The Heritage Foundation

BACKGROUNDER

No. 3420 | JULY 10, 2019

THOMAS A. ROE INSTITUTE FOR ECONOMIC POLICY STUDIES

Opportunity Zones: Understanding Them in the Context of Past Place-Based Incentives

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KEY TAKEAWAYS

Newly created Opportunity Zones included in the 2017 Tax Cuts and Jobs Act offer lower tax rates on targeted investments in designated low-income Census Tracts.

Forty years of research show that targeted economic development subsidies have failed to increase employment, raise wages, or advance general economic opportunity.

Lower taxes on investment are most effective at allowing economic development and opportunity when the policy is available to all taxpayers.

The most important component of the Tax Cuts and Jobs Act (TCJA) of 2017 reduced taxes on new U.S. investments by lowering the corporate income tax rate and expanding expensing. The law also created Opportunity Zones to encourage investment in economically distressed areas. In line with the goals of lower taxes on investment, the TCJA allows investments in Opportunity Zones to receive preferential capital gains treatment.

The theory and evidence clearly predict that widely available, broad-based tax cuts yield significant economic benefits by removing disincentives to save and invest and are the best way to increase economic opportunity. The theory and evidence on narrowly targeted investment tax cuts is less clear, while the history of place-based incentives, in general, presents a cautionary tale for policymakers. Opportunity Zones are a new and more

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streamlined attempt to ameliorate the deficiencies of past place-based economic policies.

Intense pockets of poverty across urban neighborhoods have long garnered public attention.[1] Recognition of the artificial impediments to prosperity posed by onerous regulations and high taxation inspired calls for a range of state and federal tax incentives to spur growth in impoverished locales. Following the lead of the U.K., the U.S. states and then the federal government have all experimented with place-based targeted relief from taxes and regulation, as well as direct subsidies. Opportunity Zones are the most recent U.S. federal place-based development program.

Academic and government studies show that past place-based development experiments often failed to yield promised employment gains or advance general economic opportunity for targeted residents.[2] Even in cases where place-based policies induce greater investment within the targeted zone, the favored businesses gain an unfair advantage over competitors elsewhere. Often, new investments simply represent a shift in capital away from other investment opportunities outside the zone's boundaries. In those instances where place-based policies draw capital away from more productive investments, they can result in net economic losses of jobs and income.

The economic literature, however, does offer a positive vision for helping distressed communities access economic opportunity. Lifting government-imposed barriers to work, housing supply, and education choice can expand economic mobility and opportunity. In stark contrast, top-down federal incentives can unintentionally reward failing state and local policies by masking the need for reform. Paired with removing government-imposed barriers to success, broadly applied tax reforms that reduce taxes on investment for everyone can help lift struggling communities out of poverty.

1. See the Great Society provisions championed by President Lyndon B. Johnson.

2. Analysts at The Heritage Foundation have, in the past, supported geographically targeted tax incentives—combined with a reform of local regulations serving as impediment to growth—as a way to improve the economic climate in underperforming urban areas. At the same time, these proposals stressed that economic improvement also requires combating non-economic problems, such as a lack of quality educational opportunities and high crime (Butler, 1989 and 1993). Heritage analysts have also opposed various types of targeted tax policies, which include development subsidies for Empowerment Zones, Puerto Rico, and American Samoa (Dubay, 2010). The authors' argument today, that place-based incentives are ineffective, is informed by the decades of research that shows that targeted economic development subsidies fail to increase employment, raise wages, or to advance general economic opportunity. See Stuart M. Butler, "How to Design Effective Enterprise Zone Legislation," Heritage Foundation *Lecture* No. 215, 1989, p. 2, https://www.heritage.org/taxes/report/how-design-effective-enterprise-zone-legislation; Stuart Butler, "The Clinton Administration's Sham Enterprise Zone Proposal," Heritage Foundation *Executive Memorandum* No. 355, May 11, 1993, http://thf_media.s3.amazonaws.com/1993/pdf/em355.pdf; and Curtis S. Dubay, "The 2010 Tax Deal: A Chance for Congress to Lay the Groundwork for Tax Reform," Heritage Foundation *Backgrounder* No. 2569, June 3, 2011, http://thf_media.s3.amazonaws.com/2011/pdf/bg2569.pdf.

Federal, State, and International Experience with Place-Based Policies

Policymakers have 40 years of experience designing and implementing place-based incentive programs at all levels of government and with innumerable variations. The evidence shows that government-directed geographic redistribution of wealth enriches a few select individuals, usually the investors, at the expense of taxpayers more broadly. In some instances, impoverished zone residents end up worse off if real estate values artificially increase as a result of the subsidy scheme rather than direct effects of lower crime and better employment options.[3] Specific case studies and wide-ranging literature reviews find that place-based programs are generally unsuccessful at revitalizing distressed communities.

Federal Experience with Place-Based Policies. Beginning in 1993, Congress created three distinct geographic designations—Empowerment Zones (EZs), Enterprise Communities, and Renewal Communities—with various types of tax and direct subsidies. In 2000, Congress created the New Markets Tax Credit Program and has maintained smaller tax-subsidy programs for Puerto Rico, American Samoa, and Indian reservations.[4]

New Markets Tax Credit. The New Markets Tax Credit (NMTC) is a multi-tiered program that ultimately provides tax credits to investments in low-income Census Tracts.

The Community Development Financial Institutions Fund (CDFI) within the Department of the Treasury allocates the $3.5 billion of annual NMTCs to Community Development Entities (CDEs). The credits are distributed to taxpayers who invest in CDEs and who then make qualifying investments in low-income communities and related businesses. The tax credit is worth 39 percent of the cost of the taxpayer's qualifying investment and must be claimed over seven years. The credit program was most recently extended in 2015 and currently expires at the end of 2019, although is likely to be extended.[5]

The only rigorous empirical assessment of the NMTC to date found the program to be largely ineffective at meeting its goals of increasing community investment and development. The study found that most CDE

3. Douglas J. Krupka and Douglas S. Noonan, "Empowerment Zones, Neighborhood Change and Owner Occupied Housing," IZA *Discussion Paper* No. 3320, January 2008, http://ftp.iza.org/dp3320.pdf (accessed March 14, 2019).

4. Empowerment Zones, an employment tax credit for employment on Indian reservations, and an American Samoa economic development credit are all part of the "tax extenders" package that could be retroactively renewed again in 2019.

