

How to evaluate case study: Area Based Initiatives

Statistical approach (SMS level 3)

What was the programme and what did it aim to do?

This study evaluates the economic impact of three different area-based initiatives in the United States. The first initiative, Enterprise Zones (ENTZ), was implemented in the 1990s and provided local firms with property tax, income tax, and sales tax benefits. The second initiative, Empowerment Zones (EMPZ), provided local government with a grant of \$3,000 per resident, and firms with hiring tax credits of up to \$2,400 for hiring local residents between the ages of 18 to 24 years old. The third initiative, Enterprise Communities (ENTC), also provided firms with tax credits of up to \$2400 for hiring 18 to 24-year-old local residents.

What's the evaluation challenge?

Evaluating revitalisation policies such as these is difficult because the areas which receive the support are different to those which do not. In this case, the policy targeted the most deprived areas. As a result of this selection, if we compare differences in outcomes for business in treated areas to firms in other areas, these differences may not reflect the impact of the programme. Instead, they may simply reflect differences in the other characteristics (e.g. deprivation) of areas that receive support.

What did the evaluation do?

In order to address this issue, the study compares the before-and-after change in outcomes for census tracts that received support ('treated' areas) with census tracts that did not receive support ('control' areas). A census tract is considered as treated if more than 50 per cent of its territory is covered by ENTZ, EMPZ, or ENTC designations. This method is called the difference-in-differences approach.

How good was the evaluation?

According to our [scoring guide](#), the difference-in-differences method receives a maximum of 3 (out of 5) on the Maryland Scientific Methods Scale. This is because although it does well to control for observable (e.g. deprivation) differences between supported and non-supported areas it is unable to control for unobservable differences that change with time (e.g. changes in quality of governance). The study ensures the control group is as similar as possible to the treatment group by considering only contiguous census tracts and controlling for remaining observable differences in the regression analysis. Furthermore, there is a clearly defined treatment date. Therefore we score the study a 3 out of 5 on the SMS.

What did the evaluation find?

Overall, the study finds that the area-based initiatives successfully improve economic outcomes. EMPZ designation reduces unemployment by 8.7 per cent, poverty by 8.8 per cent, and increases annual wages by \$6,000. Similarly, ENTC designation reduces unemployment by 2.6 percentage points, poverty by 20 percentage points, and increases average annual wages by \$3,209. ENTZ designation also has a positive impact, but less so than for EMPZ and ENTC. The authors argue that this is because areas supported by EMPZs and ENTCs initially suffer from higher levels of unemployment, leaving more room for improvement. The study finds that none of these policies have significant spillover effects for surrounding areas.

What can we learn from this?

This study provides robust evidence that area-based initiatives can be effective. In particular, it is shown that tax incentives help revitalise underperforming areas. The results imply that tax credits for hiring local residents increase an area's employment level. In terms of policy design aspects, linking the tax credits to resident may help ensure that the benefits of the policies accrue to incumbent households. This may not be the case in the absence of such restrictions – see, for example, our companion case study on the UK's LEGI programme [here](#). Furthermore, more disadvantaged areas may benefit disproportionately from such initiatives, so that policymakers could more effectively target their investments towards zones with higher levels of poverty.

Reference

Ham, J. C., Swenson, C., Imrohorglu, A., & Song, H. (2011). Government programs can improve local labor markets: Evidence from state enterprise zones, federal empowerment zones and federal enterprise community. *Journal of Public Economics*, 95(7), 779-797. [Study 1225 from our Area Based Initiatives review, available here: <http://www.whatworksgrowth.org/policy-reviews/area-based-initiatives/>]

Other Area Based Initiatives case studies

Criscuolo, C., Martin, R., Overman, H., & Van Reenen, J. (2012). The causal effects of an industrial policy (No. w17842). National Bureau of Economic Research. [Study 1314 from our Area Based Initiatives review, discussed here: <http://www.whatworksgrowth.org/resources/how-to-evaluate-area-based-initiatives-uks-regional-selective-assistance-rsa-programme>]

Einiö, E. and Overman, H.G., 2016. The (displacement) effects of spatially targeted enterprise initiatives: evidence from UK LEGI. [Study 1315 from our Area Based Initiatives review, discussed here: <http://www.whatworksgrowth.org/resources/how-to-evaluate-area-based-initiatives-uk-local-enterprise-growth-initiative-legi>]

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