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Place-based programs and the geographic dispersion of employment☆

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ABSTRACT

Government efforts to improve local economic conditions by encouraging private investment in targeted communities could affect the broader geographic distribution of employment in a region, especially to the extent that subsidized businesses face few constraints on whom they hire. This paper examines the labor market impacts of investment subsidized by the U.S. federal government's New Markets Tax Credit (NMTC) program, which provides tax incentives to promote business investment in low-income neighborhoods. To identify the program's effects, I exploit a discontinuity in the rule determining the eligibility of census tracts for NMTC-subsidized investment. Using rich administrative data on workers' residence and workplace locations, I find evidence that many of the new jobs created in areas that receive subsidized investment do not go to residents of targeted neighborhoods. The results suggest that the local economic benefits of place-based programs may be diluted when subsidized businesses have scope to hire from broader regional labor markets.

1. Introduction

Government programs aimed at encouraging private investment in certain, typically lower-income communities have proliferated in the U.S. in recent decades. By providing investment capital or tax credits to businesses or developers in distressed areas, these place-based programs generally aim to revitalize struggling neighborhoods and create employment opportunities for their economically disadvantaged residents. However, a common feature of these programs is that, while restricting where businesses may locate or invest in order to receive subsidies or tax breaks, they place few constraints on whom subsidized businesses must hire. Therefore, even programs ostensibly focused on narrowly defined neighborhoods have the potential to affect the distribution of employment and commuting patterns over a large geographic area. Further, to the extent that any new jobs subsidized under these programs fall into the hands of residents of distant communities, the local economic benefits of these programs may be diluted and any imbalances between the locations of jobs and housing exacerbated.

This paper explores the degree to which the federal government's efforts to improve economic conditions for residents of some of the nation's impoverished communities affect broader commuting patterns and, in particular, how they might be stymied due to business hiring in other, non-targeted areas. I specifically examine the local labor market impacts of the New Markets Tax Credit (NMTC) program, which aims to encourage private capital investment in moderate-to-low income neighborhoods throughout the country. Signed into law in 2000 as part of the Community Renewal Tax Relief Act, the program gives tax credits to investors who make equity investments in Community Development Entities. These entities must invest the proceeds from those investments in businesses and real estate projects in certain designated low-income census tracts.

In general, the extent of investment in a neighborhood is likely to be driven by unobservable characteristics of the neighborhood that could also be correlated with employment and commuting patterns. To address this endogeneity problem, I exploit certain institutional features of the NMTC program, and in particular the rule that determines the

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eligibility of census tracts for NMTC-subsidized investment. This rule generates quasi-experimental variation in investment around a certain income threshold, where tracts in a narrow window on either side of the threshold differ systematically only in their eligibility for NMTC-subsidized investment. Taking advantage of a regression discontinuity design and rich administrative data on workers' residence and workplace locations, I can evaluate the causal impacts of subsidized investment on local labor markets and commuting patterns.

A large and growing literature examines the employment effects of place-based programs.[1] Much of the research in this area has focused on state enterprise zone (EZ) programs, which typically offer tax incentives to new and expanding businesses in designated regions, and has primarily attempted to quantify the impacts of zone designation on job creation or resident employment outcomes within zones. The results of these studies are mixed, with some pointing to positive impacts on local labor markets (Papke, 1994; Ham et al., 2011; Gobillon et al., 2012; Freedman, 2013) and others finding no effect (Boarnet and Bogart, 1996; Bondonio and Engberg, 2000; Elvery, 2009; Neumark and Kolko, 2010).

The fact that many studies find modest, if not negligible, effects of EZ designation on neighborhood conditions, and in particular resident employment, could be in part attributable to the fact that most state zone programs place strict constraints on where businesses must locate in order to receive tax credits or other incentives, but tend to impose fewer restrictions on whom those businesses may hire. Based on my own review of state EZ programs, only 30% include some incentive for participating businesses to hire residents of zones.[2] Hence, while these programs may create jobs in designated areas, their benefits to local residents may be muted, especially if workers with the requisite skills to fill the new jobs do not reside in the area.

In part due to data limitations, few studies have attempted to evaluate the extent to which the impacts of place-based policies like EZ programs are diluted due to hiring by subsidized businesses in non-targeted areas. Peters and Fisher (2002) provide suggestive evidence that the majority of jobs in EZs are taken by commuters from outside EZs, showing that in a cross-section, commute times for people living in EZs are higher on average than those for people living in the same region but outside EZs. While there could be other unmeasured characteristics of neighborhoods that explain these differences, they take their results as evidence that geographic proximity to jobs is not sufficient to improve employment outcomes of zone residents. Meanwhile, using journey-to-work data derived from U.S. Census Bureau surveys, Busso et al. (2013) find that the federal Empowerment Zone program created jobs for both zone and nonzone residents. Although Busso et al. (2013) do not specifically study the program's impacts on the broader spatial distribution of employment and commuting patterns, their results imply that changes in commuting are a potentially important channel through which place-based programs could have effects that extend beyond the borders of targeted communities.