5. 26 U.S. Code § 45D–New Markets Tax Credit Program. See also Donald J. Marples and Sean Lowry, "New Markets Tax Credit: An Introduction," Congressional Research Service *Report for Congress*, August 31, 2016, https://fas.org/sgp/crs/misc/RL34402.pdf (accessed January 31, 2019).

investments were relocated investments rather than new net investments, suggesting that "all NMTC investments do not likely represent new funds to low-income communities."[6] An early survey of NMTC projects did find additional business activity but was not able to assess whether the observed successes came at the expense of lost financing in other low-income areas.[7]

Empowerment Zones, Enterprise Communities, and Renewal Communities. In these now expired designations, businesses and local governments were eligible for federal grants and tax breaks if located in designated EZs, Enterprise Communities, or Renewal Communities. Each program had different rules for urban and rural zones, various types of block grants, employment tax breaks, and investment incentives that have changed over time.[8]

EZs and Renewal Communities featured targeted reductions in investment taxes, similar to the new federal Opportunity Zones. Investments in EZs, held for at least five years, were eligible for a 50 percent capital gain exclusion, and gain-deferral allowances were granted to qualifying new investments made by existing zone investors. Investments in Renewal Communities were eligible for a capital gains exclusion if held for more than five years.

Extensive research on EZs, Enterprise Communities, and Renewal Communities finds few benefits for targeted communities. A Congressional Research Service (CRS) evaluation of zone incentives notes that studies from the Department of Housing and Urban Development (HUD) and the Government Accountability Office (GAO) have "failed to link" zone designation with "improvement in community outcomes."[9] The CRS report explains that directly benefiting businesses and investors were made better off, but a wide range of studies consistently find no "general improvement in the economic conditions of the locals." They conclude that the record of economic development subsidies should "call into question the cost-effectiveness of these programs."[10]

Studies that find increased jobs or wage growth in target zones also find that associated budgetary costs often dwarf the measured benefits. A 2008

6. Tami Gurley-Calvez et al., "Do Tax Incentives Affect Investment? An Analysis of the New Markets Tax Credit," *Public Finance Review*, Vol. 37, No. 4 (July 2009), pp. 371–398, https://doi.org/10.1177%2F1091142109332846 (accessed March 14, 2019).

7. Martin D. Abravanel et al., "New Markets Tax Credit (NMTC) Program Evaluation: Final Report," prepared for U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund, Urban Institute, April 2013, https://www.cdfifund.gov/Documents/NMTC%20Program%20Evaluation%20Final%20Report.pdf (accessed March 14, 2019).

8. "Empowerment Zones, Enterprise Communities, and Renewal Communities: Comparative Overview and Analysis," Congressional Research Service *Report for Congress*, February 14, 2011, https://www.everycrsreport.com/reports/R41639.html (accessed March 14, 2019).

9. Ibid., p. 16.

10. Ibid.

study compared economic conditions in federal urban EZs with similar locations denied the classification or slated for future classification. Poverty rates in the EZs were five percentage points lower, and unemployment rates were four percentage points lower. However, an estimated $3 billion in federal and private dollars were expended between 1994 and 2000, for a $1.1 billion present value estimated increase in output from 27,000 new jobs.[11] This amounts to more than $100,000 per job over this period. A follow-up study in 2013 estimated a 15 percent increase in jobs for zone residents. However, each new job cost $11,700 a year through the EZ tax credit alone, in addition to the cost of block grants and other tax incentives.[12]

A study of four of the original six federal urban EZs in Baltimore, Chicago, Detroit, and New York City concluded, "With the exception of a few isolated incidences where individual zones fared better than comparison areas, zone initiatives had little impact."[13] An earlier HUD analysis showed that the program with the highest uptake—the employment tax credit—was only used by 11 percent of zone businesses, and more than half of businesses actually using the tax incentives "reported that the credit was of little or no importance in affecting their hiring or investing decisions."[14]

A study by the Institute for the Study of Labor (IZA) provides evidence that federal EZs sometimes artificially enhance real estate values of the targeted neighborhood while leaving the original struggling residents worse off. EZs had "a sizeable and significant positive effect on home values," and the

11. Total expenditures include $286 million in Social Services Block Grant spending and $2.8 billion in outside funding related to such costs as for capital access, physical development, or housing. See also C. Lockwood Reynolds and Shawn Rohlin, "Do Location-Based Tax Incentives Improve Quality of Life and Quality of Business Environment?" *Journal of Regional Science*, Vol. 54, No. 1 (2014), pp. 20 and 21, http://www.personal.kent.edu/~srohlin/docs/JRS-reynolds-rohlin.pdf (accessed March 14, 2019). "Overall, we find slight increases in the average quality of life in the EZ areas relative to the comparison areas which raises concerns about whether the $11 billion cost of the program (Department of Housing and Urban Development) was worth the investment." Matias Busso and Patrick Kline, "Do Local Economic Development Programs Work? Evidence from the Federal Empowerment Zone Program," Cowles Foundation *Discussion Paper* No. 1638, February 2008, p. 41, Table 2, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1090838&download=yes## (accessed March 14, 2019).

12. Matias Busso, Jesse Gregory, and Patrick Kline, "Assessing the Incidence and Efficiency of a Prominent Place Based Policy," *American Economic Review*, Vol. 103, No. 2 (2013), pp. 927 and 929, https://www.ssc.wisc.edu/~jmgregory/EZ_AER.pdf (accessed March 14, 2019). The authors estimated that the EZs "generated a roughly 15 percent increase in the number of zone jobs for zone residents." If the $55 million in EZ tax credits claimed in 2000 averaged $2,500 per worker (less than $3,000 maximum under the law), this results in subsidizing 22,000 workers—approximately 60 percent of the total local workforce according to the authors. If 38,000 zone residents worked in EZs in 2000 and EZs resulted in a 15 percent increase in the number of zone jobs for zone residents, this suggests approximately 4,667 zone jobs for zone residents generated by the EZs (38,000 jobs – 33,333 without the EZs).The cost per new resident-zone job would have been $11,785 annually in terms of EZ tax credits awarded ($55 million/4667) even by this rosy estimate—not including block grants and other aid.

13. Dierdre Oakley and Hui-shien Tsao, "A New Way of Revitalizing Distressed Urban Communities? Assessing the Impact of the Federal Empowerment Zone Program," *Journal of Urban Affairs*, Vol. 28, No. 5 (November 2006), abstract, https://onlinelibrary.wiley.com/doi/full/10.1111/j.1467-9906.2006.00309.x (accessed March 14, 2019).

