



## **EXECUTIVE SUMMARY TO ACCOMPANY:**

### **Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Communities (forthcoming, *Journal of Public Economics*, 2011)**

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Each year, local governments in 43 states spend billions of dollars on Enterprise Zone programs. Yet before this study, there was inconclusive evidence that such programs were effective in spurring economic development and job creation. Much of the problem with previous research was caused by too narrow of a scope (focus on just a few states), too short of a time period to examine such effects, and lack of accurately-specified EZ areas to study. The purpose of our study was to overcome such problems with a national study, over a twenty year horizon, using precisely identified EZ areas for all 43 states having such programs.

Our study is forthcoming in a top ten economics journal and has been lauded by many academics. We find that EZs do in fact result in economic growth in terms of increased employment, increased family income, and reduced poverty. In short, such programs “work” and our results strongly suggest that EZ programs be retained as a policy mechanism, including in California. Our results are summarized nationally, and then specifically for California.

#### **National Results**

Over the course of three years, we hand-collected paper maps for the roughly 8000 Census tracts for which there were EZs in all 43 states with such programs. We then digitized such maps using GIS software. We then digitized similar Census tracts which would act as “control” (or comparison) groups, both contiguous to EZ tracts, and also nearby tracts. We then analyzed, using Bureau of the Census data for all census tracts (for all households nationally, over 20 years) whether such EZs, after enactment, resulted in economic development. The statistical methodology used the aforementioned control groups, and a “differences in differences” method

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(widely accepted in economics), to control for trends in growth. We found convincing evidence that such EZ programs worked, as follows:

- ▶ EZs reduced unemployment rates by 3.1% (Table 4 in the paper)
- ▶ EZs reduced poverty rates by 26.1% (Table 4 in the paper)
- ▶ EZs increased wage and salary income by \$2714 (Table 4 in the paper)
- ▶ There we no spillovers to other areas of the states (i.e., EZs did not “steal” businesses from other areas)

In our national analysis, we also found that similar Federal “Zones” had strong positive effects.

### **California Results**

Our data enabled us to also do by-state analyses of EZ programs. We found similar strong evidence that EZs “work” in California as follows:

- ▶ EZs reduced unemployment rates by 3.4% (Table 5 in the paper)
- ▶ EZs reduced poverty rates by 8.6% (Table 5 in the paper)
- ▶ EZs increased wage and salary income by \$3136 (Table 5 in the paper)
- ▶ There we no spillovers to other areas of the state (i.e., EZs did not “steal” businesses from other areas)

### **Comparison to Prior Studies**

Prior studies often used crudely measured EZ locational data or methodologies, and this paper should be viewed as the newest, best, credible evidence on the effectiveness of EZs. With respect to California-specific EZ studies, the PPIC study uses firm level data from Dun & Bradstreet which makes it extremely difficult to detect any employment changes resulting from California EZ policy (due to the interval measurement scale used). The PPIC study also does not control for national trends(our study does), which contributes to high standard errors (also making it very difficult to determine statistical significance of EZ policies on employment).

### **Conclusion**

We believe that our study is by far the most robust work done in this area. We find that EZs are an effective policy mechanism for reducing unemployment and poverty, and increasing incomes.



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