Poverty Reduction or Relocation?

Long-Run Neighborhood Change Following Place-Based Policy

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Public Policy in Economic Development Faces Important Tradeoffs

- Should public policy invest in people or places?
- Place-based policies rely on private businesses to generate economic activity in distressed areas.
- Are policies reducing poverty or simply relocating it?

Main Research Question: How do place-based economic policies impact neighborhood composition, migration, and local housing costs over the medium and long-term?

Motivation: Neighborhood conditions have lasting impacts on residents

- Consequences of economic distress
  - Communities differ in income inequality, school quality, and social capital (Chetty et. al 2014)
  - Living in struggling areas linked to poor employment, family instability, and substance abuse (Austin et. al 2018)
  - Inter-generational mobility depends on local conditions (Chetty et. al 2014)
- Large federal investment in place-based policies
  - **Empowerment Zone** and Enterprise Community Program (1994, 1998, 2001)
  - New Markets Tax Credits (2002)
  - Opportunity Zones (2018; made permanent in 2025)

Preview of findings: did the treated neighborhoods gentrify?

- Gains in employment 5 years post designation.
- Long run compositional changes may mask benefits to residents.
- Residents become younger, less educated, and less white.
- Rent and home prices stay flat overall despite upward pressure from rounds 1 and 3.
- Increase in share of low-income residents and renters.

No evidence of gentrification via displacement of low-income residents.

Innovative place-based policy: the federal Empowerment Zone program

Who

Census tracts meeting minimal poverty and unemployment rates.

Communities applied to be designated through competitive process.

When

Three designation rounds: 1994, 1998, and 2001.

Treatment started following year
Expired End of 2025

What

Wage credits of up to 20 percent of the first $15,000 in wages.

Round I EZs received $100 million in Social Services Block Grant funds.

$200 million
Employment credits claimed, 1994–2000

$55 million
Credits claimed during 2000

500 co., 5,000 workers
Nearly 500 corporations and over 5,000 individuals claimed credits in 2000.

Source: Busso, Gregory, and Kline (2013); IRS (2004).

Empirical strategy: DiD and event study comparing tract-level outcomes

$$Y_{jt} = \alpha_j + \gamma_t + \beta \left(Zone_j \times Post_t \right) + \varepsilon_{jt}, \tag{1}$$

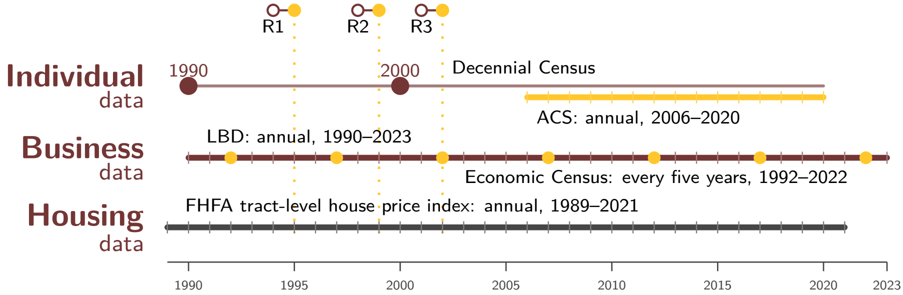
$$Y_{jt} = \alpha_j + \gamma_t + \sum_{k \neq -1} \beta_k \left(Zone_j \times \mathbb{1}\{t - T_j = k\} \right) + \varepsilon_{jt}. \tag{2}$$

- Y_{jt}: outcome for tract j in calendar year t
- $Zone_j$: designated tract indicator $Post_t$: year after designation
- α_j and γ_t: tract and year fixed effects
- T_j: tract j's designation year k: years relative to designation
- β_k: event-time effect relative to the omitted pre-period
- Standard errors clustered at the Census tract level.
- BJS (2024) provides pooled estimates due to staggered treatment timing of the EZ rounds.