14. Debbie Gruenstein et al., "Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program: A Progress Report and Appendices," U.S. Department of Housing and Urban Development, Office of Policy Development and Research, November 2001, p. iii, http://www.huduser.org/portal/publications/econdev/ezec_rpt.html (accessed March 14, 2019).

impact on housing prices was largely due to the "generosity of the federal program."[15] In light of program goals, the authors of the IZA study interpret the program's positive impacts on housing prices as running contrary to the economic rationale of the EZ incentives. For example, a subsidy scheme may induce a rise in home values if low-value, high-density housing is removed. This artificial rise in home values (due to decline in housing stock) stands in stark contrast to increased home values stemming from heightened demand as a result of lower crime and better employment options. Unfortunately, empirical evidence suggests that these factors are not at play in EZs. In fact, where the policy intervention was intended to be targeted, the effect on neighborhood indicators, such as poverty and employment, "is often significant, although not always in the direction program managers may have hoped."[16] The authors noted an increase in neighborhood poverty as one of the effects other than an increase in home prices that "we can be fairly sure" resulted from EZ policies.[17]

State Experience with Place-Based Policies. Over the years, states have experimented with dozens of place-based economic development programs. State programs, often referred to as enterprise zones, have not generally succeeded at revitalizing disadvantaged communities. In a review of state zones, Alan Peters and Peter Fisher conclude that there is "no evidence of a strong positive impact of enterprise zone incentives on growth."[18] A study of urban enterprise zones in California, Florida, New Jersey, New York, Pennsylvania, and Virginia, by Robert Greenbaum and John Engberg, found that the zones "have no impact on overall employment growth."[19] The measured positive impact on the growth of new establishments was negated by a similarly sized negative impact on existing establishments.

Following is a small sample of state experiments with place-based policies. In many cases, states attempt to use special economic zones to compensate for high taxes on all other economic activity. These examples

15. Krupka and Noonan, "Empowerment Zones, Neighborhood Change and Owner Occupied Housing," p. 26, http://ftp.iza.org/dp3320.pdf (accessed March 14, 2019).

16. Ibid., p. 23.

17. Ibid., pp. 23 and 24.

18. Alan Peters and Peter Fisher, *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2002), p 13, https://research.upjohn.org/up_press/41/ (accessed March 15, 2019). Peters and Fisher further explain: "We found that enterprise zones are not effective engines of economic expansion…, [M]any of the zones are in older, distressed, inner-city neighborhoods…. [S]uch places suffer from a number of locational deterrents—high levels of crime, poor infrastructure, poorly skilled workers, and so on—and it is unlikely that tax incentives alone will make up for these negatives. Second, enterprise zone incentives are mostly just too small to affect firm behavior." pp. 190 and 191.

19. Robert T. Greenbaum and John B. Engberg, "The Impact of State Urban Enterprise Zones on Business Outcomes," U.S. Bureau of the Census, Center for Economic Studies *Discussion Paper* No. 98-20, December 1998, p. 26, https://www2.census.gov/ces/wp/1998/CES-WP-98-20.pdf (accessed March 15, 2019).

show that targeted tax breaks are not a good substitute for broad-based tax cuts and simplification.

- **New Jersey: Urban Enterprise Zone Program.** Annual costs for New Jersey's Urban Enterprise Zone Program were estimated to be between $8,000 and $13,000 per job in 1992 (as much as $23,000 in current dollars).[20] A 1996 study concluded that evidence failed to prove that the program "had a positive effect on total municipal employment, on employment in various sectors, or on municipal property values."[21] A 2011 state-commissioned study showed a negative return on state investments through the Urban Enterprise Zone Program.[22] New Jersey has the worst overall state business tax climate, and the fifth-highest corporate tax rate in the country.[23]

- **California: Enterprise Zone Tax Credit Program.** One prominent study of California's Enterprise Zone Tax Credit Program determined that slower employment growth over the long term negated short-term employment gains.[24] A report by California's Legislative Analyst's Office concluded: "Evidence suggests that EZs can be effective at shifting economic activity within a geographic region, but that they generate little new economic activity."[25] Another academic investigation of the California program similarly found no overall impact on growth.[26] The state eliminated the program in 2014.[27]

20. Leslie Papke, "What Do We Know about Enterprise Zones?" NBER *Working Paper* No. 4251, January 1993, p. 45, https://www.nber.org/papers/w4251 (accessed March 15, 2019). Papke cited M. Rubin's testimony before the Subcommittee on Economic Stabilization of the Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, February 20, 1992, Serial No. 102—99, Government Printing Office, Washington, DC.
21. Marlon G. Boarnet and William T. Bogart, "Enterprise Zones and Employment: Evidence from New Jersey," *Journal of Urban Economics*, Vol. 40, No. 2 (1996), pp. 198–215, https://www.sciencedirect.com/science/article/pii/S0094119096900297 (accessed March 15, 2019).
22. "New Jersey Urban Enterprise Zone Program Assessment," submitted to New Jersey Economic Development Authority by Delta Development Group, Inc., and HR&A Advisors, Inc., February 15, 2011, https://www.nj.gov/dca/affiliates/uez/publications/pdf/NJ%20Urban%20Enterprise%20Zone%20Program.pdf (accessed March 15, 2019).
23. Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, "2019 State Business Tax Climate," Tax Foundation, September 26, 2018, https://taxfoundation.org/publications/state-business-tax-climate-index/ (accessed March 21, 2019).
24. Suzanne O'Keefe, "Job Creation in California's Enterprise Zones: A Comparison Using a Propensity Score Matching Model," *Journal of Urban Economics*, Vol. 55, No. 1 (2004), pp. 131–150, https://www.sciencedirect.com/science/article/pii/S0094119003001025 (accessed March 15, 2019).
25. State of California Legislative Analyst's Office, "Tax Expenditures and Revenue Options," April 7, 2008, p. 12, http://www.lao.ca.gov/handouts/Econ/2008/Tax_Expend_04_07_08.pdf (accessed March 15, 2019).
26. David Neumark and Jed Kolko, "Do Enterprise Zones Create Jobs? Evidence from California's Enterprise Zone Program," NBER *Working Paper* No. 14530, December 2011, https://www.nber.org/papers/w14530 (accessed March 15, 2019).
27. California Assembly Bill No. 93, enacted July 11, 2013, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201320140AB93 (accessed March 22, 2019).

