Economic Development Policies Enterprise Zone Legislation

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ECONOMIC DEVELOPMENT POLICIES
ENTERPRISE ZONE LEGISLATION

MASSACHUSETTS HOUSE BILL #5868

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INTRODUCTION

This report on enterprise zones is organized into two parts. The first part reviews the history and efficacy of enterprise zones in the United States. The second half of the report provides a summary and assessment of Massachusetts' House Bill number 5868, an economic incentive bill sponsored by Representative Daniel Bosley. While the bill has not yet been passed, according to officials from the Commerce Department, it is Massachusetts' most important piece of "enterprise zone" legislation. The second half of the report is comprised of three sections: a review of the bill and its salient features; a section with comments from public officials, and the final section offers conclusions and recommendations.

ENTERPRISE ZONES

Introduction

Enterprise zones consist of blocks of land that generally range in size anywhere from one half to three square miles, and they are usually located in economically distressed communities. Companies located in enterprise zones (resident businesses) are provided with a package of benefits and incentives. The benefits serve as an incentive to attract new and established businesses, and as a means to improve the chances that resident firms will prosper and expand.

1Stewart Field - Massachusetts Department of Commerce and Labor. Personal interview. November 1991. Stewart Field provided Representative Bosley with technical and administrative support in developing the bill. While the bill has not yet been passed, the Joint Committee on Commerce and Trade approved the bill in 1991, and made it the "lead" bill in a group of twelve bills dealing with economic development. Mr. Field said that the other eleven bills will likely be attached to Bosley's bill in upcoming legislative sessions. At the end of each calendar year, each committee must account for every bill to which it was assigned. "Attaching" one bill to another allows committees to fulfill this requirement. It is an administrative act. If the representative's bill passes, the eleven other bills will simply be dropped. Mr. Field stated that his department backed Bosley's bill as the best of the twelve bills.

2Generally, state governments consider a community to be economically distressed if it exhibits unusually high unemployment rates and/or poverty levels.

3In this paper "resident business" refers to businesses that are located in an enterprise zone, and that take advantage of enterprise zone benefits.
Most enterprise zones offer some form of property, sales or income tax credit, investment tax credit or tax credit based on payroll. In 1989, thirty-eight states were operating a total of over 1500 enterprise zones.¹ Some more common benefits include:

- Sales tax reduction/credits (17)
- Employer income tax credit (16)
- Job creation/wage credit (15)
- Credit for selective hiring (13)
- Property tax reduction/abatement (11)
- Program targeting (11)
- Regulatory relief (11)
- Direct state funds (10)
- Infrastructure/public service improvements (6)
- Tax increment financing (4)
- Access to venture capitol (2)

* The numbers in parentheses indicate the number of states that offer the incentive.

Though studies suggest that enterprise zones are cost effective relative to other job development programs, the total cost to the government for the tax credits and other benefits can be high.² For this and other reasons, state governments generally authorize a limited number of enterprise zones, and restrict them to economically distressed communities.

**History and Efficacy**

The economy of the 1980's underscored the limitations of the "free market." Despite strong economic growth throughout most of the United States during this ten year period, many communities continued to struggle economically. In addition to the failure of the "free market" to benefit certain communities during this time, the

1980's was also a period that saw the federal government significantly reduce the scope and extant of its job training and economic development programs. It was due, in part, to these reductions, and to a recognition on the part of state governments, that certain communities were being left behind economically, that state governments began to give consideration to alternate job development programs such as enterprise zones. Beginning in the early 1980's, enterprise zones were proclaimed to be a cost effective means for empowering economically distressed communities to help themselves.

Enterprise zones have attracted the attention of state governments for several reasons. First, many state governments take the position that enterprise zones are cost effective. State officials claim that with enterprise zones, they can leverage the limited resources available to them for promoting economic development. They claim that a relatively modest level of state and local investment in enterprise zones can be used to generate comparatively high rates of private investment. Secondly, states generally consider enterprise zones to be an efficient mechanism for creating jobs, in that enterprise zones can be used to target specific communities.

