Place-Based Policies: Can We Do Better than Enterprise Zones?

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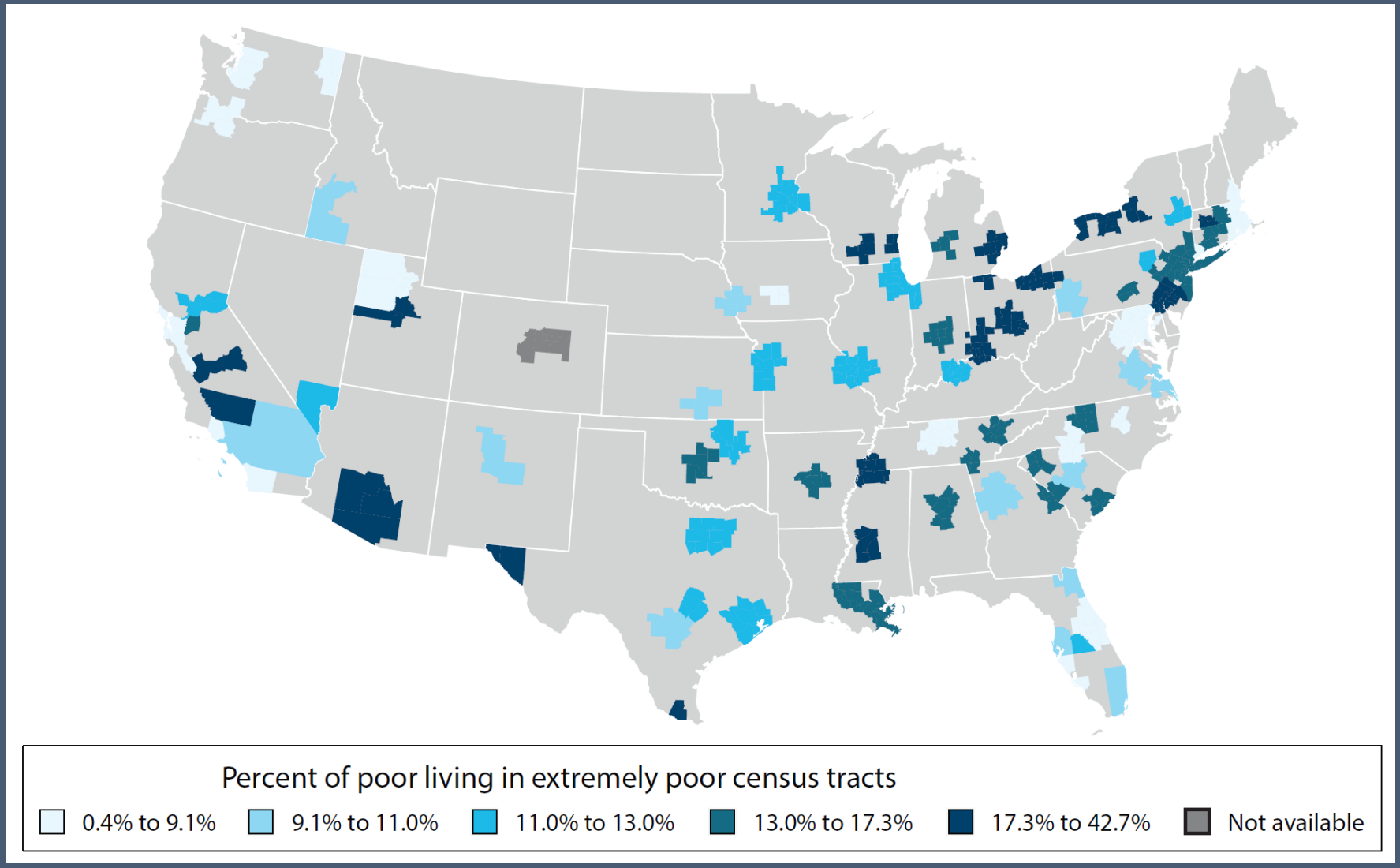
Facts indicating we still need place-based policy

