RESEARCH BRIEFS

The Impact of Empowerment Zones on Home Prices

The Federal Empowerment Zone (FEZ) program uses a place-based approach to encourage economic development in depressed areas. The program offers tax breaks and other economic incentives to attract companies that provide jobs in designated "empowerment zones." As new jobs are created and local economic conditions improve, theory suggests that housing prices will increase, and neighborhood characteristics, such as demographics and housing stock, will change as well—but does this actually happen in practice?

Douglas Krupka and Douglas Noonan use census block-group level data to examine how housing prices and other aspects of neighborhood quality respond to the FEZ policy intervention. They find that the FEZ leads to fairly large home price gains, even after controlling for metropolitan, neighborhood, and place level characteristics. For example, median home value appreciation was about 25 percent faster in neighborhoods that received the first round of FEZ funding, relative to what would have occurred without the program. The FEZ also generated smaller, positive spillover effects on house prices in neighborhoods surrounding the designated Empowerment Zones. However, the FEZ program had either very small, or even negative, impacts on other measures of neighborhood quality, such as the percentage of families with working adults or the percentage of families in poverty.

The FEZ program was intended to improve neighborhoods across a number of dimensions, not just property values, yet this study suggests positive price effects and mixed results on other measures of neighborhood quality. Further efforts would help policymakers understand how the FEZ and other place-based economic development policies could be designed to improve overall neighborhood quality.

Krupka, Douglas and Douglas Noonan. (2009). Empowerment Zones, Neighborhood Change and Owner-Occupied Housing. *Regional Science and Urban Economics*. 39: 386–396.

Assets, Liabilities and Children's Educational Attainment

Completion of a college degree is strongly associated with higher future earnings, but the financial costs of attending college are often prohibitive for many low- and moderate-income families. Past research has focused on factors that support children's educational attainment and college success, such as parental education, employment, and income. However, current income is typically insufficient to cover the costs of college and many parents must rely on household assets to finance their children's higher education. To what extent do assets, and not just income, influence college degree attainment?

To explore this question, Min Zhan and Michael Sherraden explore the relationships among household assets and liabilities, educational expectations of children and parents, and children's college degree attainment, utilizing data from the National Longitudinal Survey of Youth. They find that financial assets, such as savings or retirement accounts, and nonfinancial assets, such as a home or small business, are positively related to children's college completion, even after controlling for family income and other characteristics. Zhan and Sherraden also find that children of parents with higher amounts of secured debt—such as a mortgage loan—are more likely to graduate college, but those from families with higher unsecured debt—such as credit card debt—are less likely to graduate from college. In addition, there is evidence that financial assets are positively associated with the education expectations of parents and children.

The findings suggest that policies and efforts aimed at decreasing unsecured debt and increasing household saving and assets may be desirable for post-secondary educational success. Given the long-term benefits of educational attainment, such efforts could make a significant difference in the economic futures of low- and moderate-income individuals.

Zhan, Min and Michael Sherraden. (2009). Assets and Liabilities, Educational Expectations, and Children's College Degree Attainment. *Center for Social Development Working Paper,* No. 09-60.

CRA, Business Development and Job Creation

The Community Reinvestment Act (CRA) was designed to encourage banks and saving institutions to help meet the credit needs of communities in which they are located. One of the ways that the CRA achieves this goal is through the provision of small business loans. The availability of credit to establish, refinance, and improve small businesses should in theory contribute to the well-being of local communities. Yet very little research exists on the relationship between the CRA, new business start-ups, and economic growth in local markets.

Nada Kobeissi explores this question by analyzing establishment and enterprise data from the Center for Economic Studies (from 1997 to 1999), employment data from the Census Bureau, and publicly available CRA lending data on large banks (over $250 million in size). Kobeissi finds a strong positive relationship between CRA lending and new business start-ups at the local metropolitan area level, even after controlling for several potential variables that could have an impact on business start-ups and community developments, such as total bank deposits in an area, economic environment, and market competition. The increase in business start-ups in turn positively impacts the employment rate and job growth in the area.

These findings demonstrate the impact that CRA lending can have on business development and job creation, and suggests that providing access to capital for small businesses has positive spillover effects on economic growth. This is particularly salient given the tight credit markets and limited availability of small business financing.

Kobeissi, Nada. (2009). Impact of the Community Reinvestment Act on New Business Start-Ups and Economic Growth in Local Markets. *Journal of Small Business Management*. 47(4): 489–513.

Who Are the "Debt Poor"?

The concept of the poverty threshold was designed in the 1960's to measure the percentage of households that cannot obtain a minimal standard of living based on their annual income. This measurement was created when most low- and moderate-income households didn't have access to credit and therefore had little consumer debt, such as car loans, credit cards, school related debt, or payday loans. But today, many households that are not technically in poverty struggle to purchase necessities because consumer debt-related interest payments significantly reduce their income. Who are these "debt poor" households and how do they differ from low- and middle-income households?

Steven Pressman and Robert H. Scott, III use data from the Survey of Consumer Finances, from 1983-2004, to study this unique population. They find that over four million Americans are not technically in poverty, yet they cannot purchase the goods and services necessary for survival according to the official definition. The debt poor have income levels only 50 percent greater than the poor, but are struggling with consumer debt levels similar to middle class households—nearly three times that of poor households. The debt poor are more likely to be married than the poor, and are less likely to have children than either a poor or a middle-class household. In addition, these households lack private health insurance to a large extent and (unlike poor households) are generally not eligible for Medicaid.

These findings demonstrate an ongoing need for credit counseling and debt management support, and the need for more research attention to be directed to household's full balance sheets, not just income. In addition, financial education can play an important role in encouraging responsible consumerism and keeping debt levels manageable.

Pressman, Steven and Robert H. Scott, III. (2009). Who are the Debt Poor? *Journal of Economic Issues*. Vol. 43,