The Reagan Administration supported the idea of creating federal enterprise zones, as have such people as Stuart Butler of the conservative Heritage Foundation. Butler is credited with having brought the idea to the United States from Britain via his book "Enterprise Zones: Greenlining the Inner Cities." Enterprise zones appealed to conservatives such as Butler for several reasons. First, they viewed enterprise zones as a potential mechanism for unleashing that ubiquitous, but underutilized, entrepreneurial spirit that conservatives maintain exists even in impoverished communities. Also, enterprise zones represented untapped potential; the potential for business, relieved of the twin burdens of taxes and regulations, to generate business opportunities and to create jobs. Finally, conservatives were drawn to the idea of creating enterprise
zones because, as a matter of public policy, enterprise zones stood to mean less government, not more.

As originally envisioned, enterprise zones actually appealed to a broad constituency of liberal and conservative academics and politicians. Indeed, many early proponents understood and appreciated the important role small businesses play in the United States, and they saw, in enterprise zones, an opportunity to encourage and support the formation and growth of new businesses.

**Role of Small Business**

In 1982, Dr. David Birch completed a seminal study on employment in the United States. Dr. Birch tracked employment patterns of 5.6 million businesses (almost 80% of all private businesses in the United States) from 1969 to 1976. He found that small companies (1-20 employees) had created significantly more new jobs during this period than had large companies. For example, Birch observed that from 1969 to 1976 the frostbelt experienced a significant economic decline while the sunbelt experienced an economic boom during the this same period. He also found that the job loss rate due to business closings and contractions during this period was the same (8%) for both regions. Birch argued that the reason the economy of the sunbelt had been stronger than that of the frost belt was because the sunbelt had created comparatively more new jobs than had the frostbelt. He concluded from his study that public policy makers should de-emphasize programs that set out to preserve jobs, and should instead concentrate the public's resources on programs that create new jobs.  

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**Analysis**

**Benefits of Enterprise Zones**

Advocates of enterprise zones claim that the comparative advantages enjoyed by resident businesses help to generate for communities, business opportunities and jobs that would not exist

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1Stewart Butler, *Enterprise Zones: Greenlining the inner cities.*
otherwise. Additionally, they claim that the actual cost to the public for the tax credits and the other types of incentives are often significantly less than the value of the credits. According to these proponents, if it were not for the presence of an active enterprise zone, many local businesses would have either located in a different community, or would simply not exist. In short, they point out that granting businesses tax credits, and receiving less than the maximum possible tax revenue from these businesses, is preferable to receiving no tax revenue.

Benefits are Inadequate

Critics of enterprise zones argue that incentives and benefits are inadequate for the purposes of bringing about economic development. They argue that to attract businesses into blighted communities, the government must make improvements to the public infrastructure such as schools and roads. Anything less than these types of structural changes, such as a stand alone tax credit, is considered to be cosmetic.

Literature on enterprise zones is replete with studies that conclude that businesses do not consider state and local taxes to be critical factors in terms of siting facilities. Sandra Kanter and Bennett Harrison offer the following reasons why businesses are often not responsive to tax credits.

State and local taxes constitute only a small percentage of total costs. A study conducted by the Bank of Boston found that businesses paid just 4.4% of their income to state and local governments. A separate study concluded that state and local taxes represent no more than 3% of the value added to products and services.

Reducing operating costs does not ensure that firms will expand or remain in business, because reducing costs does not affect the demand for products and services. Firms must have adequate markets, as well as cost effective operations, to prosper and expand.
Companies often consider factors other than "pecuniary" profit. For example, an owner of a small business may be more interested in retiring than expanding. Under this scenario, credits and incentives will not induce an owner to expand his/her business. The granting of tax credits in this situation would be a waste of money.¹

The officials interviewed as part of this study generally supported the view that they need to be able to offer more than just tax credits in order to bring new businesses their communities.

