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THE WHITE HOUSE

WASHINGTON

January 13, 1993

MEMORANDUM FOR THE COMMUNITY ENTERPRISE BOARD

FROM: THE VICE PRESIDENT  
CAROL RASCO  
BOB RUBIN

SUBJECT: EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES  
APPLICATION AND ANNOUNCEMENT

As you may know, the President and Vice President will launch the application process for the Empowerment Zone/Enterprise Community initiative with an announcement on Monday, January 17 at 12:00 noon at the White House. We understand that many of you will be travelling on behalf of the President for other events honoring Dr. King. We invite those of you who are not travelling to attend, and all of you are encouraged to send to the event one representative from your agency who has worked closely on this initiative. Please advise Pat Smith (456-2800) who will be attending and provide his/her date of birth and social security number.

Attached is a copy of Empowerment Zones/Enterprise Communities Application Guide and the handbook of programs that will be available to the designated Zones and Communities. We are all extremely pleased with the application process that we have developed and the application materials, including the Application Guide, which is particularly innovative -- like the program itself.

We want to thank all of you and your staffs for all the hard work that has gone into the development of the application process and the application materials. We also appreciate your cooperation and full support of this program. You all are to be congratulated!

As you know, the Community Enterprise Board will be actively involved in the selection process. Your first opportunity to participate in this process will be at a series of workshops that to be held across the country in February. We hope, at a minimum, that at least one member of the Community Enterprise Board will attend each workshop: A strong Administration presence at the workshops will signal our commitment to this important Presidential initiative. We therefore strongly encourage you to send a representative from your agency to each of the workshops. A list of the dates and locations of the workshops is in the back of the application. Please have your staff advise Christine Varney, Mark Gordon of HUD (708-2690), and Peter Necheles of USDA (720-4581) which workshops you will attend.

Again, thank you for all of your support.

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March 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: THE NEC-DPC INTERAGENCY WORKING GROUP ON COMMUNITY DEVELOPMENT AND  
EMPOWERMENT

SUBJECT: AN ECONOMIC EMPOWERMENT STRATEGY

I. INTRODUCTION

1. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing would change. You were right. Across the country, poor communities from South Central LA to the Mississippi Delta are still reeling from a decade of declining opportunity and rising social and economic isolation. We cannot hope to succeed in the world economy or come together as a nation unless we empower these communities to join the economic mainstream. The sooner you come forward with an empowerment strategy, the better. The long-term success of your economic plan and your Presidency may depend on it.

2. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up a joint NEC-DPC interagency working group on community development and empowerment. We wanted a joint effort spanning economic and domestic policy that could look at every aspect of the problems of economically distressed urban and rural areas -- from access to capital and child care to the need for school reform and safe streets. We brought half a dozen agencies together to rethink existing programs and develop a new, comprehensive empowerment strategy.

For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce, and OMB have worked with the NEC and DPC (hereafter the Working Group) on the first stage of that new strategy: economic empowerment. We set out not only to prepare specific proposals that could be passed this spring as part of your initial budget, but to develop a framework that could incorporate other new ideas over the course of your administration.

The enterprise proposal presented here is bolder and more innovative than anything any previous administration has put forward. It will be supported by major proposals for community banks and lending, reform of the Community Reinvestment Act and fair lending, and a major community partnership against crime. While we recognize that Congressional realities may force us to temper these ambitious proposals, we nonetheless believe these proposals can be passed into law and will lay the groundwork for dramatic progress in poor communities across the country.

3. ECONOMIC EMPOWERMENT STRATEGY

We believe that the economic empowerment portion of your comprehensive community development strategy should include four main pillars: economic empowerment zones; community development banks; CRA and fair lending reform; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, family policy, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

This memorandum presents detailed options for the economic empowerment zones. Proposals on CRA reform and fair lending, community development banks, and community partnership against crime will be ready next week. Together, these four proposals move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a reward for work, access to capital to buy a home or to build a business, a cop on the block, and a chance to take back their neighborhoods.

## II. ECONOMIC EMPOWERMENT ZONES

### A. PRINCIPLES

In developing an economic empowerment zone proposals, we relied on the basic principles you outlined in your campaign:

1. **Economic Growth:** The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. **Individual and Community Empowerment:** Too many enterprise proposals focus only on improving a particular place, and do little to empower the people who live there. Other proposals focus exclusively on the individual and ignore the community. We need a new approach that empowers people and improves places at the same time.

3. **Bottom-Up Innovation:** No matter how much we manage to do in Washington,

the ultimate solutions will come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

**4. Bold, Persistent Experimentation:** In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. Reinventing government must be an integral part of our enterprise proposals. We envision a national network of economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

These problems have been generations in the making, and we're not going to fix them overnight. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

#### **B. Going Beyond HR 11**

During the campaign, you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October 1992, with the leadership of Senator Bentsen, Congress passed H.R. 11, which Bush then vetoed. H.R. 11 would have created 50 "enhanced enterprise zones" to be phased in over a 5-year period. H.R. 11 provided for \$500 million a year for a broad array of federal programs within the zones in addition to tax incentives.

Since H.R. 11 passed so recently, we could simply send Congress the same bill. But our entire working group agreed that the traditional forms of enterprise zones were not effective. We therefore recommend four major reforms of H.R. 11:

**1. Fewer zones with more impact:** We'll never know whether enterprise zones work if we scatter our limited resources among 50 zones or across entire cities. We believe a smaller number of enterprise zones must be more focused, so that money and commitment are not spread too thin. At the same time, we can provide some federal incentives to a larger number of communities to stimulate bold, local experimentation.

**2. Reinventing Government -- Challenge Grant Process:** No amount of outside financial help will enable entrepreneurs or individuals to get ahead if red tape or misdirected programs stand in their way. Enterprise zones should be a vehicle for streamlining the waiver process, coordinating government programs, and improving services. They should encourage innovation and reward results.

**3. Laboratories of Change: New Coordination and Flexibility:** A handful of tax incentives and additional federal dollars, no matter how targeted, will never be enough to turn a troubled community around. That is why Over the long term, we hope the real value of these empowerment zones will be to serve as magnets for innovation by the public and the private sector.

4. Individual empowerment: We need to empower individuals as well as communities, by offering access to capital, savings incentives, and other measures to promote work, entrepreneurship, and asset building.

#### VI. Consensus Proposal

While the Working Group was not unanimous in all of its recommendations, there was enough agreement for us to clearly present you with a "consensus proposal." In this part (pp. ), we summarize the consensus proposal. (The appendix attached at Tab A also provides a brief summary of the proposal in outline form). In Part we present to you what we believe are the key decisions made in reaching the Proposal, so that you can consider the major options and the alternative options presented by some within our working group. The most substantial of the alternatives is a zero cost option offered by OMB.

1. 10 Economic Empowerment Zones, 100 Enterprise Neighborhoods: The Working Group agreed that greater resources should be focussed on 10 Economic Empowerment Zones. We also recognized, however, the political problems in Congress with a proposal limited to 10 places; and we wanted to encourage local innovation in a larger number of areas across the country. We therefore designed a two-tier approach:

- 10 Economic Empowerment Zones would receive the full array of tax incentives and a concentrated portion of the Enterprise Block Grant funding, in addition to participating in the community policing, community lending, and reinventing government-deregulation initiatives
- 100 Enterprise Neighborhoods would receive a few of the tax incentives and a smaller amount of Enterprise Block Grant funding, in addition to participating in the community policing, community lending and reinventing government-deregulation initiatives

Forty percent of the zones would be reserved for rural communities, including Native American communities. At least one of the 10 Economic Empowerment Zones would be reserved for a smaller urban area. All communities would apply through the same challenge grant process at the same time. All of the enterprise zones therefore could be designated and in operation at the outset.

2. Challenge Grant -- Reinventing Government. Efforts to spur economic empowerment in depressed areas cannot be successful unless government at all levels invents a new way of doing business. Current efforts are:

- Short on strategic planning to promote economic development because they are fragmented vertically by level of government and horizontally by program category or entitlement
- burdened by complex regulations, duplication and lack of coordination that discourage private initiative

We propose to remedy these shortcomings by running the entire economic empowerment program through a competitive, challenge grant process. No applicant will be eligible for a single dollar of federal enterprise support unless its strategic plan demonstrates how the community will reinvent itself. The

challenge grant process is designed to empower local communities to be as innovative as possible in their planning. Each strategic plan will be judged on its potential for leveraging the enterprise grants, other federal inducements, and tax incentives to enable the targeted area to become an integral part of the local region's economy and to empower its residents to become full participants in the economic mainstream.

The federal enterprise grant process includes five components:

a. **National Competition.** The federal grant process will require all applicants to present a strategic plan for economic empowerment--in partnership with the affected communities. The strategic plan will include, and will be judged on, the following criteria:

- extent of coordination of local, state and federal programs and permits across jurisdictional lines and among categories
- effectiveness and efficiency in providing services on an entrepreneurial basis and providing a regulatory environment essential to the growth of enterprise
- nature and scope of tangible private sector commitment, availability of insurance and credit, participation of community organizations and the non-profit sector, and complementary actions by state, regional and local authorities to promote the growth of enterprise
- innovation in building off of existing assets and in leveraging both federal programs and new community policing, community lending, and enterprise incentives and grants to provide safe streets, access to private capital, a more skilled workforce and real opportunities for zone residents to promote enterprise
- potential to enable targeted area to become an integral part of the local region's economy and to empower residents to become full participants in the economic mainstream
- objective benchmarks for measuring progress in thus promoting enterprise, reporting results, and making mid-course corrections.

b. **Single Interagency "Enterprise Board:" One-Stop Shopping for Federal Assistance.** To facilitate real reinvention by local applicants, the federal government must become equally responsive, innovative and flexible. We therefore recommend that an Interagency Council be established with the authority to run the challenge grant process and to issue necessary waivers. The Secretary of HUD should serve as the single point of contact for all urban zones, and the Secretary of Agriculture for all rural zones--to field questions about the challenge grant, to provide coordination in the administration of other federal programs and to process requests for waivers through the Interagency Council with respect to non-enterprise federal funds and programs.

c. **Enterprise Block Grant for the 10 Economic Empowerment Zones.** We recommend that the Economic Empowerment Zones receive a substantial Enterprise Block Grant, on the order of magnitude of \$200 million per urban

zone (and \$75 million rural zone) for FY 93-98. This will enable local communities to craft a wide variety of creative initiatives to lever other incentives, state and local resources, and private sector commitments in order to build a thriving economy.

With respect to the new enterprise outlays, we propose an Enterprise Block Grant to be awarded with only four strings attached:

- Commitment to enterprise and job creation
- compliance with federal civil rights requirements
- implementation of the strategic plan without supplanting other federal support and
- success in implementing the applicant's approved strategic plan.

These Enterprise Block Grants may be used for a variety of purposes, including, for example, to: provide self-sustaining loan loss reserve funds; leverage community development banking initiatives for microenterprise, small business, real estate and community development; build off of the federal enterprise tax incentives to expand business, worker controlled enterprise, resident savings and community investment; support for community investment corporations; develop technical assistance, entrepreneurial, and workforce skill programs; provide the equity or bridge financing for major business or commercial expansion; build skill training and job match networks to connect residents with jobs throughout the labor market; provide matching support, loans or gap financing for the work of non-profit community development corporations, etc.

d. Reinventing Current Funding -- Flexibility for all 110 Zones: It is critical to understand that the consensus proposal calls for not just allowing the 10 Economic Empowerment Zones to have the capacity to reinvent government concerning the Enterprise Grants: the core of the proposal is that we would give all 110 zones chosen in the Challenge Grant process the flexibility to have a coordinated strategy to reinvent government with existing funds and existing programs. Thus, all zones chosen -- both tiers -- that have successfully come forth with a strategic option would be given significant deregulation that would allow them more capacity to coordinate vertical program responses into one coordinated economic empowerment strategy. Ideally, we would like to provide almost complete flexibility within and across programs. The statutory and political obstacles to such sweeping structural reform of federal programs and agency operations, however, are significant. In the section on decision options, we therefore discuss three approaches to expanding the scope of the existing waiver authority.

e. Periodic Review of Results -- Independent Evaluation and Sunset.. The Designating Secretaries, in consultation with the Interagency Council, will review the progress of each local community in implementing its strategic plan compared to its own benchmarks for promoting enterprise. Mid-course corrections in each community's strategic plan will be permitted and, as appropriate, encouraged.

At the end of the fourth and seventh years, the Designating Secretaries will conduct a major performance review of each zone. Based on a review of the results, the Designating Secretary should be authorized to reduce or cut-off enterprise funding and tax incentives for any community that is not achieving results, unless the community revises its strategic plan to the satisfaction of the Secretary.

To learn the lessons from such bold, persistent experimentation, we also recommend that the National Academy of Sciences be authorized to contract for independent evaluation of enterprise zones. A full report to the Congress, the President, and to the public should be made at the end of five years and again at the end of the tenth year, following the decennial census. Our commitment to true laboratories of democracy should be evidenced by a sunset on the enterprise legislation at the end of ten years; by requiring new legislation, this will assure consideration of the lessons learned from our experience with federally supported enterprise zones.

#### LIST OF SPECIFIC TAX AND INVESTMENT PROVISIONS

The 10 Economic Empowerment Zones would each contain the following tax and investment incentives.

Exclusively For 10 Economic Empowerment Zones

##### INVESTMENTS

- o Enterprise Block Grants (\$100 million)
- o Community Development Banks
- o Community Policing
- o Coordination Flexibility with Existing Funds
- o Education Enterprise Funds
- o Eligibility for Participation in Innovative Federal Experiments

##### EMPLOYMENT TAX INCENTIVES

- o Employment and Training Credits
- o A multi-year ETC for employers located in the zone
- o Targeted Empowerment ETC ("TETC") for employers
- o An ETC Opportunity Card for prospective employee.

##### CAPITAL INCENTIVES

- o Increased property expensing under Section 179
- o Accelerated depreciation for all investments in tangible property in the Zone.

- o Tax-exempt Private Facility Bonds accelerated depreciation investments in tangible property in the Zone.

EMPOWERMENT INCENTIVES

- o Resident Community Investment Corporations (CICs)
- o Worker Controlled Enterprises (WCEs),
- o Resident Empowerment Savings Incentives
- o Expansion of the Low Income Housing Tax Credit

100 ENTERPRISE NEIGHBORHOODS:

INVESTMENTS

- o Enterprise Neighborhood Grants -- \$5-10 million (Only for the 100 Neighborhood Enterprises)
- o Eligibility for Community Development Banks
- o Eligibility for Community Policing
- o Coordination Flexibility with Existing Funds
- o Eligibility for Education Enterprise Funds
- o Eligibility for Participation in Innovative Federal Experiments

EMPLOYMENT TAX INCENTIVES

None

CAPITAL INCENTIVES

- o Tax-exempt Private Facility Bonds accelerated depreciation investments in tangible property in the Zone.
- o Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- o Resident Empowerment Savings Incentives

BRIEF DESCRIPTION OF ZONE INCENTIVES:

Additional Tax Incentives and Other Inducements for the 10 Economic Empowerment Zones. Tax incentives should be designed to promote the creation of new enterprise in the zone, to encourage the expansion of existing zone business, to increase employment of zone residents, and to empower zone residents to work, to save, and to build their own assets and enterprise. We recommend offering the following additional inducements to the 10 Economic Empowerment Zone's:

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Capital Tax Incentives. (10 Zones only) We recommend a cost recovery approach that is designed to aid enterprises which employ a minimum of 35% Zone residents. The proposed cost recovery includes two components:

- \* increased property expensing under Section 179 for qualifying investments in depreciable property, up to a \$75,000 cap, phasing out for larger investments above \$300,000

- accelerated depreciation for all investments in tangible property in the Zone.

