

Whom Will Opportunity Zones Help?

BY KARTIK ATHREYA

Many people don't know that Federal Reserve Banks have programs to aid the development of low-income areas, a responsibility we have had in one form or another for close to 40 years. Here at the Richmond Fed, our Community Development group became part of the Research Department last year. This transition has greatly increased my own exposure, and that of my economist colleagues, to community development issues — and at the same time, I've been excited about bringing the best economic thinking into helping these areas.

Probably the largest-scale community development program in recent years is one buried within the 2017 tax reform law: opportunity zones. As detailed in Jessie Romero's story in this issue, the program authorized state governors to select areas where investments would receive major tax advantages, thus attracting capital to those areas. (See "Opportunity Zones: More Money, More Problems?" p. 10.) It's an example of what economists call "place-based" programs — that is, programs aimed at helping improve places as opposed to directly helping individuals or families. The idea, of course, is that helping poor places will ultimately benefit individuals, perhaps by jump-starting local job growth, even if some of the beneficiaries aren't the intended ones.

The justification for place-based policies is at its strongest when there are high barriers to geographic mobility — when it is difficult, in other words, for people to move from distressed areas to ones with more job opportunities. Such barriers could arise from declining opportunities for low-skilled workers, or for workers with specific skills, across a region or across the country. Other potential barriers to mobility include local policies that tightly restrict the housing supply and drive up rents and house prices in areas where jobs are plentiful — especially in our largest cities. Moreover, places are often more than just places: They are communities with relationships and other "connective tissue" that bind us to one another.

For these reasons, helping the places where people already are is intuitively appealing. Yet it is hard to draw conclusions about how well place-based policies work in terms of job creation. The effects of a program that targets individuals with training, cash transfers, or some other benefit is, comparatively speaking, easier to assess. When the "treatment," in the terminology of the social sciences, is applied indirectly to a census tract, a city, or a region, making inferences about the effects of the program becomes a truly fraught exercise.

With regard to opportunity zones in particular, the

work ahead is to more precisely understand how much they are likely to improve the lives of the least advantaged. The program's critical decisionmaking stage, the selection of the zones, was not required to be based on objective measures of economic distress, such as unemployment or poverty rates. Some 57 percent of neighborhoods in the United States were eligible, and it was left to the subjective judgments of state officials to choose among them. No doubt these decisions were made with good and sincere intentions, but public officials are human and it would be only natural for them to be influenced by considerations relevant to their constituencies.

Indeed, research by Hilary Gelfond and Adam Looney of the Brookings Institution found that states varied greatly in the extent to which they zeroed in on the most distressed areas. Nationally, about one-quarter of the areas selected had poverty rates below 20 percent. In a half-dozen states, they noted, areas chosen as opportunity zones "were actually better off, on average, than eligible communities that were not selected." They pointed to a county in Nevada designated as an opportunity zone despite a median household income of over \$65,000 and a family poverty rate of 2.6 percent. The county is home to a number of major industrial facilities, leading the researchers to surmise that the designation was meant not to improve the fortunes of poor people, but simply to confer a tax benefit on investors.

Even in a zone that is truly distressed, moreover, there's the question of how much the poor people in that zone will benefit. Much of the gains may well flow to people who are already in good shape: to property owners or to skilled workers from outside the zone who receive jobs there. That the investments may create jobs for people from outside the zone is of course a positive effect, and may indirectly create service jobs for locals, but just how much the locals will benefit is highly uncertain.

To be sure, there is potential for significant favorable effects from the opportunity zone program. And experimentation in community development programs, within reason, is a good thing. So I hope that as we continue to engage in the development of opportunity zones, extremely diligent and detailed data collection will take place. We need to know "before and after" for a wide range of stakeholders and potential beneficiaries. Such efforts would help us think harder about how to structure place-based programs in a way that efficiently benefits the people who are intended to be helped. **EF**

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