Benefits Go To Large Businesses
Critics claim that instead of benefitting small businesses, state sponsored enterprise zones have had the intended and unintended effect of promoting the interests of large businesses. Critics point to studies such as Maryln Rubin's study of New Jersey's highly acclaimed enterprise program. Rubin found that many resident firms in New Jersey's program are Fortune 500 companies.² Critics add that while large firms often take advantage of the incentives offered in enterprise zones, the incentives generally do not induce them to expand due to the nature of large firms and their markets.³

Small Businesses Do Not Make Profits
New businesses often do not make money. So, large firms are more likely than small firms to benefit from tax credits linked to profits. Benjamin Hawkins writes:

"Because most small businesses show no profits during their first few years of operation, these tax credits will have no impact on the short-run operation, these tax credits will have no impact on short run profitability of investments for most...In other words, due to the nature of the tax credit, unprofitable investments will remain unprofitable for the new small businesses."

Enterprise Zones Do Not Generate Jobs

One of the more common criticisms directed at enterprise zones is that they do not create jobs, that they do little more than transfer jobs from one location to another. A study conducted by the General Accounting Office on Maryland's enterprise zone program concluded that the program had not generated any "new" jobs. The GAO report stated that "employers may have legally won financial windfalls from program credits" for decisions they would have made anyhow.¹

To varying extents, critics claim that there is little, if any, causal relationship between enterprise zones and business formation and growth. They argue that enterprise zones are a waste of the public resources and a financial windfall for businesses.

Spatial Aspects of Enterprise Zones

Advocates speak of the benefits of concentrated levels of economic activity. However, though it is generally accepted that communities benefit from having many local businesses, this view would seem first to apply to situations where concentrated economic activity evolves as a result of market conditions, where firms and people come to locate in a given area because of the advantages it offers. In this way, the spatial arrangement of towns or cities is determined from the bottom up; the boundaries (if it can be said that there are any) are flexible and continually evolve. In contrast, enterprise zones have a rigid form. Placed in physical and social environments that would otherwise be dynamic and fluid, enterprise zone boundaries can be inflexible and arbitrary.² Donald Mason and Barclay Jones question the logic and efficacy of enterprise zones on the grounds that whereas the intent of enterprise zones is to concentrate industrial, commercial and retail activities into small and

¹Guskind, p. 6.
² Most states require communities to meet minimum thresholds in terms of unemployment rates and poverty levels, in order to be considered for an enterprise zone designation. As the Census Bureau uses census tracts to monitor and tabulate economic data, enterprise zone boundaries often approximate census tract boundaries.
rigidly defined areas, the recent historical trend is for businesses and employees to move away from urban areas. They write:

"The spatial assumptions are critical and of heroic proportions. It is worth reviewing them. The idea calls for economic activities to concentrate in designated zones in the centers of urban areas. If the zone is to have any measurable impact, the aggregate distribution of economic activities in the region would have to become less dispersed than it already is or would become more concentrated. The idea also requires that the residential distribution of the labor force of an enterprise zone be very compact or concentrated."

"Theory has suggested consistently that as the relative cost of transport decline, the speed of transport increases; and as the ease of transport becomes greater, economic activities will become less concentrated and labor markets will become more dispersed within metropolitan regions." ¹

Manson and Barclay suggest that, far from easing the regulatory burden on business, enterprise zones, with their spatial restrictions and compliance requirements, constitute an increase of the regulatory burden imposed on businesses. Indeed, if one assumes the free market is the most efficient and effective mechanism (or non-mechanism) for locating businesses, then it can be argued that enterprise zones do as much to distort the decisions of businesses as do taxes and regulations.

