

# Assessing the Incidence and Efficiency of a Prominent Place Based Policy

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A growing class of “place based” policies explicitly target transfers towards particular geographic areas rather than groups of individuals. Economists have traditionally expressed little support for such programs, fearing that they will generate large distortions in economic behavior. Indeed, standard models of spatial equilibrium suggest mobile workers and firms will arbitrage the benefits associated with local policies by relocating across the boundaries of targeted areas. Local land prices ought then to rise and offset any welfare gains that might otherwise accrue to prior residents.

This paper critically examines this conjecture by conducting an empirical welfare analysis of Round I of the federal urban Empowerment Zone (EZ) program – one of the largest place based policies in the United States. In doing so, we contribute to a growing empirical literature on the effects of local economic policies including state level “enterprise zones” and spatially biased tax policies (Holmes, 1998; Albouy, 2009) in the U.S., and industrial and regional policies in Europe (Wren and Taylor, 1999; Criscuolo et al, 2007; Bronzini and de Blasio, 2006). Our work extends these literatures by conducting the first general equilibrium evaluation of a large scale highly localized place based policy founded on an explicit microeconomic model of commuting and labor supply with heterogeneous agents.

We develop a general equilibrium model with landlords, firms, and mobile workers who make labor supply and commuting decisions. The incidence and efficiency of local subsidies are shown to depend critically upon the distribution of agents’ preferences over residential and commuting options. If most agents are inframarginal in their commuting and residential decisions, deadweight loss will be small and local workers will reap the benefits of place based interventions. If, on the other hand, agents have nearly identical preferences, as in the classic models of Rosen (1979) and Roback (1982), deadweight loss will be substantial and government expenditures will be capitalized into land rents. We show that our model allows for simple approximations to the incidence and deadweight loss of EZs via a set of reduced form elasticities quantifying the program’s impact on the wages of local zone workers and commuters, the rental rate of zone housing, and the number of zone jobs for local residents and commuters.

Our empirical work centers on estimating these impacts using confidential geocoded microdata from the Decennial Census and the Longitudinal Business Database (LBD). These data provide us with two independent sources of information on local employment and allow us to adjust for changes over time in the composition of firms and workers. Crucial to our analysis, the Journey to Work component of the Census allows us to separate the impacts of EZ designation on workers by place of residence and place of work.

To identify the causal impacts of EZ designation we construct a set of control zones based upon proprietary data obtained from the Department of Housing and Urban Development on the census tract composition of rejected and later round Empowerment Zones. Since these tracts were nominated for designation by their local governments, they are likely to share unobserved traits and trends in common with first round EZs which also underwent a local nomination phase. We present an extensive body of evidence indicating that

our control tracts provide a suitable proxy for the counterfactual behavior of EZs over the 1990s. To account for the clustered nature of our data, and the fact that only six EZs were awarded over our sample period, we rely on a wild bootstrap testing procedure studied by Cameron, Gelbach, and Miller (2008) to conduct inference.

We find, in both the LBD and Census, that neighborhoods receiving EZ designation experienced substantial increases in total employment relative to observationally equivalent tracts in rejected and future zones. The hourly wages paid to zone residents working inside the zone also rose significantly. Yet despite these improvements in the zone labor market, we find little evidence of an influx of residents to zone neighborhoods. Population, rental rates, and vacancy rates all appear stable over the duration of the study suggesting that most workers consider zone neighborhoods poor substitutes for areas outside of the zone.

We plan to conclude with a quantitative assessment of the welfare impacts of the program on workers and a calculation of deadweight costs. This will involve computing the increased earnings accruing to local workers and nonresident commuters, the increased housing wealth of local landlords, and any offsetting increases in the local cost of living. We will then provide formal model based estimates of the efficiency loss of the program. These will be the first such estimates for the EZ program.