

Wealthy benefit most from enterprise zones

But the program was supposed to create jobs in economically depressed urban areas

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The Ohio Enterprise Zone Program, created in 1981 to spur economic development and job creation in depressed urban areas, has evolved into a tax subsidy program whose reported benefits go disproportionately to wealthier areas in the state.

The program provides property tax abatements to firms that locate, expand or increase investment within designated geographic areas known as enterprise zones. It was created to give struggling communities an extra tool to encourage firms to locate or expand in their borders. If distressed neighborhoods could promise reduced property taxes for some initial period of time, some thought that the program could generate higher income taxes. If it worked, supporters thought, eventually those companies would pay more in property taxes as well.

Some scholars have pointed to flaws in the reasoning, noting for example that companies sometimes receive tax breaks for investments they were going to make anyway. Others argue that the cost to the schools (which are funded mostly by property taxes) is too high. Despite these and other concerns, Ohio's Enterprise Zone Program has become one of the most expansive and costly economic development tools in the state. Data from the Ohio Department of Development reveals that enterprise zones exist in nearly every county, most cities and most villages in Ohio.

Companies with active enterprise zone agreements at the end of 2001 had been exempted from paying taxes on close to \$27 billion in real property, personal property and inventory.

While much attention and research has focused on whether the program is effective in attracting new investment, few scholars or policymakers have looked at where benefits associated with the program are going. Given that the program was created to help economically disadvantaged areas, we expected poorer areas in the state to reap more of the benefits from the program than wealthier areas. Instead, we found a systematic relationship in the opposite direction. Our new study shows that investments and jobs associated with enterprise zones are more likely to go to higher-income areas in Ohio.

The study, "Zoned Out: Distribution and Benefits in Ohio's Enterprise Zone Program,"

finds that the highest-income school districts report five times as much real property investment and twice as many new jobs, compared to the lowest-income districts in the program. The study analyzed the independent effect of income, eliminating the bias of population, race and urbanization. Lower-income districts are slightly more likely to participate in the program, after accounting for race, population and urbanization. Still, wealthy communities like Orange, Solon and Hudson all have active enterprise zone agreements, and some struggling communities like East Cleveland have none. And it's the wealthy areas that tend to land the most lucrative deals.

Just how skewed are the investments under the program?

A very low-income Ohio school district, with an average household income of \$21,910, will generate 15 new enterprise zone-related jobs and \$658,466 in enterprise zone-related real property investment for every 1,000 residents.

An average-income district, with household income of \$43,630, will generate 22 new enterprise zone-related jobs and \$1,774,436 in enterprise zone-related real property investment for every 1,000 residents.

A very high-income district, with household income of \$65,340, will generate 28 new enterprise zone-related jobs and \$1,774,436 in enterprise zone-related real property investment for every 1,000 residents.

The strategy of providing tax abatements to lure companies has its critics. But many people have felt that the flaws were acceptable if the program reduced disparities between rich and poor communities. This study finds that, in fact, more affluent areas reap more of the reported benefits.

In 2005, Ohio lawmakers are likely to consider whether or not to renew the law authorizing Ohio's Enterprise Program. If they choose to renew the program without modification, they should not pretend that they're helping struggling communities. In terms of obtaining the biggest benefits from this program, Ohio's poorest communities have been zoned out.

Cassell is an assistant professor of political science at Kent State University. The full study, which can be downloaded at www.policymattersohio.org, was published by Policy Matters Ohio, a nonpartisan research institute.

On this day: In 1975, the freighter Edmund Fitzgerald sank.