Role of the Federal Government

The federal government has made little progress with enterprise zone legislation, despite repeated attempts by the past two administrations to pass comprehensive legislation. While enterprise zone bills proposed in the 1980's offered substantive benefits that included federal investment tax credits and tax credits based on payroll, the federal legislation that eventually passed in 1987 offers nothing in the way of tax incentives or regulatory relief.² To date

¹ Donald Manson and Barclay Jones, "The Geography of Enterprise Zones," Economic Geography pp. 329.
²Federal legislation was passed under Title VII (Enterprise Zone Development) of the Housing and Community Development Act of 1987. This legislation allows HUD to create 100 enterprise zones within economically distressed urban and rural areas. The most significant feature of the bill, in terms of
there are no federal enterprise zones. Whereas the federal government has yet to enact meaningful enterprise zone legislation, state governments throughout the country have not only passed enterprise zone legislation, but they have established hundreds of working enterprise zones. As of 1989 there were over 1500 active enterprise zones in thirty-eight states.\(^1\) Though Massachusetts does not have any enterprise zones, the legislature has proposed several secondary bills that, depending on the bill, call for developing either enterprise zones or something similar to enterprise zones. The Weld Administration has also proposed its own enterprise zone legislation. The remaining sections of this paper focus on House Bill \# 5868, an economic development bill sponsored by Representative Daniel Bosley of North Adams Massachusetts.

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\(^1\)Guskind, p.5.
MASSACHUSETTS HOUSE BILL # 5686

Introduction

House bill number 5686 has three components: a) the "Economic Assistance Coordinating Council" b) initiatives that must be reviewed and approved by the Council and c) initiatives that can administered independently at the local level. The remaining sections of this paper address these three components. Also included in the report is a list of the bill's important terms. Please refer to this list for explanations of terms.

Economic Assistance Coordinating Council
"a Council established under the Massachusetts Office of Business Development for the express purpose of certifying eligible proposals for the Economic Development Incentive Program."

Economic Development Incentive Program
"a program designed to promote increased business development and expansion in economically troubled areas of the Commonwealth." The program consists of the Tax Incremental Financing Program, the Property Tax Abatement Program and the Community Economic Development Initiative Program.

* In this paper, the Economic Development Assistance Program is referred to as the "program."

Economically Troubled Area
"an area of the Commonwealth that has lost at least twenty percent in total manufacturing employment over the past fifteen years; and that the unemployment rate of such area exceeds the state-wide average or is in an area of pervasive unemployment, economic distress or fifty percent of the residents of an area have incomes of below eighty percent of the state's average as determined by the Coordinating Council."

Eligible Proposal
"a proposal for a new or expanding business within an economically troubled area of the commonwealth which would provide long-range employment opportunities to and would serve to utilize the skills and experience of the local work force; that has the ability to compete in national and international markets."

* In this paper "qualified proposal" refers to an "eligible proposal."
Expanding Business
"a business currently sited and operating within Massachusetts, that seeks to expand its work force by twenty five employees or more."

New Business
"a business that seeks to locate in the Commonwealth of Massachusetts."

The Council
The legislation creates an "Economic Assistance Coordinating Council." This nine member council would be comprised of five officials from the executive office and four members appointed by the Governor. Officials represented on the council would include:

Secretary of Manpower Affairs
Secretary of Communities and Development
Secretary of Labor
Commissioner of the Massachusetts Office of Business Development
Director of the Industrial Services Program

Under the terms of the bill, municipalities propose to the council that an "expanding" or "new" business be granted benefits and incentives as provided for in the "Economic Development Assistance Program." The council would be responsible for determining if a business was an "eligible proposal," and it would base its decision by applying criterion specified in the bill.