Empirical work on the NMTC program is also scarce. Several qualitative studies on NMTC-subsidized projects have pointed to positive spillovers in affected neighborhoods, but they generally cannot rule out some degree of crowd-out of unsubsidized investment (U.S. Government Accountability Office, 2007; Abravanel et al., 2007). Using a similar identification strategy as I use in this paper, Freedman (2012) finds that NMTC-subsidized investment spurs modest increases in housing values and improvements in other indicators of resident socioeconomic conditions, such as poverty and unemployment rates. However, his results also suggest that at least some of the observed improvements are driven by changes in neighborhood composition as opposed to improvements in existing residents' circumstances, as new investment is associated with greater household turnover.

Exploiting pseudo-random assignment of investment across neighborhoods generated by the formula structure of the NMTC program, I find evidence that many of the new jobs created in areas that receive subsidized investment do not go to residents of targeted neighborhoods. In particular, using rich administrative data derived from state unemployment insurance records, I find that resident employment gains are not commensurate with job creation in tracts that receive NMTC-subsidized investment. At the same time, commute distances to areas that receive investment increase, while commute distances of residents living in those communities do not fall. Moreover, concomitant with relatively large gains in higher-paying jobs, the composition of non-local workers in tracts that receive investment shifts in favor of those living in more affluent and highly educated neighborhoods.

The results suggest that the local economic benefits of place-based programs may be diluted when subsidized business have scope to hire from broader regional labor markets. They also reveal how, when targeted at areas with few skilled workers, these programs may in fact worsen rather than improve jobs-housing imbalances and the extent of spatial mismatch within cities. Finally, in elucidating key channels by which place-based programs affect communities, the findings highlight important tradeoffs to consider when applying different policy levers in an effort to ensure such programs generate tangible and lasting gains. Indeed, hiring restrictions that might directly address the problems underscored in this paper likely would have other unintended consequences, including reducing take-up and tilting the composition of projects toward those that would create relatively lower-skilled and lower-paying jobs.

The paper is organized as follows. The next section provides a brief overview of the NMTC program. Section 3 describes my identification strategy and econometric approach. Section 4 discusses the data and provides descriptive statistics. In Section 5, I present the empirical results. Section 6 concludes.

2. The New Markets Tax Credit program

The NMTC program was signed into law in December 2000 as part of the Community Renewal Tax Relief Act of that year.[3] Overseen by the Community Development Financial Institutions (CDFI) Fund at the U.S. Department of the Treasury, the program provides tax incentives to investors who make qualified equity investments (QEIs) in Community Development Entities (CDEs).[4] CDEs are Treasury-approved corporations or partnerships whose mission is to serve or provide investment capital to low-income populations.

In contrast to federal block grant programs that typically leave allocation decisions to state or local governments, the U.S. Treasury issues NMTC allocation rights directly to CDEs. Awards are determined by a competitive application process; less than one-fifth of CDEs that apply for an allocation receive one in any given year. Once awarded a NMTC allocation, a CDE has five years to use the proceeds of QEIs to make qualified low-income community investments (QLICIs) of equity or debt capital.[5] Between 40 and 100 CDEs were awarded tax credit allocation rights each fiscal year between 2003 and 2009. Annual allocations amounted to between \$2 billion and \$5 billion each year, for a

[1] For a thorough review of this literature, see Neumark and Simpson (2015).

[2] For example, Indiana offers employment tax credits for hiring zone residents (Papke, 1994). Texas requires businesses participating in its EZ program, which provides a variety of tax and other incentives, to hire at least 25% of employees from designated distressed areas (Freedman, 2013). Several state EZ programs also offer credits to businesses that hire from certain economically disadvantaged populations, such as welfare recipients and the unemployed, regardless of their place of residence.

[3] For additional details about the NMTC program, see Abravanel et al. (2007), U.S. Government Accountability Office (2007, 2010), Freedman (2012), and the CDFI Fund's website at www.cdfifund.gov.

[4] The credit totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period, with 5% being claimed in each of the first three years and 6% in each of the final four years.

[5] CDEs may be for-profit or not-for-profit; the latter account for about one-fourth of CDEs that receive NMTC financing. However, to invest in eligible projects, a not-for-profit CDE must create a for-profit subsidiary.