LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

February 14, 2011

To: Bill Allen, CEO
David Flaks, SVP, Strategic Initiatives

From: Christine Cooper, Ph.D.
Senior Economist

RE: California Enterprise Zones

In light of the Governor's proposal to eliminate the California enterprise zone program, you asked me to provide some metrics or analysis of the potential cost savings of retaining the zones.

As you know, the recent study authored by David Neumark and Jed Kolko of the Public Policy Institute of California (PPIC) found there to be no employment impact in enterprise zones. This would seem to support the elimination of the program, saving an estimated $900 million over the next two years.

However, more recent work by John Ham, Ayse Imrohoroglu and Charles Swenson of USC entitled *Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Zones,* comes to different conclusions.

This study stands apart from the PPIC study in that it uses Census data and measures outcomes in five labor market variables: the unemployment rate, the poverty rate, the share of households in the tract that have wage and salary income, real average household income, and total employment.

The PPIC study uses a privately-developed database of businesses based on Dun and Bradstreet data, which obtains self-reported data on employment levels. These employment levels are reported in intervals, which will mask improvements over time. For example, in one time period, a business with two employees selects "1 to 5 employees." If the business later has 5 employees, it would still check "1 to 5 employees," showing no employment increase. The intervals for larger companies range in hundreds of jobs, such as 500 to 750 employees.

The Ham *et al* study was funded by USC, the University of Maryland and the National Science Foundation (NSF) and is forthcoming in the Journal of Public Economics (a peer-reviewed, top-ten Economics journal). The authors use more credible data over two decades and examine geographically-targeted incentive zones nationally.

The following results from their study may help provide some context for discussion.

Key Points for California Legislators:

- The PPIC study uses non-government data sources which may not be suitable for detecting employment changes.

- The Ham *et al* study uses Census data for households and as such can examine other outcomes, such as unemployment, the poverty rate and wage and salary incomes.

- The Ham *et al* study shows that there is a statistically significant positive impact of enterprise zones on the local unemployment rate, the poverty rate, the share of households in the area that receives wage and salary income, and total employment.

- Businesses in enterprise zones in California employ over 1 million workers. If EZs are eliminated, Ham *et al* estimate:

    - The state unemployment rate could increase by as much as 3.4 percent

    - The state poverty rate would increase by as much as 8.6 percent

    - Average wage and salary income would fall by $3,100

    - The state would save approximately $5,000 per year for each tax credit, but would lose on average $20,000 per year in unemployment insurance payments for those workers who would lose their jobs, and an additional $3,000 per year in personal income and sales tax revenue.