

Contents

List of Figures	vii
List of Tables	viii
Preface	xi
1 Introduction	1
Enterprise Zones and Economic-Development Policy	2
The Organization and Arguments of the Book	5
States, Cities, and Enterprise Zones Sampled	15
2 Enterprise Zones and Economic Development Policy	21
What Is an Enterprise Zone?	21
The Enterprise Zone Idea	23
Does the Enterprise Zone Concept Make Sense? Some Preliminary Issues	34
Enterprise Zones and Growth: Are Zones Effective?	44
Conclusions	48
3 How Valuable Are Zone Incentives to Firms?	53
How Does One Accurately Measure the Worth of Enterprise Zone Incentives?	54
Incentive Competition in the 1990s	56
Taxes and Incentives in 75 Cities, 1990–1994	69
Taxes and Incentives in Ohio Cities, 1990–1994	78
Conclusions	82
4 How Taxes and Incentives Favor One Industry over Another and Capital over Labor	85
Favored Industries	86
Incentives to Expand Labor Versus Capital	89
Conclusions	99
5 The Fiscal Effects of Incentives	103
The Fiscal Effects of Tax Cuts Generally	104
Model Estimates of the Fiscal Effects of Incentives	107
Why Front-Loading Incentives Is a Costly Strategy	117

The Total Fiscal Effects for a Zone	120
Conclusions	121
6 Manufacturing Growth and Decline in Enterprise Zones	127
The Manufacturing Establishment Data	128
Establishment Diversity and Turnover in the Enterprise Zones	131
Sectoral Change and the Comparative Advantage of Zones	139
Effects of the National Economic Expansion	151
Conclusions	151
7 Enterprise Zones, Incentives, and Local Economic Growth	157
Models of Taxes and Growth—Background Issues	158
Building Econometric Models of Taxes and Growth	166
The Structure of Our Model	172
Results	178
Conclusions and Further Discussion	190
8 Enterprise Zones and Access to Employment	197
Why Access Matters	198
Targeting in Enterprise Zone Jobs Credit Programs	200
Enterprise Zones and Commuting Behavior	204
Conclusions	212
9 Conclusions and Policy Recommendations	217
A Review of the Research Findings	217
Are Enterprise Zones a Useful Economic-Development Tool?	227
Improving Enterprise Zones	234
Appendix A: Details of the TAIM^{ez} Model	239
How the Model Works	240
Manufacturing Sectors Modeled	241
The Firm’s Financial Statements	243
Taxes Modeled	247
The Geography of the Firm and the Destination of Sales	250
Measuring Effects Over Time and the Problem of Inflation	252
Discretionary Incentives	254
Appendix B: Do High-Unemployment Places Have Lower Business Taxes? A Comparison of Results from TAIM and TAIM^{ez}	257
Appendix C: The Tax Elasticity of Employment and Fiscal Break-Even	265

Appendix D: The SSEL Data	271
Employment-Size Class	271
Births and Deaths	273
Moves In and Out	274
Expansions and Contractions	275
Appendix E: Translating Enterprise Zone Boundaries and Tax Characteristics of Zones	279
Enterprise Zone Boundary Files	279
Defining Zip-Code Equivalents of Zones	280
Defining TAZ Equivalents of Zones	281
Appendix F: Detailed Results	287
Appendix G: Gravity-Based Commuting Models	303
Appendix H: Enterprise Zones and Commuting	305
Zone Demographics and Commute Time	306
Commuting Into and Out of Enterprise Zones	307
References	313
The Authors	325
Subject Index	327
About the Institute	345

List of Figures

5.1 Annual Fiscal Effects of Incentives for a Fabricated Metals Plants in a Texas City	115
6.1 Establishment Change in 66 Enterprise Zones (9,094 total establishments in 1989)	152

