

Are Opportunity Zones an Effective Place-Based Policy?

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Background: Why Opportunity Zones?

Motivation for Place-Based Policies

- Address disparities and stimulate economic development in disadvantaged geographic areas.

Challenges in Distressed Areas

- Disconnection of non-disabled men from the labor force.
- Persistent economic stagnation.

Shift in Economic Perspective

- Growing discussion among economists on government intervention in left-behind areas.

Lack of Consensus

- Checkered history of place-based policies with mixed evidence on positive outcomes.
- Skepticism towards simply expanding existing policies.

Background: What are Opportunity Zones?

OZ Eligibility (census tract)

- Official poverty rate of at least 20 percent.
- Median family income below 80 percent of the median family income in the state or metropolitan area.
- Contiguous with a selected census tract meeting either of first two conditions, with a median income less than 125 percent of the qualifying tract.

Key Characteristics

- Sought to relax government control over investment location and form.
- Offered uncapped tax incentives for private individual investors to reinvest unrealized capital gains.
- Broke from previous place-based tax policies that involved government-approved entities.

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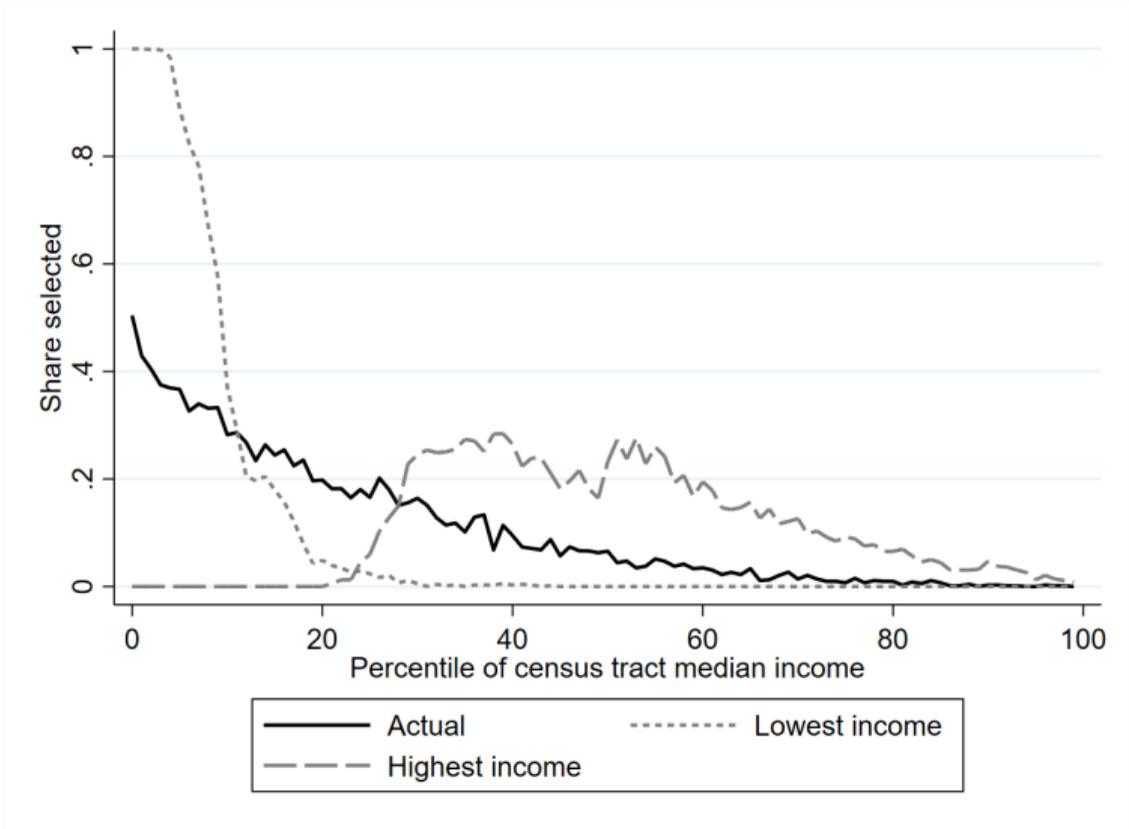
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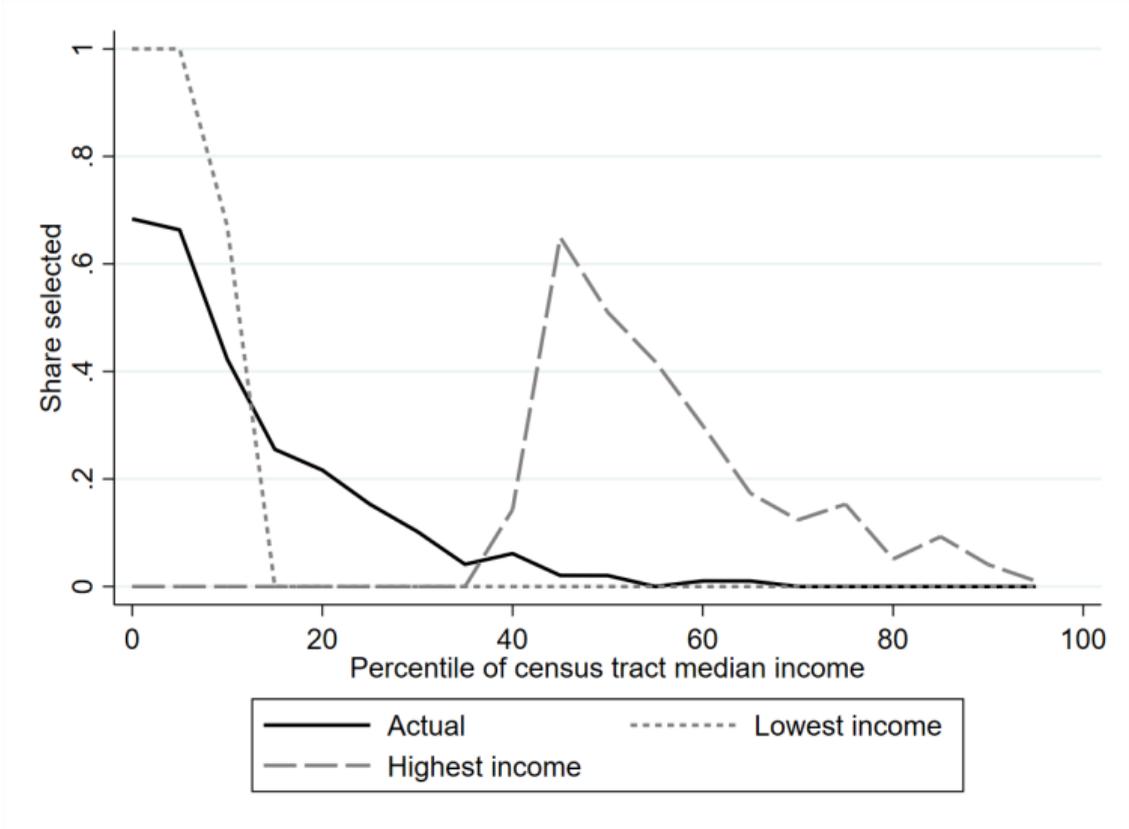
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(NMTC, Empowerment and Enterprise Zones)

