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Newsroom

Enterprise Zones Get High Marks

10/09/06

Two USC Marshall professors examine areas lagging in economic development and employment. The study is cited by California governor as evidence the state's incentives are working.

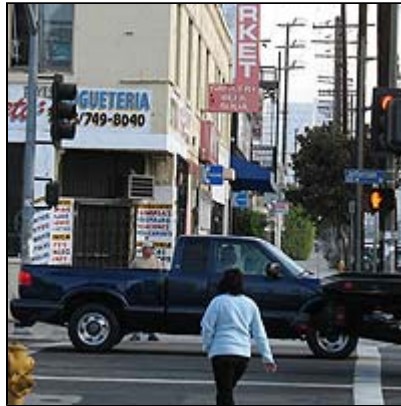
By Edward North-Hager

There is a program that lowers poverty rates, increases household incomes and bumps up salaries in the most economically depressed areas in the country.

Yet until USC professors Ayse Imrohoroglu and Chuck Swenson completed a state-of-the-art study, there was little evidence in favor or against so-called enterprise zones.

The zones were easy targets for criticism as 39 states pumped billions of dollars into the program. The state of California spent \$300 million on its own version last year.

In California, the critiques waned after the two USC Marshall School of Business professors published their study in August and Gov. Arnold Schwarzenegger cited their work a few days later.



An industrial area just east of USC is one of several enterprise zones studied by two USC Marshall School of Business professors.

Photo/Edward North-Hager

The study, commissioned by the California Department of Housing and Community Development, found that when compared to the rest of the state, enterprise zones had a:

- 7.35 percent drop in poverty rates;
- 7.1 percent increase in household incomes; and
- 3.5 percent increase in salaries.

An enterprise zone is an area defined by the state that is lagging in economic development, employment opportunities and meets a number of poverty criteria.

The zone gives tax breaks to qualified companies that are located within the zone to entice the economic development to depressed areas.

In California, a company could get a \$32,000 credit for hiring a local employee, a sales tax credit on machinery and parts of up to \$20 million a year and up to 100 percent net operating loss deduction.

"These are poorer areas where the state wants to encourage economic growth," Swenson said.

Swenson wasn't surprised the enterprise zones had their skeptics. Tax breaks were given, but there was little evidence that the result was more jobs or a higher quality of living.

That was the case until Swenson and Imrohoroglu's study.

Swenson said the duo's national study, which began four years ago, is under review at an economic journal. That investigation sparked the study of California as the state had

issued a request for proposals to examine the effectiveness of enterprise zones.

“Since we already had the data, we thought it would be a terrific opportunity for research to have an impact on the ‘real world,’ ” Swenson said. “And the punch line is the same as California [though to a lesser extent]. After zone designation, there appears to be a larger decrease in unemployment and decrease in poverty and a larger increase in family income in EZs relative to nearby census tracts. It was the first national study to examine all states.”

The study was able to generate accurate findings because Swenson and Imrohoroglu painstakingly placed each zone on a corresponding map using geographic information systems and block-by-block data from the 1980, 1990 and 2000 census.

The study not only compares the zones’ statistics before and after designation but also to contiguous census tracts.

“The data consists of over 8,000 EZ census tracts, much of which we had to draw ourselves from maps we obtained from hundreds of EZ coordinators across the country,” Swenson said. “This data-gathering process took over three years.”

When the numbers came back, the results were significant.

“The enterprise zones far outperformed their neighboring areas,” Swenson said.

Meanwhile, the debate in Sacramento continues as 18 enterprise zones expire later this year and will have to compete with areas that would like the designation.

Swenson has some criticisms of his own for the program. The zones need to be studied to find out what works and what doesn’t and, in turn, that information needs to be doled out to each municipality that oversees a zone.

“Enterprise zones need some work,” Swenson said. “They need centralized info and control. This is one program that is often under the radar. It is not publicized and the public doesn’t know much about it. Probably because it is one small line item in the state budget.”

Now that there’s a study that definitively lays out the benefits of such zones, it’s on to the next logical question for Swenson and Imrohoroglu: Are the benefits of the enterprise zones worth the millions of dollars invested?

“That’s a second study we may do in the next few years,” Swenson said. “My gut feeling is yes, but we are scientists and we need to see that. The major first step was just to see if they are associated with increased economic performance. I went in as an agnostic.”

As with many research projects, Swenson said they cannot prove causality, and there may be other reasons why these areas improved after becoming enterprise zones, while nearby areas did not improve.