax credits and exemptions. New Jersey provides enterprise zone businesses with tax credits for hiring disadvantaged workers. These include Corporation Business Tax credits of up to $1,500, an Unemployment Insurance tax rebate, sales and use tax exemptions on the purchase of tangible personal property and construction materials and services, and, in five cities, a fifty percent cut in the retail sales tax. The employee tax credits are one-time credits for new employees (Rubin 109-110).

Rubin starts her analysis by registering data collected from all of the businesses taking part in the enterprise zone program (Rubin 112). Right away we can detect a bias inherent in her methodology. She only includes businesses involved in the program. What about non-participatory businesses? They are ignored. Therefore, only positive data are presented since, by definition, such firms are actively investing in the zone and creating new jobs. Other firms which go out of business, lay-off workers, or relocate create a negative impact on the overall enterprise zone economy however this impact is not taken into account. Overall employment and investment levels are not considered. If the unemployment rate were to increase in the zones it would not be counted as a negative. In fact, participatory firms which drop out of businesses

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The problem with this conclusion is not the fault of the Input/Output Model. Even if the model is accurate we still have no basis for believing that the firms participating in enterprise zones would not have made their investments but for the tax incentives.

Rubin attempts to deal with this problem by sending enterprise zone participants a survey asking the following question: "To what extent did UEZ tax benefits influence your decision to locate/expand your business in the Zone?" She then claims that this question should be translated for purposes of this study to mean: "Would you have invested (but for the [EZ program]" (Rubin 117).

First of all, a survey can hardly be considered to be a scientifically accurate representation of reality. Recipients of enterprise zone benifits may not wish to disappoint those who are conducting a survey financed by the state government.

Also, a positive response to the original question can not be interpreted as a positive response to the second question since they do not mean the same thing. Just because a firm would not have invested in a zone but for the enterprise zone program does not mean the firm would not have invested elsewhere but for the program.

Rubin goes on to interpret the survey to mean that thirty-two percent of the zone participants would not have made their investment but for the program despite the fact that this can hardly be the case since they may have invested elsewhere even if the program did not exist and the survey responses may not be honest (Rubin 117).

Rubin alters her analysis to include the survey results and comes to the conclusion that "every tax dollar given up by the state [is] matched by $1.90 in state and local taxes generated by [enterprise zone]-related activity" (Rubin 119). This figure was derived by taking a previously tabulated comparison of benifits to costs and dividing the resulting figure of thirty-two. Unfortunately, these untrue figures would later be prominently displayed in a New York Times article, thus spreading the myth that enterprise zones are cost-effective (Romano 8-11, 16).

The New Jersey Department of Commerce, Energy, and Economic Development proudly heralded the results of the study in a press release. "This report indicates the UEZ [Urban Enterprise Zone] Program is on target in terms of generating new jobs and investments in the municipalities that need this kind of help," said State Commerce Commissioner Borden R. Putnam, who chairs the State Urban Enterprise Zone Authority (Commerce News 2).

Of particular note is its reference to a comparison between the ten zoned cities and seven other cities in New Jersey which are not included in the program. It is said that since the program's implementation, the zoned cities have exhibited higher growth rates on average whereas the cities without zones suffered from job stagnation (Commerce News 2-3).

This comparison is fallacious. There is no reason to believe that the non-enterprise zone cities are otherwise equal to the enterprise zone cities. There may be numerous other factors resulting in different job growth rates in the two groups of cities. Why were the non-zone cities chosen? Perhaps they were chosen because their job growth rates were stagnant. Another group of non-zone cities might have shown different results.

In contrast to Rubin, the following study shows that growth in an enterprise zone probably would have resulted even if the program did not exist.

A U.S. General Accounting Office (GAO) study of Maryland's enterprise zone program is summarized by Patrick G. Grasso, of the GAO, and Scott B. Crosse, of Westat, Inc. They focus on employment growth in the zones (Grasso 122-123).

The Maryland enterprise zone program offers a number of incentives. Participating firms that hire the unemployed and the disadvantaged are given tax credits between $500 and $3,000. A property tax credit is provided for improvements. The state offers loan guarentees as well as some other loan programs (Grasso 124).

