COMMENTS

"EMPLOYEE USE OF THE EMPOWERMENT ZONE TAX CREDIT" BY ANDREW HANSON

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ANDREW HANSON MAKES CLEVER USE OF THE limited information on IRS Form 8844. This form asks each firm claiming federal empowerment zone or renewal community credits to give the total qualified wages paid. He uses these data to make an estimate of the number of zone residents for which the firm is claiming wage credits. The key number to remember from this paper is his national usage estimate that employers are claiming about 25 percent of eligible employees for the EZ wage credit.

This paper is an important first step in filling the void in the geographically based tax incentive literature about the federal empowerment zone program. A major contribution of this paper is in describing the population characteristics of the federal zone residents. From the statistics in Table 1, I conclude that Washington D.C. is not like any of the other zones, with the exception of having a predominately black population. I also conclude that zone residents are predominately black (with populations as much as 96 percent black in Cleveland), with the exception of LA and New York who have a lot of people who identify themselves as "other."

There are also generally more "children" (people under the age of 20). I think the most striking finding is that the federal zone residents are severely undereducated. I summed up the fraction of the population with some high school as their highest academic achievement from the data in Table 1. For the nation, the number is 21.5 percent. For the zones (ignoring D.C.), this number ranged from about 42 percent in Baltimore to 60 percent in LA. Summing up the fraction of the population with some college or more, the national average is 47 percent, while for the zones (again, excluding D.C. where there must be a lot of unemployed political appointee types waiting for a turnover in the administration) this fraction ranged from about 20-32 percent. I imagine that these differences would be just as striking if compared with the host state averages.

I have a couple of suggestions on other cuts to make with these data.

1. I would like to see the fraction of the population under 18 instead of 10 and under, and 11-20.
2. I would like zone characteristics to be compared not with the national average but with either the area of the city/community outside the zone (first choice) or with the host state characteristics (second choice).

As an aside, isn't it amazing that the IRS form does not include one simple question that would assist in program evaluation and fraud control? That question would be: how many qualified employees did you hire this year? I'm sure the only reason the form asks for a breakdown of qualified empowerment zone wages and qualified renewal community wages is that the two have different credit rates.

Andrew finds that 25 percent of the eligible population is receiving a credit. He concludes that this is a small fraction, but comparable to other wage credit programs (where the eligible population is determined by some undesirable individual attribute like a felony conviction). I think it is too early to conclude that this is a small fraction. (Of course, it could be too big and also fraudulent since there is apparently no oversight mechanism – it's as good as claiming a deduction on your Form 1040 for a large weekly contribution to your church's collection plate. But let's assume it is not fraudulent.)

I don't think we can make a judgment about whether this is a small fraction until we know something about the firm mix in these zones. What is the breakdown between manufacturing (if any) and service/retail employment? What is the typical firm size? It may be unreasonable to expect more than 25 percent of this population to be employed in the zone. The zone program began in 1993. It would be useful to make a comparison, even at some aggregate level, of the industrial composition and firm size between 1990 and 2000 in the zones (how about census tabulations at the zip code level?).

Andrew uses census data on *employee travel time to work* to try to figure out what fraction of the employed population that might be employed outside the zone. But there is another indicator in census data of zone resident employment **in the zone**. In Papke (1993), I use census data from 1980 and 1990 on the *percent of residents who work in their place of residence* to compare zone effects on the economic well-being of residents. These data were available at the block group level – I don't know if this item is available in the 2000 census. But if it is available, it could be helpful in addressing this issue.

The footnote to Table 3 indicates that Hanson got the national credit dollar data from correspondence with IRS. Is it possible to get those numbers by state/zone? I understand the goal is a national usage rate, but an interesting feature of the federal program is that each empowerment zone is different. Each area had to come up with its own agenda for community involvement to qualify for zone designation (dollars/people contributed by other local programs). The federal wage credit is one of the few constants in each of these zone programs; so, it would be instructive to see these employment numbers by state.

I would also like to see Andrew use his census tract data set to compare zone resident well-being from 1990 to 2000. He has done the hard work of identifying the census tracts for the zones for 1990 and 2000. Now he can look at changes across the decade. This paper gives us a piece of the puzzle, but a comparison of census data across the decade may indicate if the economic situation of the zone residents appreciably improved (or perhaps people with more attractive characteristics moved in!).

Reference

Papke, Leslie E. What Do We Know About Enterprise Zones? In James M. Poterba, ed. *Tax Policy and the Economy,* Volume 7. Cambridge, MA: MIT Press, 1993, pp. 37-72.