- U.S. cities continue to have large concentrations of poor people in "extremely poor" areas (poverty > 40%)
  - "Concentrated poverty": share of the poor living in tracts with extreme poverty
  - 13.3% of poor live in the 4,000 extremely poor Census tracts
- Urban poverty has fallen a bit, but "concentrated poverty" in urban areas has risen, and is much higher in urban areas

Facts indicating we still need place-based policy

- Problem of joblessness: 37% of prime-age males non-employed in extreme poverty tracts, vs. 19% overall
- Less-skilled workers less likely to move in response to demand shocks (Bound and Holzer, 2000)
- Many challenges to encouraging job creation in poor urban areas, including low skills, decaying infrastructure, crime
- Problems of poor urban neighborhoods have externalities for cities generally

Geographic concentration of concentrated poverty, top 100 metro areas



Why not enterprise zones?

- Weak evidence of job creation
- Weak evidence of poverty reduction
- Effects may accrue to the more-advantaged
- Negative spillover may imply at best reallocation of jobs
  - Could still imply some benefits

Recent EZ evidence (leaving out spillovers)

Employment (%)	
Multiple states: Greenbaum and Engberg (2004)	-0.4
CO: Billings (2009)--existing estabs	1
CA: Neumark and Kolko (2010)	0

Employment rate (p.p.)	
CA: Elvery (2009)	-1.6
FL: Elvery (2009)	-2.5
FEZs: Hanson (2009)	0

Poverty rate (p.p.)	
FEZs: Hanson (2009)	2
FEZs: Reynolds and Rohlin (2015)	-1
State EZs: Neumark and Young (forth.)	0.6
FEZs: Neumark and Young (forth.)	-1.5
FENTCs: Neumark and Young (forth.)	-1.6

Some exceptions indicating large benefits of EZs

Employment (%)	
Multiple states: Greenbaum and Engberg (2004)	-0.4
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FEZs: Busso et al. (2013)	15.5

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Busso et al. results?

- Good: FEZs could be different
  - Substantial hiring credits coupled with large block grants up to $100 million for business assistance, infrastructure investment, and training programs
  - Non-rigorous evidence from study that these helped attract outside private capital
- Bad: Absence of distributional benefits? (Reynolds & Rohlin, 2015)
  - No detectable effect on poverty
  - Slight increase in extreme poverty
  - Main increase is in share earning > $100k
  - Positive effects in lower-poverty tracts