Using the Brintnall and Green formula Grasso and Crosse say that the Maryland enterprise zone program provides for very little state management. They found that the program involved a significant degree of private sector involvement (Grasso 124-125).

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Rubin makes use of an input/output model for New Jersey in order to determin the multiplier effect of new business activity in the enterprise zones. The direct and induced impact of the participating businesses in the enterprise zone program is discovered through the use of a multiplier. The costs of the program in lost tax dollars are then subtracted from the benifits. At this stage, Rubin found that the benifits of the program far exceeded the costs (Rubin 110-116).

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Using the Brintnall and Green formula Grasso and Crosse say that the Maryland enterprise zone program provides for very little state management. They found that the program involved a significant degree of private sector involvement (Grasso 124-125).

The GAO study is simiar to Rubin's study of New Jersey's program in that it only includes participating firms, thus ignoring the overall state of the zone economy. The behavior of non-participating firms is not evaluated (Grasso 125).

The GAO study looks at participating businesses and compares their employment growth pattern before the start of the enterprise zone program with their employment growth pattern after the start of the program (Grasso 126).

The GAO study reports that there were employment increases of between eight percent and seventy-six percent amongst the participating firms in the zones studied. The GAO concluded, however, that despite the appearance of an impact as a result of the enterprise zone program, this growth was not a result of the zone incentives (Grasso 127).

Grasso and Crosse use the example of the Hagerstown zone to explain the basis for the GAO's conclusion. Four years after Hagerstown was designated as an enterprise zone, there were sixty-four firms participating in the program. Thirty-six of these businesses had existed within the zone before the program started. Fourteen of these firms had relocated into the zone and fourteen were new start-ups. Employment increased slowly one year before the enterprise zone program was implemented and then, one year after Hagerstown became a zone, employment increased rapidly.

Employment began a moderate decline two years later. The increase in the rate of employment growth after the onset of the enterprise zone program was considered to be statistically significant (Grasso 127-129).

Upon further analysis it was determined that the large increase in employment was created by two firms alone. One store opened during the period of employment growth. The company was questioned by the GAO and it reported that at the time it decided to open its business within the zone and at the time it hired its employees, it did not even know about the existence of the tax incentives available through the enterprise zone program (Grasso 129).

Another firm, a national retailer, was responsible for the bulk of the remaining employment growth. The firm explained to the GAO that its decision to locate in the enterprise zone was based on the availability of appropriate land as well as access to regional markets, not the provision of zone incentives (Grasso 129).

After both employers found out about the enterprise zone program, they did collect tax incentives. These incentives, however, can not be credited with the employment growth of these two companies. They would have located in Hagerstown even if the enterprise zone program did not exist (Grasso

129-130).

After removing the input of these two firms from the analysis, the GAO found that employment growth in Hagerstown continued at the same rate after the implementation of the enterprise zone program as it did before the implementation of the program (Grasso 130).

Similiar situations emerged in the other Maryland enterprise zones. The GAO thus concluded that the enterprise zone program did not result in any new jobs (Grasso 130-132).

After completing its study regarding the impact of firms participating in the program, the GAO conducted a survey of opinion that, unlike Rubin's survey, included both participatory firms and non-participatory firms. They were asked to rank those factors which affected their decision to hire and invest. It was found that tax incentives ranked rather low in their importance to these firms. Market access was considered to be the most important factor (Grasso 132-133).

It is important to emphasize that this survey was not biased in favor of the state enterprise zone program because, unlike the Rubin survey, the respondents did not know the survey was related to the program. Also, non-participatory firms were included.

Richard Funkhouser, of the University of Connecticut, and Edward Lorenz, of the Maryland Department of Employment and Training, provide another evaluation of the Maryland enterprise zone program. They study the first three years of the program and discuss whether the zone's incentives have had an impact (Funkhouser 62).

Funkhouser and Lorenz provide a detailed and complicated desciption of the cost of the programs' incentives and operating expenditures. They then merely divide the total cost of the program by the number of new jobs created in the zones to determine the cost per job. They claim a cost per job figure of $1,400, which they say compares favorably with federal job training program cost per job figures of $1,100 (Funkhouser 75).