These cost recovery proposals complement the tax incentives contained in your proposed budget. They will provide substantial incentives that will be particularly valuable to starting or expanding micro-enterprise, small business, and community-based firms.

Employment and Training Credits("ETCs"). (10 zones only) ETCs provide an effective means of lowering the cost of doing business for employers and providing incentives for hiring zone residents. We recommend allowing each employer to take advantage of either

- a multi-year ETC for employers located in the zone--25% of the first \$20,000 of each zone resident employee's wages and qualifying expenses for education and training; or

Empowerment Credits -- Employment (10 zones only): a two-year Targeted ETC ("TETC") for employers, whether or not located within the zone-- 20 % of the first \$12,000 in the first year and 10% for the first \$20,000 in the second year of each zone resident employee's wages and qualifying expenses for education and training.

The TETC has independent empowerment value for zone residents because it provides them with a bounty to join the economic mainstream wherever jobs can be found in the labor market.<sup>1</sup> In addition, we also recommend experimenting with an alternative to the Targeted ETC: provide the prospective employee with an incentive for getting and holding a job, whether through an expanded EITC awarded with each paycheck or through a bonus voucher to be cashed with each paycheck.

These tax incentives are meant not only to encourage employers to hire zone residents, but to empower residents to seek and obtain jobs. Every zone resident shall get an empowerment card in the mail which they can present to a prospective employer to qualify for the tax credit. The same card will allow them to open a savings account at the local CIC and a checking account at the nearest CDB.

Additional Empowerment Tax Incentives. We want to empower zone residents to own a piece of their community and have a stake in the place where they work. We recommend interest exclusions to spur investments in Community Investment Corporations and Worker Controlled Enterprises for the 10 Economic Empowerment Zones.

- Resident Community Investment Corporations (CICs), owned 51% by zone residents, could be spurred through interest exclusions. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, and to

<sup>1</sup> We do need, however, to distinguish this incentive from the Targeted Jobs Tax Credit, where certification of eligibility in one of the 10 categories by DOL has too often operated to stigmatize prospective applicants as inferior in the eyes of too many employers. An education campaign for prospective employers may prove helpful with respect to the Enterprise TETC.

participate fully in new information networks. The CIC provides a way for zone residents to "homestead" assets and to gain control of their economic destiny.

- Worker Controlled Enterprises (WCEs), owned 51% by zone resident employees, could also be spurred through interest exclusions. Interest on Loans made to CICs for purchase of qualifying zone tangible assets could be excluded from taxation to the lender. Interest on loans to permit resident workers to start, acquire and expand WCEs would also be excluded from taxation to the lender. With full disclosure, worker control, annual reporting of individual share values to each zone shareholder, and deferral of taxes until sale of shares, the Shareholder Association of each such WCE would empower resident employees with a full ownership stake in their own businesses, while eliminating the abuses common to ESOP's.

Both of these empowerment incentives will be enhanced by the availability of access to capital provided by the new federal community lending initiative. Moreover, loans will only be made when an independent, third party lender determines that the proposed investment by the CIC or WCE is likely to work. We believe that these empowerment incentives are core components of the new direction that you are charting.<sup>2</sup>

a. **Resident Empowerment Savings Incentives:** (all zones) This stakeholder proposal makes this enterprise zone plan uniquely different from traditional enterprise zone proposals. A 50 percent credit would be available for a contribution by an employer, Community Investment Corporation, or Worker Controlled Enterprise to a Defined Savings Plan ("DSP") on behalf of employees or members who are Zone residents. Participating Zone residents could also contribute to the DSP on a tax deferred basis. These savings could be withdrawn (or borrowed on) without penalty to pay for education, purchasing a first home, or starting a small business. This will provide the first proving grounds for implementing your pledge to establish Individual Development Accounts to empower low-income Americans to take the first steps toward economic self-sufficiency.

b. **Tax Exempt Private Facility Bonds:** (all zones) In order to promote investment in buildings, plant, and equipment, all Zones will be able to exempt 50% of private facility bonds from State caps, and these Zone Facility Bonds will be excepted from the section 265 bank deductibility prohibition. Each primary user (e.g., a business firm) will be limited to \$3 million in any one Zone and a total of \$20 million across all Zone's.

c. **Expansion of the Low Income Housing Tax Credit:** (all zones). All zones will be viewed as a "difficult to develop" area for purposes of increasing the Low Income Housing Tax Credit to 91 percent of present value from 70 percent

<sup>2</sup>These tax incentives for empowering zone residents to become full stakeholders in shaping their own enterprise destinies are new and largely untried. Treasury counsels that their impact is uncertain. Treasury is also concerned that the benefits will accrue primarily to outside investors rather than the zone residents. Treasury therefore proposes a modification: to limit these two interest exclusions to a Zone Empowerment Tax-Exempt Bond, which would be exempted from the caps on state and local bonding authority. This would allow for a public bonding authority to review the transaction to assure that the benefits are shared with the intended beneficiaries.

of present value.

d. **Community Policing:** (10 zones and many of the 100 zones): All zones will be eligible for additional support for Safe Streets from the \$500 million of the FYs 93-94 baseline Enterprise funding reserved for meeting your pledge of 100,000 additional cops on the beat.

e. **Community Lending:** (all zones) All Enterprise Zones will be eligible to participate in your community lending initiative in order to access private capital and financial services. Each applicant must demonstrate in its strategic plan how it plans to do so, including to finance CIC's and WCE's among other enterprises.

f. **Enterprise Neighborhood Grants:** (100 Enterprise Neighborhoods) All zones will be eligible for smaller Enterprise Neighborhood Grants. The grants for urban Enterprise Neighborhoods would range from \$10 million to \$15 million dollars. This grant would defray the costs of planning and start-up, as well as provide a significant fund for enterprise neighborhoods to lever new initiatives. We are also confident that many foundations, universities, non-profit community groups and others will step forward to assist affected communities in developing a strategic plan.

g. **Eligibility for Participation in Innovative Federal Experiments:** (10 zones and many of the 100 neighborhood zones) These incentives are only a first step. Empowerment zones will open the door to a host of innovative domestic and economic initiatives by the public and private sectors. Under this proposal, we will have 110 communities across the country competing to prove what works and what doesn't. Each zone will also be eligible to compete through the enterprise challenge grant process for a variety of special demonstration grants offered by different federal Agencies. Each demonstration will be related to promoting enterprise. The hallmark of each will be a challenge to the enterprise zone applicants to show how they propose to shape and to implement the new initiative in the context of their own strategic plan. The respective Secretaries, in cooperation with the Interagency Council, will designate the winners based on the merits of the applicant's plan, provide a single point of contact for waivers, and review progress based on results not regulations. Several of the Agencies believe that this enterprise proposal provides an excellent challenge grant process and a unique platform to try a number of significant new policy approaches that may also contribute to the economic revival of distressed communities and jobs for their residents.

For example, DoEd has asked to include and provide funds for a comprehensive Enterprise School Communities to implement the National Education Goals in order to promote enterprise in the zone. DOL and HHS have also requested that a variety of demonstration opportunities for such local innovation be included in the enterprise challenge grant process: school-to-work, apprenticeship, welfare-to-work, unemployment-to-work, and drug prevention and rehabilitation-to-work initiatives. HUD and Agriculture will also make available similar opportunities for local innovation, including, for example, Section 8 vouchers, Moving to Opportunities, HOME, and Youthbuild. The number of zones that will be able to participate in each demonstration will vary by federal initiative, but the prospects are excellent that there will be a substantial number of these initiatives available to many of the zones.

**Budget.** In A Vision of Change, there is \$4.1 billion in tax expenditures

designated for enterprize zones. The consensus proposal reaches for \$6 billion by using \$1 billion that is currently in the baseline for enterprise zones, and \$900 million in "contributions" from existing HUD and Agriculture programs over the five-year period, FY94-FY98. This budget derives from the following budget authority:

Source	\$ in Billions
Tax Expenditures	4.1
Baseline FY93-FY 94	1.0
HUD and AG Contributions from currently proposed Budgets	.9
Total	6.0

While under the current budget proposal, all of the \$4.1 billion goes to tax expenditures, the consensus proposal would transfer \$1 billion to the investment side after the discretionary caps are lifted after FY95. This would then mean that the \$6.0 billion would be evenly split between tax incentives and funds for the Enterprise Block Grants. [Note that \$500 million of the FY93-94 Baseline amount has already been targeted for cops and community policing -- which can be used for the Economic Empowerment Zones.]

We believe that the final total of funds dedicated to the Economic Empowerment Zones and Neighbor Enterprise Zones will be greater than \$6 billion. The reason is that the Departments will want to target portions of their new and existing programs to the zones, so that they can be part of this experiment, and so that they can see how different models of their initiative would run in a reinvented and innovative system. The Agencies have therefore requested the opportunity to provide funds from their own budgets in order to encourage local

<sup>3</sup> In the consensus proposal, we have treated the \$4.1 billion reserved for tax expenditures in FY's 94-98 as also available for outlays for enterprise grants. In particular, the consensus proposal includes \$3.0 billion for tax expenditures and applies the \$1.1 Billion difference to enterprise grants.

Any such shift from tax expenditures to enterprise grant expenditures can be accomplished in one of three ways:

- make appropriate revisions to our budget requests and the new caps for discretionary spending for FY's 1996-98
- create an Enterprise Entitlement Expenditure on the mandatory side of the budget, including both tax and enterprise grant expenditures
- if a request is going to be made for a raise in the Discretionary cap for other investments, raise the request by the \$1.1 billion amount.

Under any of the three alternatives, there would be no increase in total budget authority. The first option is most within the control of the Administration and involves the fewest political or budgeting questions.

communities to respond through the challenge grant process with innovative demonstrations in the zones. (The appendix attached at Tab B provides a list of the types of challenge demonstrations now being considered by the Agencies).

### B. ALTERNATIVE OPTIONS

#### NUMBER OF ZONES:

Option 1: 25 to 50 Major Zones: Secretary Bentsen is concerned that Congress will not accept our proposal to focus more of the federal enterprise support on 10 zones, while providing a lesser amount of federal enterprise support to 100 zones. He therefore proposes a total of 25 to 50 zones which would be selected over the next five years, i.e., 5 to 10 per year. All zones would have the same mix of tax incentives as in the consensus proposal for the 10 Economic Empowerment Zones, but the amount of the Enterprise Block Grant available for each Zone would be reduced if more than five zones per year were designated. In addition, the proposal would cost substantially more after all 25 or 50 zones are up and running in 1998. Treasury believes that such a proposal would more closely resemble the compromise reached last fall and would be more readily received in Congress.

Option 2: 10 Economic Empowerment Zone and 100 Neighborhood Zones: The working group believes that we will never know the success of enterprise zones if we do not concentrate resources on a small number. We believe that Congress is ready to welcome your leadership in proposing a new approach. We believe that the consensus proposal is consistent with budget constraints and political realities. We therefore recommend the consensus proposal.

2. "Blanket" vs. "Incremental" ETC: The ETC can be applied to all zone resident employees ("Blanket ETC") or be "incremental," i.e., applicable only to increases in employment of zone residents (where total employment also increases).

The Incremental ETC costs substantially less than the Blanket ETC and is more efficient in rewarding expansion in employment. To prevent substitutions of existing employees for zone residents, this credit could be based on increases in total employment and on increases in zone resident employment from a stated base. Yet, the Incremental ETC would be much more difficult for employers to understand and would involve much more paperwork. It also would disadvantage existing zone businesses, which will receive credit only for expansion in employment, while businesses that are new to the Zone would receive credit for all of their resident employees.

The cost of the Blanket ETC will be curbed by not extending it to non-zone resident employees and by phasing it out after the seventh year of the zone. However, the Blanket ETC has other disadvantages. The non-resident exclusion creates an incentive for employers to substitute Zone residents for non-resident employees -- which may have unpleasant ramifications. The Incremental ETC avoids this problem by being tied to increases in total employment.

The Working Group narrowly, but unanimously, recommends the Blanket ETC.

3. Federal Waiver Authority for Existing Programs: A particularly thorny problem for our proposal to reinvent government is categorical nature of

many federal programs and the limitations on our ability to provide waivers both within and between existing programs. Time and again, mayors and governors have complained that they would be in a better position to meet our enterprise objectives if they were freed to deploy existing federal programs and resources to implement their own strategic plan, which will be reviewed, approved, and monitored by the Designating Secretary on behalf of the Interagency Council under our proposal. Mayor Daley has submitted a persuasive report on the burdens of the regulatory federalism that we have inherited. Although we propose to eliminate such burdensome strings from the Enterprise Block Grant Funding, deregulating existing federal programs is a monumental task.

We believe there are at least three approaches to providing greater flexibility and responsiveness with respect to existing federal programs:

- Pilot Regulatory Relief -- seek immediate Congressional approval authority in the Interagency Council to issue general waivers, both within and across a specified range of programs relevant to promoting enterprise, in each zone
- Broader Waiver Authority -- seek legislative authority for the Secretaries on the Interagency Council to develop criteria for general waivers within specified programs and greater assistance in coordinating across programs
- Administrative Budgeting -- beginning with the FY 95 budget request increase the Enterprise Grant by an agreed amount and seek lower appropriations from a range of existing programs

The first approach is most in keeping with our basic goal of reinventing government and would be strongly supported by the mayors and governors, if not also community groups. It will require legislation. We do not know, however, whether Congress would be as willing to go along with such a radical restructuring. It might also give pause to some of the Secretaries as they work with you to make plans to initiate new national programs.

The second approach will provide substantial flexibility and responsiveness compared to the current situation. To be effective, it will also require legislation; but Congress will be receptive to such narrower statutory waiver authority as a part of the enterprise package. With occasional White House intervention to resolve major policy disputes, the Designating Secretaries, working in cooperation with the Interagency Council, could

- develop reasonably general and flexible criteria for general waivers within programs and coordination of efforts across programs and
- provide a single point of contact for all applicants.

Finally, with the cooperation of Congress and the applicant constituents, we believe that we also could proceed to implement the third approach beginning with the budget for FY95 in order to provide even more flexibility. By that time, we should also be in a better position to determine whether a more comprehensive "reinventing government" initiative based on waivers across programs or a series of cross-cutting challenge grants should be proposed for a variety of existing programs.

We do not make a firm recommendation. As a part of the process of working with Congress to implement whatever enterprise proposal you choose, we believe this may be an issue that should be explored fully with Congress and the constituency groups.

4. **No Cost Alternative:** OMB has reservations concerning the use of any tax incentives or new Enterprise Grants. OMB argues that tax incentives will not be very effective in stimulating new business development and jobs in distressed areas or, if successful, will be too costly to be widely replicated in other areas. Or they fear that enterprise zone tax incentives will draw employment from other economically depressed areas. In addition, OMB believes that committing substantial resources to an Enterprise proposal before we have had time to think through and develop a consensus on the Administration's urban and rural development strategies is premature and, given general budget constraints, may preclude any other major initiative to help cities during your Administration.

OMB, therefore, proposes a "no cost" option which, in its view, meets your campaign promise to create enterprise zones while preserving the opportunity to use the resources originally committed to enterprise zones to fund a major urban/rural development or welfare reform initiative later. OMB's option would:

- provide no, or minimal tax incentives;
- provide no new spending for enterprise block grants;
- concentrate, in a small number of zones, discretionary resources from existing programs (many of which are substantially increased by the proposed budget) through an ear-marking or set aside mechanism for Enterprise Block Grants.

The attachment at Tab C summarizes OMB's proposal.

The Working Group recommends the consensus proposal. Although we share OMB's skepticism about the ability of tax incentives to attract business, we believe that they can play a part in a more comprehensive approach. We also believe that the stakeholder and business tax incentives make clear that our consensus proposal is not simply another spending initiative, but rather a new approach to community empowerment and economic development. The federal inducements will permit local communities to attempt bold new initiatives to lever enterprise through their own, comprehensive strategic plans, including in the Enterprise Neighborhoods with a much lower incremental cost per zone.