Source: Borusyak, Jaravel, Spiess (2024)

Data & Availability: National tract-year panel spanning three decades

Round 1: 1994 designation ⟶ 1995 treatment
Round 2: 1998 designation ⟶ 1999 treatment
Round 3: 2001 designation ⟶ 2002 treatment



Open circles mark designation. Gold circles and dotted lines mark effective treatment. HUD identifies more than 850 treated tracts across 38 states.
Census relationship files harmonize geography to 1990 boundaries. Controls: USDA, NHGIS, BTS, and ICPSR.

Source: Decennial Census; ACS; LBD; Economic Census; FHFA; HUD.

Other data for controls come from USDA, NHGIS, BTS, and ICPSR.

Sample Restrictions and Construction; Identifying Counterfactual Tracts

- Tracts form the panel.
- People and establishments are repeated cross-sections.

Treated tracts

Original urban EZ designations

Exclude rural areas and renewal designations

Harmonize geography to 1990 tract boundaries

Eligibility

Untreated urban tracts only

Poverty rate at least 20 percent

Unemployment rate at least 6.3 percent

Matched sample

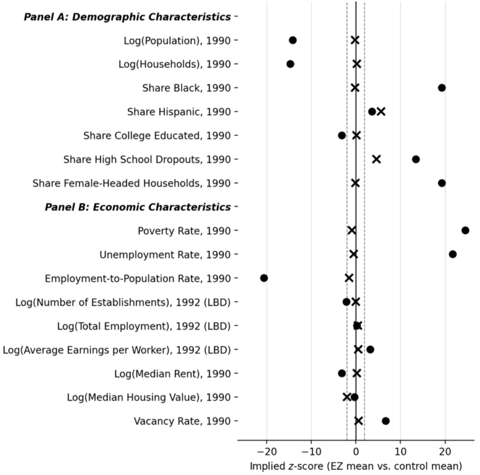
Propensity-score matching selects comparison tracts

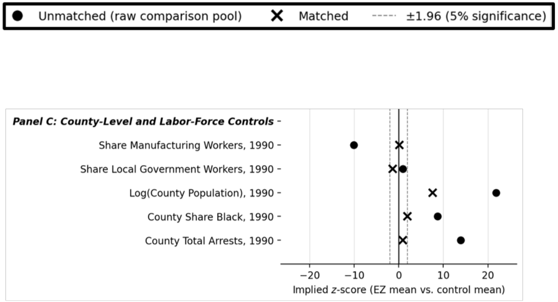
Inverse-probability weights reweight matched controls

Remove tracts outside common support

Final PSM sample: roughly 2,600 treated and matched tracts, 159,000 tract-year observations, and three designation rounds.

Balance: propensity-score matching improves comparability of tracts





Source: Calculations using pre-designation tract characteristics in 1990.

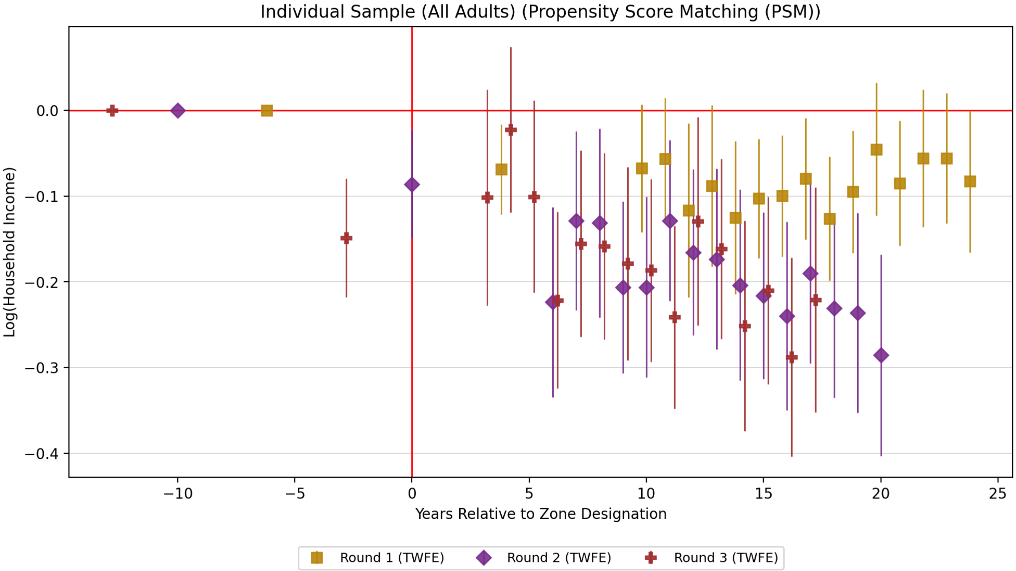
Short Run Effects: Employment Gains and Rent Changes

