

# A Case Study of the Enterprise Zone Program: "EZ" Avenue to Minority Economic Development?

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*This article explores Pennsylvania's enterprise zone program as an economic development strategy in one city—Philadelphia. Given the underlying corporate-centered focus of economic development policies, it focuses on whether such policies can effectively reduce the high rate of joblessness for central-city residents as well as increase the rate of business development for minority business owners. To have a long-term impact on minority communities, economic development policies should identify ways to increase minority economic development through entrepreneurship and job creation strategies.*

The bipartisan enterprise zone (EZ) policy initiative, emanating from recent past Republican administrations, was regarded as the primary federal urban initiative to combat central-city economic and social dislocation. This urban economic development policy, however, has not sufficiently addressed the problem of joblessness among city residents or the lack of minority business growth and expansion.

Since its inception, many scholars have debated the actual intentions of the federal proposals as well as the various state programs. The discussions have centered around whether the policy could ever work in terms of revitalizing entire communities through small-business formation and job creation—the main tenets put forth in the federal legislation (Erickson & Friedman, 1989; Gunn, 1993; Wilder & Rubin, 1996). Although the federal proposals were never adopted under either the Reagan or Bush administrations, many state and local governments were quick to implement their own versions of EZs. However, it remains to be seen if these EZs, as an economic development strategy, can best facilitate (re)development of business activity and job creation in largely minority communities.

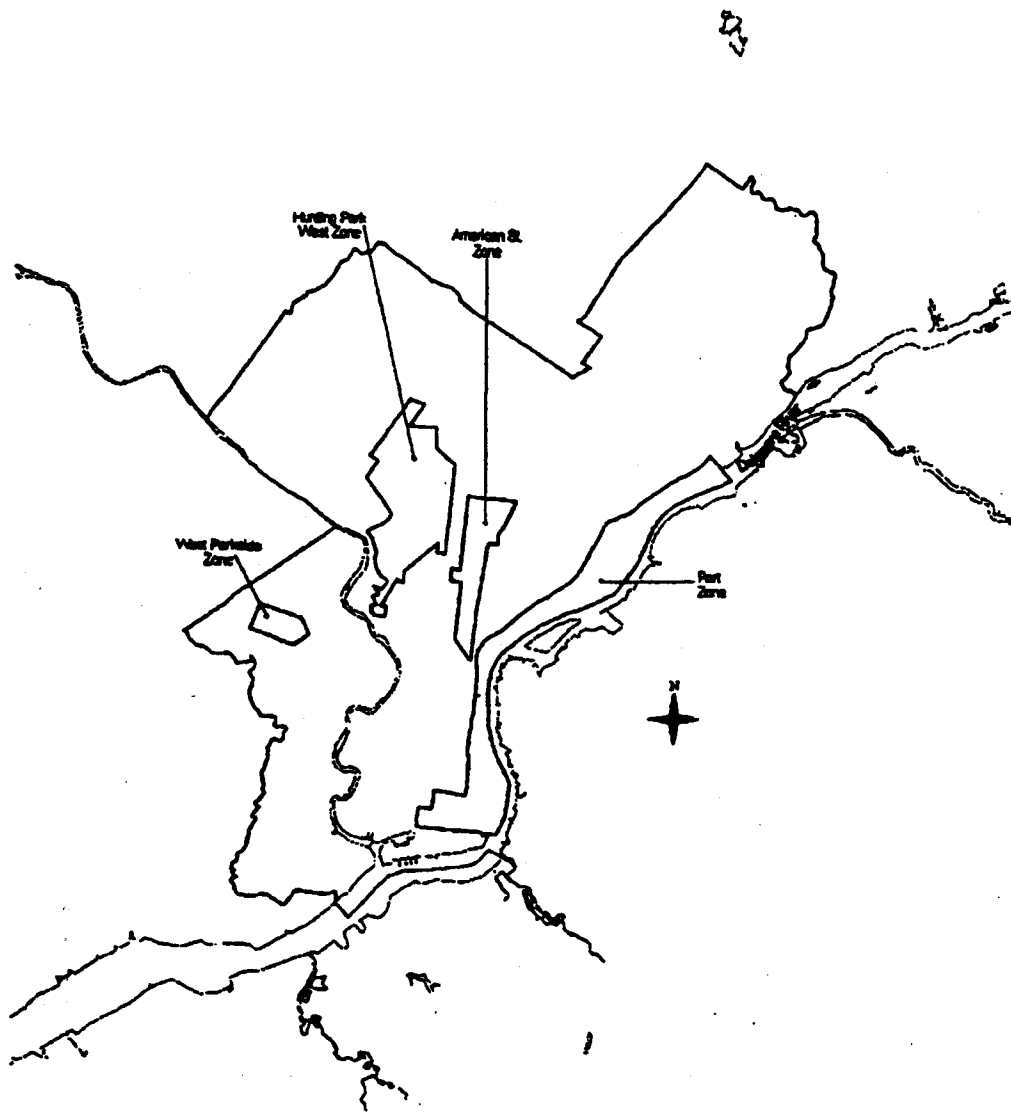
In this exploratory analysis, the intent is to share my experiences in collecting data on minority participation in three of four EZs within the city of Philadelphia as a way of focusing on a more holistic discussion that includes minority economic development. From the traditional economic development perspective, it is my opinion that, to have a long-term impact on minority communities, the goal for economic development policies should facilitate minority economic development through increased entrepreneurship and job creation. This study of the Philadelphia EZ program is based on a combination of telephone sample surveys, on-site fieldwork, and structured elite interviews conducted during the summer of 1993. The observations in this article are based on various interviews with the city's EZ managers and a sampling of 25 business owners. The identification of individuals was coded, but they are not identified in this article to maintain confidentiality.

