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## **Opportunity Zones Could Worsen Blight.**

More and more, American leaders are realizing that economic policies must be designed with a specific region in mind. Usually, the context is discussion of how to revitalize regions in decline, such as rural Appalachia or the post-industrial Midwest. That's important, because when many people leave these areas, those who remain — for family reasons, or because it's costly to move — are stuck with half-abandoned neighborhoods and infrastructure that's too expensive to maintain. Revitalizing declining regions can help promote economic efficiency, as well as giving aid to those unable to relocate.

But there's another important reason to focus on struggling places — equality. It's not just declining regions that need help, but poor neighborhoods within big cities.

Cities have always had slums and poor areas. But in the mid-20th century, things went from bad to worse for many impoverished city residents. The loss of industrial jobs from urban cores, along with white flight, left many people and their descendants stranded in blighted neighborhoods with few economic opportunities.

In the late-20th century, a number of states tried to revive their most blighted urban areas, with programs called enterprise zones. These programs, however, were not very effective. Several studies by economists in the late 1990s and early 2000s showed little or no improvement from state enterprise zones on local employment.

Then the federal government stepped in. In 1993, Congress created empowerment zones in the poor neighborhoods of six cities — Atlanta, Baltimore, Chicago, Detroit, New York and Philadelphia-Camden, New Jersey. The zones, which averaged about 10 square miles and 113,000 people, would receive federal assistance for a period of 10 years. These were truly blighted areas, with poverty rates averaging 48 percent.

Companies that employed workers within the empowerment zones could receive tax credits proportional to the wages they paid, up to the first \$15,000 (about \$26,000 in today's dollars), as long as the workers also lived in the zones. This was essentially a wage subsidy. Each zone also received a \$100 million block grant, to be spent on things like business investment and lending, assistance and support to private businesses, infrastructure and worker-training programs. In total, about \$400 million was spent on the first six zones (a series of follow-up bills later in the decade created more empowerment zones).

Unlike the state-level programs, the federal empowerment zones were effective in improving blighted areas. A 2013 paper by economists Matias Busso, Jesse Gregory and Patrick Kline carefully compared the zones to similar areas that didn't receive federal assistance, and concluded that the impact on the local economies of these neighborhoods was substantial and enduring.

Busso et al. focused on three main indicators of economic success — wages, employment and rents. Comparing the years 1990 (well before the program was implemented) and 2000, they found that the federal empowerment zones boosted employment of local residents by about 18 percent, and

wages by 8 percent to 13 percent. Housing costs, meanwhile, may have increased slightly over the long term, but in the short term the authors couldn't detect an increase.

In other words, the empowerment zones substantially boosted the economic fortunes of the urban poor. Nor was this success the result of a favorable choice of location by the federal government — before the zones' creation, the targeted areas had all been doing worse than the other areas the author used for comparison. The authors estimate that the increased income created by the programs, when added up over the years, totaled around \$700 million — a good deal more than the cost of the program.

In other words, policies aimed at revitalizing blighted urban areas can really work. They don't produce miracles, and they require some outlays of money, but the rewards to society's most disadvantaged people and places can be significant.

Now, President Donald Trump's new tax reform aims to repeat the success of the empowerment zones with a new program called opportunity zones. Instead of investing in companies and paying them to hire workers, the opportunity zones offer tax credits for investment in poor areas.

Will the opportunity zones work as well as the empowerment zones? It seems unlikely. This is because much of the investment money lured into the zones may flow into real estate. In empowerment zones, money was targeted toward businesses, but the new program may direct money into houses.

That wouldn't create many jobs in blighted areas. But it could easily push up housing costs, including starter-home prices and rents. If real estate investment in opportunity zones causes landlords to convert rental units into condos, it would exacerbate an already severe shortage of housing supply in the nation's cities. Rent across the country is rising faster than prices overall.

Poor areas don't need wealthy investors to plow money into houses and buildings. They need investment in businesses that will give them jobs and better wages. Let's hope the new opportunity zones result in increased business investment, like the empowerment zones did.

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