STATE URBAN ENTERPRISE ZONES: A POLICY OVERVIEW

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SUMMARY

Enterprise zones may be defined as depressed areas in which governments provide special tax incentives and perhaps other incentives in order to promote job creation and economic development. First proposed in England in 1977, they were authorized by legislation in that country in 1980. In the United States discussion has centered around proposals by Representatives Kemp and Garcia and more recently by the Reagan Administration for 75 zones to be created over a three year period.

Although federal enterprise zone legislation is still being debated, ten states have already enacted their own enterprise zone legislation--Florida, Connecticut, Maryland, Louisiana, Ohio, Kentucky, Minnesota, Virginia, Missouri, and Kansas. Two other states, Indiana and Oregon, have adopted legislation to study the zone issue.

Each state's zone legislation differs from that in other states, but they have certain fairly common features. Tax incentives are the centerpiece of most if not all state zone legislation, with partial relief usually provided from both the state income and local property taxes. Relief is also provided from certain other taxes in some states under specified conditions. Although many enterprise zone advocates place great stress upon it, regulatory reform is an element in only five of the states , and in them the law does not repeal any specific regulation. Improved government services and support for neighborhood organizations are also mentioned in some states.

Businesses must meet certain conditions in order to receive the zone tax incentives; for example, normally a certain proportion of employees must be zone residents or be somehow disadvantaged. Incentives are generally not limited to small enterprises, although the theory of enterprise zones stresses that they are supposed to create a climate conducive to entrepreneurship and risk-taking.

Although most legislation focuses on urban areas, several states also allow for rural zones.

Considerable controversy surrounds the merits of zones. Many advocates admit that enterprise zones represent an experiment, but they argue that little is to be lost by authorizing them. Critics maintain that incentives provided by zones are inadequate to produce the results predicted and that many of the jobs created would have existed somewhere if there were no zone legislation.

This report focuses primarily on the features of the legislation in the ten states where it has passed. More than 100 zone bills are pending in other states, but they are not the subject of this report. One Appendix summarizes the main features of the legislation in each state, and another Appendix outlines criteria for selecting federal enterprise zones proposed by the Reagan Administration. The Administration and other zone advocates maintain that involvement by state and local governments is crucial to the success of the zone concept.