List of Tables

1.1	The 75 Enterprise Zones Sampled	16
2.1	State Enterprise Zone Eligibility Criteria as of 1992	28
3.1	Tax Incentives Available in 20 States, 1998	58
3.2	Major Tax and Incentive Changes in 20 States, 1990–1998	60
3.3	Effective State-Local Tax Rate on Income from a New Manufacturing Plant in 20 States, 1990 and 1998	62
3.4	The Value per Job of Incentives to Manufacturing Firms in 20 States, 1990 and 1998 (in dollars)	66
3.5	Negative State Corporate Income Tax Rates on New Plant Investment	70
3.6	Effective Tax Rates on New Manufacturing Investment in 75 Cities (Weighted Average for 16 Manufacturing Sectors)	72
3.7	The Value of Incentives per Job Created to Manufacturing Firms in 75 Cities, 1990 and 1994 (in dollars)	74
3.8	Gross Cost of Incentives Versus Value to the Firm	77
3.9	Wage Equivalent of General and Zone Tax Incentives, 1994, Averaged by State for 75 Cities (The Hourly Wage Reduction That Is Equivalent in Value to the Total State-Local Incentive Package over 20 Years)	79
3.10	Tax Rates and Incentive Value in 104 Ohio Cities, 1990 and 1994	80
4.1	Variation in Tax Rates within Cities in 13 States	87
4.2	Favored Industries	90
4.3	State and Local Tax Incentives in 75 Cities, Averaged by State, 1994	93
4.4	Utilization of Capital and Labor Credits in 75 Cities: Firms Locating in an Enterprise Zone, Averaged by State, 1994	95
4.5	The Effect of Incentives on the Prices of Capital and Labor, 1994 (Averages by State for 75 Enterprise Zone Cities)	98
5.1	State and Local Direct Revenue Gains per New Job for Investment Induced by Incentives	110
5.2	Summary of State and Local Fiscal Effects per New Job in 75 Cities	112
5.3	Elasticity of Establishment Growth Required for Fiscal Break-Even for Selected Manufacturing Sectors in the Thirteen States, 1998 Taxes and Incentives	116

6.1	Sectoral Diversity and Gross Rates of Establishment Growth and Decline in 64 Enterprise Zones, by Zone, 1989–1995	132
6.2	Establishment Turnover by Employment Size and Sector in 64 Enterprise Zones, 1989–1995	137
6.3	Average Percent of Establishments Expanding or Contracting Employment per Two-Year Period in 64 Enterprise Zones, 1989–1995	140
6.4	Sectoral Composition of Establishment Growth and Shrinkage in 64 Enterprise Zones, 1989–1995	142
6.5	Births, Deaths and Net Change in Number of Establishments by Sector in 64 Enterprise Zones and 13 States, 1989–1995	146
6.6	The Comparative Advantage for Enterprise Zones	148
7.1	Variables Used in Models	180
7.2	Descriptive Statistics of Variables in National Base Model	181
7.3	Results from National Base and Sectoral Models	182
7.4	National Base and Sectoral Models, Elasticity Estimates	183
7.5	Results From Ohio Base and Sectoral Models	189
8.1	Demographic Targeting in Enterprise Zone Jobs Credit Programs in 13 States, 1994–1998	202
8.2	Employment in Enterprise Zones by Residence and Distance to Work of Zone Employees	210
A.1	Characteristics of the Representative Firms	244
B.1	Correlation between City Unemployment Rate and Return on New Manufacturing Investment for 88 Cities in 16 States	259
B.1	Correlation between State Unemployment Rate and Return on New Manufacturing Investment at an Average Location in Each State	260
B.3	States Ranked by Return on Investment after Taxes and Incentives, 1990–1997	262
E.1	Tax Rates and Property-Tax Abatements in the Enterprise Zones in 75 Cities, 1994	283
F.1	Effective Tax Rates on New Investment in 1994 for 75 Enterprise Zone Cities (Weighted Average for 16 Manufacturing Sectors)	289
F.2	The Value of Incentives to Manufacturing Firms in 75 Cities, 1994 (Net Present Value over 20 Years, per Job)	292

x Contents

F.3	Variation in City Rankings and Tax Rates by Sector, 75 Cities, 1994 (Cities Ranked by Tax Rate after Enterprise Zone Incentives)	296
F.4	State and Local Direct Revenue Gains and Incentive Costs per New Job for New Manufacturing Plants in 75 Cities, 1994	300
F.5	Birth, Death, Expansion, and Contraction Rates by Establishment Size and Time Period, for 64 Enterprise Zones	301
H.1	Residential, Income, and Journey-to-Work Differences for Those Working in and Residing in Enterprise Zones, 1990	308
H.2	The Effect of Enterprise Zones on Commute Time, Regression Results for Further Cities	310