'Opportunity zones' will help connected developers, not the poor

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A major success of the Tax Cuts and Jobs Act of 2017 was the capping of the state and local tax (SALT) deduction. The previously unlimited deduction had encouraged states to impose higher income and property taxes, and it favored high-tax states over low-tax states.

By capping the deduction, the new law allows states such as New York to continue imposing high taxes but does not reward them for doing so.

The federal government should treat the states equally, and not Band-Aid the damage done by misguided state policies such as high taxes. The SALT cap was a step forward for equal treatment, but the 2017 tax law also took a step backward with the creation of “opportunity zones.”

The law allows governors of each state to designate the zones, which are then open to investors to fund a range of projects while enjoying reduced capital gains taxes.

The tax break will reward businesses that were already planning to invest in the newly favored areas. Ventura Partners in Phoenix, for example, is raising $200 million in opportunity zone funding for a series of projects —including a Marriott hotel — that “would have been completed even without the tax break.”

Urban expert Edward Glaeser wrote in "Triumph of the City": “National policy should strive to enrich and empower everybody, not push people to live in any particular spot...Expensive efforts to renew cities often do more for well-connected businesses than for the poor people living in those declining areas.”

Opportunity zones will help well-connected developers, but we’re skeptical they will create a durable solution to poverty.

In his book, "Hillbilly Elegy," J.D. Vance focused on poverty in Eastern Kentucky. Kentucky lags economically and suffers chronic out-migration, despite decades of federal subsidies to low-income areas of Appalachia.

Why are such regions stuck in poverty while other regions prosper? It is a complex question, but state and local policies play an important role. Vance doesn't mention that Kentucky's neighbor Tennessee has boomed and enjoys strong in-migration.

As a low-tax state with no income tax, Tennessee is a magnet for people and investment. It is also a right-to-work state, with low unionization and a flexible workforce. Kentucky has substantially higher taxes, does not have right-to-work and has a private-sector unionization rate double Tennessee's.

Tennessee's policy advantages are broad-based and statewide. Laggard states like Kentucky would benefit more from a local policy overhaul than narrow federal breaks such as opportunity zones.

Now consider a high-poverty place a long way from Appalachia: Detroit, Michigan. The city has suffered from many self-inflicted wounds, such as some of the highest commercial and industrial property tax rates in the nation. Meanwhile, federal help for Detroit has often resulted in boondoggle schemes such as the People Mover monorail.

Michigan has begun tackling its property tax problem under Gov. Rick Snyder, and it became a right-to-work state in 2012. Detroit has improved its financial management, and there is talk of a revival. States can improve their growth prospects with such self-help reforms.

New federal "help" in the form of opportunity zones may undermine incentives to reform local policies. You can see this with federal help for affordable housing. Housing costs are high in many areas because of excessive zoning regulations.

But states have a disincentive to fix this local regulatory problem as long as the worst-offending states receive the most in federal housing subsidies.

Opportunity zones are also troubling because of the unfairness of government officials picking winner and loser areas in every state. In Detroit, there are already complaints that some up-and-coming areas were favored over more troubled areas under the recently chosen zones.

Instead of federal favoritism for some areas over others, policymakers at all levels should concentrate on making the whole nation an opportunity zone.

They should eliminate barriers to entrepreneurship, such as by repealing unneeded occupational licensing laws, and they should remove barriers that prevent people from moving to the highest-growth regions.

Lower-skill workers are often excluded from jobs in booming areas because zoning regulations in those areas jack up housing costs. Regulations often prohibit the types of housing that incoming workers would be interested in, such as moderate-income apartments and micro-housing.

Alas, opportunity zones are the law of the land for now. In the short run, lawyers and accountants will cash in as experts on the complex new tax rules. In the long run, opportunity zones will

distract from state and local reforms that would support more durable and broad-based prosperity.

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