Incentives the Council Must Approve
Property Tax Abatement
Massachusetts' state law requires that municipalities assess property at full value. However, for the purpose of promoting economic development, communities have in the past used Massachusetts' laws 121A and 121B to get around this requirement.¹

¹Municipalities can use Massachusetts' general law 121a to create a single purpose/project specific urban development corporation. The corporation can be either a nonprofit or for-profit, and it is exempt from paying property
In an interview with Bosley, he suggested though that these laws are no longer adequate for this purpose. So, under this bill, the council would have the authority to grant property tax abatements to qualified businesses for up to five years. Under the terms of the program, a participating business would be exempt from paying any property taxes for the year it entered the program. In the second year, the firm's property would be taxed at 20% valuation. In each succeeding year the assessment would be increased by 20% until year six when the property would be assessed at full value.

Representative Bosley suggested that this incentive would be particularly useful in the situation where a community is attempting to entice a firm to relocate from another state. Companies could use the abatement to offset the cost of relocating.

**Investment Tax Credits**

Businesses are eligible to receive a five percent investment tax credit. The purpose of the credit is to encourage owners to invest in their businesses. The representative equates an investment in plant and equipment with an investment in the community; the more a firm invests locally, the stronger are its ties to the community.

**Export Tax Credit**

Qualified firms that manufacture and export products from distressed areas are eligible to receive a one percent export tax credit.

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1 State Representative Daniel Bosley. Personal Interview. 11/15/91

Ned Murray, the Director of Planning and Development for Leominster Massachusetts, and one of the community officials interviewed as part of this project, confirmed Bosley's views concerning 121a and 121b. Mr. Murray believes that, as a result of proposition 2 1/2, communities have become disinclined to offer property tax exemptions.

2 Bosley. Personal interview. In its current form the bill stipulates a one percent tax credit. The representative intends to amend the bill and increase the credit to five percent.
credit. The stated purpose for this incentive is to generate initial interest among firms outside the United States.

**Capital Investment Revolving Loan Fund**

Under Massachusetts's law, "The Economic Stabilization Fund," can only be used to help firms on the verge of closing. The bill would make $500,000 in loans available to businesses that are struggling, and it would make this money available to them before their situations became critical. The funds could only be used for modernizing equipment.¹

The credits and incentives discussed so far must be reviewed and approved by the council. Local communities would not be authorized to grant these benefits to businesses without first obtaining the council's consent. However, the council would not have jurisdiction over all the incentives. Several initiatives could be administered locally, independent of the council.

**Initiatives that can be Administered Locally**

**Tax Increment Financing**

Local governments in Massachusetts are precluded from using tax increment financing (TIF). While this method of financing capitol projects is legally permitted in Massachusetts, state laws make the cost of employing it prohibitive. The bill would make (TIF) a more viable option for financing public projects, by helping to reduce the cost to local governments.²

**Technology Extension Service**

The legislation would create a "Technology Extension Service." Under this program, businesses would be offered assistance in areas

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¹ Bosley. Personal interview. The federal government controls this fund. The representative does not know how much money is actually available, and he does not know when or if the federal government is going to release these funds.

² Municipalities use Tax Increment Financing (TIF) to finance capitol projects. A community issues a bond to finance a project, and secures the bond with the tax revenues the project (when it is completed) is expected to generate.
such as technology management and materials usage. The service could be administered by the Small Business Development Centers, which are located throughout the state.

Streamline Regulation

The legislation would streamline the regulatory process for business. Under the terms of the bill, each secretariat would be authorized to issue just one permit. Each secretariat would be required to bring all their regulations and requirements, that directly affect business, under this one permit.

Community Input

Discussions with public officials about the bill consisted of telephone interviews with community development officials from six Massachusetts' communities. The communities included: Adams, Athol, Lawrence, Leominster and Taunton. In addition, an official from the Franklin County Planning Board was also questioned about the bill. The following is a summary of their responses and comments.

* Several officials had only a cursory understanding of enterprise zones, only two officials were familiar with Representative Bosley's bill.

* The officials were concerned that officials in Boston would control important aspects of the program. They felt that council members would not be understanding or sympathetic to the needs of communities outside Boston.

* Most of the officials stressed that their communities need immediate help. They felt that their offices would be hard

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1 Zina Kotval suggested that Gwen Hallsmith of the Franklin County Planning Board should be questioned about the bill as part of this study.