- **Minnesota: Job Opportunity Building Zones (JOBZ).** A 2008 study of the JOBZ program by the Program Evaluation Division of the Office of Legislative Auditor notes that some recipients of JOBZ tax breaks are businesses competing with other Minnesota businesses for the same customer base. The report also found that 69 percent of JOBZ participants would have expanded in the zones at least "to some extent without the tax breaks" and reported that job growth estimates from the state's Department of Employment and Economic Development "overstate the impact of the JOBZ program."[28]

- **Louisiana: Enterprise Zones.** A 2010 Louisiana state auditor's report cautioned that not all of the nearly 9,400 reported new jobs from qualifying projects are directly attributable to the enterprise-zone program.[29] Without providing a full explanation, the state estimated that there are 3,000 direct new jobs attributable to the program. Using the state's optimistic estimate of 3,000 new direct jobs created in 2009, each new, directly created job cost taxpayers $20,300.[30]

- **Pennsylvania: Neighborhood Assistance Program (NAP).** The Pennsylvania Legislative Budget and Finance Committee found that "about three-quarters of all program participants (excluding residential participants who would not be expected to create jobs or generate capital investment) did not report any job creation activity" due to the NAP, a tax-credit program that encourages businesses to invest in distressed areas.[31]

- **New York: Empire Zones and START-UP NY.** New York first implemented the Economic Development Zone program in 1986, providing an array of tax credits, property tax abatements, and utility rate reductions. In later iterations, this program became known as Empire Zones.[32] An audit by an independent consulting firm in 1999 found a

28. Office of the Legislative Auditor, State of Minnesota, "Evaluation Report Summary: JOBZ Program," February 2008, pp. 1 and 2, https://www.auditor.leg.state.mn.us/ped/pedrep/jobzsum.pdf (accessed March 15, 2019).
29. Louisiana Economic Development, *Enterprise Zone Program 2009 Annual Report*, March 2010, p. 6, https://www.opportunitylouisiana.com/assets/LED/docs/Performance_Reporting/2009_Annual_Report_Enterprise_Zone.pdf (accessed March 15, 2019).
30. Authors' calculation, $69.5 million/3,000. Ibid., p. 7.
31. Legislative Budget and Finance Committee, "An Evaluation of the Keystone Opportunity Zone (KOZ) Program," June 2009, p. S-12, http://lbfc.legis.state.pa.us/Resources/Documents/Reports/316.pdf (accessed March 15, 2019).
32. State of New York Comptroller, "Assessing the Empire Zones Program: Reforms Needed to Improve Program Evaluation and Effectiveness," *Report* No. 3-2005, April 2004, pp. 9 and 17, https://www.osc.state.ny.us/osdc/empirezone3-2005.pdf (accessed March 22, 2019).

net negative benefit to the state and an annual cost per job created of between $14,648 and $16,907 annually, or as much as $25,500 today.[33] Despite more than two decades of lackluster results, the program did not sunset until June 2010.[34] In 2013, the state—under the guidance of Governor Andrew Cuomo—created the START-UP NY program "to encourage businesses to start up, relocate to or expand in New York State."[35] A $53 million marketing campaign (in addition to the tax subsidies) in the first two years netted just 408 jobs.[36] New York has the third-worst business tax climate in the nation.[37] The top marginal combined state and local corporate income tax rate in New York City exceeds 17 percent, the highest in the nation.[38] The tax disadvantage statewide outweighs any localized benefits from the targeted place-based subsidies.

- **Indiana: Enterprise Zones.** Indiana implemented favorable treatment of inventories in enterprise zones in the mid-1980s. Using information from the Indiana Department of Commerce, one study estimated each new job to cost $10,178, and each new job for the targeted zone residents to cost more than $53,500, in 1990 dollars.[39] In 2019 dollars, those figures would be $20,000 and $100,000, respectively.[40]

- **Maryland: Enterprise Zones.** A state-commissioned study concluded, "While enterprise zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax

33. Ibid., p. 25.
34. Empire State Development, "Empire Zone Program Sunset FAQ," https://cdn.esd.ny.gov/businessprograms/Data/EmpireZones/EmpireZoneProgramSunsetFAQs.pdf (accessed March 22, 2019).
35. Empire State Development, *START-UP NY 2014 Annual Report*, April 1, 2015, p. 4, https://cdn.esd.ny.gov/Reports/2014_STARTUPNY_REPORT.pdf (accessed March 22, 2019).
36. Vivian Yee, "Start-Up New York Gets a New Name, and a Focus on Start-Ups," *The New York Times*, January 19, 2017, https://www.nytimes.com/2017/01/19/nyregion/start-up-new-york.html (accessed March 22, 2019).
37. Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, *2019 State Business Tax Climate Index*, Tax Foundation, 2018, p. 3, https://files.taxfoundation.org/20180925174436/2019-State-Business-Tax-Climate-Index.pdf (accessed March 22, 2019).
38. Arthur B. Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer Economic Competitiveness Index*, 11th ed., American Legislative Exchange Council, 2018, p. 99, https://www.richstatespoorstates.org/app/uploads/2018/04/RSPS-2018-WEB.pdf (accessed March 22, 2019).
39. Helen F. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?" *Cityscape*, January 1994, pp. 204 and 205, https://www.researchgate.net/profile/Helen_Ladd/publication/242273411_Spatially_Targeted_Economic_Development_Strategies_Do_They_Work/links/0c960533c2a593446d000000/Spatially-Targeted-Economic-Development-Strategies-Do-They-Work.pdf (accessed March 15, 2019).
40. Another study estimated that the cost for each new resident-zone job exceeded $31,100, in 1988 dollars. Adjusted for inflation, this is more than $59,000. Leslie E. Papke, "Tax Policy and Urban-Development–Evidence from the Indiana Enterprise Zone Program," NBER *Working Paper* No. 3945 (December 1991), abstract, https://www.nber.org/papers/w3945 (accessed March 15, 2019).

credit is not effective in providing employment to zone residents that are chronically unemployed and/or live in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility."[41] Baltimore City contained nearly 20 percent of the statewide enterprise zone acreage in 2013. The same study found that manufacturing jobs declined by a greater percentage within the zones than in the remainder of the state.

- **Oregon: Enterprise Zones.** Assuming that every new job qualifying for an Oregon enterprise-zone property-tax abatement can be directly attributed to state incentives, each net new job is estimated to cost nearly $11,200. Even favorable estimates that exclude electricity generation and other capital-intensive projects cost $7,789 per net new job.[42]

The United Kingdom's Experience with Place-Based Programs. In 1981, the British government implemented one of the first modern experiments with development incentives to encourage new economic activity. The zones provided eight incentives that included property-tax and development-tax exemptions, and streamlined reporting and approval processes for new developments.[43]

The zones primarily served as the location for development that would have happened elsewhere.[44] In 1992, a literature review by economists Barry Rubin and Craig Richards concluded that "the research on the U.K. experiment is fairly consistent that the Thatcher government's implementation of enterprise zones has not succeeded in meeting job-generation goals."[45]

41. Maryland Department of Legislative Services, *Evaluation of the Enterprise Zone Tax Credit*, 2014, p. vii, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/WEB-Evaluation-of-the-Enterprise-Zone-Tax-Credit.pdf (accessed March 15, 2019).

42. Legislative Revenue Office, State of Oregon, "Enterprise Zones Study," April 1, 2009, p. 17, https://www.oregonlegislature.gov/lro/Documents/entr_prz_zones_sb151.pdf (accessed March 15, 2019).