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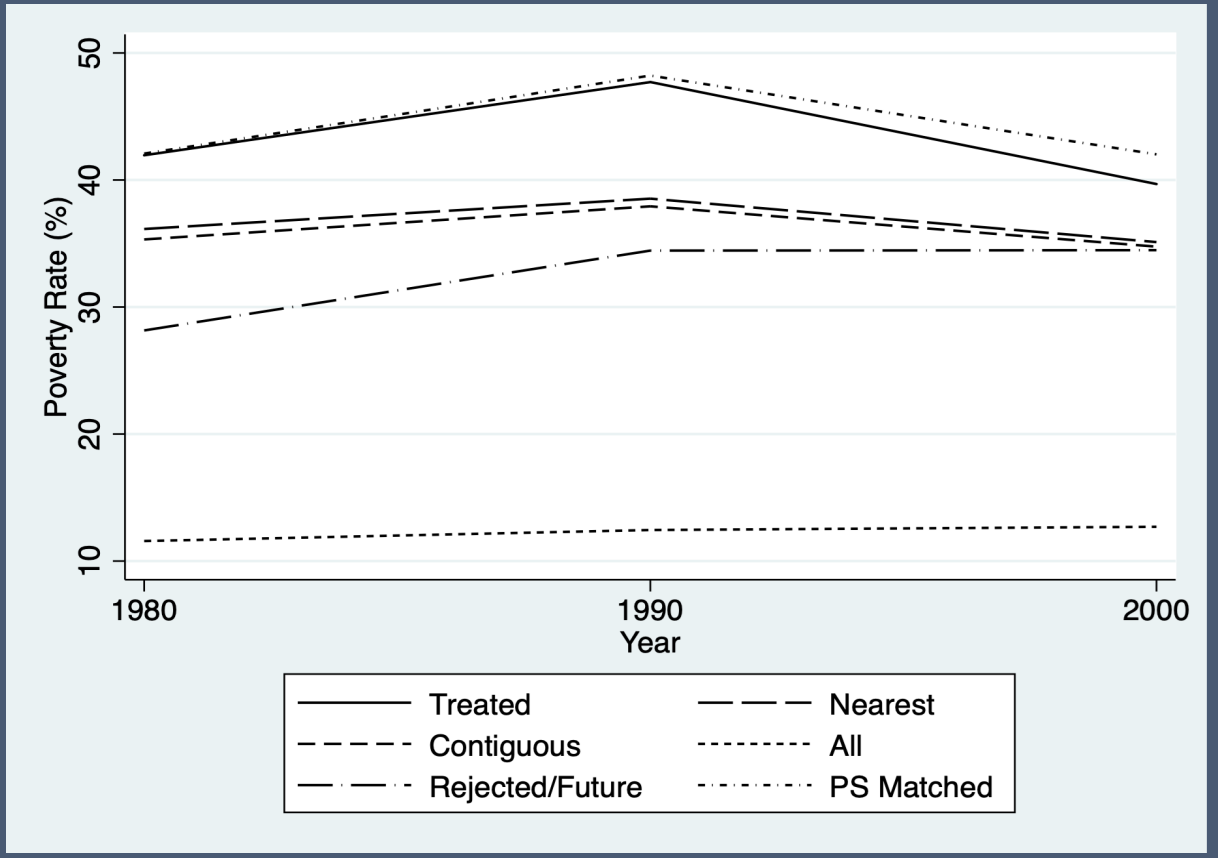
Poverty rate (p.p.)	
FEZs: Hanson (2009)	2
FEZs: Reynolds and Rohlin (2015)	-1
State EZs: Ham et al. (2018)	-1.7
FEZs: Ham et al. (2018)	-8.2
FENTCs: Ham et al. (2018)	-11.7
State EZs: Neumark and Young (forth.)	0.6
FEZs: Neumark and Young (forth.)	-1.5
FENTCs: Neumark and Young (forth.)	-1.6

Ham et al. results?

- Driven by "Ashenfelter dip"
  - Designation of zones in 1990s based on deterioration in 1980s (Neumark and Young, forth.)
  - Example for effects of FEZs on poverty



Reflected in estimates on poverty rate (FEZs)

	Poverty rate (%)
Panel 1: HSIS preferred estimator	
EMPZ	-8.160***
	(1.656)
Comparison group (Hausman selected)	Contiguous
Panel 2: Rejected (in Round 1) and future federal zones	
EMPZ	-4.427**
	(2.088)
Standard error for the difference between PSM and rejected/future zone estimates	2.854
t-statistic for the difference between PSM and rejected/future zone estimates	1.043
Panel 3: Propensity score matched on 1980 and 1990 levels	
EMPZ	-1.449
	(1.835)
Standard error for the difference between PSM and HSIS estimates	2.126
t-statistic for the difference between PSM and HSIS estimates	3.157

Reflected in estimates on unemployment rate (FEZs) – but some benefits survive

	Poverty rate (%)
Panel 1: HSIS preferred estimator	
EMPZ	-10.21***
	(.524)
Comparison group (Hausman selected)	All
Panel 2: Rejected (in Round 1) and future federal zones	
EMPZ	-6.501***
	(1.326)
Standard error for the difference between PSM and rejected/future zone estimates	2.254
t-statistic for the difference between PSM and rejected/future zone estimates	1.742
Panel 3: Propensity score matched on 1980 and 1990 levels	
EMPZ	-2.575***
	(0.953)
Standard error for the difference between PSM and HSIS estimates	0.915
t-statistic for the difference between PSM and HSIS estimates	8.344

What is to be done?