Finally, we are committed to continuing its review of urban and rural policy in the months ahead: in cooperation with the respective Agencies, we are determined to reinvent the way that the federal government does business so that we can reallocate and free up resources for other major initiatives. Indeed, we believe that the enterprise proposal will provide an important building block for your continuing urban and rural initiatives in the years ahead.

We believe that the consensus proposal seeks to implement your call for a new direction by delivering a real message of hope throughout the land, especially to persons in the most distressed places in urban and rural America.

VI. DECISION

A. Select One:

- Interagency Consensus Proposal
- "No-cost" OMB Proposal
- Reject all proposals, Discuss Further

B. If Interagency Proposal Selected, Select one from each category:

1. Number of Zones

- 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods
- 25-50 Major Enterprise Zone's
- Discuss Further

2. ETC:

- Blanket or Flat Rate
- Incremental
- Discuss Further

3. Method for Reinventing Federal Government for Existing Federal Programs

- Start with statutory and regulatory waivers within programs (and use budgeting process to increase Enterprise Grant as soon as feasible)
- Propose sweeping legislative reform to allow Interagency Council to waive regulations across a designated set of programs as part of approval of applicant's strategic plan
- Consult with Congress and constituencies
- Discuss Further

March 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: THE NEC-DPC INTERAGENCY WORKING GROUP ON COMMUNITY DEVELOPMENT AND EMPOWERMENT

SUBJECT: AN ECONOMIC EMPOWERMENT STRATEGY

## I. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing would change. You were right. Across the country, poor communities from South Central to the Mississippi Delta are still reeling from a decade of declining opportunity and rising social and economic isolation. We cannot hope to succeed in the world economy or come together as a nation unless we empower these communities to join the economic mainstream. The sooner you come forward with an empowerment strategy, the better. The long-term success of your economic plan and your Presidency may depend on it.

## II. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up a joint NEC-DPC interagency working group on community development and empowerment. We wanted a joint effort spanning economic and domestic policy that could look at every aspect of the problems of economically distressed urban and rural areas -- from access to capital and child care to the need for school reform and safe streets. We brought half a dozen agencies together to rethink existing programs and develop a new, comprehensive empowerment strategy.

For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce, and OMB have worked with the NEC and DPC (hereafter the Working Group) on the first stage of that new strategy: economic empowerment. We set out not only to prepare specific proposals that could be passed this spring as part of your initial budget, but to develop a framework that could incorporate other new ideas over the course of your administration.

The enterprise proposal presented here is bolder and more innovative than anything any previous administration has put forward. It will be supported by major proposals for community banking, strengthening the Community Reinvestment Act and fair lending requirements, and a major community partnership against crime. While we recognize that Congressional realities may force us to temper these ambitious proposals, we nonetheless believe these proposals can be passed into law and will lay the groundwork for dramatic progress in poor communities across the country.

## III. PRINCIPLES

In developing these proposals, we relied on the basic principles you outlined in your campaign:

1. **Economic Growth:** The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. **Individual and Community Empowerment:** Too many enterprise proposals focus only on improving a particular place, and do little to empower the people who live there. Other proposals focus exclusively on the individual and ignore

the community. We need a new approach that empowers people and improves places at the same time.

3. **Bottom-Up Innovation:** No matter how much we manage to do in Washington, the ultimate solutions will come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

4. **Bold, Persistent Experimentation:** In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. Reinventing government must be an integral part of our enterprise proposals. We envision a national network of economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

These problems have been generations in the making, and we're not going to fix them overnight. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

#### IV. ECONOMIC EMPOWERMENT STRATEGY

We believe that the economic empowerment portion of your comprehensive community development strategy should include four main pillars: economic empowerment zones; community development banks; CRA and fair lending reform; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, family policy, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

This memorandum presents a proposal for economic empowerment zones, with decision options on several key issues. Proposals on CRA reform and fair lending, community development financial institutions, and community partnership against crime will be ready next week. Together, these four proposals move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a reward for work, access to capital to buy a home or to build a business, a cop on the block.

#### V. ECONOMIC EMPOWERMENT ZONES

During the campaign, you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October 1992, with the leadership of Senator Bentsen, Congress passed H.R. 11, which Bush then vetoed. H.R. 11 would have created 50 "enhanced enterprise zones" to be phased in over a

5-year period. H.R. 11 provided for \$500 million a year for a broad array of federal programs within the zones in addition to tax incentives.

Since H.R. 11 passed so recently, we could simply send Congress the same bill. But our entire working group agreed that the traditional forms of enterprise zones were not effective. We therefore recommend four major reforms of H.R. 11:

1. **Fewer zones with more impact:** We'll never know whether enterprise zones work if we scatter our limited resources among 50 zones or across entire cities. We recommend a smaller number of enterprise zones which are more focused, so that money and commitment are not spread too thin. At the same time, we can provide some federal incentives to a larger number of communities to stimulate bold, local experimentation.

2. **Reinventing government:** No amount of outside financial help will enable entrepreneurs or individuals to get ahead if red tape or misdirected programs stand in their way. Enterprise zones should be a vehicle for streamlining the waiver process, coordinating government programs, and improving services. They should encourage innovation and reward results.

3. **Individual empowerment:** We need to empower individuals as well as communities, by offering access to capital, savings incentives, and other measures to promote work, entrepreneurship, and asset building.

4. **Laboratories of change:** A handful of tax incentives and additional federal dollars, no matter how targeted, will never be enough to turn a troubled community around. Over the long term, we hope the real value of these empowerment zones will be to serve as magnets for innovation by the public and the private sector.

THE WHITE HOUSE  
WASHINGTON

~~CONFIDENTIAL~~

April 19, 1993

MEMORANDUM FOR THE PRESIDENT

THROUGH: BRUCE REED  
          GENE SPERLING

FROM: THE NEC-DPC INTERAGENCY WORKING GROUP ON  
       COMMUNITY DEVELOPMENT AND EMPOWERMENT

SUBJECT: ENTERPRISE ZONES

I. ACTION-FORCING EVENT

The legislative calendar and the continuing distress in many places in rural and urban America call for announcement of the first parts of your economic empowerment initiative.

II. BACKGROUND

Over the last two months, the NEC-DPC Interagency Working Group on Community Development and Empowerment has been considering several elements of an initiative to empower distressed communities to join the economic mainstream. HUD, Treasury, Agriculture, Commerce, Justice, OMB, CEA, NEC, and DPC have worked together to develop a new, comprehensive empowerment agenda which includes enterprise zones, community development banks, strengthening of the Community Reinvestment Act and Fair Lending requirements, and community policing and Community Partnerships against Crime.

This memorandum presents the Enterprise Proposal. While members of the Working Group differed on the merits of particular components, there was general agreement -- except for OMB -- on a two-tier proposal to create 10 resource-intensive Economic Empowerment Zones and 100 less expensive Enterprise Neighborhoods. OMB has proposed a minimal-cost alternative and recommends using the savings in budget authority to pay for other, unfunded priorities, including Campaign Finance Reform and Family Support. (OMB's views and suggested alternative are attached at Tab A.)

In Section III of this memorandum, we summarize the key components of a two-tier Enterprise Proposal. In Section IV we present the key options for your decision, including OMB's alternative option.

DETERMINED TO BE AN  
ADMINISTRATIVE MARKING  
INITIALS: KBH DATE: 6/23/2011

### III. THE TWO-TIER PROPOSAL

This proposal seeks to go beyond more traditional enterprise zone proposals in three fundamental ways: One, it makes reinventing government a centerpiece of the entire proposal. Two, it seeks to concentrate a combination of resources (tax incentives and public investment grants) in 10 economic empowerment zones, while having a second tier of 100 enterprise neighborhoods which grant considerable flexibility — and some limited resources — to areas that come forth with comprehensive proposals for economic development. Zone population is limited to 100,000 persons in order to achieve this focus and to ensure opportunities for demonstrated success. (The objective criteria for eligibility are attached at Tab B.) Three, the zones are designed to be platforms for local experimentation at both the federal and local level. Finally, the proposal takes an expansive view of the need for comprehensive growth strategies — ones that take account of the need for both public and private investment.

The proposal has three main goals:

1. Increasing business and jobs within the zones so that they become engines of economic growth within the region.
2. Empowering zone residents to join the economic mainstream — by owning and managing enterprises and assets within the zones and by connecting them to jobs and opportunities throughout the region.
3. Changing the way government does business in distressed areas — by streamlining regulations and paperwork, encouraging local flexibility and innovation, and targeting resources so we can measure results and learn what works.

#### CORE ELEMENTS OF ECONOMIC EMPOWERMENT ZONES:

A brief summary of the key and distinctive components of the proposal include:

##### A. REINVENTING GOVERNMENT

**Competitive Grant Process:** The proposal is designed to streamline federal rules and regulations that discourage initiative at the local level — and at the same time, to challenge communities to develop a coordinated, comprehensive strategic plan to spur economic empowerment. Communities will apply for zone designation through a federal challenge grant process. The winners will qualify for tax incentives that encourage job creation, investment, and individual empowerment and will receive an Enterprise Grant they can use in any way that advances the three goals stated above.

**Coordinated, Bottom-up Planning:** To be considered, an applicant must form partnerships with the affected community and the private sector in the region to develop

a comprehensive strategic plan. The plan must detail how the applicant will coordinate all complementary state, local and federal program resources and incentives with private sector commitments and community initiatives to meet the three goals.

**One-Stop Federal Responsiveness:** An Interagency Council ("Enterprise Board") will develop criteria for selection. In consultation with the Enterprise Board, HUD will designate the urban zones, Agriculture the rural zones, and Interior the Indian zones -- based on the quality and promise of the strategic plan submitted by each applicant. The Designating Secretaries, in cooperation with the Enterprise Board, will serve as a single point of contact to allow local applicants to coordinate federal programs and incentives in the zone.

**B. TWO TIERS OF INCENTIVES AND INVESTMENTS.** We recommend a two-tier approach that focuses most resources on a limited number of zones where we can measure and achieve results, but gives a larger number of communities an incentive to take part. The larger number of Enterprise Neighborhoods may make it more palatable for members of Congress to support the concentration of resources in the 10 zones.

10 Economic Empowerment Zones will be designated and will be given discretion to use all available tax incentives, a substantial (e.g., \$30 million per year) Enterprise Grant, and one-stop federal responsiveness based upon their approved strategic plan. In addition, each Economic Empowerment Zone will participate, based on its approved strategic plan, (a) in a community development banking initiative, (b) in community policing and HUD Community Partnerships Against Crime, and (c) in a DoEd Enterprise School Community initiative to implement the National Education Goals for school readiness, lifelong learning, and competitiveness.

100 Enterprise Neighborhoods will be designated and will receive a few of the tax incentives, a smaller Enterprise Grant (e.g., \$3 million per year), and one-stop federal responsiveness. In addition, these Enterprise Neighborhoods will also be eligible to participate in the Community Policing, Enterprise School, and Community Development Banking initiatives.

### **C. TAX INCENTIVES AND INVESTMENT PROVISIONS**

#### **TAX INCENTIVES:**

The tax expenditures are designed (a) to reduce the costs of doing business in the zone, (b) to provide incentives for employing zone residents both within the zone and throughout the local labor market, (c) to provide incentives for investment in new equipment and expansion of qualified zones business, (d) to finance new construction and renovation within the zone, and (e) to empower zone residents with the opportunity to work, save and invest, and obtain a real ownership stake in their own communities and economic destiny. The proposal includes:

**SUMMARY OF INCENTIVES AND INVESTMENTS****10 ECONOMIC EMPOWERMENT ZONES****INVESTMENTS**

- Enterprise Grants (\$50-175 million)
- Community Development Banks
- Community Policing
- Coordination and Flexibility with Existing Funds
- Education Enterprise Funds
- Eligible for Participation in a Range of Innovative Federal Experiments

**EMPLOYMENT TAX INCENTIVES**

- Employment and Training Credits (ETCs) for zone residents:
  - A multi-year ETC for employers located in the zone
  - Targeted Empowerment ETC ("TEIC") for all employers
- An ETC Opportunity Card for zone residents

**CAPITAL INCENTIVES**

- Increased property expensing under Section 179
- Accelerated depreciation for all investments in tangible property in the zone.
- Tax-exempt Private Activity Bonds for investments in tangible property in the zone.
- Expansion of the Low Income Housing Tax Credit

**EMPOWERMENT INCENTIVES**

- Resident Empowerment Savings
- Resident Community Investment Corporations (CICs)
- Small, Worker Controlled Enterprises (WCEs)
- Zone ESOPs

**100 ENTERPRISE NEIGHBORHOODS****INVESTMENTS**

- Enterprise Grants (\$5-15 million)
- Eligible for Community Development Banks
- Eligible for Community Policing
- Coordination and Flexibility with Existing Funds
- Eligible for Education Enterprise Funds
- Eligible for Participation in Innovative Federal Experiments

**EMPLOYMENT TAX INCENTIVES**

None

**CAPITAL INCENTIVES**

- Tax-exempt Private Activity Bonds for investments in tangible property in the Zone
- Expansion of the Low Income Housing Tax Credit

**EMPOWERMENT INCENTIVES**

- Resident Empowerment Savings Account

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<u>Economic Empowerment Zones</u>	<u>FY 94-98 cost in \$Billions</u>
Property Expensing	2
Accelerated Depreciation	*
Flat Employment and Training Credit (ETC)	1.4
Targeted ETC	5
Community Investment Corporations	*
Worker-Controlled Small Enterprise Zone ESOP	.3
	<u>2.6</u>
<u>All 110 Zones</u>	
Savings Plan	*
Private Activity Bonds	.1
Low Income Housing Tax Credit	.1
	<u>2.8</u>

(The asterisk means that the cost is less than \$50 million.) The Working Group would prefer to use \$1.3 billion of the tax incentives funds set-aside in the Budget for investments. Yet, it is important to note that additional tax expenditures might be required if, for example, the population limits of one or more zones were increased (as discussed in Section IV below) or if more tax incentives had to be added to make the 100 Enterprise Neighborhood more attractive.<sup>1</sup>

#### INVESTMENT PROVISIONS:

- **Enterprise Grants.** As noted, beyond mere tax incentives, the ten economic Empowerment Zones will receive a substantial Enterprise grant, on the order of \$150-175 million per urban zone and \$50-75 million per rural zone over five years. In addition,

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<sup>1</sup> The two-tier proposal calls for approximately \$3 billion in tax expenditures and approximately \$3 billion in investments through Community Policing and Enterprise Grants (plus investments from several of the Agency budgets.) Your proposed budget provides for \$4.1 Billion in tax expenditures, plus \$500 million for Community Policing (appropriated in FY93 but not authorized) and \$500 million for community investments in FY 94. In addition, HUD and Agriculture have agreed to contribute up to \$900 million from their existing budget authority.

Any enterprise proposal you submit will require careful coordination with Congress for purposes of authorization, the Budget Enforcement Act, Budget Reconciliation, and annual appropriations. We will need bi-partisan support to secure the sixty votes in the Senate that will be necessary for approval of many issues, including our enterprise proposal.

matching state and local resources and private sector commitments will be expected for all zones. The second-tier, enterprise neighborhoods will receive \$15-20 million for urban zones and \$5-10 million for rural zones over five years.

**Community Policing:** All zones will be eligible for additional support for Safe Streets from the \$500 million of the FYs 93-94 baseline which has been reserved to meet your pledge of 100,000 additional cops on the beat. (Our enterprise legislation could address whether these monies will go exclusively to communities with enterprise zones).

**Community Development Banks:** The 10 Economic Empowerment zones will be given first priority on having a Community Development Bank. The other zones will be eligible to participate in your community lending initiative in order to access private capital, financial services, and support for microenterprises.

