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Empowerment Zones, neighborhood change and owner-occupied housing ☆

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ABSTRACT

This paper examines the effects of a generous, spatially targeted economic development policy (the federal Empowerment Zone program) on local neighborhood characteristics and on the neighborhood quality of life, taking into account the interactions amongst the policy, changes in neighborhood demographics and neighborhood housing stock. Urban economic theory posits that housing prices in a small area should increase as quality of life increases, because people will be willing to pay more to live in the area, but these changes in prices and quality of life will also affect the demographics of the population through sorting and the housing stock through reinvestment. Using census block-group level data, we examine how housing prices respond to the Empowerment Zone policy intervention. Changes in the other dimensions of neighborhood quality (demographics and housing stock characteristics) will also help determine the total — or full — effect on housing values of the policy intervention. This paper estimates these direct and full effects in a simultaneous equations setting, compares direct and indirect effects and examines the robustness of the effects to alternate estimation strategies. We find strong evidence for substantively large and highly significant direct price effects, while results suggest that the indirect effects are substantively small or even negative.

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1. Introduction

Spatially targeted economic development policy has been a popular tool for addressing the problem of entrenched concentrations of poverty in urban areas. Such spatially targeted programs usually consist of tax incentives and other off-the-books expenditures. Over the 1980's many states created such programs, generically referred to as enterprise zones,[1] which provide economic incentives (usually through tax abatements) for companies that create jobs in depressed areas. While the popularity of such programs is irrefutable, the efficacy of spatially targeted development incentives is not well understood. Although early case-study research suggested that the programs were effective, more recent research has cast this early consensus into considerable doubt.

During the Clinton administration, the Federal Government created a similar program, called Empowerment Zones (EZs). Designated EZs received at least $100 million in federal Social Service Block Grant funds to be administered by the states with considerable latitude. Businesses in EZs are also eligible for a variety of tax incentives outlined in IRS (2004). These incentives include an employment tax credit of up to $3000 per qualified employee, increases in the amount of equipment and property purchases that can be deducted immediately instead of over time through depreciation (the section 179 deduction), the ability to postpone declaration of capital gains on qualified assets and increased exclusion of gains from sales of small business stock. Governments are allowed to issue tax-exempt bonds for qualified expenditures in EZs. State and local governments were encouraged to supplement the federal program with their own tax incentives and expenditures. This program was continued during the early years of the Bush administration. At

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[1] Terminology in this field is unfortunately problematic, because the state-level programs have various names. In this paper, we use the term enterprise zone to signify any of the various state programs and Empowerment Zone (or EZ) to refer to the more generous federal program. A federal program called enterprise communities also exists, but this program is more similar to the state programs than the federal Empowerment Zone program.

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present, the EZ initiative covers over 700 census tracts with a combined population of over 3 million individuals in 31 communities (Greenbaum and Bondonio, 2004). Although the generosity of the program has varied over time, total incentives and grant expenditures are valued at over $5 billion, according to the Department of Housing and Urban Development (HUD, 2009). Despite the extent of the program, the literature on the effects of the EZ program is relatively undeveloped compared to the literature on state enterprise zone programs.

In this paper, we examine the effects of the federal program over a wide variety of neighborhood-level indicators. We focus on the total effect of the Empowerment Zone intervention on home values, which likely includes not only direct effects but also several types of indirect effects. This approach conceives of neighborhood outcomes as the result of a complicated interplay between economic, demographic and housing market forces. Recent researchers have had trouble finding significant direct effects of spatially targeted economic development programs. By identifying both the direct effects and the indirect effects, our approach offers EZ status its "best chance" to show some positive effect on neighborhood quality.

Our results show that for our preferred measure of neighborhood quality (housing values) EZ status appears to have had statistically significant and substantial positive effects. The effects of EZ status on other neighborhood characteristics are more mixed. The indirect effects vary somewhat depending on specification and estimation method, but are generally either small or negative.

The rest of the paper is organized as follows. Section 2 reviews the literature on state and federal spatially targeted economic development incentives. Section 3 lays out a conceptual foundation for our empirical section, discusses the empirical specification and describes the data. Section 4 presents and discusses the results. Section 5 concludes.

2. Literature

Winnick (1966) lays out a very strong case against place-based policy. The primary justification for spatially targeted economic development programs lies in the persistence of concentrations of poverty, mainly in urban areas. Kain (1968) framed the problem in terms of the spatial mismatch hypothesis (SMH), which posited that blacks were prevented from commuting or moving to the suburbs, where their labor was demanded, and that low-skill jobs were prevented from moving into the central city, where the low-skill black population lived. The spatial mismatch of low-skill labor supply and low-skill labor demand causes the location-constrained inner-city residents to experience adverse labor market outcomes. Since that seminal paper, spatially targeted policies have become popular at many levels of government. While the SMH enjoyed several decades of empirical support, more recent work taking into account the endogeneity of residence choice has cast some doubt on the causal relationship between spatial mismatch and poor central city labor market outcomes.[2] Whether the SMH holds or not, it is widely accepted by policy-makers and spatially targeted economic incentives can be seen as an attempt to correct for the cost differentials that keep businesses from locating in the inner city.