	Round 1		Round 3	
Outcome	All	Incumbent	All	Incumbent
Share Employed	0.028***	0.005	0.057**	0.039
	(0.007)	(0.008)	(0.023)	(0.027)
Share In Labor Force	−0.005	−0.018**	0.050**	0.047*
	(0.006)	(0.008)	(0.023)	(0.028)
One Month's Rent ($)	73.110***	53.540***	56.470***	120.000***
	(3.139)	(3.651)	(15.050)	(17.550)
Share Renter	−0.023***	−0.023***	−0.028	0.122***
	(0.005)	(0.007)	(0.021)	(0.026)
Share Not Moved - 1 yr	0.011**		0.057*	
(Residential Stability)	(0.005)		(0.030)	

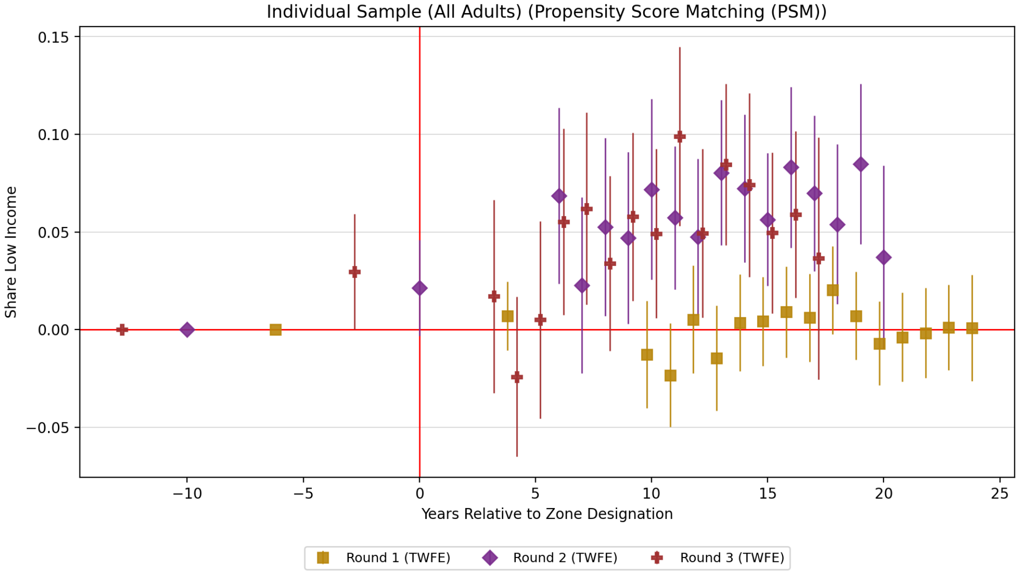
Note: Round 2 not included due to data limitations.