43. Barry M. Rubin and Craig M. Richards, "A Transatlantic Comparison of Enterprise Zone Impacts: The British and American Experience," *Economic Development Quarterly*, Vol. 6, No. 4 (November 1992), p. 433, https://journals.sagepub.com/doi/abs/10.1177/089124249200600409 (accessed March 15, 2019).

44. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?" p. 203. Ladd summarized the results of the 1984 Tym Report on the United Kingdom enterprise zones: "First, employment grew at a slower pace in the zones (13 percent) than in comparable firms outside the zones (24 percent). Second, the majority of new jobs in the zones could not be attributed to either the enterprise zone designation or the specific incentives provided. Third, and perhaps most devastating, most of the new economic activity in the zones simply represented activity that had been relocated from nearby counties. Specifically, during the first 3 years of the program, 86 percent of the firms relocating to the zones came from the counties in which the zones were located."

45. Rubin and Richards, "A Transatlantic Comparison of Enterprise Zone Impacts: The British and American Experience," p. 440.

Economist Helen Ladd similarly concluded: "Pure place strategies of the type represented by the English enterprise zone program are not an effective approach to pockets of urban distress. The main effect of the tax and regulatory relief provisions is simply to relocate firms to the zones from nearby locations."[46]

By one estimate, each job created and attributable to the 1980s enterprise zones cost more than $67,000 per job, in 1983 dollars—more than $160,000 today.[47] Leslie Papke summarizes the evidence: "There is remarkable agreement across studies that the British zone program has failed in its goal of generating *new* industrial activity."[48] Rubin and Richards concur that the British zones were "largely unsuccessful in meeting program goals."[49]

Economic Planning: Poor Substitute for the Market Process

Economic development incentives are a form of government central planning. Innumerable provisions buried within state and federal tax codes unfairly treat similar people or businesses differently. Place-based incentives grant one competitor an artificial advantage over another simply for operating on one side of a politically drawn line. These subsidies result in a redirection of resources to seek special privileges rather than value-creating, productive activity.[50] Shifting investments by government fiat also make the capital stock less productive and slow economic growth by moving market-driven investments away from their highest-valued use. Government economic planning is a highly inefficient, and often counterproductive, way to increase economic opportunity and general well-being.

A comprehensive review of the economic-development literature by David Neumark and Helen Simpson concludes that "it is very hard to make the case that the research establishes the effectiveness of enterprise zones in terms of

46. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?" p. 208.

47. Edward L. Glaeser and Joshua D. Gottlieb, "The Economics of Place-Making Policies," *Brookings Papers on Economic Activity* (Spring 2008), pp. 200 and 201, https://www.brookings.edu/wp-content/uploads/2008/03/2008a_bpea_glaeser.pdf (accessed March 15, 2019). Glaeser and Gottlieb based this figure on another study: John E. Schwarz and Thomas J. Volgy, "Experiments in Employment—a British Cure," *Harvard Business Review*, Vol. 104, No. 12 (March/April 1988). See also William D. Gunther and Charles G. Leathers, "British Enterprise Zones: A Critical Assessment," *The Review of Regional Studies*, Vol. 17, No. 1 (1987), p. 7, https://journal.srsa.org/ojs/index.php/RRS/article/view/17.1.1/730 (accessed June 13, 2019).

48. Leslie Papke, "What Do We Know about Enterprise Zones?" NBER *Working Paper* No. 4251, January 1993, p. 18, https://www.nber.org/papers/w4251 (accessed March 15, 2019).

49. Rubin and Richards, "A Transatlantic Comparison of Enterprise Zone Impacts: The British and American Experience," p. 431.

50. William Freeland, Ben Wilterdink, and Jonathan Williams, "The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth," American Legislative Exchange Council, July 23, 2014, http://www.alec.org/publications/taxcarveouts/ (accessed March 14, 2019), and Christopher Coyne and Lotta Moberg, "The Political Economy of State-Provided Targeted Benefits," Mercatus *Working Paper* No. 14-13, May 2014, https://www.mercatus.org/system/files/Coyne_TargetedBenefits_v2.pdf (accessed March 14, 2019).

job creation or welfare gains, although there clearly are some studies pointing to positive effects."[51] Edward Glaeser and Joshua Gottlieb similarly conclude: "Most large-scale place-oriented policies have had little discernible impact. Some targeted policies such as Empowerment Zones seem to have an effect but are expensive relative to their achievements."[52] They continue that "the combination of theory and evidence leads us to be suspicious of local economic policies that are meant to increase production.... Empirically, these policies seem to be either extremely expensive or ineffective."[53]

When economic benefits, such as new jobs or increased investment, exist, they are highly visible and easy to measure. The costs of lost jobs and lost investment elsewhere are hard to quantify and often hidden.[54] Simply counting the number of new or retained jobs at firms participating in the tax-incentive programs grossly exaggerates the program's effectiveness. A lack of proper control groups makes it nearly impossible to determine what portion of new or retained jobs is attributable to the incentives. Many of the new jobs may have been created without special tax treatment. Other jobs may never materialize because the government subsidized the business that was destined to fail, instead of the one that could have succeeded.

Place-Based Incentives Mask Failed Policies

Using the tax code or other subsidies to reward distressed areas serves primarily to paper over underlying localized causes of distress. Poverty is a complex and multifaceted problem, but state and local policies do play an important role in economic opportunity. Assistance that does not acknowledge and address existing local problems, such as high taxes, burdensome labor laws, failing schools, and restrictive zoning laws, are doomed to fail.

Detroit, for example, has the highest effective commercial property tax rates and the third-highest property tax rates on homes in the U.S.[55] High property taxes are not always associated with good public services—they can also be the result of fiscal mismanagement. Property tax rates in the Chicago metro area are some of the highest in the nation due largely to

51. David Neumark and Helen Simpson, *Handbook of Regional and Urban Economics*, Vol. 5B (2015), Chapter 18, p. 1250, https://www.socsci.uci.edu/~dneumark/1-s2.0-B9780444595317000181-main.pdf (accessed March 15, 2019).

52. Edward L. Glaeser and Joshua D. Gottlieb, "The Economics of Place-Making Policies," The Brookings Institution, October 2008, p. 155, https://www.brookings.edu/wp-content/uploads/2008/03/2008a_bpea_glaeser.pdf (accessed March 14, 2019).

53. Ibid., p. 203.

54. Freeland, Wilterdink, and Williams, "The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth."

55. Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparison Study for Taxes Paid in 2017," April 2018, https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2017-full_1.pdf (accessed June 12, 2019).

overpromised and underfunded public-sector pensions.[56] High taxes can cause home values to decline relative to other areas, eroding homeowner equity, shrinking personal savings, and leading to out-migration.