Of course they have irresponsibly assumed that all of the new jobs created in the zones were in fact created by the zone program. They ignore the possibility that many, or even most, of the jobs may have been created in the absence of the program.

The ability of enterprise zone programs to aid inner city workers is questioned in a report by Patrick G. Marshall. He quotes the GAO's analysis of the Maryland enterprise zone program as saying that if the problem is that the residents of the inner cities lack the mobility to get to where the jobs are then "the effectiveness of enterprise-zone programs in this regard should be compared with the effectiveness of other means of reducing barriers to labor mobility, such as assistance for the relocation and training of unemployed workers" (Marshall 238).

Marshall notes the perspective of John Kasarda, from the University of North Carolina who says "I'm very much in favor of a people-to-jobs strategy vs. a jobs-to-people strategy" (Marshall 238). He argues that a policy of bringing jobs to people by encouraging firms to move to areas of higher cost or poor productivity through the provision of tax subsidies would reduce the competitiveness of the entire nation. He says that the free market should guide industry toward the least costly and most productive locations "and labor should be encouraged to follow it" (Marshall 238). Kasarda suggests that inner-city residents be transported to suburban jobs through the use of van pools. They could find out about employment opportunities through government sponsored information networks. He supports the use of housing vouchers which would allow the poor to move wherever they wanted instead of locking them into public housing projects (Marshall 238).

Marshall presents the perspective of Arnold Cantor, assistant director of the AFL-CIO's department of research, as saying that trying to use tax incentives to encourage firms to relocate to declining cities they would rather avoid is "the most ineffective way that government can help" (Marshall 238). He would rather engage in traditional government spending and regulatory programs in order to make the cities more attractive to business. He suggests anti-crime programs, aid to mass transit, legal caps on insurance rates, and worker training (Marshall 238).

Cantor is right to support worker training programs, however there is no reason to limit such aid to those who happen to live in certain areas. We should provide training to the poor wherever they happen to live.

Marshall brings up the important issue regarding the fact that most of the jobs created in enterprise zones are not going to zone residents. Only 1.4 percent of the new jobs created in the South Bend, Ind. enterprise zone are going to zone residents. Some states attempt to deal with this problem by making tax incentives conditional on job creation but Marshall says that most states have found this to be impractical (Marshall 240).

Back in 1983, during testimony before the House Ways and

Means Committee, United States Representative Mark D. Siljander provided a classic example of a shallow argument in favor of the use of tax incentives to encourage growth in distressed areas. He presents a study by the Sabre Foundation that notes that in the nine states with operational enterprise zones at the time, over 40,000 jobs existed or were "in progress." He says that this includes 4,001 new jobs, 4,005 jobs saved that would have been lost but for the tax incentives provided by the program, "plans" for 8,477 new jobs by enterprise zone firms, and an estimate that pending applications for zone status by firms will eventually create 3,100 more (Siljander 1983).

The flaws in this analysis are readily evident. Siljander credits every job created in the zones to the zone program. He implies that they would not have existed if the tax incentives were not made available. He provides no evidence for this conclusion. He even credits jobs purportedly planned by businesses to the program. We do not know that these jobs will in fact be created, let alone whether they can be related to the zone program. The businesses may have reported such "plans" just to please the government since, after all, they were receiving benefits from the government.

Earl F. Jones, from the Department of Urban and Regional Planning at the University of Illinois at Urbana-Champaign notes that the Sabre Foundation later would repeat the same mistakes in a 1984 study. They said that in the twenty-three states that had enterprise zone programs at the time, "37,000 new jobs were created or retained, 558 new businesses started operation, 72 firms expanded and 578 firms were retained." Jones properly points out that no evidence is provided in defense of the claim that this new economic activity is related to the zone programs (Jones 2).

The often quoted 1986 Housing and Urban Development case studies of ten enterprise zone programs is filled with examples of faulty cause-effect analysis.

The HUD case study of the Bridgeport, Connecticut enterprise zone is a perfect example. The zone program offers a number of incentives, including property tax abatements, state corporate business tax reductions, grants for new permanent fulltime jobs, low-cost financing, and sales tax exemptions for the purchase of replacement parts for manufacturing machinery (Ten Case Studies 5).