- Not EZ business as usual
  - Very hard to make case that EZs have been effective
- Data suggest need for targeted interventions
- We can learn from research to design (and evaluate!) alternatives
  - Research on hiring incentives (wage subsidies, hiring credits)
  - Research on spatial employment issues (spatial mismatch, networks)

Why not other/existing policies? (I)

- Transportation to address spatial mismatch
  - Hard to reconfigure mass transit for urban to suburban commuting
  - Commuting costs still high, reducing net wage for urban poor
  - Poor information about jobs in other areas, few network connections, etc.
  - Racial vs. spatial mismatch
  - Advantages from improving urban areas to make them more hospitable for job creation

Why not other/existing policies? (II)

- MTO-type programs
  - If there are labor market effects, they are long term
  - Cannot be taken to scale – can't move massive numbers of poor people out of poor areas
    - Program more effective at generating evidence on neighborhood effects than identifying policy response

Elements of RCJS proposal (I)

- Phase 1 job subsidies: jobs fully subsidized by federal gov't for 18 months
- Jobs must have potential to build skills leading to good jobs in private sector (e.g., construction, skilled trades)
- Subsidized jobs must help revitalize and improve disadvantaged urban areas
- Jobs administered by local non-profits in partnership with local employers and community groups

Elements of RCJS proposal (II)

- Phase 2 job subsidies: transition to private-sector jobs, with 50% subsidy for 18 months
  - Continued eligibility of employers dependent on retention of workers placed earlier
  - Continued eligibility of non-profits dependent on successful placements
- Job subsidies limited to workers in families < 150% of poverty line if working, 100% if not
- Eligibility for program restricted to residents of economically-disadvantaged urban areas
- Builds in experimental period, design, evaluation

Rationales for proposal elements (I)

- Skills related to good jobs
  - Build economic self-sufficiency, address low wages and employment of less-skilled men
  - Avoid bias toward low-wage, high-turnover jobs in EZ programs
- Improve/revitalize disadvantaged urban neighborhoods
  - Go deeper than hiring credits by reducing other barriers to job creation
- Target residents
  - Overcome “racial mismatch”
  - Exploit potential multipliers from networks

Rationales for proposal elements (II)

- Local non-profit and partnership role
  - Reinforce revitalization/improvement goals via knowledge of unique challenges
  - Focus on benefits for local residents and businesses
- Revitalization, non-profits, and building skills in low-skill areas, make windfalls far less likely than in other hiring credit/subsidy programs, and negative spillovers less likely
  - Different from just subsidizing jobs employers might create there or elsewhere

Rationales for proposal elements (III)

- Two-phase structure of subsidies
  - Fast ramp-up via 100% subsidies (like TANF Emergency Fund)
  - Reduction and phase-out bolsters political feasibility
  - Other programs (EITC) provide ongoing subsidies to work for low-income families

Rationales for proposal elements (IV)

- Condition employer eligibility on retention
  - Avoid churning
- Condition non-profit eligibility on good placements
  - Create right incentives

Rationales for proposal elements (V)

- Targeting to low-income families
  - Improve distributional effects relative to EZ's
- Urban focus
  - Rural poverty important, but extreme and concentrated poverty higher in urban areas
  - Gains from revitalization/improvement of neighborhoods from jobs more plausible in compact urban areas
  - Positive externalities more plausible

Political feasibility/appeal?

- Elements of Guaranteed Jobs programs, but more realistic, targeted/constructed based on past research findings
- Goal is private-sector employment
- Subsidies of limited duration

Why might RCJS work?

- Hiring credit less focused on individual characteristics – less stigma
- Aggressive job subsidies under TANF Emergency Fund, also using non-profits, led to very strong take-up and some post-program benefits
  - Parallel between depressed periods and depressed areas?
- Some past programs (most notably, New Hope) share elements of job creation incentives and revitalization

Cost estimate

- 100 sites, 50 jobs per site (about 3.1% empl. Increase), plus serious randomized evaluation
  - Per job cost, over three years = $82,500
  - ≈ $412 million
  - Likely with longer-lasting positive effects
- Federal Empowerment Zones
  - $641 million, for about 7,000 jobs
  - Comparable per job cost
- Other hiring credits – $9,100 to $75,000 per job created, and much higher for EITC, possibly higher with windfalls less likely under RCJS – and for shorter-term jobs