Federal affordable housing assistance illustrates a similar dynamic. Chris Edwards and Vanessa Brown Calder note that housing programs give states a disincentive for fixing local regulatory problems because "the worst-offending states receive the most in federal housing subsidies."[57] States with the most restrictive zoning laws receive significantly more subsidies, even after accounting for poverty.[58] Subsidies that flow through the low-income housing tax credit often exacerbate existing corruption and breed new forms of government graft.[59]

To the extent that local policy contributes to a lack of economic opportunity, federal development subsidies distract from necessary local reforms. At worst, they can subsidize the poverty trap of failing government policy by propping up systems that need reform.

Education Choice and Worker Freedom Allow People to Move Out of Poverty

Place-based incentives are a flawed mechanism to advance the structural reforms needed to allow opportunity to flourish. The low levels of investment in impoverished areas are a symptom of troubled policies and institutions. Spurring government-directed investments into these locales is a poor substitute for addressing the underlying causes of the underinvestment. It focuses on the symptoms of economic stagnation rather than on the cause. Education choice and regulatory reforms are two examples of important structural reforms that could encourage new investments and help expand worker mobility and opportunity.

Education Choice. Failing schools contribute to a relative lack of education, marketable skills, and other forms of human capital, which directly affects earnings capacity and economic mobility.

56. Orphe Divounguy, Bryce Hill, and Joe Tabor, "Pensions Make Illinois Property Taxes Among Nation's Most Painful," Illinois Policy Institute *Special Report*, Summer 2008, p. 3, https://files.illinoispolicy.org/wp-content/uploads/2018/07/pensions-property-taxes-3.pdf (accessed March 14, 2019).

57. Chris Edwards and Vanessa Brown Calder, "'Opportunity Zones' Will Help Connected Developers, Not the Poor," *The Hill*, July 18, 2018, https://thehill.com/opinion/finance/397630-opportunity-zones-to-help-connected-developers-not-poor-people (accessed April 2, 2019).

58. Vanessa Brown Calder, "Zoning, Land-Use Planning, and Housing Affordability," Cato *Policy Analysis* No. 823, October 2017, https://www.cato.org/publications/policy-analysis/zoning-land-use-planning-housing-affordability (accessed March 26, 2018).

59. Chris Edwards and Vanessa Brown Calder, "Low-Income Housing Tax Credit: Costly, Complex, and Corruption Prone," Cato Institute *Tax and Budget Bulletin* No. 79, November 13, 2017, p. 2, https://www.cato.org/publications/tax-budget-bulletin/low-income-housing-tax-credit-costly-complex-corruption-prone (accessed March 22, 2018).

Underperforming public schools enjoy a near monopoly in many of the most economically deprived areas. High numbers of students drop out before graduation; many graduates lack proficiency in basic reading, writing, math, and specialized skills. The government-granted education monopoly fails millions of students who are subsequently unable to compete in the labor market. Education choice options that allow students and parents to choose the best school for them have been shown to help the poorest students attain better outcomes than in government-assigned schools.[60] Place-based subsidies cannot correct the policy failures of public schools.

Zoning and Regulations. Federal, state, and local regulations of all types disproportionately hurt low-income communities. Regulations are costly to businesses and individuals; they lower real incomes, reduce entrepreneurship, exacerbate income inequality, and increase the price of consumer goods. Requirements for unionized labor, minimum wages, occupational licensing, and zoning restrictions are just a few examples. There is a strong measurable relationship between increases in regulatory restrictions and increased poverty.[61] Regulatory costs are regressive, harming lower-income Americans the most, by forcing businesses that cannot compete to prematurely automate operations or become more selective in hiring.[62]

Unreasonable state and local zoning regulations can increase housing costs by limiting the supply of new housing and attempting to meet aesthetic and environmental goals.[63] Increased housing costs fall disproportionately on low-income residents who are more easily priced out of the market and may not value the aesthetic goals of zoning laws developed for wealthy homeowners, such as parking requirements, restrictions on multifamily homes, and other restrictions on low-income housing options.

The unintended consequences of high regulatory burdens are often hard to see as they fall on those least equipped to navigate the bureaucracy. Worker and housing freedom through reduced and streamlined labor, zoning, and business restrictions could go a long way toward fighting poverty and expanding opportunity by allowing families access to affordable market-driven housing and jobs at more dynamic and varied businesses.

60. Jason Bedrick and Lindsey M. Burke, "The Next Step in School Choice," *National Affairs* (Winter 2015), https://www.nationalaffairs.com/publications/detail/the-next-step-in-school-choice (accessed June 12, 2019).

61. Dustin Chambers, Patrick A. McLaughlin, and Laura Stanley, "Regulation and Poverty: An Empirical Examination of the Relationship Between the Incidence of Federal Regulation and the Occurrence of Poverty across the States," Mercatus *Working Paper*, April 2018, https://www.mercatus.org/system/files/chambers-regulation-poverty-mercatus-working-paper-v1.pdf (accessed March 14, 2019).

62. Janna E. Johnson and Morris M. Kleiner, "Is Occupational Licensing a Barrier to Interstate Migration?" National Bureau of Economic Research *Working Paper* No. 24107, December 2017, https://www.nber.org/papers/w24107 (accessed March 14, 2019).

63. Brown Calder, "Zoning, Land-Use Planning, and Housing Affordability."

Equally Applied Pro-Growth Reforms

When low tax rates are equally applied, economic resources can be deployed to their highest valued use, transforming the economic climate. North Carolina's 2013 reform provides a recent example. The state's top personal income tax rate gradually declined from 7.75 percent in 2013 to 5.25 percent in 2019. The top corporate income tax rate fell from 6.9 percent in 2012 to 2.5 percent in 2019.[64]

Following the reforms, North Carolina's tax system improved from sixth-worst nationally to 13th-best over the next three years.[65] As part of the reform, legislators eliminated or did not extend 55 tax expenditures, including low-income housing tax credits, place-based tax credits for business property investments, and tax credits for other qualified business investments.[66] By 2019, the North Carolina corporate income tax was third-lowest in the nation and the state income tax was 16th-lowest.[67]

State government tax collections increased 13 percent from 2013 to 2017, because of the large economy.[68] Meanwhile, the number of jobs grew by 9.9 percent from 2014 through 2018.[69] From July 2014 to July 2018, North Carolina had an annual net in-migration of 57,706 people, the fourth-highest inflow of residents in the nation, and a rate nearly twice the 35,857-person annual in-migration in the four years before the reforms.[70] Low taxes, especially lower taxes on businesses and new investments, promote economic opportunity, wage growth, and job creation.

Targeted investment incentives and other preferential treatment are not effective because they lack generality. A corporate or capital gains tax rate cut that is only available to a subset of investors will tend to have different effects than broadly applied policy. Generally applied low taxes on

64. Arthur B. Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer Economic Competitiveness Index*, 12th ed., American Legislative Exchange Council, 2019, https://www.richstatespoorstates.org/states/NC/ (accessed June 13, 2019).

