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Study: California's Enterprise Zone Program Does Not Increase Job Growth

by John Buhl

Tax incentives provided through California's enterprise zone program -- aimed at encouraging economic development in distressed areas -- have not increased job growth, according to a new National Bureau of Economic Research working paper.

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"Do Enterprise Zones Create Jobs? Evidence From California's Enterprise Zone Program," by David Neumark and Jed Kolko, analyzes the effectiveness of state enterprise zone programs by comparing the employment growth in enterprise zones in California with employment growth in other "carefully considered control areas" in the state between 1992 and 2004.

Enterprise zones could still have other positive benefits for communities, according to the study, such as "beneficial" shifts in employment or spillover effects into nearby areas.

"Although we cannot rule out some beneficial effects along dimensions we do not measure, it seems that the safest conclusion is that California's enterprise zone program is ineffective," the report says.

However, Craig Johnson, president of the California Association of Enterprise Zones, said the zones are meant to accomplish a number of other goals that the study does not address, including reducing poverty and increasing income levels within the zones. Johnson said other studies have documented the positive effects of enterprise zones.

Johnson cited an August 2006 report by the California Housing and Community Development Department, which says poverty rates were 7.35 percent lower in enterprise zones than other parts of the state from 1990 to 2000. Also, a 2006 study by Ted K. Bradshaw of the University of California, Davis, says the program helped distressed areas attract businesses, jobs, and higher wages.

The zones also help areas retain businesses that might otherwise relocate, Johnson said, which will be especially important with the current economic downturn.

"I think, in a down economy, this program will do just that," said Johnson, the enterprise zone manager for Long Beach, Calif.

Neumark, an economics professor at the University of California, Irvine, said that while policymakers may intend enterprise zones to do more than increase employment, it would be hard to argue in favor of the zones without showing that they increase job growth.

Kolko, a research fellow and associate research director at the Public Policy Institute of California, added that they chose appropriate control groups "very carefully" to ensure the accuracy of the data. Kolko called Bradshaw's study "one of the least careful."

Other policy pundits were not surprised by the report's conclusions.

Iowa Policy Project Research Director Peter Fisher -- who cowrote the 2002 book *State Enterprise Zone Programs: Have they Worked?* with Alan H. Peters -- said his analysis did not find a correlation between more generous tax incentives and higher job growth rates in enterprise zones.

If the zones are effective, distributing more incentives should lead to more job growth, Fisher said.

Tax Foundation Chief Economist Patrick Fleenor added that enterprise zones could help meet a narrow goal, but that they would likely "shift employment around." Tax policies should focus on the economy as a whole, Fleenor said.

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