2 Of a total of ten public officials, who were questioned about the bill, only Steven Parker, the Administrative Assistant to the Director of Planning and Development in Leominster, was familiar with the particulars of Bosley's bill. While the Director of Planning and Development for Leominster was aware that the legislature had recently been debating the merits of enterprise zones, he was not familiar with Bosley's bill.
pressed to convince selectman to approve benefits and credits for businesses, even if they could show that these investments would lead to long term benefits.

* The officials were not too enthusiastic. They shared the view that while any help would be welcome, the bill was inadequate. They believe that the critical issues that the state should address include such concerns as the high costs of workers compensation and health insurance.

* Several officials expressed concern over tax increment financing. One official was concerned his town could get into trouble if, after issuing the bond, tax revenues did not increase as expected.¹

* Gwen Hallsmith of the Franklin County Planning Board had some deep reservations about the bill. Ms. Hallsmith believes that tax credits are not sufficient to attract businesses, and that they may be counterproductive. She maintained that the immediate issue facing many communities is finding new sources of revenue to support basic public services, and that these communities could not afford tax credits. She also suggested that it would be more productive for the state to address those factors that make it expensive for businesses to operate in Massachusetts. She also referred to problems related to the high cost of health and unemployment insurance.

**Analysis**

House Bill number 5868 is not an enterprise zone bill per se. In fact, the term is not used in the bill. Instead, the legislation is an economic incentive bill that simply includes incentives and initiatives characteristic of enterprise zones. In fact, the legislation would create something very different from a "conventional" enterprise zone.

¹Hugh Campbell, the Administrative Assistant to the Selectmen in Athol, expressed concern over the risks involved with tax increment financing. Mr. Campbell deferred me to John Conway, the Director of the Office for Community Development. Mr. Campbell was not familiar with enterprise zones or tax increment financing.
Economic Concentration

Enterprise zones usually have boundaries. Generally, the purpose for this feature is to encourage economic concentration. As suggested earlier, the goal with enterprise zones is to attract a large number of businesses into a specific location. In theory, these businesses serve as an economic base that helps to stimulate economic development and growth. However, the purpose of the representative's bill is not to encourage growth in a limited number of communities. Instead, the potential beneficiaries of his bill would include any community in Massachusetts. Communities would not have to meet minimum thresholds for unemployment rates and poverty levels to take advantage of the legislation. While the council would limit certain benefits to firms located in distressed areas, there are, in fact, many areas that would currently qualify as distressed. As such, there is the potential that so many communities will take advantage of the measures contained in the bill, that the program's benefits will become diffused throughout the state, such that its impact on any one community will be marginal. For example, widespread use of the program could result in situations where the incentives offered by one community will be nullified by those offered by other communities. Finally, if incentives and credits granted to businesses became too pervasive, businesses might start to expect them regardless of need.

For the same reason the legislation can be challenged on the grounds that it could potentially spread benefits so thinly that no one community would benefit very much from it, the bill also can be praised. The legislation would give businesses more freedom (more than conventional enterprise zones) in the siting of their facilities. Based on the wording of the bill, a business looking to receive tax credits would have as many options for siting their facility as there were distressed communities.

General Impact on Business

Critics such as Bennett Harrison and Sandra Kanter argue that many businesses are not responsive to incentives such as tax credits. These
critics cite the results of empirical studies and surveys that show that state and local taxes are not significant factors for business. They also point out that though incentives might entice some firms to relocate, the incentives often fail to induce them to expand. For these critics, enterprise zones do not create jobs, but merely transfer them. The criticisms apply to this bill. The property, export and investment tax credits are the three incentives that would benefit specifically distressed communities. It is hard to imagine, that considering all the factors firms must consider, that these credits would play a significant role in influencing the decision of a business to relocate - particularly in the case where the prospective site was an economically troubled community!