**Education Enterprise:** DoEd has asked to include, and to provide funds for, a comprehensive Enterprise School Communities initiative to implement the National Education Goals. DoEd will provide sufficient funding for Enterprise School Communities in each of the 10 Economic Empowerment Zones, plus up to another 10 to 30 enterprise school communities for Enterprise Neighborhoods.

**Eligibility for Participation in Innovative Federal Experiments:** The Enterprise Neighborhoods and Economic Empowerment Zones can serve as platforms for experimentation. This experimentation function serves a dual purpose: First, it aids the federal government by giving it laboratories to experiment with new innovations designed and implemented from the bottom up. Several Agencies believe that the designated zones provide a unique opportunity to offer new initiatives that local communities may use to complement their own economic empowerment and community development strategies. Second, it allows the zones and neighborhoods to have an even more comprehensive investment strategy. The 10 zones and 100 neighborhoods will be eligible to participate through the challenge grant process in a range of other economic, human and community development and access-to-opportunity initiatives that are likely to be sponsored by various Agencies during the operation of the zones.

**Possible initiatives include:** foreign trade centers, microenterprise and venture funding, and entrepreneurial assistance (Commerce and SBA); school-to-work, apprenticeship, youth build, juvenile justice and drug prevention and rehabilitation-to-work (DoEd, DOL, HHS, HUD and DOJ); unemployment-to-work training and support (DOL); time-limited welfare and work supports (HHS); and access and moving to opportunities (HUD and DOT). (A list of possible federal initiatives is attached at Tab C). States, localities, and the private and non-profit sectors will be challenged to add their own initiatives. These human development and access-to-opportunities initiatives, coupled with the Fair Housing and fair lending components of your CD Banking and Community Reinvestment Act proposals, should send a clear message that enterprise zones will not be isolated

garrisons but will strive to integrate distressed communities and poor people into the economic mainstream.

**D. EVALUATION OF PERFORMANCE AND RESULTS:** The enterprise zones will run for ten years. Each year the Designating Secretaries will review the performance and results of the zones in achieving the benchmarks set in the zone's strategic plan. Mid-course corrections will be permitted and encouraged.

At the end of the fourth and seventh years, the Designating Secretaries will conduct a full review of results. Based thereon, they may terminate the designation, withhold or reduce enterprise funds, or require appropriate changes in the comprehensive strategic plan of any zone that is not making satisfactory progress in meeting its benchmarks to achieve the three goals of the enterprise proposal.

The National Academy of Sciences will contract for an independent evaluation of all aspects of enterprise zones. A full report will be given to the President and Congress at the end of five years and again at the end of ten years. We expect to learn what works from the performance and results in both the Economic Empowerment Zones and the Enterprise Neighborhoods. The entire enterprise legislation will sunset at the end of 10 years so that the lessons learned from actual experience can be included in any reconsideration.

In sum, the two-tier proposal seeks to improve the opportunities and competitiveness of both people and places. It challenges affected local communities to reinvent themselves, to join with the private sector in strategic public-private-community partnerships, and to strive to integrate distressed communities and poor people into the economic mainstream.

#### **IV. ISSUES, RECOMMENDATIONS AND DECISIONS**

##### **A. TWO-TIER PROPOSAL OR OMB LOW-COST OPTION?**

OMB proposes an option that adopts much of the two-tier proposal's emphasis on the coordination and reinvention of government, but without spending any funds beyond what is already provided in the baseline or the other new investments proposed in your overall budget. In particular, OMB's proposal would spend only \$110 million of the \$4.1 billion included in your budget for tax expenditures.

OMB has serious reservations concerning the use of any tax incentives or new Enterprise Grants. OMB argues that tax incentives will not be very effective in stimulating new business development and jobs in distressed areas or, if successful, will be too costly to be widely replicated in other areas. Or they fear that enterprise zone tax incentives will draw employment from other economically depressed areas. In addition, OMB believes the two-tier proposal focuses too much on moving jobs into small areas that are not very hospitable to business investment, rather than preparing people in those areas for work opportunities. OMB

is also concerned that the almost \$6 billion that would be absorbed by the two-tier proposal will benefit a very small fraction of the heavy poverty areas in the country.

OMB, therefore, proposes a "low cost" option which, in its view, meets your campaign promise to create enterprise zones while preserving the opportunity to use some of the resources originally committed to enterprise zones for other budget priorities. Attached at Tab A is a summary of OMB's concerns and its alternative, low-cost option.

If you decide to devote additional new budget authority to enterprise zones, as does the two-tier proposal, OMB offers three additional alternative options, as described in Tab A. One of these options does not rely on tax incentives and proposes an increase in the Enterprise Grant instead; the second and third would give localities greater flexibility in choosing between direct spending and a menu of tax incentives.

**RECOMMENDATION:** With the exception of OMB, the Working Group uniformly supports the two-tier proposal for the following reasons. (There are differences of opinion on certain aspects of the proposal, as described below.) First, we believe that we have tailored and targeted the tax incentives to encourage investments in both places and people. Second, tax incentives form the basis of the enterprise zone concept and have strong bi-partisan support in Congress. If you do not include tax incentives, you will not be entertaining an "enterprise zone" proposal.

Third, we believe that the two-tier proposal will produce some real success stories in distressed areas in rural and urban America. OMB's criticism that the cost of replicating tax incentives is too great may miss the point. We do not have enough money on the discretionary spending side or the tax incentive side to improve every distressed area. Instead, the mix of tax incentives, investments and reinvention of government in the two-tier proposal will challenge public-private-community partnerships to develop effective strategies in the lower-cost Enterprise Neighborhoods as well as the Economic Empowerment Zones. If we are successful, we believe more resources from the public and private sectors will be forthcoming for what works. Finally, we are concerned that OMB's "low-cost" proposal may be perceived as a retreat from your commitment to distressed areas, particularly urban areas.

OMB's three additional alternatives offer ideas for reinventing government and investing in people. The two-tier proposal incorporates both concepts. With respect to OMB's proposal to offer localities a menu of tax incentives, the Working Group considered and rejected such an approach because of its administrative infeasibility and our decision to target tax incentives that would be used to invest in both people (e.g. labor and empowerment) and places (e.g. cost-recovery).

## DECISION

— "Low-cost" OMB Proposal

- Other OMB Alternatives
- Two-tier Proposal
- Discuss Further

## B. DECISIONS RELATING TO THE TWO-TIER PROPOSAL

If you select the two-tier proposal, a number of other issues must be resolved, as will be described in this section of the memorandum.

### 1. WHETHER TO NAME THE TEN ZONES IN ADVANCE?

As set forth in Tab A, OMB Director Panetta fears that Congressional expansion of the number of zones may be unavoidable. To limit the likelihood of such expansion, he suggests that you designate in advance the ten communities that would receive the Economic Empowerment Zones. Presumably, you would justify naming these ten by stressing that they are "hardship" communities, e.g., South Central Los Angeles, that warrant targeted attention. Other communities would be reminded that they may compete for Enterprise Neighborhoods and that all communities will benefit from the stimulus package should the stimulus pass.

**RECOMMENDATION:** The Working Group opposes this suggestion. First, naming the "ten worst" communities in advance undermines central tenets of the two-tier proposal. We want to use the challenge grant process to spur all communities to put forth their best efforts in designing a coordinated strategic plan. We also want localities to make a real effort to reinvent government and involve community residents and the private sector in the planning process. We feel the competition of the challenge grant process is critical to ensuring successful zones. Through the challenge grant, we will have an opportunity to reward innovation and pick the ten communities that have the best opportunity to succeed in achieving the enterprise mission.

Second, naming ten communities in advance may doom the proposal from the outset, either by alienating the 80 senators and 425 congresspersons whose districts will not benefit from these designations or by encouraging Congress just to name additional zones. We believe that we have a better chance of defending the two-tier proposal against congressional expansion.

### DECISION

- Name Ten Zones in Advance
- Rely on Challenge Grant Process
- Discuss Further

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## 2. POPULATION LIMITS

The Working Group agreed that we should focus resources (and the energies of the Designating Secretaries) on smaller targeted areas. As a result, we placed a 100,000 population limit on any zone. Los Angeles clearly will be very disappointed with such a limit. California representatives have lobbied hard for larger zones. The issue, therefore, is whether to provide for a different limit for very large population cities (e.g., over 2.5 million persons, New York, L.A., and Chicago).

The following are three options for larger population limits in some of the six urban economic empowerment zones, while keeping the total tax expenditure costs around \$ 3 billion.

- One zone with 250,000; four with 100,000; one with 50,000.
- Three zones with 200,000; three with 25,000.
- Two zones with 250,000; two with 50,000; two with 25,000.

**RECOMMENDATION:** The Working Group recommends that you apply the 100,000 population limit to all zones but be prepared to compromise during the legislative process if it proves necessary. If we are to ensure some measure of success, we feel it is essential to target our limited resources to a relatively small area.

### DECISION

- 100,000 Population Limit
- Allow one to three zones with 200,000 to 250,000
  - 1-250,000, 4-100,000, 1-50,000
  - 3-200,000, 3-25,000
  - 2-250,000, 2-50,000, 2-25,000
- Discuss Further

## 3. POVERTY CRITERIA

There is some disagreement among the Working Group as to how we should target the poverty criteria for enterprise zones. H.R. 11, the enterprise zone bill passed by Congress last

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year (and vetoed by Bush), required only that all of the census tracts in the zone be at 20% or more of poverty level. This requirement would apply to tens of millions of people and perhaps give communities too much discretion in designating zone areas.

The more liberal the poverty criteria, the higher the risk that communities will designate areas that are not most in need of assistance. On the other hand, the Working Group does not wish to hamstring communities by making them pick only hard-core poverty areas that have little chance of being successful in meeting the enterprise goals.

Two options that attempt to address these competing values have been offered.

- Option 1:  
50% of census tracts at 35% or more of poverty;  
90% of census tracts at 25% or more of poverty;  
100% of census tracts at 20% or more of poverty;  
plus limited discretion in Designating Secretary to permit limited variation from criteria to fit existing state-designated enterprise zones.
  
- Option 2:  
90% of census tracts with 30% or more of poverty;  
100% of census tracts with 25% or more of poverty.

Option 1 has the advantage of being targeted but offering communities a degree of flexibility. It also addresses the possibility that a community may wish to overlay state-designated and federal enterprise zones that have slightly different qualifying criteria.

Option 2 is more targeted but less flexible. It has the advantage of ensuring that only truly needy communities will be designated as enterprise zones. But, this set of criteria could knock out some prime candidates for enterprise zones. In New York City, for example, a budding commercial area in Harlem that would qualify under Option 1 would be excluded under Option 2.

**RECOMMENDATION:** The Working Group has not reached a firm recommendation on this issue. HUD supports Option 1. Treasury supports Option 2.

#### DECISION

- \_\_\_ Option 1
- \_\_\_ Option 2
- \_\_\_ Discuss Further

#### 4. MECHANISMS FOR REINVENTING GOVERNMENT

a. New Enterprise Funds. The new Enterprise Grants will be vehicles for reinvention and innovation because localities will have considerable flexibility in using this money to address unique local needs. An issue arises, however, as to how we will ensure that the zone communities adhere to the enterprise mission in developing their strategic plans and in spending Enterprise funds to implement these plans.

There are essentially two alternatives. The first approach is to state general federal objectives and vest the Designating Secretary with discretion to choose among applicants based on the specifics of each strategic plan in implementing the three enterprise goals. The Designating Secretary would make sure that Enterprise funds are not used to supplant existing federal funds and programs and would measure results against the benchmarks established in the strategic plan. This approach may be most in keeping with the objective of reinvention, but it risks providing insufficient federal direction in local planning and too much discretion in the Designating Secretaries.

The second approach is to state specific federal requirements and objectives in the legislation which will guide local spending and plan implementation. Last year, for example, the Senate version of H.R. 11 simply listed all the federal programs that zone communities could spend funds on. However, if the stated criteria are too specific, it could limit a community's ability to innovate, for example, in establishing its own matching venture funds and other public/private economic empowerment partnerships.

The Working Group has no firm recommendation on this issue, which, may have to be resolved in the legislative process.

#### DECISION

- \_\_\_ Challenge Grant Process and Performance Review
- \_\_\_ State Specific Compliance Criteria in the Legislation
- \_\_\_ Discuss Further

b. Existing Federal Programs and Funds. Time and again, mayors and governors have complained that they would be in a better position to meet our enterprise objectives if they were free to deploy existing federal programs and resources to implement their own strategic plan. Former President Carter made much the same point when he visited with you last month about the Atlanta Project: we would not need to invest much more federal money to revitalize urban America if we empowered local communities to apply existing federal funds flexibly in conjunction with State and local resources, and private enterprise.

Although we propose to eliminate all burdensome strings from the new Enterprise Grant funding, such radical deregulation of existing federal programs is a formidable challenge. We believe there are at least three approaches to providing greater flexibility and responsiveness with respect to existing federal programs:

- Broad Pilot Waiver Authority: seek statutory waivers in the Enterprise legislation that would vest the Enterprise Board with authority to grant any waivers it deems necessary for a specified list of programs relevant to promoting enterprise in each zone. A municipality with an enterprise zone might be allowed, for example, to aggregate all funds it receives from the specified range of programs and spend these funds on a new type of activity to implement the strategic plan approved by the Designating Secretary for the zone.
- Limited Waiver Authority: allow the Enterprise Board to develop one set of categorical criteria that municipalities must meet to receive funding from existing programs that are relevant to promoting enterprise in each zone. The enterprise legislation would specify, for example, 10 to 12 existing programs -- e.g., CDBG, Jobs Training Partnership Act, Job Corps, Youth Apprenticeship, JOBS -- for which one set of categorical criteria will be developed. Municipalities that receive enterprise zones, therefore, would be relieved of some of the burdens of meeting uncoordinated, fragmented program requirements. Municipalities would not, however, have the flexibility to redirect funds to their own spending priorities.
- Expand the Enterprise Grant Program: beginning with the FY 95 budget request, increase the Enterprise Grant by an agreed amount and seek lower appropriations from a range of existing programs. For example, if total federal spending on a range of separate categorical programs averages \$25 million per zone, then the budget request for Enterprise grants in each zone could be increased by a proportionate share. At the same time, the budget requests for these categorical programs would be reduced by this amount. This approach approximates the effect of the broad, pilot waiver approach.

**RECOMMENDATION:** We do not have a firm recommendation with respect to the three options.

The first approach -- pilot testing broad regulatory relief in the enterprise zones -- is most in keeping with our basic goal of reinventing government and would be strongly supported by the mayors and governors. It may complicate passage of the Enterprise legislation. We do not know whether Congress would be as willing to go along with such a radical restructuring. It may also give pause to some of the Secretaries as they work with you to make plans to initiate new national programs. HUD strongly recommends this approach.

The second approach -- limited waiver authority -- will provide substantial flexibility and responsiveness for those programs specified for uniform categorical treatment. Congress

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should be receptive to such narrower statutory waiver authority as a part of the Enterprise package. But many localities and public-private partnerships will argue that we should go further because the costs of compliance with the multitude of federal requirements ultimately defeats their purpose.

The third approach provides a means to approximate, roughly, the result of the first approach: it increases the enterprise grant by the amount that would be available to focus on implementing the zone's strategic plan if full waiver authority were available. It does so, however, by reducing a range of programs throughout the country by the small amount necessary to achieve this result. It will also require careful budgeting (and negotiation with Congress) each year.

Close consultation and cooperation with Congress and interested constituencies may provide the best approach to resolving this issue. Given the uncertainties and the need for full Congressional cooperation to implement any of the three approaches, it may be prudent to explore this issue fully with Congress and constituency groups before making a final determination.