Looking for sustained effects: from short-run gains to long-run change

Total household income over event time



Share of Low-income Residents over event time

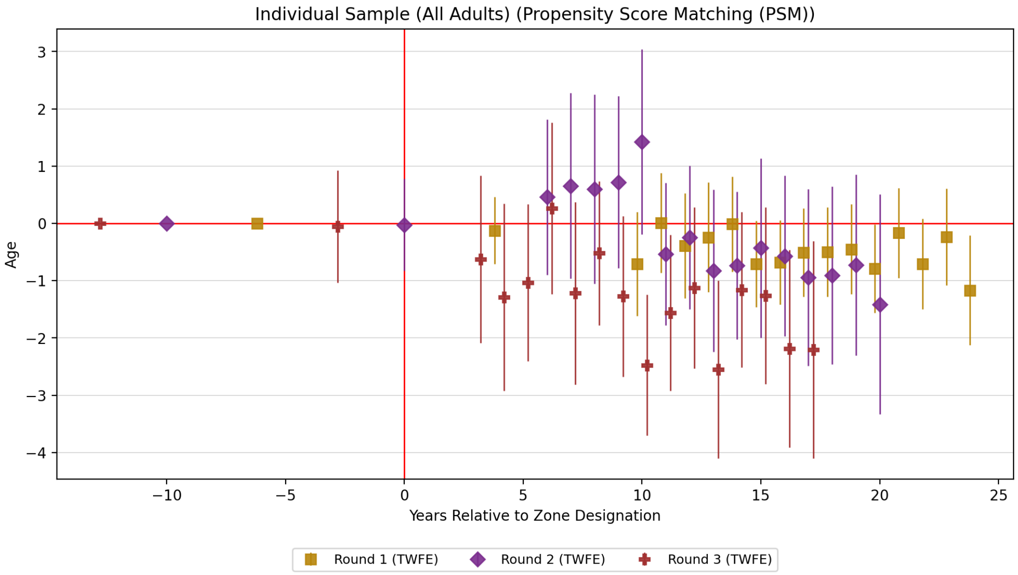


Who lives in EZ neighborhoods 20 years later?

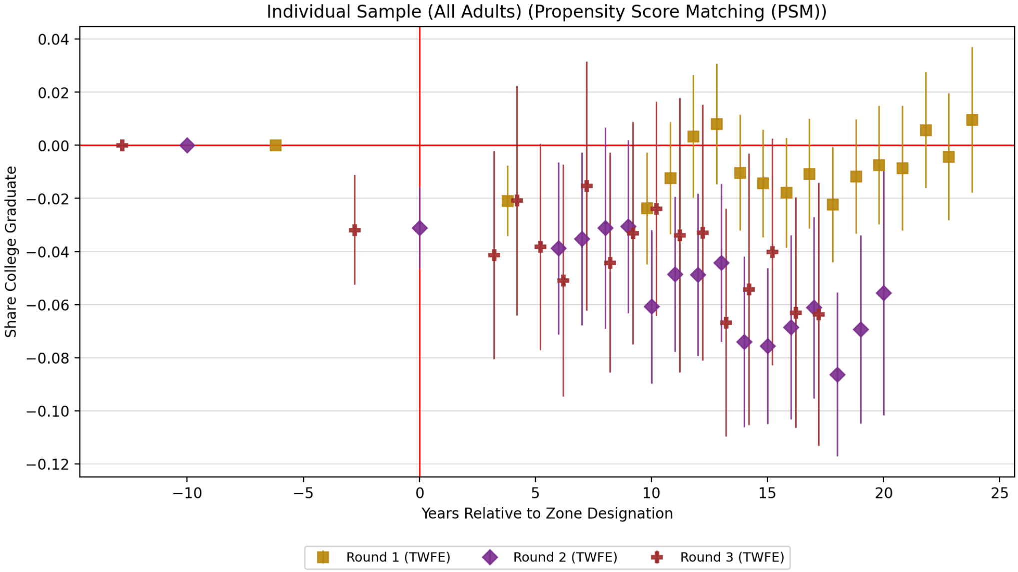
- Short Run gains in employment fade over time.
- Explore Long Run Impacts of Zone Designation with:
- a) Pooled Long-Run Estimates using BJS specification.
- **b) Round Specific Event Studies up to 25 years post treatment.**

The next outcomes look at the dynamic changes in the demographic composition of treated tracts compared to control tracts.