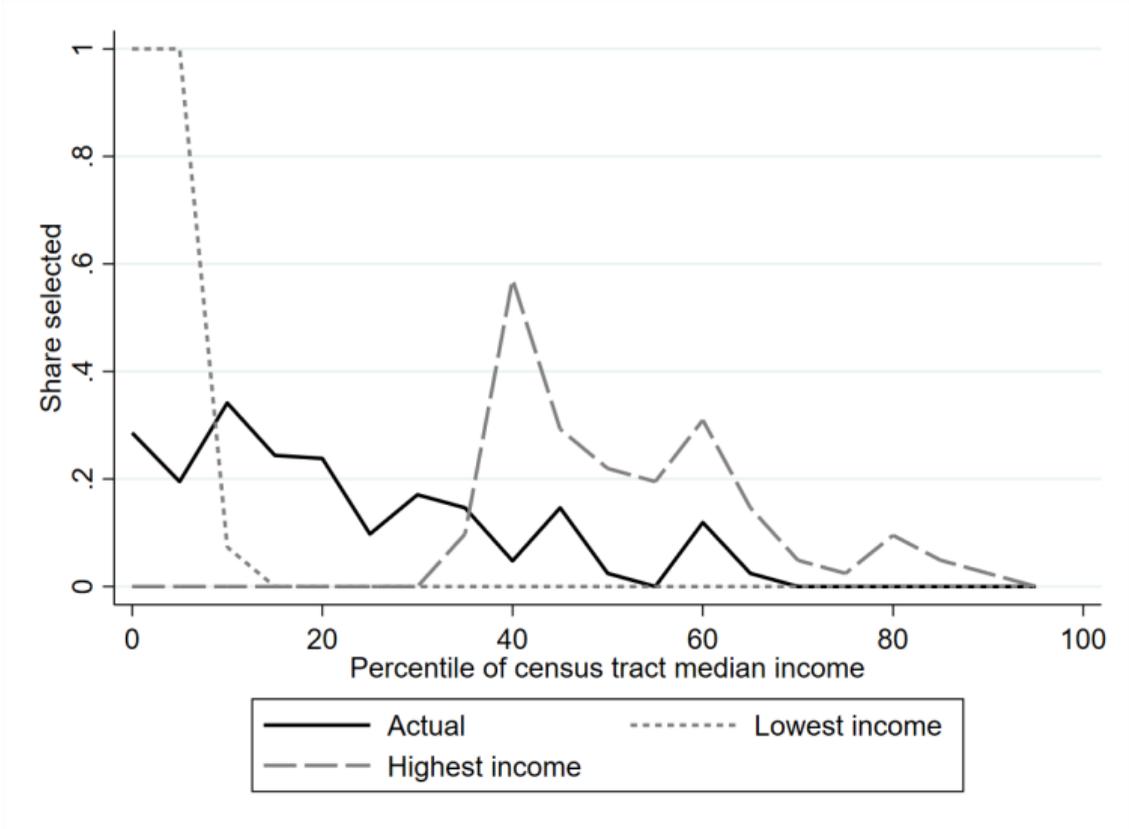
Outcomes: Targeting (USA)



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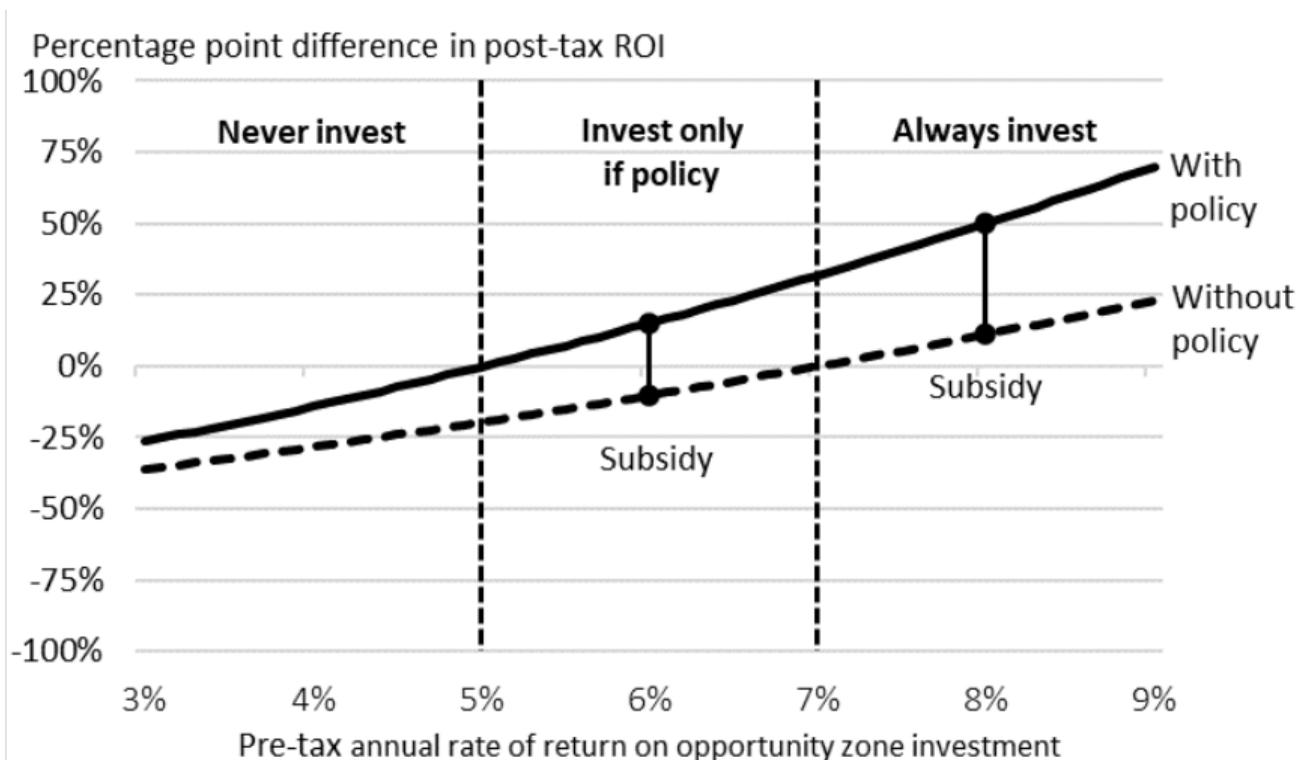
Outcomes: Targeting (Oregon)