#### DECISION

- Broad, Pilot Waiver Authority
- Limited Waiver Authority
- Expand Enterprise Grant through Annual Budgeting
- Consult with Congress and Constituencies
- Discuss Further

#### 5. DISAGREEMENTS AS TO EMPOWERMENT TAX INCENTIVES

a. Resident Empowerment Savings. Following on your campaign pledge to establish Individual Development Accounts to empower low-income Americans to move toward economic self-sufficiency, the Working Group recommends a 50-percent tax credit for employer contributions to a Defined Savings Plan ("DSP") on behalf of zone employees. Participating zone residents could also contribute to the DSP on a tax deferred basis. These savings could be withdrawn (or borrowed against) without penalty to pay for education, purchasing a first home, starting a small business, or investing in a Community Investment Corporation.

In addition, the CEA has recommended that you also consider encouraging short-term savings that would help zone residents avoid excessive credit costs on large consumer purchases such as furniture and cars. We could offer a special-issue U.S. Savings Bond with an above-

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market rate of return and allow this interest to be fully tax exempt to zone residents. These bonds could be purchased through payroll deductions and excluded from taxable income reported by the employer, making tax preparation easier for the saver. Treasury opposes this savings incentive.

While the Working Group generally favors having some form of resident empowerment savings, Treasury is skeptical about whether our limited resources might be better spent on incentives for employment and business activity rather than savings. The tax expenditures for such resident empowerment savings and investment in all 110 zones, however, total less than \$50 million over five years.

**RECOMMENDATION:** We recommend that you include empowerment savings incentives in your enterprise zone proposal.

#### DECISION

- Resident Empowerment Savings Accounts
- Add Resident Empowerment Savings Bonds
- No Resident savings incentives
- Discuss Further

b. Community Investment Funds or Corporations. Owned 51% by zone residents, CICs could be spurred through tax advantages to lenders for loans made to CICs for purchase of qualifying zone tangible assets and firms. The CIC would be a for-profit, resident-driven community investment fund or developer which could, for example, invest in a number of zone businesses or acquire and develop land and buildings within the zone. The CIC would provide a way for zone residents, as shareholders, to accumulate assets, invest in zone businesses, share in profits from development, and gain control of their communities and their economic destinies. Although Treasury and CEA are concerned that zone residents should diversify their investments, most members of the Working Group support the CIC concept as an essential means to give zone residents a real stake in their own economic futures.

The tax advantage for investment in CICs could be provided either (a) through the exclusion of interest from the income of banks and other lenders who make loans to finance CICs or (b) through the issuance of special CIC tax-exempt bonds. Such tax exempt bonds could also be made available through local banks or community development lenders who will then make loans to a CIC based on their own underwriting criteria, including the requisite technical, accounting, and management assistance and expertise. Such Enterprise Zone Tax-Exempt Bonds could be exempt, either in whole or major part (e.g., 75%), from state volume caps. Treasury believes that existing rules for review by a local bond authority would help assure compliance

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with applicable law, prevent abuse, and involve the local community, without requiring the creation of a new set of anti-abuse rules for a new interest exclusion.

**RECOMMENDATION:** We recommend that tax incentives for CICs be included. Such tax expenditures for the ten Economic Empowerment Zones would total \$140 million over five years. No tax advantaged loan would be made unless the underlying asset, whether a business or land, supports the loan. Making such character loans to CICs should be among the financing mechanisms that banks have to economically empower zone residents.

### DECISION

- Interest Exclusion on CIC qualifying loans
- Tax Exempt Bonds only for CIC financing
- No CIC Financing
- Discuss Further

c. Small Worker Controlled Enterprises — Owned 51% by zone resident employees, worker controlled small businesses (less than \$5 million in gross annual receipts) could also be encouraged through tax incentives. First, interest on loans to permit resident workers to start or to acquire WCEs could be excluded from taxation to a lender. Second, repayment of principal and interest on the loan could be a deductible business expense to the WCE. With full disclosure, full voting rights, worker control, annual reporting of individual share values to each zone shareholder, and deferral of taxes to the worker until a sale of shares, the WCE will empower resident employees with a full ownership stake in their own businesses, while curbing abuses common to ESOP's.

Secretary Espy strongly supports incentives that empower residents to gain an ownership stake in the businesses in which they work. Others in the Working Group join Agriculture in supporting such employee stakeholding. Treasury and CEA are concerned that WCEs are risky investments for zone residents and are subject to tax shelter abuse in which the benefits go to outside investors rather than to zone residents. As with CICs, Treasury therefore proposes that the tax advantage be financed only through tax exempt bonds, issued by an independent State or Municipal Bond Financing Authority, which can be exempted from State private activity bond caps. As with CICs, these tax exempt bonds could finance loans made by CD banks and other lenders based on their own underwriting criteria, including the requisite technical, accounting and management assistance and expertise.

**RECOMMENDATION:** We recommend that tax incentives for WCEs be included. Such tax expenditures for the ten Economic Empowerment Zones would total \$300 million over five years. No tax advantaged loan would be made unless the underlying small business being started

or acquired supports the loan. Making such character loans to WCEs should be among the financing mechanisms that banks have to economically empower zone residents. If successful, WCEs could effectively implement the Grameen bank, microenterprise lending approach in distressed communities throughout rural and urban American.

### DECISION

- Interest Exclusion on WCE qualifying loans
- Tax Exempt Bonds only for WCE financing
- No WCE Financing
- Discuss Further

d. Employee Stock Ownership Plans (ESOPs). Secretary Espy also strongly supports a modified ESOP structure for larger zone businesses. He recommends providing enhanced tax incentives for special Zone ESOPs. Under current law, eligible lenders may exclude 50% of the interest income they receive on certain loans to an ESOP from taxable income, provided the ESOP has the requisite stake (more than 30%) in the sponsoring employer. The interest exclusion would be raised to 100% for loans to Zone ESOPs which have a 30% stake in the company. In addition, the sale of existing stock to Zone ESOPs would qualify for tax deferred rollover status provided the proceeds are reinvested in securities of other domestic companies. To meet concerns about abuse, all participants in Zone ESOPs would be entitled to the same voting rights on all matters voted upon by other stockholders possessing the highest voting rights.

The Treasury Department opposes any increased tax incentives to Zone ESOPs. Treasury reasons that ESOPs are inherently risky for employees because of lack of diversification of the plan assets. It also argues that traditional ESOPs have not been effective in transferring to low-income employees a significant voice in management decisions or a significant share of the economic appreciation in the value of the employer's stock. It believes the Defined Savings Plan incentive, together with qualified zone private activity bonds (that could be used to finance CICs and WCEs), provide appropriate empowerment incentives for zones.

**RECOMMENDATION:** Attached at Tab D is Secretary Espy's defense of Zone ESOPs. It is possible that the Treasury proposal for using tax-exempt bonds to finance empowerment incentives could also be used here to alleviate concerns about abuse of Zone ESOPs. Such tax expenditures for Zone ESOPs in the ten Economic Empowerment Zones would total less than \$50 million over five years.

### DECISION

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- Interest Exclusion for Zone ESOPs
- Tax Exempt Bonds only for Zone ESOPs
- No Financing for Zone ESOPs
- Discuss Further

## 6. "FLAT" vs. "INCREMENTAL" EMPLOYMENT AND TRAINING CREDIT

Employment and training tax credits (ETCs) provide an effective means of lowering the cost of doing business for employers and incentives for hiring zone residents. When combined with a coordinated private sector campaign to secure the acceptance and support of employers, they also empower residents to seek employment, to obtain and hold jobs and to receive training. The two-tier proposal recommends allowing employers outside the zone to take advantage of a one-year Targeted ETC ("TETC") -- 40% of the first \$6,000 in the first year of each new zone resident employee's wages and qualifying expenses for education and training.<sup>2</sup>

With respect to the ETC, you must decide whether to adopt a flat or incremental approach. The flat ETC provides employers within the zone with a credit of 25% of the first \$20,000 in qualified wages and training costs for each zone employee. The credit would remain at 25% for the first six years and then be phased out proportionately over the remaining life of the zone. This credit applies to all resident zone employees.

By contrast, the incremental ETC is applicable only to increases in employment of zone residents (where total employment also increases) over a stated base. It therefore costs

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<sup>2</sup> The TETC is substantively identical to the Targeted Jobs Tax Credit (TJTC), which will preclude the administrative burdens of having separate criteria and credit amounts. However, we believe we should distinguish the TETC from the TJTC, where certification of eligibility in one of the 10 categories by DOL has too often operated to stigmatize prospective applicants as inferior in the eyes of employers. An education campaign for prospective employers is therefore essential with respect to the Enterprise TETC. The extent of private employer commitment to participate should be one of the factors used by the Secretaries in the Challenge Grant Process to judge the merits of any zone applicant's strategic plan.

Every qualified zone resident will receive an empowerment card in the mail which can be presented to a prospective employer to qualify for the ETC or TETC once place of residence has been verified. The same card will allow zone residents to open a Resident Empowerment Savings Account and a checking account with the nearest Community Development Bank. It also could be used in future experiments with electronic delivery of food stamps, AFDC and job-training and with providing rewards for zone residents who succeed in finding and keeping a job.

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substantially less in tax expenditures than the flat ETC.

The flat ETC is simpler for zone employers to use and more effective in lowering total costs of doing business for a zone firm. Though less expensive, the incremental ETC is much more complicated to use and is often ignored by small employers. In addition, the incremental ETC would give a competitive advantage to new businesses over existing zone businesses.

**RECOMMENDATION:** For the above-stated reasons, the Working Group unanimously favors the flat ETC, but believes this is a close call.

#### DECISION

- Flat ETC
- Incremental ETC
- Discuss Further

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The members of the NEC-DPC Enterprise Zones Working Group include:

AGRICULTURE	Robert Nash Ron Blackley Mike Alexander	CEA	Joe Stiglitz Kevin Berner
COMMERCE	Johnathan Sallet Larry Parks	DPC	Bruce Reed Paul Weinstein
HUD	Andrew Cuomo Bruce Katz Jacquie Lawing	NEC	Gene Sperling Paul Dimond Sheryll Cashin
TREASURY	Maurice Foley Val Strehlow Edith Brashares	OMB	Chris Edley Ken Ryder Steve Redburn
V.P.	Greg Simon		

We have also received important contributions from:

DoEd	Mike Smith Anita Estelle Tom Fagan
HHS	David Elwood
LABOR	Larry Katz Carolyn Golding

THE WHITE HOUSE  
WASHINGTON

APR 21 11:09

April 21, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN *REA*  
SUBJECT: Enterprise Zones and Community Development Banks

Attached are decision memoranda regarding enterprise zones and community development banks.

Both of these issues have turned out to be far more complex and controversial than had originally been expected, largely because the approaches are innovative and expansive. Consequently, the memoranda are relatively long and pose numerous and not simple issues. Furthermore, despite many meetings and a well conducted process led by Bruce Reed and Gene Sperling, there are still substantial disagreements on many of the issues, especially relating to enterprise zones.

We need decisions on the basic policy issues within the next few days, in order to dovetail with the legislative schedule. Given the limits on your time, one possibility would be that we could have a meeting with you which would lead to decisions on the basic issues, with the subsidiary design issues reserved for decision at a later date or, if you wish, delegated to Carol and me. Either way, we would meet the requirements of the legislative schedule.

Marcia Hale is attempting to fit this into your schedule very late Friday, and you can let us know at that time what decision-making process you would like to have.

THE WHITE HOUSE  
WASHINGTON

APRIL 19, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED  
GENE SPERLING

SUBJECT: ECONOMIC EMPOWERMENT AGENDA

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing would change. You were right. Across the country, poor communities from South Central LA to the Mississippi Delta are still reeling from a decade of declining opportunity and rising social and economic isolation.

Shortly after you took office, Bob Rubin and Carol Rasco asked us to set up a joint NEC-DPC interagency working group on community development and empowerment. We wanted a joint effort spanning economic and domestic policy that could look at the problems of economically distressed urban and rural areas -- not only to prepare specific proposals that could be passed this spring as part of your initial Budget, but to develop a framework that could incorporate other new ideas over the course of your administration.

Our first task was to focus on the economic empowerment portion of your community development strategy. Job and enterprise development are only a portion of what your administration hopes to accomplish in distressed areas, through health care reform, welfare reform, education reform, family policy, Head Start, and so on, but your campaign commitments and your stress on economic growth necessitated that we come forth with these proposals for FY1994.

To create this economic empowerment proposal, our group brought together policy people from half a dozen agencies, and met with members of Congress, community leaders, entrepreneurs, and federal, state, and local government officials. We agreed in principle on a comprehensive, three-part strategy with a strong economic focus:

1. Enterprise Zones: A two-tier plan to create 10 resource-intensive Economic Empowerment Zones and 100 less expensive Enterprise Neighborhoods around the country. These 110 communities would be targeted for economic development, reinventing government, community development banking and microenterprise, community policing, and the administration's other empowerment initiatives.

2. **Community Banking:** A national network of community development banks and other community lending institutions, spurred on by a federal Community Banking and Credit Fund and perhaps by requiring major banks to start community development banks in return for limited interstate branching. We also propose ways to strengthen enforcement of the Community Reinvestment Act and fair lending requirements.

3. **Community Policing:** We included Community Partnerships Against Crime (COMPAC) -- ~~a HUD initiative to improve safety in public housing~~ -- along with nationwide efforts to promote community policing with economic development. Communities will need to demonstrate progress against crime if they are to attract and maintain enterprises.

### CONGRESSIONAL OUTREACH:

We have invited the major Congressional leaders in these areas to meet with us and with Bob Rubin and Carol Rasco -- including Maxine Waters, Floyd Flake, Charlie Rangel, Chairman Gonzalez, Bill Bradley, Chairman Rostenkowski, Chairman Riegle, Paul Sarbanes and Chairman Moynihan. We have also received copies of the bills pending in Congress and will continue to see which of their ideas can be incorporated.

By way of example, pursuant to our discussions with Representative Rangel and his staff, our Enterprise proposal includes a comprehensive approach to public and private investment and coordinated provision of government services, a mix of tax targeted tax incentives and Enterprise grants, and a major emphasis on safe streets. We also have included drug prevention and rehabilitation-to-work among the new initiatives which the Agencies are actively exploring for the Enterprise proposal.

With respect to the Community Reinvestment Act, our recommendation to move to performance-based standards for all bank lending (including for small business and commercial loans) adopts much of the direction and emphasis of Representative Waters' bill. In addition, Representative Waters has also suggested exploring the possibility of making the Federal Reserve Discount Window available for Community Development Banking to spur reinvestment in the inner cities. Although this would require a major rethinking of the Fed's long-established policy and practice, we have proposed including the Fed on the Board of the CD Banking Fund so that such institutional issues may be fully considered by the Fund with full input from the Fed.

Treasury and the FDIC are exploring the impact and cost of Representative Flake's proposal under the Bank Enterprise Act to appropriate funds to subsidize a discount in insurance premiums paid by banks (including CD Banks) to the extent of their loans in distressed communities. If you choose to require major BHCs to participate fully in the attached Community Banking proposal, the potential impact will be far greater, and the issue of providing additional support for bank lending in distressed communities can then be addressed more fully in this new context by the Fund and by you.

Finally, our Community Development Banking, Community Policing and Enterprise initiatives incorporate many of central components of the Bradley bills: incentives for personal savings and investment in the community, cops on the block and safe streets, a CD Bank fund to nurture a network of community development financial institutions, true Community Schools, and mobility and access to opportunity throughout the local labor market.

After you have agreed to a preliminary proposal, we will consult with these members of Congress and come back to you with additional ideas of theirs that can be included.

**MESSAGE:**

The attached memos present the proposals for enterprise zones and community development banks. These memos lay out the options and decisions you need to make for both proposals.

We also wanted to let you know our own view of how these proposals support the themes that you ran on and now form the underpinning of your economic plan.