My primary objective is to identify the city officials' opinions of the EZ program in general and to determine whether Philadelphia's EZ program represents a comprehensive and effective economic development strategy for minority communities. Through this, I illuminate the differences

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**Figure 1: Philadelphia Enterprise Zones**

SOURCE: Prepared by Kevin J. Schultz, Urban Planning Program, State University of New York at Buffalo.

1991). This analysis is focused on three of the zones: American Street Corridor, Hunting Park West, and West Parkside. The Port of Philadelphia was deemed unsuitable for assessing the policy questions on minority participation due to its low population density.

### Method

The methods used in this case study were qualitative. Previously, EZ programs were evaluated with a range of quantitative methodologies; however, they have been hampered by data collection problems. One of the major problems with data collection in Philadelphia's zones is that much of the information comes from applications filed by companies that want to receive EZ benefits; hence, these applications are inclined to be optimistic projections (Lin & McLarin, 1992). Second, there seems to be no rigorous system for determining how many jobs were actually created, and city officials have acknowledged that figures for some EZs had been overstated by more than a third because they included companies that had gone out of business, moved, or never hired all of

like \$6 to \$7 an hour. . . . The cost of living here is also less, so people living here don't need to make as much as someone living [in the suburbs]. (personal communication, 1993)

However, many state EZ programs do not deal directly with small-business development. One Philadelphia zone manager said,

We're not involved with the mom-and-pop stores . . . [nor] any retail. . . . The problem our association seek [sic] is to handle only manufacturing, distribution, and wholesale outlets . . . businesses that can employ people. . . . We're not involved with the retail, dry cleaners, or food markets. . . . We try to separate the two. . . . There's a larger interest in trying to save the manufacturer and distributors that would hire people. The more we can help them, the more they will hire, employ a number of people who live in the area. . . . The only way you can help small businesses is by employing young people in the area. The more people [manufacturers and distributors] employ, . . . the more people are able to support the small entrepreneurs. (personal communication, 1993)

The EZ officials in Philadelphia viewed the program in the more traditional practice of local economic development. They saw it as a program for retaining or attracting manufacturing businesses. Little attention was paid to the role of small businesses.

### The Role of State Tax Incentives in the Philadelphia Program

By overemphasizing tax incentives for businesses, many state programs miss the principal cause of distress in central cities: idleness and long-term unemployment resulting from chronic social and economic dislocation. Several studies have pointed to multifaceted solutions to such long-standing problems such as increased government-funded job training, job matching, and infrastructure improvement, in conjunction with technical assistance and financial incentives (Riposa, 1996).

Vidal (1995) argued that generating jobs on land adjacent to poor residential neighborhoods as a means of improving residents' job prospects is a flawed strategy, because even if EZs generate new jobs, there is no reason to assume that significant numbers of those jobs will be filled by zone residents. This is borne out by the experiences of Philadelphia EZ managers. Businesses operating within the Philadelphia zones did not have to hire neighborhood/community residents. One manager stipulated that employers had to hire "one person for every \$15,000 borrowed." Another stated that the federal initiative is a little broader than he had hoped: "I thought the purpose of the EZ is to help business relocate or remodel, or improve to employ people."

Even though the state EZ program offered tax credits and other incentives to hire zone residents, those incentives do not appear to be particularly attractive to employers for two reasons: They cover a small portion of the employee's cost to the employer, and claiming the credit is too difficult and expensive. One manager in Philadelphia stipulated that the program is unattractive to many small and minority-owned businesses because of "all the paperwork involved." He cautioned these businesses that they

will have to go through a lot of paperwork with the bank. This is a couple more hours of work for your accountant, lawyer, or whatever, and that's the price you're going to have to pay to get a low percentage loan. (personal communication, 1993)

Incentives offered to zone firms to stimulate investment are not necessarily designed to stimulate creation of the types of jobs for which sizable numbers of residents of zone neighborhoods would be eligible (Vidal, 1995). One Philadelphia manager reported that, in 1992, his office screened more than 1,000 people for 200 jobs in the American Street Corridor zone: "Almost all of the companies in [our zone] are what you consider a small business. The average employer may have from 5 to 50 employees. There are about 400 manufacturers/distributors [here]." The manager suggested that the federal program

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instead of keeping people in jobs." The sense I gained is that workers were at a disadvantage in terms of wages as well as employment opportunities due to the uncertainty of business success.

## LESSONS FROM THE PHILADELPHIA EZ PROGRAM CASE STUDY

The lessons learned from these interviews with EZ officials identify important issues regarding minority economic development. City EZ officials are driven by corporate-centered strategies for retaining and attracting mostly manufacturing businesses in the Philadelphia zones. This was often done to the detriment of minority-owned small business owners operating in these areas who did not meet the program guidelines for financial assistance and incentives. However, EZ programs that do not address the needs of minority-owned small businesses will not have a significant effect on increasing minority employment. Finding ways to use the economic development incentives of EZs is one way of encouraging minority business owners to expand and grow. The compelling question for the economic development policies centers on whether it is possible to establish equitable and acceptable incentives that either target more economic development toward minority-owned businesses or develop programs that more intensively draw minority entrepreneurs into the mainstream economy. This is the pathway that can lead to the avenue of empowerment for minority communities and create jobs for community residents.

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