65. Tax Foundation, *North Carolina Illustrated: A Visual Guide to Tax Reform*, 2015, p. 15, https://files.taxfoundation.org/20170608155342/NorthCarolinaIllustrated_0.pdf (accessed March 21, 2019).

66. North Carolina Department of Revenue, "North Carolina Biennial Tax Expenditure Report–2015," pp. 14–23, https://www.dor.state.nc.us/publications/nc_tax_expenditure_report_15.pdf (accessed March 21, 2019).

67. Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, *2019 State Business Tax Climate Index*, Tax Foundation, 2018, p. 3, https://files.taxfoundation.org/20180925174436/2019-State-Business-Tax-Climate-Index.pdf (accessed March 22, 2019).

68. Federal Reserve Bank of St. Louis, "State Government Tax Collections, Total Taxes in North Carolina," Series NCTOTLTAX, https://fred.stlouisfed.org/search/?st=NCTOTLTAX (accessed March 22, 2019).

69. Federal Reserve Bank of St. Louis, "All Employees: Total Nonfarm in North Carolina," Series NCNA, https://fred.stlouisfed.org/series/NCNA (accessed June 13, 2019).

70. Census Bureau, "American FactFinder: Estimates of the Components of Resident Population Change: April 1, 2010 to July 1, 2018, 2018 Population Estimates," ID PEPTCOMP, https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=PEP_2018_PEPTCOMP&prodType=table (accessed March 22, 2019).

new investments decrease the relative cost of savings over consumption, resulting in more new net investment. Similar tax changes that are only narrowly available will tend to induce more relocation than net increases in investment. The benefits of narrow investment tax breaks tend to accrue to a small circle of investors, whereas broad-based tax cuts tend to benefit workers through higher wages.[71]

Opportunity Zones: A New Take on Place-Based Policy?

Among many other policy changes, the TCJA created a new Opportunity Zone designation to provide tax incentives for investments made in Opportunity Zone businesses. Originally proposed by Senators Tim Scott (R–SC) and Cory Booker (D–NJ) as the Investing in Opportunity Act, the new zones are intended to "dramatically expand the resources to restore economic opportunity, job growth, and prosperity for those who need it most."[72]

To qualify for the Opportunity Zone tax incentives, investments must be made through Qualified Opportunity Funds. These are investment partnerships or corporations that have 90 percent or more of their assets invested in Opportunity Zones.[73] An individual Qualified Opportunity Fund may diversify by investing in numerous businesses and multiple Opportunity Zones.

State governors chose Opportunity Zones from qualifying low-income Census Tracts. Zone designations last through 2026. Qualifying Zone investments can receive up to three capital gains tax advantages, designed to unlock unrealized capital gains and direct them into designated zones:[74]

1. Deferral of taxes on existing capital gains that are reinvested in an Opportunity Zone through a Qualified Opportunity Fund. Capital gains taxes are due when the reinvested gain is sold.

71. Adam N. Michel, "The High Price That American Workers Pay for Corporate Taxes," Heritage Foundation *Backgrounder* No. 3243, September 11, 2017, https://www.heritage.org/taxes/report/the-high-price-american-workers-pay-corporate-taxes.

72. News release, "Senator Scott Introduces the Bipartisan Investing in Opportunity Act," Office of Senator Tim Scott, February 27, 2017, https://www.scott.senate.gov/media-center/press-releases/senator-scott-introduces-the-bipartisan-investing-in-opportunity-act (accessed March 13, 2019).

73. Internal Revenue Service, "Investing in Qualified Opportunity Funds," Proposed Rule, REG-115420-18, *Federal Register*, Vol. 83, No. 209 (October 29, 2018), pp. 54279–54296, https://www.federalregister.gov/documents/2018/10/29/2018-23382/investing-in-qualified-opportunity-funds (accessed June 12, 2019), and Congressional Research Service, "Tax Incentives for Opportunity Zones: In Brief," November 20, 2018, https://fas.org/sgp/crs/misc/R45152.pdf, (accessed March 13, 2019).

74. For an overview of capital gains taxes as investment incentives, see Scott Eastman and Nicole Kaeding, "Opportunity Zones: What We Know and What We Don't," Tax Foundation, January 8, 2019, https://taxfoundation.org/opportunity-zones-what-we-know-and-what-we-dont/ (accessed March 13, 2019). See also Congressional Research Service, "Tax Incentives for Opportunity Zones: In Brief."

2. A 10 percent step-up in basis (the original cost component used in determining the taxable gain or loss of an investment), which lowers the deferred taxable gain for reinvested gains if held for at least five years, and an additional 5 percent if held more than seven years.

3. Exclusion of capital gains tax on gains accrued to qualifying investments in the Opportunity Zone, which are held for at least 10 years.

Media reports and analysis of chosen Census Tracts indicate that the designated Opportunity Zones may not be well targeted if the intention is to increase net investment. An Urban Institute analysis found that 28 percent of designated tracts were located in areas with the greatest existing capital in-flows, indicating that the lower tax rates could benefit existing planned investments rather than inducing new capital flows. The analysis also found that designated areas had more existing socioeconomic change showing that the designated areas were growing wealthier before the new incentives were implemented.[75] Media reports also highlight poorly chosen zone locations.[76] Oregon's governor, for example, designated the entire downtown of Portland (the state's biggest city) as an Opportunity Zone. One qualifying Portland investment will be "the finest for-rent product in the city," featuring over 200 luxury apartments.[77]

How Do Opportunity Zones Differ from Previous Place-Based Programs? The majority of previous and existing place-based development programs include many complicated and inefficient subsidy schemes. In 2015, Jared Bernstein and Kevin Hassett discussed the deficiencies of previous place-based development programs, stressing how multiple and overlapping program components could have blunted the impact of past incentives and contributed to their poor performance.[78] They suggest that a more streamlined, tax-advantaged investment vehicle open to both individuals and institutions could eliminate many of the past program's deficiencies. Similar to venture capital funds, an investment fund would be

75. Brett Theodos, Brady Meixell, and Carl Herman, "Did States Maximize Their Opportunity Zone Designations?" Urban Institute, May 21, 2018, https://www.urban.org/research/publication/did-states-maximize-their-opportunity-zone-selections (accessed March 14, 2019).

76. Caleb Melby and David Kocieniewski, "Kushners' Beachfront Strip Eligible for Trump's Poor-Area Tax Perks," *Bloomberg Businessweek*, December 6, 2018, https://www.bloomberg.com/news/features/2018-12-06/kushners-new-jersey-buying-spree-eligible-for-trump-tax-perks (accessed March 14, 2019).