First, these proposals offer a new, innovative approach. They move beyond the old left-right debate by taking an activist approach to empowering those in distressed areas without assuming that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a cop on their block, an employment voucher that will reward any business for giving them a job, a local banker willing to invest in new jobs in the community. And we believe they represent a new direction for poor communities across the country in several other important respects:

- **Reinventing Government:** The working group makes reinventing government a centerpiece of our enterprise proposal. No community will get help unless they develop a comprehensive strategic plan that involves the private sector, builds on existing community institutions, and coordinates government efforts across program and jurisdictional lines. The solutions to these problems must come from the bottom up, from individuals and communities willing to help themselves. These proposals will change the way government does business -- including the federal government, which will conduct a competitive grant process through a single point of contact.
- **Accountability for Results:** Communities will receive unprecedented flexibility to design their own plan, but will be held accountable for real, measurable results in return.
- **Laboratories of Democracy:** Communities that show the initiative to make the most of these efforts will become natural targets for other initiatives in the administration's agenda. In exploring our proposals with other agencies and major private sector institutions, we've found a number that want to take part.

\* **Comprehensive Growth Strategy:** These proposals foster efficient and entrepreneurial government that promotes both private investment and increased public investment in human and physical capital.

\* **A Bold New Experiment:** Some will point out that there is no conclusive evidence that enterprise zones work, and that only three community development banks have been created in the history of the republic. They're right on both counts -- because no one has been trying such new approaches with any federal support or leadership. Our proposals are designed to give these ideas a fair test, by targeting resources in a limited number of places and providing clear measures of success or failure. If these new approaches don't work, we can give up or try something else -- but we shouldn't quit before we start just because the old answers have failed.

Whatever options you choose to put forward, we believe that these proposals provide you with a tangible platform to inspire hope and show your commitment to a new spirit of opportunity, responsibility, and community that will empower people from Watts to Mount Pleasant to believe in the promise of America again.

THE WHITE HOUSE

WASHINGTON

**COMMUNITY DEVELOPMENT AND EMPOWERMENT  
MEETING AGENDA**

May 17, 1993  
Room 342, OEOB

**I. GETTING CURRENT PROPOSALS PASSED**

- A. Empowerment Zones
- B. Community Development Banks
- C. CRA Reform

**II. IDENTIFYING WHAT WORKS AND WHAT DOESN'T**

- A. Identify success stories as well as programs that do not work that fall under the community empowerment agenda
- B. Consider identifying a budgetary mechanism that will give agencies an incentive to eliminate programs that do not work, e.g., "gainsharing" -- a percentage of monies saved could be applied to new investments
- C. Identify existing barriers to improving coordination and integration of federal assistance relevant to community empowerment

**III. STRUCTURES AND PROCEDURES**

- A. Working Group Goals:
  - 1. Push Current Legislative Agenda
  - 2. Develop Framework for Presidential Speech and Policy
  - 3. Long-term Approach. How and when do we create a structure for tackling our long-term goals. What Sub-groups do we need?
- B. Management and Coordination Structure

**IV. PROCESS FOR SPEECH EVENT -- Narrowing Initiatives to Include**

- V. **THEMES AND GUIDING PRINCIPLES** (See attachment) -- Themes to communicate our policy to average voters and to guide the development of community empowerment policies. We need to consider the fit between themes and major policy proposals.

## COMMUNITY EMPOWERMENT THEMES

### I. HUD PRESENTATION

#### A. Three Themes Emphasized

##### 1) Economic Lift

- Making Work Work
- Linking Education, Training and Employment
- Making Housing a Platform for Economic Opportunity
- Rebuilding the Metropolitan Economic Base

2) Community (e.g. bottom up rather than top down strategies; fundamentally changing the way government does business; encouraging comprehensive solutions to local problems; making federal programs more flexible and responsive to community needs)

- Supporting Community Solutions
- Encouraging Economic Diversity in Communities
- Rebuilding the Community Economic Base

##### 3) Combat Destructive Behaviors

- Reducing Spatial Separation by Race and Income
- Balancing Rights and Responsibilities
- Giving Every Child a Fair Chance
- Restoring Sanity to America's Streets

### II. OTHER RELEVANT THEMES (FROM THE CLINTON CAMPAIGN AND OTHER AGENCIES)

Themes that distinguish the Clinton Administration from past approaches in distressed areas and that are reflected, to varying degrees, by the Empowerment Zones initiative.

#### A. Presidential Leadership in Involving the Private-Sector

- Going Beyond Traditional Functions of Government -- Using the Presidency to Urge the Private Sector to Invest in Distressed Communities
- Spreading the Word About Public-Private Partnerships that Work
- Emphasizing Private-Sector Incentives for Job Creation
- Emphasizing and Facilitating Business Ownership by Community Residents

#### B. Bottom-up Planning and Accountability

- Rewarding Local Innovation with flexibility, deregulation and federal coordination
- Rewarding Comprehensive Planning and Community and Private Sector Participation in such Planning
- Pragmatic Focus on What Works
- Willingness to Eliminate Programs that Don't Work
- Creating processes for evaluating what works

**C. Empowering Communities and People**

- Fostering independence from government programs
- Strengthening both People and Places -- Linking Human Development Strategies with Physical Development
- Fostering geographic and economic mobility

**D. Rewarding Work**

- "Making Work Pay" -- i.e., making work more attractive than welfare
- "Making Work Work" -- enabling people to stay in their jobs
- "Making Work Available" -- Job Training

**E. Rewarding Family**

- Not penalizing marriage or families
- Easing burdens on parenting --- jobs, Daycare, parenting skills training
- Giving children a fair start

**F. Community Values**

- We are all in this together
- Individual Responsibility

President Clinton's plan to help poor communities. ✓

# Empowerment zones can help poor communities

**OUR VIEW** By letting communities set agenda, President Clinton can make federal help an aid, not a hurdle.

President Clinton has found a clever way to help distressed communities — by listening to them.

Poor communities said they needed not just federal money, but also freedom to decide how to use it. They asked for more flexibility to try novel approaches to problems. They said tax incentives weren't enough to lure businesses.

Clinton's plan, announced last week, wisely tries to give them a chance to prove they're right. It improves upon a long-touted concept — enterprise zones — and tests it at a cost of only \$6 a year for each person in the country.

Some \$800 million a year would be distributed to 110 communities for experiments in such things as 24-hour schools and community redevelopment banks.

They'd be set up in both urban and rural communities of fewer than 200,000 people. Those with the best plans for improving job creation, education, health care, housing and crime pre-

vention would be selected.

Many ideas would be tried. Successes could be imitated; failures discarded.

Ten of the areas, dubbed "empowerment zones," would get much more. They'd share \$800 million in tax breaks to lure businesses and create jobs — the traditional enterprise zone approach.

But unlike previous plans, businesses inside and outside would get breaks for hiring people from the zones.

This is a much-needed refurbishing of the enterprise zone concept — already tried by several states with mixed success. In a study of Maryland zones, financial lures ranked twelfth as a reason why businesses locate in a zone.

Listening to local leaders also should help avoid the disasters that gave '60s-era urban renewal a black eye. Then, the federal government blindly dictated what cities could get. Often neighborhoods were razed for new construction, and people were relocated, not helped.

In Clinton's plan, once an area qualifies for help, government would heed community requests to get federal regulations out of the way.

Following communities' leads may be a way to make enterprise zones work.



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[Aida Alvarez](#), Administrator of the Small Business Administration

[General Barry McCaffrey](#), Director of the Office of National Drug Control Policy

[James Witt](#), Director, Federal Emergency Management Agency

[David J. Barram](#), Administrator, General Services Administration

[Daniel S. Goldin](#), Administrator of the National Aeronautic and Space Administration

Harris Wofford, CEO, Corporation for National Service

George T. Frampton, Jr., Acting Chair of the Council on Environmental Quality

THE WHITE HOUSE  
WASHINGTON

October 28, 1993

File:  
Community  
Empowerment

MEMORANDUM FOR BOB RUBIN

FROM: Paul Weinstein

SUBJECT: Community Empowerment Objectives

Paul and Sheryll's memo does an excellent job of outlining goals for Empowerment Zones and Enterprise Communities. I agree that economic development and economic opportunity must be the primary focus for the zones. The following underscores that emphasis.

**The Building Blocks -- Jobs**

The core objective for empowerment zones and enterprise communities must be the creation of jobs. If the zones and communities do not create jobs, the program will be billed as a failure -- it's that simple. If we can create a job base in these distressed communities, then we can build outwards and develop the self-sustaining institutions that provide vital social services like child care facilities, health clinics, better schools.

With our limited resources, we can't afford to focus on the outcomes of the problems in our inner cities and distressed rural communities, we must focus on the causes. And the number one problem, in my view, is the lack of jobs and economic opportunity.

The major tax incentive for the zones is the Wage Tax Credit (WTC). The Credit should be effective in attracting labor intensive industries to the zones. The one problem with the WTC is that it is very costly to replicate. Therefore, we will need to study carefully which of the other, less expensive tax incentives, also have a positive job effect.

**The Ultimate Test Of Reinvention -- Federal, State, County, City, and Community Coordination and Cooperation**

I think Carol Rasco is right when she describes Empowerment Zones and Enterprise Communities as the greatest test of reinventing government. For this program to be successful, at least four layers of government and the actual communities themselves are going to have to actually communicate with each other. Nothing could seem more simple yet

so hard. I've always felt that one of reasons governments in the past allocated more and more money for programs -- even if they were unsuccessful -- is because cooperation requires a lot more effort than appropriation.

~~Intergovernmental cooperation, if we can get it to work in the zones, is something that can serve as a model for other communities. Two ways to promote cooperation is waiver authority -- to help communities out through the red tape and provide flexibility -- and the strategic plan, which can serve as a compact between all the governmental entities involved.~~

### **Stakeholding -- Making Capital Available To The Inner City And Rural America**

Past attempts to rebuild our inner cities and distressed rural areas have failed for several reasons, two major ones being (1) the disconnect between government assistance programs and the private sector and (2) the failure to ensure that residents would have a financial stake in the economic future of their communities.

The President has correctly argued that government programs should spur the private sector in distressed communities, and that we need to create entrepreneurship opportunities for the residents. Our capital incentives programs -- reform of the Community Reinvestment Act (CRA), passage of the Community Development Financial Institutions (CDFI) bill, SBA's One-Stop Capital Shop, SBA Microenterprise Loan Program, and the SSBIC/ Bumpers tax break -- will play a more significant role in the revitalization of these communities than the Zones themselves, because they will provide residents with the opportunity to own their own businesses and homes. In a recent interview Jack Kemp stated that Democrats have traditionally focused on the "safety net" while Republicans have put their efforts into the "ladder of economic opportunity." Well, trickle down was hardly a ladder. But Kemp's point that government should work in concert with the private sector to promote opportunity is fundamental (it's too bad he never heeded his own advice).

### **Security**

Of course you can't attract outside business and capital, and retain human capital if your streets aren't safe, if the education system is failing, if you work all week and your income still falls below the poverty line. That is why several other Presidential initiatives, the crime bill, Headstart and Family Preservation, the EITC, health care reform, and welfare reform are integral components of any community empowerment strategy.

cc: Carol Rasco  
Bruce Reed

f: community  
develop urban/  
rural policy

THE WHITE HOUSE

WASHINGTON

December 1, 1993

MEMORANDUM FOR BOB RUBIN  
GENE SPERLING

FROM: PAUL DIMOND  
SHERYLL CASHIN

SUBJECT: URBAN POLICY

Attached is a revised summary of the overview that Paul presented to the Carnegie Corporation meeting on the Administration's policy to revitalize distressed urban and rural communities. It is not touted as a separate and distinct urban policy as such, but rather as an integral part of the Clinton economic plan to put America to work for all Americans. It is an attempt to communicate the substance of what we are trying to do for poor areas in the context of the new direction set by the President's economic plan.

We previously transmitted to you an alternative way of thinking and talking about Administration efforts in this area, i.e., by topics -- business investment, education and training, etc. -- and relevant Administration programs.

Given the interest in the President's speech in Memphis, the impending roll-outs of the public safety initiative and empowerment zone challenges over the next two months, and the Vice President's commitment to speak actively about community empowerment, we believe the press will be focussing much more attention on "urban" issues.

Finally, we are also working cooperatively with HUD on their preparation of the Urban Policy Statement that Congress requires each Administration to submit every two years. The time deadline for this submission is early next year. As soon as there is a good working draft, we will transmit it to you for comment.

We therefore request to meet with you at your earliest convenience to get your feedback on our work to date and to discuss next steps. We believe that it is time to begin to say something, lest the press or political opponents define, mischaracterize, or even seek to set our policy direction in this area for us. We also believe that the possibility for bi-partisan support -- within the continuing budget constraints -- should also be considered in view of the mayoral elections in New York and LA.

cc Bo Cutter, Bonnie Deane, Sylvia Mathews  
Carol Rasco, Bruce Reed, Paul Weinstein  
Jack Quinn, Elaine Kmarck, Kumiki Gibson

## THE CLINTON-GORE INITIATIVE FOR REVITALIZING DISTRESSED COMMUNITIES IN URBAN AND RURAL AMERICA:

### THE BUILDING BLOCKS FOR PUTTING AMERICA TO WORK FOR ALL AMERICANS

Work, jobs, and full participation in sustained economic growth are at the heart of the Clinton-Gore Administration's plan to revitalize distressed communities all across urban and rural America. As the President noted in his recent speech to the Mason Temple Church in Memphis Tennessee,

I do not believe that we can repair the basic fabric of society until people who are willing to work have work. Work organizes life. It gives structure and discipline to life. It gives meaning and self-esteem to people. It gives a role model to children... We can [only] repair the American community and restore the American family [if] we provide the structure, the value, the discipline and the reward work gives.