**Impact on Small Businesses**

As previously mentioned, enterprise zones were originally intended to be used primarily as a tool to promote small businesses. Indeed, enterprise zone incentives can be tailored to meet the needs of small businesses. However, the language in this bill seems to preclude new and emerging businesses from receiving benefits. Under the terms of this bill, firms would not be entitled to receive benefits by virtue of being in a certain location (i.e., an enterprise zone). Rather, to qualify to receive tax credits, firms would be approved on an individual basis. However, a nascent business, in the form of an entrepreneur with an idea, probably would be an unlikely candidate to apply to receive the benefits offered under this program. The owners of a new business probably would see little advantage to submitting themselves to an approval process, in order to qualify to receive incentives that may or may not benefit them. For example, as discussed previously, most new firms do not make a profit for the first several years, so an export tax credit would have a limited value to these firms. In contrast, a program that conferred benefits to businesses by virtue of their being in a certain location (well publicized) probably would stand a better chance of benefitting small businesses. It would not require small firms to do anything other than to be in the right location.
That this bill makes little mention of small businesses is important for two related reasons. First, as the bill does not contain any special provisions for small businesses, there is no reason to expect that this legislation will promote small businesses anymore than it will promote large businesses. Indeed, the legislation may result in very little being done to promote small business. While bringing a large established firm into a community will often create immediate publicity and benefits, promoting small businesses can be a long and tedious affair, with no guaranteed returns. Without special incentives targeted to promote specifically small businesses, communities may tend to overlook them. In fact, large firms have become the focus of many state enterprise zone programs. For these states, their enterprise zones probably do more to transfer jobs than to create them. The down side of any development program that sets out to entice firms to relocate, is that there is always a loser. While the receiving communities can boast of "creating" jobs, communities that loose companies must deal with job displacement and unemployment.

**Tax Increment Financing, Extension Service and Revolving Loan Fund**

It is difficult to assess the potential impacts of the technology extension service, the revolving loan fund and the tax increment financing. While the bill provides a framework for these initiatives, it leaves a great deal of discretion to the agencies responsible for administering these programs. For example, the people who would be responsible for setting up and running the technology extension service will have at least as much to do with the extension service's success or failure, as will the language in the bill. Nevertheless, a few things can be said about each of these initiatives.

The technology extension service could prove to be very helpful to businesses, and in particular small businesses. Small firms often do not have sufficient resources to keep current on changing technologies and regulatory requirements. For example, concern for the environment has prompted the federal government to revise substantially, federal laws governing air and water quality. The
technology extension service could help small businesses to cope with these changes. Also, the loan fund could help businesses that are unable to obtain capital from conventional sources. The government should, however, be cautious when investing public resources. As a company must be in trouble to qualify for a loan under this program, it may be that many of the companies that would be qualified to receive loans through this program would not be good investments.

The proposal to make tax increment financing available to local governments received mixed reviews from the officials who were interviewed as part of this study. They pointed out that the problems in their community's require immediate attention. They believe that since tax increment financing is a tool for promoting long term economic development, its immediate value to them would be very limited.

Flexibility in the Bill

The bill stipulates that in order for firms based in Massachusetts to be eligible to receive incentives, these firms must prove to the council that they are "expanding." This is a sensible provision in that it limits the extent to which the program can lead to job transfers within the state. The bill also stipulates that businesses must be competitive in national and international markets to be considered an "eligible proposal." This requirement also makes sense. It recognizes the importance of firms that export products outside the state relative to firms whose markets are exclusively local. Nevertheless, the legislation gives the council much discretion in terms of the kinds of business that it can approve. While the discretion gives the council flexibility, it seems that the discretion could lead to confusion as well as disagreements between the council and the various communities and between different communities.
CONCLUSIONS AND RECOMMENDATIONS

"A central question arising from the adoption of enterprise zones as a vehicle for stimulating economic development is whether, in fact, they can have the desired impact upon employment and at what costs."¹

Clearly, there are economically distressed communities in Massachusetts. Indeed, the question is not whether or not there are communities that require assistance. Rather, the relevant question is, what is the most appropriate way to assist these communities? And, in terms of Bosley's bill, the question that needs to be answered is, what purpose(s) will the incentives serve?

