

RESEARCH SUMMARY

Do Spatially Targeted Redevelopment Incentives Work? The Answer Depends on How You Ask the Question

Spatially targeted incentive systems are prevalent in the United States. Although the details of these programs can be as different as the targeted areas, the common theme is that they confer benefits based on location within a homogeneous geographic unit. Many studies have examined the effects of these programs, but in “Do Spatially Targeted Redevelopment Incentives Work? The Answer Depends on How You Ask the Question,” Andrew Hanson and Shawn M. Rohlin compare several common program evaluation techniques used in evaluating the federal Empowerment Zone (EZ) program.

Choice of methodology is influential in determining the outcome of a program evaluation. Program evaluators should use a combination of techniques when determining program outcomes, and not rely on a single technique that may produce inexact results. Any evaluation should include a careful explanation of strengths and weaknesses of the chosen method, and should consider whether the results would be similar with other approaches.

TAX INCENTIVES FOR ECONOMICALLY DISTRESSED AREAS

In 1993, the federal government began to offer tax incentives to employers located in parts of economically distressed areas, creating two different kinds of programs: Empowerment Zones and Enterprise Communities.

- *Empowerment Zones (EZs)*. Areas designated as Empowerment Zones had at least 20 percent of their populations in poverty. EZs were placed both in urban areas, such as Detroit, and in rural areas, such as the Rio Grande Valley in Texas. These areas were relatively small portions of the cities by land area and generally overlapped with what were impoverished areas. The EZs had a few other benefits besides the general tax incentives, such as \$100 million in Social Services Block Grant funds. The EZs also were granted wage tax credits, meaning firms were paid for employees they took on.
- *Enterprise Communities (ECs)*. Many of the nominees that did not receive EZ status were awarded runner-up status, termed Enterprise Community (EC), which offered an overall less generous package of assistance with a limited set of tax incentives. The essential differences between EZs and ECs are that EC employers could not claim the wage tax credit, and EC zones were typically allowed only \$3 million in Social Services Block Grant funds.

PROGRAM EVALUATION TECHNIQUES

The paper examines multiple different techniques for pinpointing the effects of spatially targeted incentive systems on the local economy, using the number of employees and firms as outcomes. The paper only considers urban areas when applying the techniques.

Studying the federal EZ program as a means to examine methodology is advantageous for several reasons:

- First, the federal program had an application process, generating a set of areas that qualified and applied but were not admitted to the program, thereby creating a comparison group that should not suffer from application bias.
- Second, the program also had preapplication rules for areas to be considered, generating a rules-based group of comparison areas.
- Third, the program is uniform across areas, so that program characteristics are not endogenous to local needs.
- Last, the geography of recipient boundaries is (and comparison areas are) accounted for by census tract areas.

Every program evaluation technique was found to have its own strengths and weaknesses, but none were proven definitively better than the rest. Different techniques also produced differing results about the effects of EZs on the number of employees and firms, varying so far that some techniques showed positive effects while others showed negative.

CONCLUSION

Policymakers should refer to multiple studies of Empowerment Zone programs before concluding anything definitive about the effects of these programs. There is no perfect metric for measuring EZs. Although this paper specifically focuses on EZ programs, the lessons learned can be applied to all targeted policies.