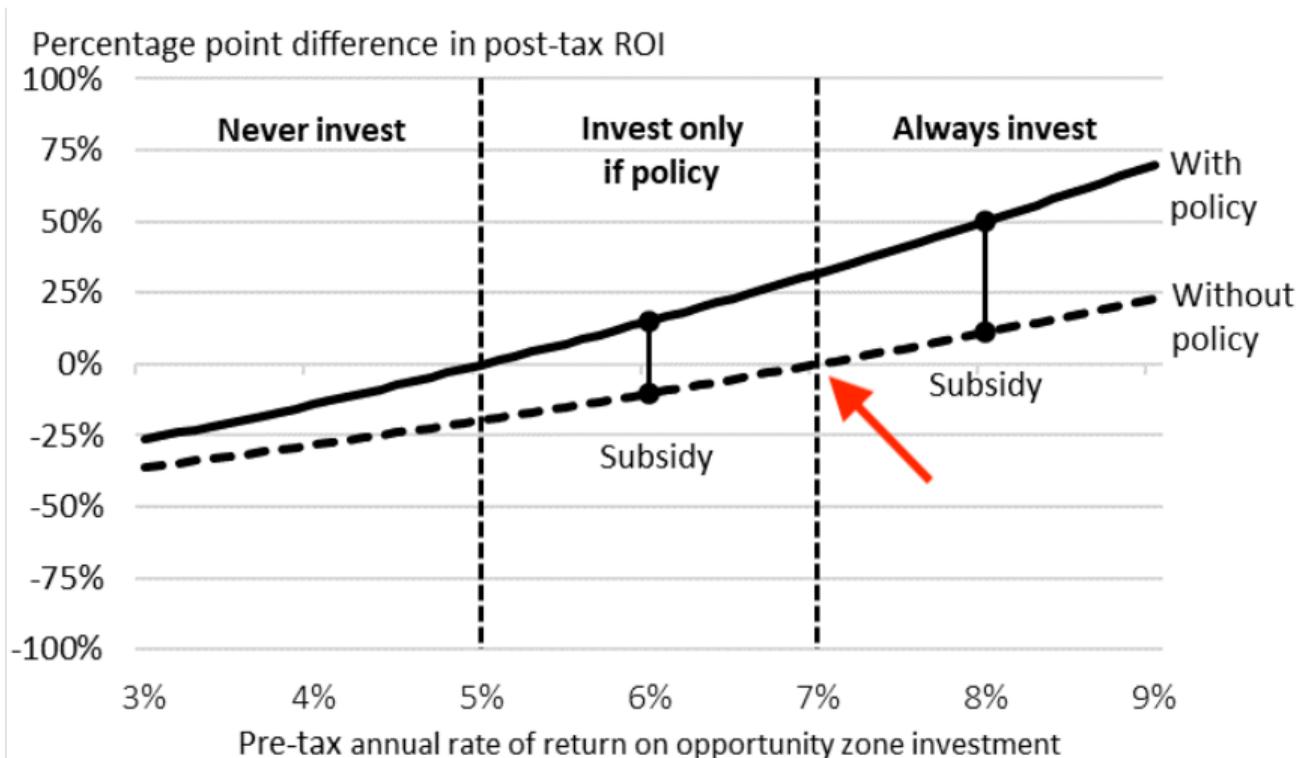
Outcomes: investment, employment, home prices