77. Noah Buhayar and Lauren Leatherby, "Welcome to Tax Breaklandia," *Bloomberg Businessweek*, January 17, 2019, https://www.bloomberg.com/graphics/2019-portland-opportunity-zones/ (accessed March 14, 2019).

78. Jared Bernstein and Kevin A. Hassett, "Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas," Economic Innovation Group, April 2015, https://eig.org/wp-content/uploads/2015/04/Unlocking-Private-Capital-to-Facilitate-Growth.pdf (accessed May 28, 2019).

able to invest across—and accept investments from—multiple businesses and zones to reduce the risk inherent in any one venture. Opportunity Zones improve on past programs by incorporating many of Bernstein and Hassett's suggestions.

Unlike direct subsidies or employment tax credits, a reduced effective tax rate on capital gains, broadly applied, would increase economic opportunity for all Americans by increasing investment. However, extending these pro-growth tax cuts only to specific locales—as in the case of Opportunity Zones—triggers competing economic forces that could, in theory, cancel each other out. The lower capital gains taxes will, on the margin, increase net investment within the zones. Yet, those positive effects could very well be overcome by offsetting economic losses from moving capital from more productive to less productive locations, increases in rent-seeking, and new forms of political corruption.

The costs and benefits of Opportunity Zones will ultimately be unknown until the program concludes in 2026 and enough time passes for the effects to be assessed. Any measurement of the program's success will require data collected by Census Tract.[79] A rigorous assessment should include a plausible control group and controls for pre-reform development trends.

What Policymakers Can Do

While the ultimate success of Opportunity Zones is still unknown, what is known is that past place-based development programs have not reached their goals of increasing employment, raising wages, or advancing general economic opportunity. With this in mind, policymakers should do the following:

- **Wait for appropriate data before expanding Opportunity Zones.** The Opportunity Zone investment period should not be extended or expanded to new designations, and the program should be allowed to end when it is currently scheduled in 2026. Following the program's end, appropriate data should be collected to quantitatively evaluate the program's effects. Current proposals to measure the law's impact are insufficient as they do not track investment data by Census Tract.[80]

79. The Department of the Treasury is not able to connect Opportunity Zone data to specific Census Tracts, and current legislative proposals to measure Opportunity Zone outcomes are only disaggregated by state, which will not provide the necessary data to fully evaluate the program. Scott Eastman, "Measuring Opportunity Zone Success," Tax Foundation *Fiscal Fact* No. 657, May 2019, https://taxfoundation.org/measuring-opportunity-zone-success/ (accessed May 30, 2019).

80. For more detail see, Eastman, "Measuring Opportunity Zone Success."

Only after valid data have been collected and analyzed in the context of the existing literature should Congress decide the ultimate future of place-based economic policy.

- **Use existing subsidies to reward structural reforms toward education and worker freedom.** President Donald Trump has instructed HUD to direct existing federal grant money to designated Opportunity Zones.[81] Secretary Ben Carson should prioritize areas that show independent initiative to reform existing barriers to economic opportunity, such as reducing occupational licensing requirements, expanding education choice, enacting right-to-work protections, repealing minimum-wage laws, and loosening land-use restrictions.[82]

- **Allow subsidies to expire and to remain expired.** Three development tax subsidies expired at the end of 2017: Empowerment Zones, employment tax credits for Indian reservations, and American Samoa economic development credits. The New Markets Tax Credit expires in 2019. Congress should not extend or expand any of these programs.[83]

- **Remove political discretion from existing state enterprise zones.** To qualify for zone designations, locales must meet one or more criteria, such as poverty rates, unemployment levels, or median income. However, meeting these qualifiers is typically just a first step to being awarded zone status. Politicians enjoy wide latitude in determining which of these qualifying areas will receive the assorted incentives. In addition, zone parameters may provide for specific business sectors to gain access to tax incentives. If they are created, enterprise zones should be designated according to an objective methodology free of

81. Executive Order on Establishing the White House Opportunity and Revitalization Council, December 12, 2018, https://www.whitehouse.gov/presidential-actions/executive-order-establishing-white-house-opportunity-revitalization-council/ (accessed March 14, 2019).

82. Glaeser and Gottlieb, "The Economics of Place-Making Policies," p. 155. "The greatest promise for a national place-based policy lies in impeding the tendency of highly productive areas to restrict their own growth through restrictions on land use." This aligns with the spirit of the original concept envisioned by Stuart Butler: "If we are to foster the growth of small enterprises within large dilapidated resident neighborhoods, the program should encourage local authorities to streamline zoning, building codes, and other regulations and permits that can be an enormous obstacle to a small firm." Butler, "How to Design Effective Enterprise Zone Legislation, p. 4. See also Stuart Butler, "The Clinton Administration's Sham Enterprise Zone Proposal," Heritage Foundation *Executive Memorandum* No. 355, May 11, 1993, p. 2, https://www.heritage.org/report/the-clinton-administrations-sham-enterprise-zone-proposal. "Enterprise zones were meant to rid the inner cities of suffocating bureaucracy and central planning, and instead give a green light to entrepreneurs with unorthodox ideas."

83. Adam N. Michel, "Pro-Growth Tax Reform," in Romina Boccia, ed., *Blueprint for Balance* (Washington, DC: The Heritage Foundation, 2019), https://www.heritage.org/blueprint-balance/policy-agenda/pro-growth-tax-reform.

bias for any particular sector and without allowances for arbitrary decisions by politicians.

- **Lower the capital gains tax for all investors.** A lower capital gains tax rate and adjusting the basis of capital gains for inflation for all taxpayers are better ways to unlock new investment than targeted policies.[84] Limiting similar reforms to narrow geographies denies citizens elsewhere the chance to also benefit from good policy reforms. Treating similarly situated taxpayers similarly is an important mainstay of fair governance and good tax policy.

Place-based economic policy has historically failed to produce consistent increases in employment, wages, or advances to general economic opportunity. Opportunity Zones are Congress's latest attempt to expand economic well-being and investment resources to those who have been left behind. Opportunity Zones address some of the past mistakes of policymakers, but the inefficiencies of government planning remain. Although the ultimate success of these new zones is unknown, given the long history of poor results, state and federal policymakers should wait for relevant data before expanding or adding new programs.

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84. Kyle Pomerleau, "Economic and Budgetary Impact of Indexing Capital Gains to Inflation," Tax Foundation *Fiscal Fact* No. 610, September 2018, https://taxfoundation.org/economic-budget-impact-indexing-capital-gains-inflation/ (accessed May 25, 2019), and Erica York, "An Overview of Capital Gains Taxes," Tax Foundation *Fiscal Fact* No. 649, April 2019, https://taxfoundation.org/capital-gains-taxes (accessed May 25, 2019).