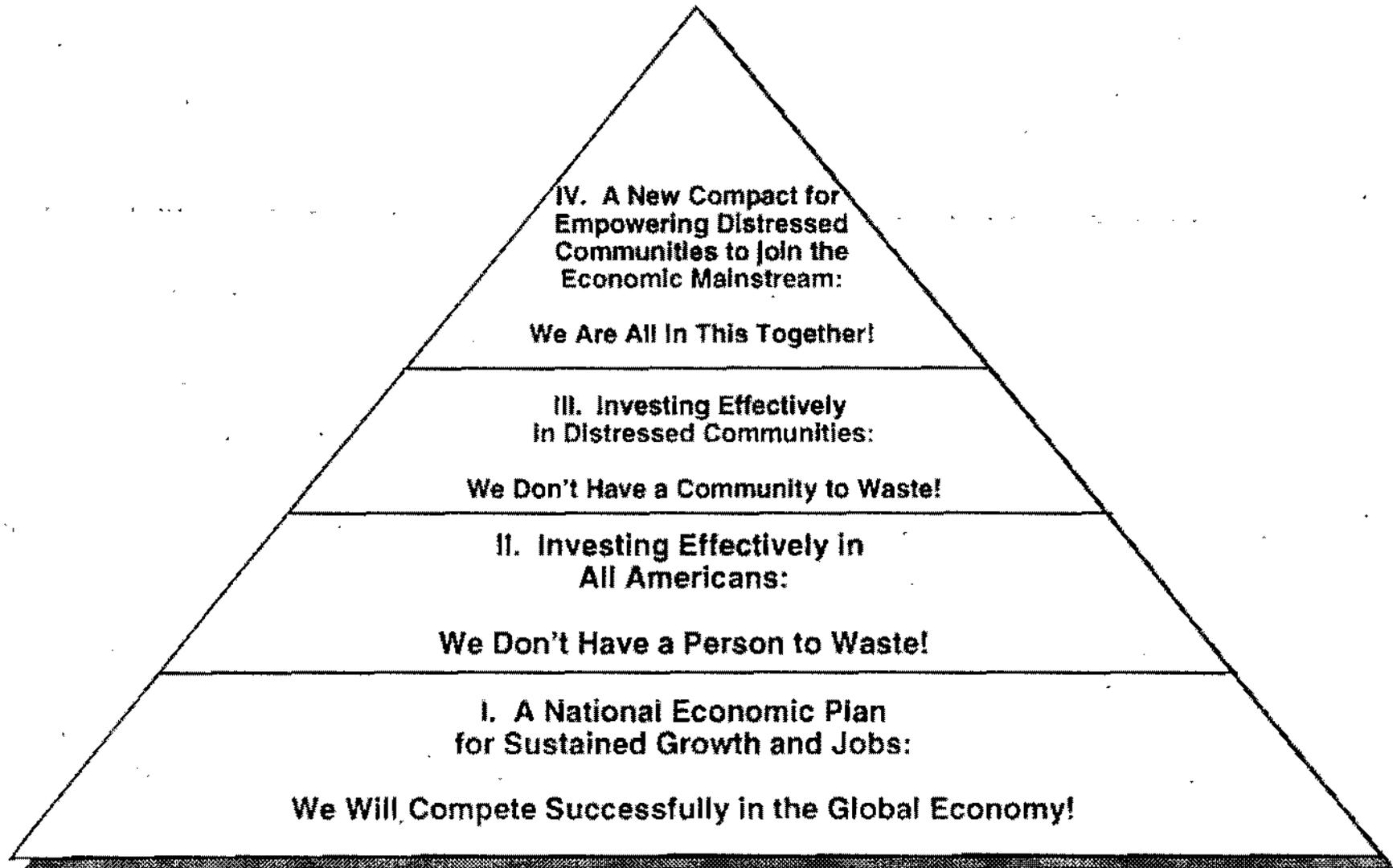
The Clinton-Gore plan has four basic building blocks to provide work to all Americans who are willing to work, including in distressed rural and urban communities:

- put our national economy in shape for sustained growth in the new, globally competitive economy
- invest in people so that work pays and all who are willing can contribute to and participate in this growth
- make targeted federal investments to leverage much larger private sector investments in distressed communities so that all communities can share in the rewards and work of the new economy
- call upon all Americans to come together from the bottom up in a new compact to help distressed urban and rural areas join in contributing to the growth of dynamic regional economies

These four building blocks are depicted in the attached diagram and described in the one-page summaries that follow. Together, they point a bold, new direction for putting America to work for all Americans.

**The Clinton - Gore Initiative  
for Revitalizing Distressed Communities  
in Urban and Rural America:**

**The Four Building Blocks for  
Putting America to Work for All Americans**



**I. A National Economic Plan for Sustained Growth and Jobs: We will compete successfully in the global economy!**

The President's plan to put our national economy in shape for sustained growth in jobs, incomes, and living standards will make the economic pie bigger for all Americans in the years to come. This National Economic Plan includes six basic components:

- **reduce the deficit** to lower interest rates, keep inflation in check, spur private investment and make more capital available
- **build the capacity and productivity of the economy** through shifting federal budget priorities from consumption to investment in order to improve the productivity of the American workforce and firms
- **remove regulatory impediments** to business formation, agility, and expansion and ease the credit crunch to promote investment
- **increase competitiveness** by containing the rising health care cost drain and by promoting a healthy workforce
- **open foreign markets** to Made in America goods and services for billions of eager consumers around the world and spur increasing demand for the higher quality and larger quantity of goods and services our increasingly productive workforce and firms can produce
- **put the national economic plan to work** so that all Americans and all communities have the opportunity to participate in and the responsibility to contribute to meeting the global economic challenge.

As the President and Vice-President made clear throughout the historic national debates on the Budget and NAFTA, the winds of economic change are upon us. We must set our course to make this change a helping tailwind rather than a hindering headwind for sustained growth in the national economy: we will compete -- and win -- in the global economy.

## **II. Investing Effectively in All Americans: We don't have a person to waste!**

In shifting the federal budget priorities from consumption to investment, the highest priority is putting people first -- investing in improving the skills, productivity and competitiveness of all of our people and making work pay for all Americans. As the President often remarks, we don't have a person to waste if we want to compete and win in the expanding opportunities and increasing challenges of the new, global economy.

The Clinton-Gore Administration's comprehensive strategy to invest in people includes:

- **Support for Families and Children:** Increased support for WIC, Immunization, Family Preservation and Headstart, Welfare-to-work and Child Support Enforcement, and Health Care Reform will assure that all children have the nurture and support of families essential to healthy development and readiness to learn.
- **Learning and Information for the New Economy:** Goals 2000 and the National Information Highway will provide both a new direction and the means to increase the productivity of learning in schools, homes, and businesses and to establish new world class standards for learning for all Americans in this generation, just as the National Highway Act and the G.I. Bill provided the foundation for increasing opportunity for all Americans in the generation following World War II.
- **A Comprehensive Reemployment System:** To provide all Americans with worldclass skills and the transitional assistance to keep up with the rapid changes in the new, global economy, we must combine lifelong learning with a comprehensive reemployment system. Temporary NAFTA Assistance, a Comprehensive Dislocated Workers Program, One-Stop Shop for Employment Assistance, Profiling for Unemployed Workers, Income-Contingent Education and Training Loans and Excel Accounts, an expanded Job Corps and Youthbuild, and a new School-to-Work Initiative will enable all Americans to invest in their own education and training in order to participate fully in sharing in the responsibilities and rewards of sustained economic growth.
- **Investing in Small Business:** Targeted tax incentives and equity financing for small business will spur new investment and business growth in the sector of the economy that will produce the most new jobs and will grow the most new industries to compete successfully in the expanding global economy.
- **Equal Opportunity:** Vigorous anti-discrimination enforcement and expanded support for Moving to Opportunity will assure that all Americans have full access to fair lending, fair employment, fair housing, home ownership, business enterprise and upward mobility.
- **Making Work Pay:** The Earned Income Tax Credit will make work pay for families who work hard and play by the rules. No one who works for forty hours a week will find their family falling below the poverty line.

Together, these investments in people will help all Americans join in the historic crossing to the increasing opportunities, challenges and rewards of the new, global economy.

### **III. Investing Effectively in Distressed Communities: We don't have a community to waste!**

For too long we have ignored the spread of joblessness, despair and poverty in distressed urban and rural communities all across America. We can no longer afford to waste communities in the core of growing urban areas and in the rural heartland if our diverse regional economies are going to compete and win in the new, global economy.

The Clinton-Gore Administration is therefore calling for new investments and innovative partnerships that will empower distressed rural and urban communities to contribute fully to and to participate fully in national economic growth:

- **Access to capital, credit, and banking services:** Reform of the Community Reinvestment Act will substitute performance for paperwork so that our major financial institutions are rewarded for making sound investments in all communities. At the same time, the CDFI bill and tax incentives for CDCs will spur a network of community-based financial institutions to help build the needed savvy and capacity to assure that good credit risks, character loans, and business opportunities in distressed communities have full access to mainstream financial institutions and essential technical assistance.
- **Targeted Small and Minority Business Assistance:** SBA One-Stop Capital Shops, Minority Entrepreneurship and Exports, expanded microenterprise loans, and tax incentives for investments in SSBICs will leverage sound private investments in expanding business opportunities in communities previously ignored by the SBA and private investors.
- **Investment Partnerships with other Financial Institutions and the States:** HUD-NCDI, Pension Fund, Sec. 108 and GSE Community Partnerships and FHA risk-sharing, and expansion of the Low Income Housing Tax Credit will make home ownership, rehabilitation, and safe, decent and affordable housing opportunities available within all communities. The extension and expansion of Tax-Exempt, Small-Issue Bonds will allow the States to work cooperatively with distressed communities in finding private investment to expand businesses and build essential infrastructure.
- **Public Safety:** The Crime and Drug Prevention, Community Policing, Brady, and Drug-Free Schools Bills will provide states, localities, and communities all across the country with matching federal resources and new tools to assure the basic safety and security of person and property essential for raising families, teaching and learning, and building business and communities.
- **World Class Schools:** The Chapter I Reauthorization will assure that schools in poor communities have the resources targeted to meet the Goals 2000 so that all students have the opportunity and responsibility to meet and establish new world class standards.
- **Rural Development and Investment Initiatives:** These major new investments will assure that distressed rural communities and Indian Country will be able to provide the clean water and other infrastructure necessary to compete effectively for viable niches of production, commerce, and service in the new global economy.

#### **IV. A New Compact for Empowering Distressed Communities to join the Economic Mainstream: We are all in this together!**

Finally, the Clinton-Gore team is challenging all Americans to join in common cause to help distressed communities in their own local region join the economic mainstream. This is not only a matter of simple justice in helping our fellow Americans who are down to lift themselves up; it is also an economic imperative to make sure that our vital regional economies are not eroded from the inside-out by an expanding core of joblessness and despair. All across America there are inspiring examples of communities coming together to take back their neighborhoods and to partner creatively with the private sector to promote economic development and community revitalization. In the coming year the President and the Vice-President will issue four, related challenges to empower all communities to come together and succeed:

- **The Community Enterprise Board**, chaired by the Vice-President and made up of 15 federal agencies, will reward local communities that come together with the private sector, localities and the states to reinvent the way that services and business are done in distressed communities. Bottom-up initiative, customer responsiveness, performance goals, cost effectiveness, and successful outcomes will drive the Board, both in providing relief from overly complex and narrow categorical mandates and assuring interagency responsiveness and cooperation.
- **The national competition for Empowerment Zones and Enterprise Communities** will enable distressed communities all across the country to form new partnerships with States, localities and the private sector to build off of their current assets to implement their own strategic visions for change. Designated zones and communities will receive a package of tax incentives and public and private investments to promote economic development. We will also challenge the private sector in local regions all across the country to invest in business and job expansion within these communities and to link workers in these communities to jobs throughout their region. Making work available for all who are willing to work will provide a firm foundation to build families, communities, and upward mobility for all Americans.
- **The Community Policing and Safe Schools Initiative** will provide an opportunity for communities all across the country to make their streets, business, homes, families, neighbors and schools safe and secure from the scourge of crime, violence and drugs that are the biggest threat to our current civilization and future competitiveness.
- **National Service** is more than an important symbol of our willingness to come together as a people to serve the common good: it will provide a whole new generation of young Americans with the opportunity to learn in order to better their own futures in exchange for meeting the challenge of helping communities and people in need to better themselves.

Each of these four national challenges shares a common vision -- coming together in bold, new ventures to help those who want to help themselves. Each offers the opportunity for us to work, together, for a better future for all Americans. Instead of battling against one another in a zero sum game or ignoring the increasingly interwoven economic destiny of all communities within each local region, these initiatives point a new direction, a new compact where mutual self-interest and the common good can empower all communities to contribute to greater security and prosperity for all Americans.

BR/65/SM

File:

Community  
Empowerment

THE WHITE HOUSE

WASHINGTON

December 5, 1993

MEMORANDUM FOR THE VICE-PRESIDENT

FROM: PAUL DIMOND

SUBJECT: COMPLEXITY AND COMMUNITY EMPOWERMENT

I. **The Complexity Analogy.** In working with Bob Lehrman over the weekend, he told me about your analogy of community empowerment to Ilya Prigogine's theory of complexity for understanding systems, cycles and flows:

- Distressed communities can be seen as in a state of chaos where the system has broken down or the cycle is in a vicious downward spiral.
- At the same time, these communities also have the potential to achieve a different stage, one of higher complexity with self-generating innovation and energy for revitalization.

If you are interested in exploring such analogies further, I attach my copy of the book, Complexity, for your review. The book narrates in a variety of contexts -- biology and evolution, economics and firm organization, urban population dynamics, physics and chemistry, game theory and computer simulations -- how this new science of complexity may offer additional insights.

**II. Possible Insight #1: Small Changes can generate Big Leaps**

One insight that I find most intriguing from the book is that a relatively small change can sometimes operate as a powerful lever to assist a big jump from a relatively steady stage (equilibrium) or from a chaotic stage (the broken system or downward cycle) to the greater innovation, energy, and higher order of the complexity stage. If we can understand the underlying dynamics of the system, then we may be able to stimulate major changes without having to attack all of the underlying causes of the chaos at once or just being stuck with alleviating the most harmful effects or obvious symptoms.

If this possible insight also makes some sense to you, then we might think of the federal role in community empowerment as follows:

- we invest in helping innovative local communities find such key levers and, then,
- we make sure that our base of federal resources, programs, and mandates for

investing in people and places are flexible enough to nurture, and to get out of the way, when the higher energy reorganization begins to supersede the state of chaos and to reverse the downward spiral in the distressed community.

The rub, of course, is figuring out what are the key levers of change in addition to innovation from the local community. Your magic feather analogy suggests that the process of applying for an empowerment zone or enterprise community will provide the opportunity for many innovative communities to find their own levers for change, e.g., building off of particular clusters of existing assets or filling open niches in the regional economy. Our selection criteria will, of course, focus communities on work and jobs: building business and jobs for residents within the zones **and** linking zone residents to jobs and work in the labor market throughout the local region.

**II. Possible Insight #2: Consider the whole system.** A second possible insight from the book is to make sure to look at the whole system, not just at one part of what is happening. For me, that means looking at the larger metropolitan context to understand the dynamics of the chaos and downward cycle of distressed communities in the inner city.

✓ After all, as you, Bob Rubin and David Gergen have all noted, the greatest threat to our national security and economic competitiveness is not any military challenge or competition from abroad: it is the erosion of entire metropolitan economies from within if the downward spiral in inner-city cores is not turned around.

I attach my initial draft analysis of the flows of people, capital, and goods within, to and from different parts of metropolitan areas. This analysis focusses on the dynamics of this larger metropolitan system, the possible fulcrum points to apply levers of change, and how our policy proposals may fit this understanding. At a minimum, such analysis will make us think harder, and hopefully smarter, before we make a major commitment to any particular massive, federal program aimed at revitalizing distressed communities in our free society: freedom of movement is a constitutional right, and one of the basic conditions in understanding the underlying dynamics is that people do vote with their feet.

**IV. Next Steps.** If you think the analogies and insights from complexity are worth exploring further in the context of community empowerment and urban policy, we could convene a small group from within the Administration and outside to discuss possible understandings of the systems, cycles, and levers of change at issue. Let me know whether you would like to convene such a group, or whether further analysis now would just get in the way of the politician's duty, as you put it, to get on with grappling with solutions.

cc Bob Rubin, Gene Sperling, Sheryll Cashin  
Jack Quinn, Bob Lehrman, Kumiki Gibson

BR/GS/SM

THE WHITE HOUSE  
WASHINGTON

December 9, 1993

File:

Commit

Statement

MEMORANDUM FOR BOB RUBIN

FROM: BONNIE DEANE, NEC *BD*  
BILL DICKENS, CEA *BD*  
PAUL DIMOND, NEC *PD*

SUBJECT: JOBS FOR YOUNG BLACK MEN

This memorandum concerning jobs for young, black men is a follow-up on our discussion with Bruce Reed, Joe Stiglitz, Bill Dickens, Gene Sperling, Paul Dimond, and Sheryll Cashin. It outlines (i) the special problems faced by this group; (ii) the range of possible solutions; (iii) and an action plan for the Administration. In the attachments, I have included more detailed information on population estimates and the design and effectiveness of specific programs such as America Works and Youthbuild.

**You have agreed that we should raise this issue again in January in the context of reassessing our overall urban policy strategy.**

I. Special problems faced by young black males in the labor market.

Usually, it isn't just a lack of jobs. In the President's Memphis speech and at the recent Carnegie Conference on Urban Issues, the problem is discussed in terms of a "lack of jobs." This conveys the idea that if only we could stimulate the economy in these distressed areas, we could reduce the non-employment rates among young black men from today's 42% level (and higher in certain communities). Yet, we know that:

High rates of unemployment often exist in high-poverty areas across the street from thriving business centers and residential communities with very low rates of unemployment (Ellwood 1983). Jobs are within a reasonable distance for neighboring communities, but seem light years away from the "distressed community."