Even in the absence of a causal effect of spatial mismatch, local jurisdictions may wish to spur development within their boundaries to increase tax receipts. It is not far fetched to believe that localized tax incentives could be beneficial for local jurisdictions, even if they had no effect on the indigenous population. Bartik (1991) reviewed the literature on the effects of local taxes on business activity and found that the elasticity of business activity with respect to local tax rates lays somewhere between −1 and −3. If this is true, decreasing local taxes (even in a small section of the jurisdiction) could be revenue-enhancing for local governments.[3] These large elasticities suggest that the effects of local tax incentives may be large and that enterprise zones may be an effective policy tool from a local perspective.

Research examining the effects of spatially targeted incentives has concentrated on the various state programs. While many studies have found that enterprise zones have faired well in terms of employment, Boarnet (2001) points to the many methodological pitfalls inherent in straight comparisons of zones to non-zone areas. More rigorous evaluations of the state programs have not been lacking. An extensive review of this literature can be found in Peters and Fisher (2002). They find that while early econometric studies of the effects of state enterprise zones usually found positive results (e.g., Erickson and Friedman, 1990; Papke, 1993; Papke, 1994), more recent results have been much less favorable.[4] Peters and Fisher offer several possible explanations for this set of findings. They suggest that the tax incentives are not generous enough to overcome the substantial disadvantages associated with the targeted areas. They also suggest that the administration of zones, which often put conditions on the incentives that exist, may reduce their attractiveness. Bondonio and Greenbaum (2007) suggest that the insignificant net effects mask countervailing positive effects on new firms and negative effects on existing firms (who exit the zone), along with a number of other interesting results. Lynch and Zax (in press) look at establishment-level data, finding little effect for the state program in Colorado. They suggest that the benefits of the program likely fall on immobile factors like commercial real estate. Landers (2006) finds similar results for the Ohio state program.

The literature examining the effects of the federal Empowerment Zone program is much less developed, but growing. It is important to note that selection into the EZ program differed substantially from selection into state programs. In selecting federal Empowerment Zones, HUD required an application process. Applicant zones were evaluated not only on the demographic and economic "needs" of the zones, but also the expected efficacy of the applicants' planned use of program funds. Wallace (2003, 2004) examines this process, while Greenbaum and Bondonio (2004) examine how the process has changed over the three rounds of the program. Oakley and Tsao (2006, 2007a,b) use propensity score matching, as in much of the recent literature on the state programs, to examine the effect of Chicago's and some other Empowerment Zones on a variety of socio-economic neighborhood outcomes. While they find some localized effects (*e.g.* on poverty and related variables in the case of Chicago's zone), they characterize the effects as underwhelming. When pooling four zones (in Chicago, Baltimore, Detroit and New York City), the intervention had no significant effects on poverty, unemployment or average household income.

Although most of the studies mentioned above examine job creation or employment outcomes, our primary variable of interest will be the value of owner-occupied housing in a neighborhood. We will also be

[2] Gurmu et al. (2008) uses panel data to control for individual-specific fixed effects, finding that access to employment has little effect on employment outcomes for their sample of Atlanta-area TANF recipients. Kling et al. (2004) use the random assignment of neighborhood achieved in the Moving To Opportunity experiments to look at the effects of job access and find that the experimental group (who were encouraged to move to low-poverty neighborhoods) did not have better labor market outcomes.

[3] These elasticity figures pertain to changes in business activity within a metropolitan area. Elasticities are of much smaller magnitude (between −0.1 and −0.6) when comparing changes in business activity across large areas. This implies that any tax advantages a jurisdiction might expect are coming primarily from other near-by jurisdictions, not through the attraction of business from other parts of the country. Of course, in the case of targeted incentives, the lower taxes may be drawing businesses away from other parts of the same jurisdiction. Such possibilities complicate cost/benefit analysis of such programs. In this paper we focus only on the local effects of the program, not the measurement of the benefits.

[4] Boarnet and Bogart (1996), Greenbaum (1998) Greenbaum and Engberg (2000), Engberg and Greenbaum (1999), Bondonio and Engberg (2000) and Peters and Fisher's (2002) own analysis all point towards this conclusion. Elvery (2009) is another very careful analysis that finds insignificant results of enterprise zone status.

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