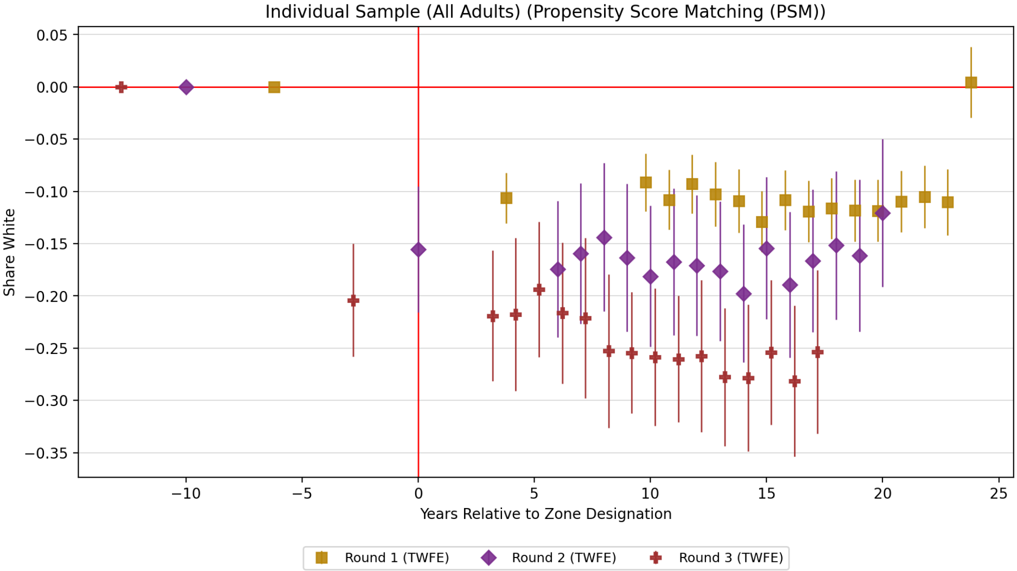
Residents become younger



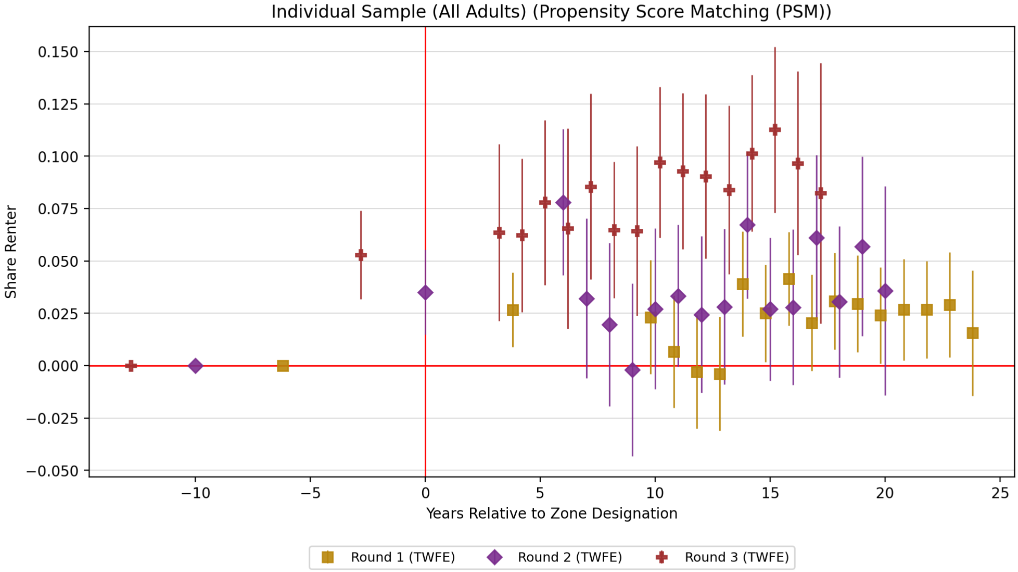
Educational composition changes over time