The Bridgeport staff is asked to name the accomplishments of the zone. One is said to be the creation of a new major employer, the Lefont Electronics Company. They invested $3 million and hired 150 people. Another accomplishment is said to be the relocation of Toyoa's Supermarket. The firm invested $1,000,000 and created fifteen new jobs (Ten Case Studies 19-20).

This is just anecdotal evidence. No causal relationship is proven. No cost-benefit analysis is even attempted.

Another HUD case study involves the Macon, Missouri enterprise zone. The incentives offered by this program include, income tax credits for investments, income tax credits for job creation, and corporate tax reductions. All of these incentives are available only to firms in which thirty percent of employees are either zone residents or are determined to be "unemployable" (Ten Case Studies 120).

It is reported that six firms hired 165 new people in the zone. Also two firms that had planned to close their plants employing 435 people decided to stay in Macon (Ten Case Studies 122).

As is usually the case, no conclusive evidence is provided to show that this economic activity was created by the zone program.

Comparisons:

Now that we have seen some case studies and theories on enterprise zones let us observe some comparisons of state enterprise zone programs. These comparisons seek to analyze why some enterprise zones are successful and what incentives result in varying levels of success.

Richard C. Elling and Ann Workman Sheldon, both of Wayne State University, provide a comparison of four different state enterprise zone programs in Illinois, Indiana, Kentucky, and Ohio. They seek to determine if "classic" enterprise zone program components such as tax incentives are more or less important than "interventionist" components such as government loans, land assembly, and government creation of physical infrastructure (Elling 136-137).

Using Green and Brintnall's method of classification, Elling and Sheldon say that the Illinois and Indiana enterprise zone program involve a high degree of state management and public-private cooperation. The Kentucky enterprise zone program offers very little state management and a high degree of public-private cooperation. The Ohio program involves a low degree of state management as well as a low degree of public private cooperation (Elling 140).

Elling and Sheldon attempt to determine if there is a statistically significant correlation between the components of the forty-seven enterprise zones in four states and zone success. Zone success is defined as the number of firms which

have qualified for zone benefits due to their investment decisions (Elling 143).

It was found that there was only moderate success in the forty-seven zones studied, yet there was variation in the level of success amongst the zones. The zones which combined interventionist elements with some aspects of the classic approach saw more success. Resources invested on administration of the program were the most important factor, according to Elling and Sheldon. It is said that adequate staff must be provided to market the zone (Elling 150-151).

Many other authors have suggested that the positive interventionist approach has proven to be much more successful than the provision of tax incentives. While this position may very well be accurate, Elling and Sheldon's study can not be said to offer any real evidence in favor of this argument. The study assumes that all new growth in the number of businesses was the result of the enterprise zone program. It then merely attempts to show which elements amongst the program were responsible for the growth. The fact is that there are innumerable other factors which may account for the variation in the economic growth rate in the different municipalities which host the zones. Elling and Sheldon's statistical analysis ignores the impact of other factors such as the supply and quality of the labor force, access to markets, transportation facilities and other infrastructure, and crime which are probably much more important for business investment.

Rodney A. Erickson and Susan W. Friedman, both of Pennsylvania State University provide a comparative analysis of 357 enterprise zones in seventeen states using data collected by the Department of Housing and Urban Development (HUD) (Erickson 171-175).

It should be pointed out that the HUD method of collecting data is faulty. The enterprise zone administrators were asked by HUD to provide the number and type of firms located in the zone and the number of jobs created or "saved" by the zone (Erickson 171-175). Just because a job was created in a zone does not mean it was created by the zone program. Likewise, just because pre-existing jobs are retained in a zone does not mean that they were saved by the zone program. We should not just take the zone administrators word for it. They are obviously biased in favor of their zones.

Erickson and Friedman claim that the HUD data indicate that the enterprise zone programs significantly increased the level of employment and investment in many of the most distressed zones. One-third of the zones exhibited rates of job growth higher than the national average. The study is said to indicate that the average zone created [illegible] about 400 jobs over two years (Erickson 171-175).

These figures on job growth may be entirely accurate, however, no proof of a causal relationship between the job growth and the enterprise zone incentives is shown.