The "desired impact" of Bosley's bill is to promote economic development in Massachusetts, and in particular, to promote development in economically distressed communities. To accomplish this goal, the bill would create a series of incentives and initiatives that would serve the duel purpose of assisting businesses, and attracting "new" businesses into the state. In the case of several of the initiatives, such as the technical assistance program, any community and/or business in Massachusetts would be eligible to participate. However, certain incentives, such as the tax credits, would be reserved for businesses located in economically distressed communities. Finally, the bill does not favor businesses of a certain size, and it does not discriminate between firms in Massachusetts and firms located outside the state.² However, while the purpose and content of the bill is reasonable clear, it is not clear that the bill, if it is passed, will lead to the kinds of results Bosley intended.


In order for a firm based in Massachusetts to qualify to receive incentives, it must prove to the council it is expanding. Firms located outside the state are not subject to this requirement.
There are many indications to suggest that, as "stand alone" incentives, the incentives in the bill would be inadequate for the purpose of initiating economic development. While tax credits are one of the more important benefits offered under the bill, taxes are just one of many factors firms consider when choosing a site. In addition, since the bill does not contain any added incentives for firms located outside the state (firms that may consider at some point relocating to Massachusetts), and since the value of the proposed incentives would not be tied to the cost of relocating, it seems reasonable to expect that the relative value of the bill for businesses will be greater for firms already in the state, than it will be for firms located outside the state. Generally, firms that relocate from one state to another face greater uncertainty and higher moving costs, than is the case for firms that relocate within a state. However, while the bill does not contain any additional incentives for firms outside the state, the state generally has much more to gain from having "new" businesses move into the state, than it does from having firms relocate within the state ceteris paribus.

While the legislation contains fairly specific measures for promoting development, it does not delineate as clearly, just how the program should be implemented as policy. For example, the bill provides little guidance in terms of how the council should respond when communities request that they be allowed to grant tax credits, in order to lure businesses from other areas of the state - areas that could potentially be economically distressed. As the legislation leaves many such open issues, it would be important for the council to be clear about its policies, and consistent in its decisions.

The benefits of this legislation could potentially be spread evenly (and thinly) throughout the state. As such, a situation could develop whereby the individuals and communities that eventually benefit from the legislation, will not recognize that they are, in fact, beneficiaries. As a related issue, if the benefits are spread over too large an area, then it may become very difficult to isolate and measure the impact of the incentives and initiatives. However, as is
the case with many public programs, the level of long term support this bill receives will depend, in part, on the degree to which its effectiveness can be demonstrated, and the extent to which individuals and groups come to understand that they have a vested interest in the bill. The bill could address these issues if it targeted just a limited number of communities.

For communities looking for quick and inexpensive solutions, this bill is not the answer. In terms of improving upon the ability of communities to attract and retain businesses, the bill seems to have limited potential. Moreover, the fact that local communities would be required to underwrite a significant portion of the cost of the incentives (in terms of forgone tax revenue), may preclude communities from participating in the program. Unfortunately, the communities that will not be able to afford the incentives, will likely be the communities most in need of assistance. Finally, the bill fails to recognize the essential fact that, as with every state, economic growth in Massachusetts is a regional issue. The incentives contained in this bill will likely be used to encourage firms to relocate to Massachusetts from other states. However, the incentives offered under this program may very well be offset by the incentive packages offered by other states. Unfortunately, states competing for the same firms often serves only the interests of those firms. Though it is important to promote business interests, exacting concessions from states in a bidding war is an inefficient way to do it. The bill could be improved if it articulated a position on regional development.
BIBLIOGRAPHY