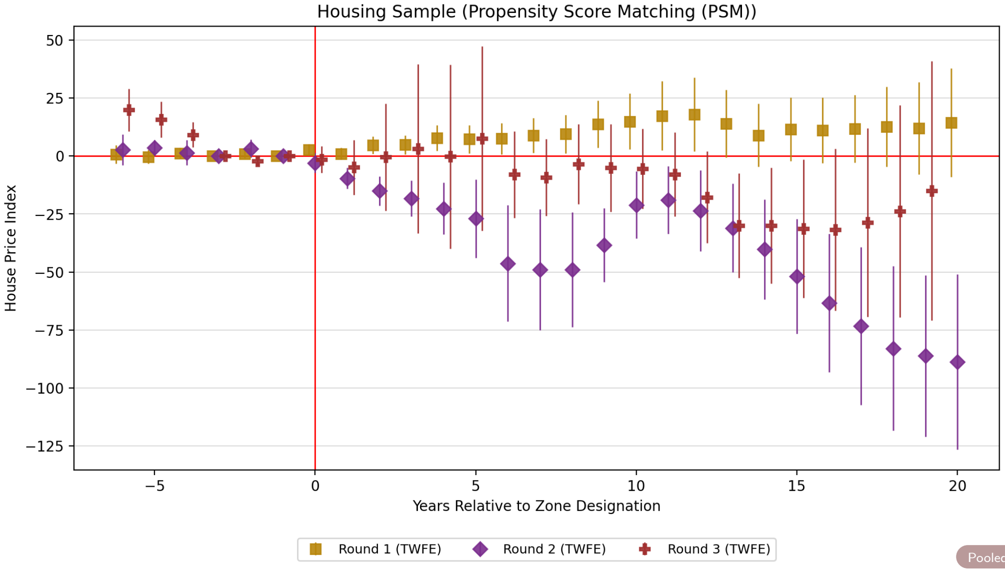
Racial composition shifts over event time



Home Tenure changes over event time



Housing values differ across designation rounds



Pooled estimates

Conclusion: Increased residential stability without poverty reduction

What the results show

- Employment rises initially, but overtime household income decreases.
- Neighborhoods become younger, less educated, and rent more.
- Home values remain flat overall.
- Effects differ across designation rounds.

Next revision

- Match Round 3 using 2000 characteristics.
- Round-specific differences, especially in housing values, merit further study.
- Use 1990 DC PIK to examine effects on individuals vs. tracts.

This evidence suggests that Empowerment Zones haven't contributed to cost driven replacement or long term poverty reduction.