Assuming that the job growth and job retention was in fact a result of the enterprise zone programs, Erickson and Friedman attempt to show through statistical analysis, which zone characteristics were successful in creating economic growth. It is determined that state enterprise zone programs with small numbers of zones do better than programs with high numbers of zones. It is said that zones with a wide variety of incentives do better than those with few incentives. Zone that advertise their incentives do better than those that don't (Erickson 171-175).

Besides the fact that no cause-effect relationship is proven, the study is inadequate because it does not seek to determine which types of incentives are most successful, it merely observes the total number of incentives offered.

Effective Method of Analysis:

Barry M. Rubin, from the University of Bloomington, and

Margaret G. Wilder, from Cornell University, provide one of the few analyses which makes an effective attempt to focus on the key criticism of enterprise zone programs, which is that there is no proof of a cause-effect relationship between the tax incentives provided by enterprise zone programs and the economic growth that occurs within the zones. They seek to answer this criticism with the use of a shift-share analysis. This method attempts to separate regional and industrial growth factors from those factors inherent in the enterprise zone. Although this author is not convinced that enterprise zones are the most effective use of tax dollars, Rubin and Wilder provide sound advice as to how enterprise zone tax incentives may be structured so as to create the most effective enterprise zone program possible. The study provides an analysis of the Evansville, Indiana enterprise zone program during the 1983-1988 period (Rubin and Wilder 418-420).

Rubin and Wilder's shift-share analysis divides the economic activity occuring in a geographic area into three parts: "the regional growth effect, the industry mix effect, and the competitive effect." (Rubin and Wilder 421).

The regional growth effect measures the change in economic growth that would have occurred if the enterprise zone's economy were to mimic the surrounding region (Rubin and Wilder 421).

The industry mix effect measures the change in economic growth that results from regional or national changes in the economic health of industries located within the zone (Rubin and Wilder 421).

The competitive effect measures the change in economic growth in the zone "that can be attributed to the zone's comparative advantage relative to the larger region." The competitive effect is found "by subtracting the regional growth effect and the industry mix effect from the overall change" in the zone (Rubin and Wilder 421).

Rubin and Wilder's shift-share analysis found that of the 1,878 full time jobs created in the zone between 1983 and 1986, 325 were created by the regional growth effect and 123 were created by the industry mix effect. This results in the claim that 1,430 jobs were created by the comparative advantage of the Evansville enterprise zone (Rubin and Wilder 422).

Rubin and Wilder point out that the comparative advantage of the zone was not necessarily created by the tax incentives provided by the enterprise zone program. It may have been created by advantages in infrastructure, land prices and land availability, services, and numerous other factors. Nevertheless, Rubin and Wilder argue that the zone was losing jobs for twenty years before it became a zone, and was losing these jobs at a faster rate than the surrounding region, "thus it would not be presumptuous to attribute most of this employment growth to the effects of the enterprise zone" (Rubin and Wilder 422).

Next, Rubin and Wilder look at the cost of the Evansville enterprise zone program. Between 1983 and 1986 the total cost of the inventory tax credit offered by the zone was $5.03 million. The inventory tax credit represents the vast majority of the program costs. The average annual cost per job was $1,372 (Rubin and Wilder 423).

Rubin and Wilder note a number of cost inefficiencies in the enterprise zone program. Some industrial sectors absorbed large amounts of tax credits yet produced very few jobs. For example, the cost per job in the fabricated metals manufacturing sector was $33,065. It is suggested that this inefficiency be rectified by requiring minimum employment requirements of firms receiving tax credits (Rubin and Wilder 423-424).

There are a number of problems with this analysis. The Evansville enterprise zone may be a unique case. Similiar results may not be found in other zones. A large number of zones should be studied.

Even if we accept the results of the shift-share analysis that the new jobs were located in the zone because of a comparative advantage created by the tax incentives, it is quite possible that the jobs would have been created outside the zone if the enterprise zone program did not exist. In this case, tax dollars will have been lost merely to relocate jobs, not to create them. Also, there may be other government programs that create jobs more efficiently than enterprise zones.

