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TESTIMONY

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MEASUREMENTS OF ENTERPRISE ZONES

Comparative Economic Growth in Missouri Counties

By David Stokes

Testimony Before the Columbia City Council

To the Honorable Members of the Council:

My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute is currently conducting concerning the economic performance of counties that imposed large Enterprise Zones (EZ) in the 1980s to early 1990s. This testimony should not be viewed as specific support for, or opposition to, any particular plan that the city of Columbia is

considering beyond opposition to the general use of Enhanced Enterprise Zones (EEZ) and other subsidies as a part of economic development plans.

The dirty little secret that nobody seems to want to recognize, or even attempt to uncover, is that EEZ, Tax Increment Financing (TIF), Community Improvement Districts (CID), and other subsidies do not work. They do not succeed in growing the local economy. The panoply of subsidies that come into play when a large area is declared blighted can have a number of adverse side effects. They shrink the local tax base, encourage more government planning of the economy, and increase the

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chances of eminent domain abuse. As a famous Swedish economist once said, “It is not by planting trees or subsidizing tree planting in a desert created by politicians that the government can promote . . . industry, but by refraining from measures that create a desert environment.”¹

How did the use of Enterprise Zones impact Missouri counties that aggressively engaged them? Our case study is comparing eight Missouri counties that implemented large EZs from the mid-1980s to the early 1990s to 12 bordering counties that implemented absolutely no EZs.² This subject was chosen because these situations allowed for a clear natural experiment on the success, failure, or simple pointlessness of the original EZ program. The eight EZ counties include every Missouri county that fit the following criteria:

- The Enterprise Zone comprised a majority of the county.
- We were able to obtain proper maps and data for the county for a significant time period.
- The county bordered legitimately comparable counties without EZs.

We have measured the economic data from 1980 to 2005 for these two groups of counties. We are in the process of doing further analysis, and we will be pleased to share the full study when it is complete. But what we have ready to share tonight is worthwhile.

By the baseline economic measurements broken down to the county level, there is no difference in the economic growth between the counties that implemented EZs and those that did not. At a glance, numbers appear to favor the counties that DID NOT implement EZs, but the sample size is small and it is more accurate to simply state there is no advantage for the EZ counties.

We compare the total employment in these counties from 1980 to 2005. We find that total employment in the counties with EZs grew 40 percent and total employment in the non-EZ counties grew 51 percent.³

We compare the total labor force in these counties from 1980 to 2005. We find that the total labor force in the counties with EZs grew 53 percent, while total labor force in the non-EZ counties grew 63 percent.⁴

We compare the personal income in these counties from 1980 to 2005. We find that total personal income in the counties with EZs grew 351 percent, while total personal income in the non-EZ counties grew 384 percent.⁵

We compare the per-capita personal income in these counties from 1980 to 2005. We find that per-capita personal income in the counties with EZs grew 249 percent, while per-capita personal income in the non-EZ counties grew 264 percent.⁶

Finally, we compare the total assessed valuation in these counties from 1985 to 2005. We find that total assessed valuation in the counties with EZs grew 134 percent, while total assessed valuation in the non-EZ counties grew 187 percent.⁷

There is more research and analysis to be conducted. If any of the above numbers change as we complete the project, I will notify the city council immediately.

Whatever the numbers may be, the burden of proof is generally on the wrong foot in these debates. It really should not be the responsibility of those opposed to new programs, subsidies, etc., to

prove that they do not work. It should be the burden of those who support such subsidies to prove that they do work. And supporters should not prove that they work via anecdote. They should not prove that they work with alarmist assertions like, “It would have been worse if we did not do this.” They should prove it with actual evidence. In this city, there are plenty of accomplished economists who can be asked to fairly measure the issue. I urge you to engage them.

Here we have data that shows Enterprise Zones in comparable Missouri counties did not appear to improve economic growth. While every type of local subsidy has differences, the overall effect is similar. Either local government planning of the economy works or it does not. The idea that EZs failed, but EEZs will succeed, is an unlikely scenario. I do not claim to have proof that an EEZ in Columbia will absolutely fail. We have evidence that similar programs in Missouri did not succeed in any measureable way. I urge you to consider this as you move forward with your discussions on the issue.

The supporters of the EEZ, who

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seem to be the same people who supported the recent TIF projects and the downtown Columbia CID, say that other cities have used these tools with great success (for example, *Columbia Daily Tribune* editorial, August 13, 2009). In this, they are wrong. The City of Saint Louis has been using urban redevelopment tools such Enterprise Zones and many others for half a century. How has it worked out? Colin Gordon, in his 2008 book, *Mapping Decline*, documents the decline of the city of Saint Louis.⁸ The book's research is exhaustive. The dominant theme of the book is the use of urban renewal tools and tax subsidies (including EEZ) – and their absolute, total failure. From the conclusion:

The overarching irony, in Saint Louis and elsewhere, is that efforts to save the city from such practices and patterns

almost always made things worse. In setting after setting, both the diagnosis (blight) and its prescription (urban renewal) were shaped by — and compromised by — the same assumptions and expectations and prejudices that had created the condition in the first place.

I can already visualize readers in Columbia saying, “But we’re not Saint Louis.” You are right, you are not; so do not follow a path that will make your city repeat Saint Louis’ mistakes. It is one thing for Saint Louis to try to these projects and have them fail. It would be even worse for a city like Columbia to follow that example with the knowledge that the entire process has failed. At least the trailblazer who takes the wrong path has an excuse.

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NOTES

1 Assar Lindbeck, long-time chair of the Nobel Prize in Economics selection committee.

2 The eight EZ counties are: Dallas, Morgan, Texas, Howell, Crawford, Washington, Iron, and Madison. The 12 non-EZ counties are: Cooper, Benton, Polk, Hickory, Laclede, Webster, Ozark, Pulaski, Carter, Reynolds, Franklin, and Bollinger.

3 Source: U.S. Bureau of Economic Analysis.

4 Source: Economic & Policy Analysis Research Center at the University of Missouri-Columbia. This is, obviously, a similar measurement to total employment, but employs slightly different measurements.

5 Source: U.S. Bureau of Economic Analysis.

6 Source: U.S. Bureau of Economic Analysis.

7 Source: County assessment data in the annual Missouri Secretary of State “Blue Books.” Assessment data is from 1985, instead of 1980 like the other data, because the modern Missouri property assessment system was implemented in 1985.

8 Gordon, Colin. *Mapping Decline*, University of Pennsylvania Press, 2008.