



Do California's Enterprise Zones Create Jobs?

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SUMMARY

California's enterprise zone program was established in 1986 to spur the creation of businesses in economically distressed areas and to create job opportunities for economically disadvantaged workers. It is the state's largest economic development program, offering tax credits and other incentives to businesses in 42 designated zones throughout the state. Yet, after more than 20 years, the program's effects are still unclear. Little is required of the state or its local zones in the way of evaluation, and previous research studies of the program's effects have had methodological problems, yielding suspect results.

In this report, we assess the degree to which the program has met its most important goal: creating employment. We use a unique set of data and methods to measure employment in enterprise zones in each year from 1992 through 2004, construct appropriate control groups for comparison, and estimate the effect of the program on employment.

Our main finding is that, on average, enterprise zones have no effect on business creation or job growth. However, our report also includes several findings and recommendations that may be useful in making enterprise zones more effective.

We found that the program's effectiveness differs across zones, appearing to have a more favorable effect on job creation in zones with smaller employment shares in manufacturing and in zones where the administrators report greater marketing and outreach activity.

We encourage a more critical evaluation of the program overall and of its effects in individual zones, using both our metric—employment—and others, such as poverty, unemployment,

and property values. The state should evaluate individual zone success with consistent evaluation metrics; this is an essential step for judging which factors make some zones more effective than others.

To increase the overall effectiveness of the program, zone selection should consider the characteristics that we have identified that may lead to more effective zones, zone administrators should be encouraged to engage in the activities that make zones more effective, and continuing evaluations should pay more attention to factors associated with success at creating jobs.

Two relatively small changes would benefit future evaluation and administration of the program. The first would be to require that local zone administrators and applicants create digitized maps of their zones using geographic information system (GIS) software. GIS maps can be read with standard mapping software and overlaid with data from the U.S. Census, the National Establishment Time-Series (NETS), and other sources. The second change would be to require that enterprise zones follow Census tract boundaries. This would make it easier to analyze and control for demographic and other characteristics when selecting new zones or evaluating existing ones. These two recommended changes would help the California Department of Housing and Community Development (HCD) in its zone selection and evaluation process and enable local administrators to work more effectively with businesses in visualizing and marketing the zone.

The full report and related resources
are available on the report's publication page:
www.ppic.org/main/publication.asp?i=742.