- \$44 billion invested in OZs in 2019-2020 (\$6.5 billion in NMTC)
- No effect on commercial investment but suggestive impacts on multifamily housing post-Covid19. (Corinth and Feldman 2023)
- Increase in residential development with a smaller effect on commercial development (Wheeler 2022)
- No clear impacts on downstream outcomes like housing prices, employment, business formation and more. (Chen et al 2023, Atkins et al 2023, Freedman et al 2023, Arefeva et al 2024 (exception))

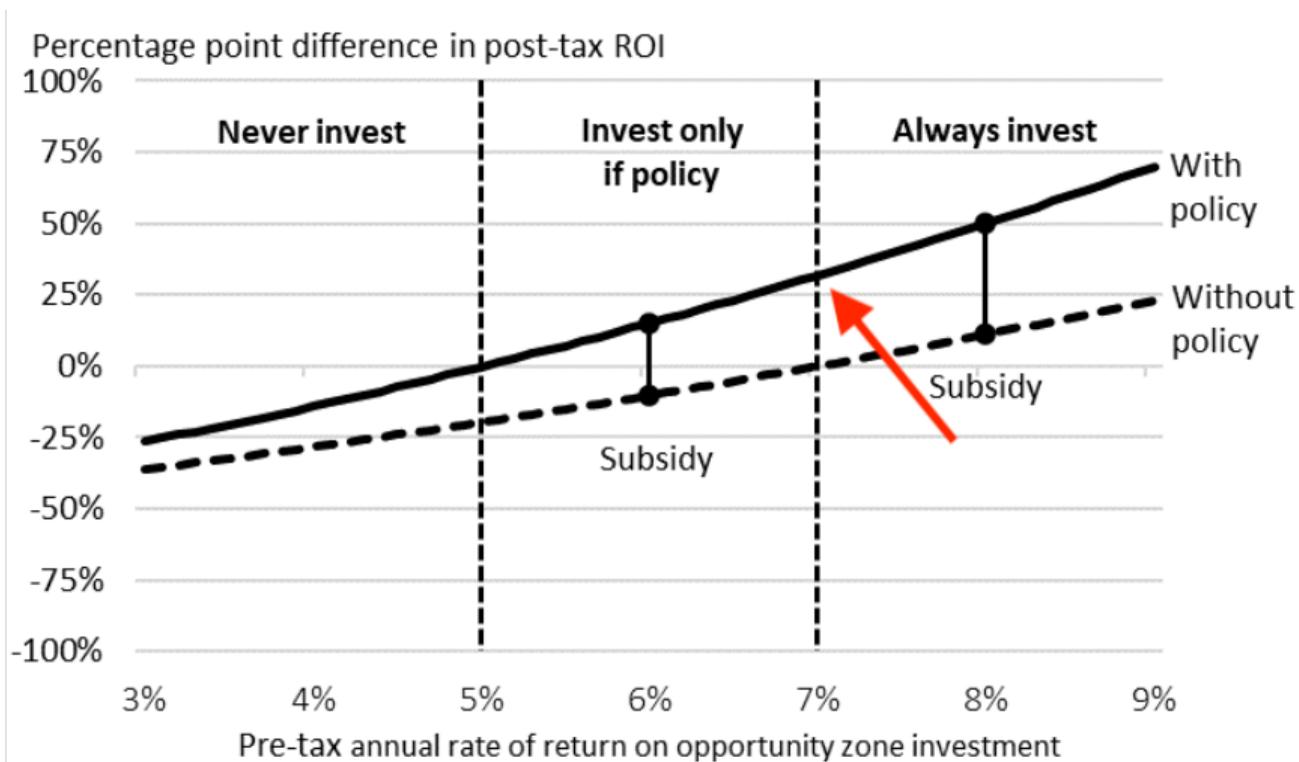
Tax Incentives



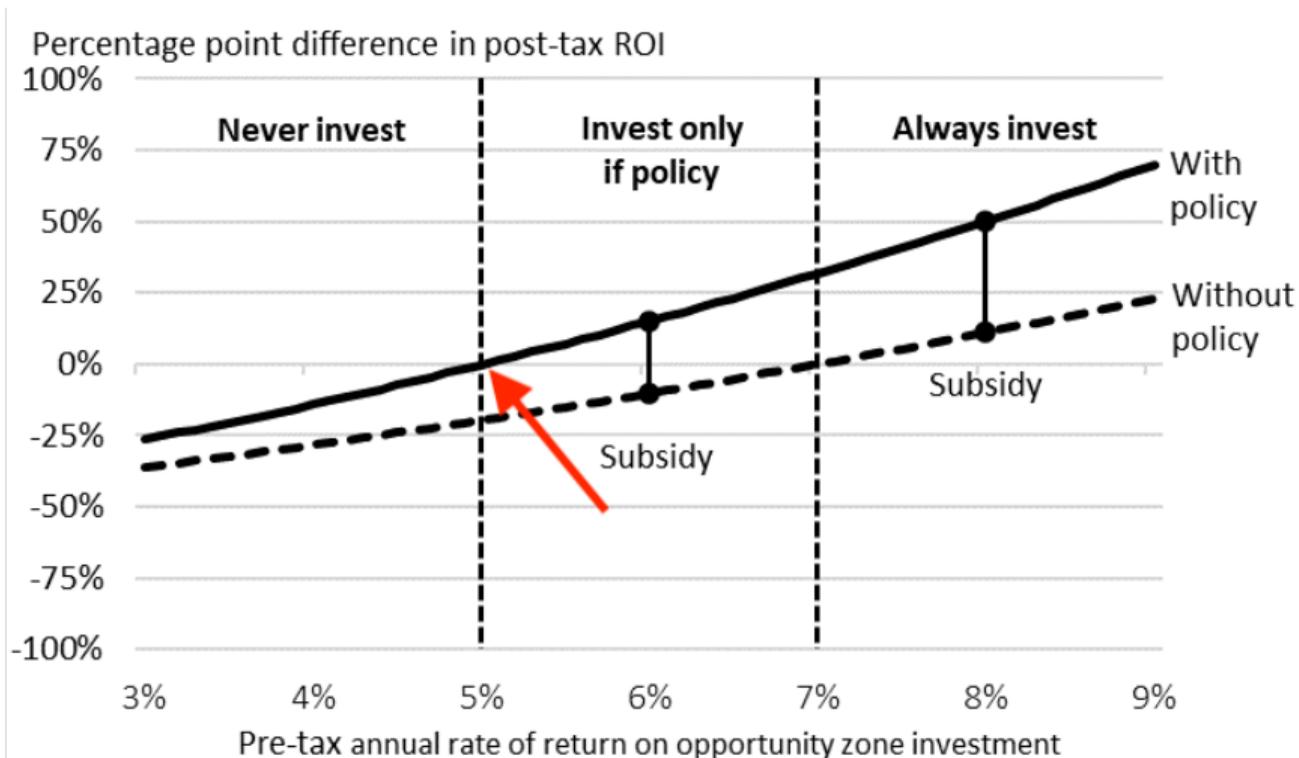
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Tax Incentives



- Uncertain cost of program
 - ▶ How much cap gains would have been held until death?
 - ▶ How much would have been realized anyway?
- Targeting is better than what we may have feared.
 - ▶ Tracts with median incomes $< \$21K$ received ten times more investment than those with incomes $> \$46K$.
 - ▶ Narrowing eligibility—too many eligible census tracts?
- Investment should go to the areas where the marginal social product of capital is highest.
 - ▶ Restrict tax benefits to project types that employ a substantial number of workers.
 - ▶ Exclude certain types of investment?