Thank you

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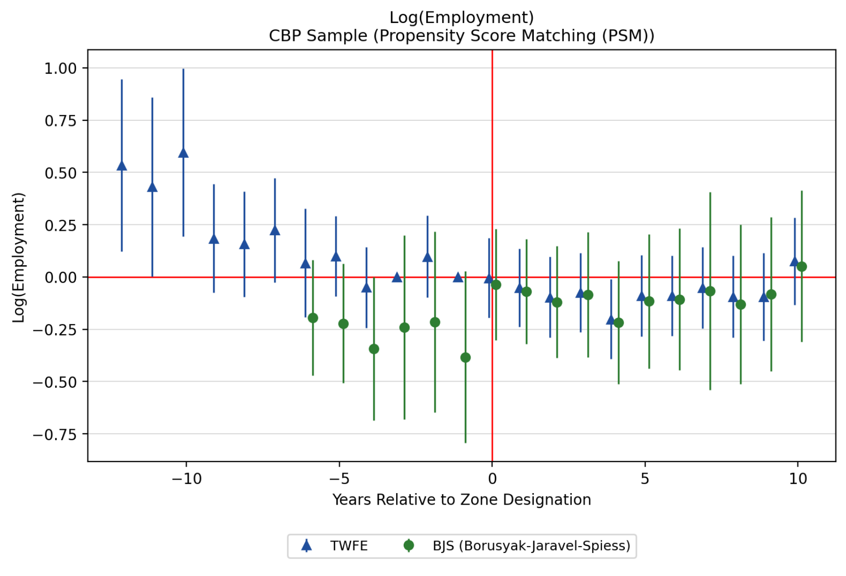
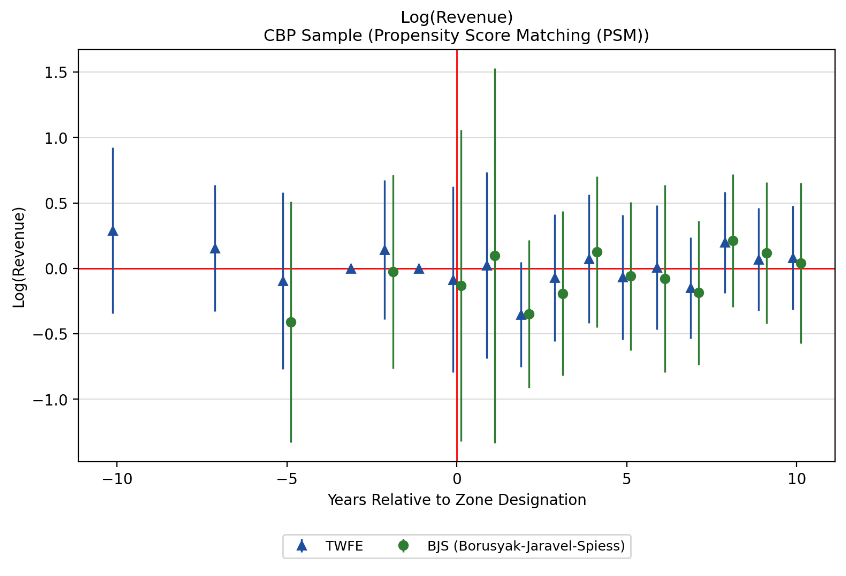
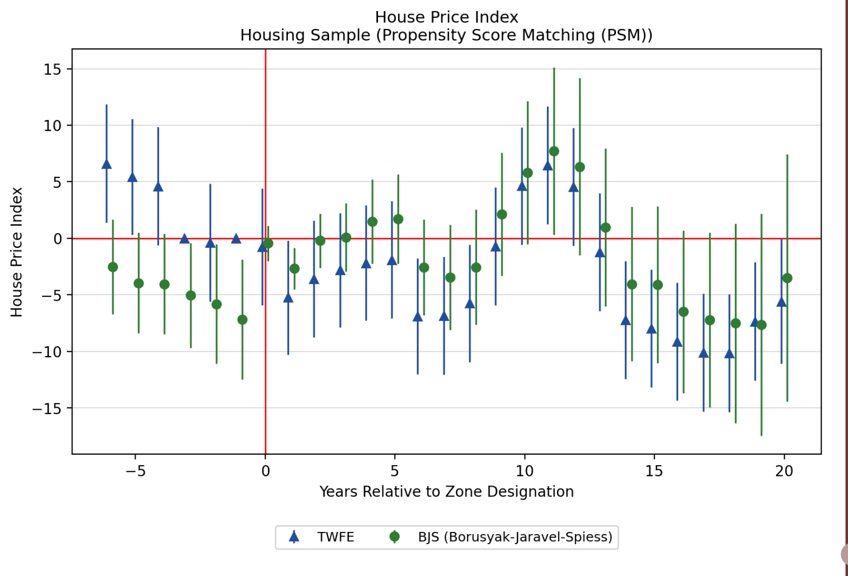
Appendix: Business Employment over event time



Appendix: Business Revenue over event time



Pooled Housing Results



Round-specific results