Conclusion:

Some of the arguments presented in this paper may appear to contradict urban planning theory, particularly the argument in favor of helping poor people move to where the jobs are. However, this does not necessarily have to be the case. This author is not opposed to the position of urban planners who believe that government should encourage urban development while placing restrictions on suburban sprawl. Government certainly should not subsidize suburban development through highway construction and cheap gasoline. Much suburban land should be made off-limits to development so as to prevent the environmental destruction of the countryside.

Yet the fact remains that the government has allowed for the economic development of the suburbs. Middle and upper income persons have full access to the economic fruits of this development since they can afford to purchase housing in these areas and, just as importantly, they can afford to own and operate the automobiles which make the suburban lifestyle possible.

This author's position that government should help lower-income people move to where the jobs are will, if put into practice, admittedly result in the transfer of more population to the suburbs since these areas are the location of much of this country's economic opportunities. If we as planners have a problem with suburban sprawl, then we should prohibit or restrict everyone from moving their residences to and starting new businesses in the suburbs. It seems rather elitist to suggest that the jobs available in the suburbs be made accessible only to certain classes while others are excluded. Poor people should have equal access to the entire geographic spectrum of economic opportunities.

As far as "place prosperity" is concerned, every local government has an obligation to do whatever it can to improve the economic life of the city. Local governments rightfully attempt to use proper policies regarding taxing, spending, land use regulations, policing, education, and infrastructural development (amongst other things) in order to attract new businesses to the community.

State and federal governments also have a role to play in helping geographically defined areas but this should involve positive spending programs. Residents of cities should recieve the services available in suburbs that city governments may not be able to afford through local tax dollars alone. State and federal governments should provide aid for infrastructural improvements, police, environmental protection, and mass transportation. They should also provide economic aid in the form low-interest loans for small businesses in order to combat the effect of redlining in many urban areas.

What this paper argues against is the use of geographically based tax incentives that artificially relocate economic activity. Such policies, when conducted at the state and federal level, create no new economic growth. They just subsidize development in different areas.

Such policies are a highly inefficient method of helping the lower income groups that are supposed to be the target of the programs. Not only are tax dollars lost on businesses that would have been employing people (perhaps in a different locations in the absence of the enterprise zone program, but tax dollars are often lost on businesses that would have been located within the zone even without the tax incentives.

Even if tax incentives can bring jobs to declining urban areas, they may not go to the neediest residents who are supposed to be the main benificiaries of enterprise zone programs. Some programs attempt to prevent suburban commuters from getting all of the newly relocated jobs by requiring firms to set-aside a minimum percentage of jobs for zone residents in order to qualify for tax incentives. Businesses have tended to balk at taking advantage of tax incentives when they are tied to residency requirements because local residents may not have the skills necessary for the jobs.

Massive federal subsidies, theoretically, could get employers to overcome their resistance to participating in enterprise zone programs tied to residency requirements, but even that would not necessarily provide good jobs to low-skilled residents of the inner cities over the long run. The economy of a geographic area does not exist in a vacuum. If federal tax subsidies for an enterprise zone were strong enough to create a statistically significant increase in the number of jobs offered in a city, this would create a draw on the labor market of the entire metropolitan region. Despite the existence of residency requirements designed to help the poor, the jobs relocated to the city may not go to the long-term residents. If the jobs pay well and offer benefits, higher skilled new-comers may move to the city and take the jobs that lower-skilled residents are not qualified for.

Enterprise zones ignore the real reasons why people are poor, primary amongst them being a lack of marketable skills. It is hard to conceive of any significant revitalization of the most depressed urban areas so long as one-third of the young people in many inner cities are high school drop-outs. The property tax system of funding education must be abolished and replaced by state and federal aid so that urban school systems are brought to parity with suburban school systems in terms of their per-capita spending.

It must be remembered that since tax dollars are scarce, every tax dollar used by an enterprise zone program is a tax dollar that could have been used for positive government aid to individuals, such as education. That is why government tax subsidies to employers who locate in geographic areas, even when combined with additional spending on education, are not the most efficient use of scarce resources. All of the money used for enterprise zone tax incentives could and should be used to improve the skills of disadvantaged workers so that they may be qualified for the best jobs, whatever those jobs might be.

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