Jobs exist in the community--in grocery stores, in fast food shops, in clothing stores--which few of the indigenous residents will be offered.

Katz and Cutler (1992) have documented the extent to which booming growth in the 1980s did not benefit the poorest families.

The primary problem is not a "lack of jobs," it is a lack of employment opportunity. Distinguishing between "a jobs shortage" and "an opportunity" is crucial to formulating an appropriate response. During the depression, jobs were created to help people temporarily knowing that they would return to work in the private sector as the economy recovered. The employment problem in the inner cities, however, is of a different nature:

**It's networks, not geography that limits access to jobs.** Most of us do not get our jobs because we live next door to the company. We get our jobs through connections. Studies of how people find work consistently conclude that the most common method for finding good jobs is a referral from friends or relatives who know of job openings and can vouch for our trustworthiness to the person making the hiring decision.

A major problem for the urban poor is the lack of access to these networks for finding jobs. To provide such referrals, friends and relatives must themselves be employed and be a credible reference. The concentration of unemployment in poor neighborhoods or housing projects makes it difficult for the urban poor to make use of this highly productive method of job search. Instead, they must rely on formal methods of job search such as want ads and state employment development offices. The over-representation of the least advantaged among the population using these methods drives employers offering good jobs away from them. This intensifies the job-finding problem not only for young, black males, but also for women, adults, and people of all races who live in high poverty areas.

**Lack of work etiquette and other basic skills limits employability.** In addition to the basic networks problem, young black males in the inner city tend to lack a basic understanding of how to act in the workplace as well as literacy and other marketable skills. Bill Wilson recently spoke in Washington about the reluctance of white and black employers to hire young, black men who were perceived as likely to act up or cause trouble. Many of these youngsters have difficulty adjusting to the workplace because they received little parental discipline from teen mothers or absent fathers and received little education from their troubled schools. Those young, black men who do have the right skills also suffer from this stereotype.

**Increasing discrimination against all blacks reduces the incentive to try.** The black/white earnings gaps were narrowed substantially by 1975 for all groups except non-college educated men. This progress was completely reversed in the 1980s: the black/white earnings gap increased 50%. The black/white gap for earnings of college graduates jumped the most: from 2.5% to 15.5%. The motivation for young, black men to try hard can be sapped by seeing employed friends and relatives with increasingly unfair pay and job prospects despite their "work etiquette" and "education qualifications." The unwillingness of Republican governments to enforce the discrimination laws has also contributed to the growing underclass by reducing the real share of economic growth accessible to all blacks. When the door of opportunity is being slammed, is it not sensible for kids to lose motivation and turn to crime?

A strategy to promote jobs for this disadvantaged group should try to mitigate these three barriers and help them access the millions of job openings in our economy every year.

## II. How can we increase opportunity among young black men?

In this section, we will outline a spectrum of solutions and evaluate the ability of these solutions to address the three problems outline above.

What does NOT work for young black men: The Targeted Jobs Tax Credit (TJTC) and the Works Progress Administration (WPA) represent two ends of the spectrum from pure market solutions to pure government solutions.

**TJTC:** The TJTC is an elegant, purely market-based solution that is not effective for helping young, black men. It provides a tax credit to employers who hire certain categories of disadvantaged people. It is supposed to work by compensating employers for the higher supervisory costs or the lower productivity levels of disadvantaged workers. In fact, the TJTC requires so much paperwork that many employers do not collect their credits. Those who do collect the credits tend to hire whomever they wish and then use a consultant to do the paperwork. Few employers would actually decide that an employee looks more attractive because of the tax credit. In a study using random assignments, disadvantaged people found employment more easily when they did not tell employers about the tax credit. Thus, the tax credit alone actually worsens the possibility of a person finding a job because it stigmatizes the individual as "damaged goods."

**WPA:** In contrast, the WPA is a purely government solution to the problem. The government finds a project worth doing and supplies all the equipment, supervision and wages necessary to hire the people directly. The WPA would probably be more far more effective than the TJTC for ensuring that certain groups of people will get jobs. However, WPA programs have several drawbacks with respect to serving young, black men. The drawbacks of both TJTC programs and WPA programs for serving young black men are spelled out below.

### Why don't these traditional approaches work for young, black men?

TJTC and WPA programs do not necessarily enhance networks. Starting a government jobs program which keeps people in high poverty areas and further reduces their interaction with people who have private sector jobs would tend to exacerbate the networks problem. Stimulating the economy through tax breaks could create more jobs that young, black men will not hear about.

**TJTC and WPA may not address skill deficiencies.** The TJTC encourages employers to hire disadvantaged people who are not perceived to have these problems; hence they avoid young black men. A government jobs program could actually exacerbate the work habits and skills problem. To the extent that young black men are hired without training them to deal with discipline and to read and write, their employment deficiencies are legitimized and perpetuated. If the jobs program is meant to take on this skills deficit, it will require much larger expenditures on supervision and training than the typical jobs program. In the second section of this paper, we will cover programs like Job Corps and America Works which provide the extra overhead for building work etiquette and basic skills.

**The TJTC or a WPA program would not necessarily help reduce discrimination either.** Without better access to private sector jobs, fair pay, and promotions, why would kids strive to excel in their government jobs? The problem would be worsened if a government job as a reference is stigmatizing. In addition, special treatment for the disadvantaged could fuel resentment and increase unwillingness to hire blacks. Segregating blacks into a special job program in lieu of connecting them to the real jobs is a disservice. Hiring youth from families of all races and income levels would be expensive.

**Another significant problem with the WPA approach is the cost.** A very low cost program providing minimum wage jobs with low overhead would cost about \$10,000 per job. A better program could easily double the cost per person in order to provide building materials, training, and expert supervision. If such a program was targeted on black men between 18 and 24 living below the poverty level, 395,000 people would have been eligible in 1991. Between \$4 and 8 billion dollars per year would be required to hire all of them into minimum wage jobs, depending on the quality of the program. If young Hispanic men were also eligible, the potential cost would double. For all young men in poverty regardless of race, the potential cost would range between \$16 and 32 billion per year. If young women in poverty were also eligible (and how could you justify excluding them?) the cost for employing all below-poverty men and women between 18 and 24 would be between \$40 and 80 billion per year.

Which government programs work for young, black men?

**Residential Job Corps:** The only program which has demonstrable results for young black men is the Jobs Corps. For about nine months, this program provides a residential setting, round the clock supervision, and skills training as well as a job. Seventy-six centers teach mostly service occupations (health and administrative) in locations operated by major private corporations or non-profits. Thirty centers teach construction and heavy equipment operation in Civilian Conservation Corps camps operated by the Interior or Agriculture Department. A 1982 report from Mathematica Policy Research found that Corps graduates earned 15% more and worked 3 more weeks per year than comparable non-Corps youth. The CCC camps cost more to run, but more graduates get jobs at higher wages than those who are trained for service occupations (GAO, 1986). Overall, the Job Corps program pays for itself within three years and ultimately returns 146% of the investment in terms of reduced incarceration, reduced welfare costs, and improvements such as public parks.

The program serves about 60,000 people annually at 106 centers in slots costing about \$20,000 per person--double the cost of a low budget, WPA-style, minimum wage job. This would put the costs for full funding at or above the high-end range cited in the above paragraph on WPA costs. The Clinton Administration is increasing the funding for this program from \$800 million in 1990 and 1991 to X over the next four years. Nine new centers will be built next year.

This program is focused mostly on the lack of skills and work etiquette. To some extent, Job Corps may also assist with networks since it takes young men out of their community and introduces them to professionals in their area of specialty.

**YouthBuild:** Another innovative way of helping young men (and some women) has been promoted through YouthBuild. This program will receive federal funding for the first time this year. An evaluation by a Harvard and MIT research team is currently underway. It has many of the critical success factors in Job Corps.

These programs have provided 12 to 18 months of training to over 1,000 people in construction trades while they rehabilitate abandoned buildings in the inner-city or build new low income housing in rural areas. They spend half of the program time in academic classes for basic skills and a high school diploma. If possible, they are involved in a union apprenticeship program during or after their experience in YouthBuild and often earn \$6 to 8 per hour after leaving the program. While the program is not residential, programs include counselling, support groups, and recreational activities. Heavy emphasis is placed on learning responsibility and leadership skills through decisionmaking opportunities in the program. This program will provide a good test of whether the best results of Job Corps can be obtained for many young men without the cost of residential settings.

"Mixed Modes" may be more cost-effective, but have not been successfully implemented for young, black men.

Mixing market incentives and government programs may be the most cost-effective way to mitigate employment problems for young, black men. What these approaches have in common is that they move people quickly into the mainstream labor market and provide only the support services necessary to overcome networks, skills and discrimination problems. These programs do not try to create new jobs so much as to help the disadvantaged populations get and keep existing jobs.

**America Works and other supported work programs** have been very successful at placing welfare mothers into permanent, higher paying jobs and reducing welfare receipt. At America Works, half of the operating budget is spent on building networks with local employers and developing job opportunities. The job developers find good jobs paying \$15,000 on average and provide references for candidates with the right skills. The program also provides extra supervision to augment the private sector employer's normal level. This approach--which differs greatly from the model of human investment before work--has not been systematically tried with young, black men.

**On-the-Job Training under JTPA** has been moderately successful with improving the employment prospects for men and women, but not youth. For men and women between 18 and 21, participation in OJT resulted in relative losses of earnings as high as \$2,000 for certain groups of young men (See summary of JTPA evaluation in attachments). In OJT programs people are placed in subsidized, private-sector jobs with the understanding that employers will provide the training and extra supervision. Unlike the America Works program, no assumption is made that the worker is "auditioning" for a permanent job.

Neither supported work or OJT has demonstrated success in assisting young men of any race. Supported work programs, however, have a more consistent methodological approach for improving the job networks, building the work etiquette and placing people in permanent jobs. At a minimum, OJT programs should be made more accountable for providing extra counselling and supervision for youth in the OJT program--not just subsidizing employers. Recent Congressional moves to require participating employers to offer permanent jobs to high performers is also more consistent with the America Works approach. Another direction for research on "mixed modes" would be the provision of supervised apartment buildings for a proportion of young OJT participants.

III. An Action Plan for the Administration.

A) Our current programs offer bold experimentation in job programs generally:

**Welfare Reform** – At least \$3.5 billion dollars per year will be available to experiment with mixed modes of job placement, job creation, and work experience. (Once welfare reform is fully phased in.) These jobs however, will be provided primarily for women because they are the main caretakers for children without income. Jobs for non-custodial fathers will be provided on a demonstration basis.

**Empowerment Zones** – Another \$3.5 billion will be offered to communities that have creative ideas and private sector commitments to creating growth and jobs for zone residents. This will not only establish private sector jobs and community service in the zone, but also linkages to vibrant labor markets outside the zone. Although this represents an innovative approach to "jobs programs" it may not benefit young black males if they are the most difficult to employ.

**National Service** – \$1.5 billion over three years will be used to create about 100,000 community service positions and scholarships. The National Service funds will be used to match private or other federal funds in order to create partnerships for serving community needs. It is not clear how much this will benefit young, black men. If the service positions are filled in a way that "looks like America" we would expect less than 5,000 black men of any age to participate over the three years.

**Increased funding for Job Corps and YouthBuild.** Job Corp funding may rise by by about \$250 million in the 95 budget. HUD has expanded Youthbuild rapidly from ~~no federal funding in 1992 to \$48 million in 1994.~~

**Boot Camps for young offenders.** The crime bill allocates over \$2 billion dollars to create boot camps. To the extent that these contain a strong educational component, they could contribute to building marketable skills.

Aside from Job Corps and YouthBuild, our current jobs agenda may not provide extensive assistance to young, black men. These programs may, however, increase the employment levels in the communities where many young, black men grow up. This could assist them by tightening labor markets, providing role models for work, and providing a routine and structure to life in the community which revolves around work.

B) New ideas to promote hiring in distressed communities:

**Add even more money to the YouthBuild program or Jobs Corps (\$50 to 500 million).** HUD is funding the program at \$40 million for 1993 and \$48 million for 1994. If it is as effective for helping young men as Job Corps (which gets over \$800m per year), more money could be added by deducting from JTPA title II-A (which spends \$720 million on ineffective youth training). Job Corps also has the capacity for further expansion. DOL received almost one hundred fully researched proposals for new Job Corps sites, but only nine will be built.

**Expedite our Civil Rights appointments and let the Attorney General get the equal opportunity enforcement underway (No cost).** This will be an investment in the motivation of kids by re-opening the doors of opportunity and expanding the number of their role models. Furthermore, better employment among their relatives and friends will lead to better job networks for black youth.

**Creating New Private Sector Businesses.** An alternative to placing people with existing private sector firms or creating public sector jobs is creating new private sector firms. A model is provided by the Halifax Regional Development Authority (HRDA) in Canada. In an innovative program to get people off public assistance by providing them with work, HRDA set up a quasi-public corporation to take welfare money and invest it in the creation of new businesses which employ people who receive public assistance. Some of the businesses include recycling and a household appliance repair shop. Studies seem to indicate that this was a cost effective way of providing jobs and getting people off welfare. However, the scale of the project is rather small with the agency assisting about a half-dozen businesses with capital and management. Each business employs about 20 people. There is no evidence that the scale of such an effort could be greatly expanded.

**Fix JTPA Title II-A (No cost).** The year-round training program should emphasize OJT more than classroom training and require more counselling and support for youth. The option of requiring some youth to live in supervised dormitories and study part-time should also be considered.

**Convert existing public jobs into community assistance jobs (No cost):** A major change could be accomplished by shifting the role of existing government programs from outside intervention to community empowerment. If cabinet members agreed, each social service program could be required to use neighborhood resources--people, banks, offices, etc--insofar as possible. Welfare, housing, and health services should be required to try to employ those people who use the services and live in the community first. This does not mean that they should lower their standards or discriminate by race. It does mean that they should, to some extent, discriminate by location. People who serve a community should live and work in it when possible.

*Why should we ask private employers to hire disadvantaged workers or zone residents when we are not willing to insist that our own federal managers do so?*

We know it works. Vista (now National Service) has used this stipulation successfully to replace the model of benevolent middle class volunteers with a self-help, community-based strategy. Under the new welfare program, the pregnancy prevention strategy is likely to include an outreach program in which welfare mothers counsel teens to avoid pregnancy. Similarly, a local public housing project has instituted a policy of hiring residents for maintenance work and improved both services to tenants and reduced government costs by increasing tenants' ability to pay rent.

In this way, new funding for urban revitalization would create jobs for disadvantaged residents. New money will be invested in employing daycare workers and casework under welfare reform. Increased Headstart funding will also open up more childcare jobs. In the Empowerment Zones, communities will be encouraged to use social services dollars to expand community service job opportunities for residents. Similarly, HUD is planning some major restructuring of their housing stock in the coming decade that could provide numerous jobs for disadvantaged workers. Health reform will create numerous jobs as home health aides. Without lowering the employment standards in any of these programs, we could require that people look first into the communities that they serve for employees, services, and organizational support.

**Training for government funded jobs (\$500 million in grants to a cross section of federal agencies):** To achieve the goal of hiring people in the community without sacrificing the quality of government services, additional funds for training and supervision could be helpful. We could create a new competitive grant fund for government service agencies that want to train their customers for jobs such as daycare, housing maintenance, community outreach, etc. Whether the funds are for supported work or classroom preparation, successful candidates would receive a permanent job offer in the public sector.

This would build on the idea above, but make extra resources available to accomplish it. Since the number of people hired in a community might be constrained by the number of qualified people, this would expand the effectiveness of the community-based approach. We should be funding training for real jobs in the public sector as well as private sector.

**Create a work/study program (No cost).** Allow states to require federal contractors working in the inner-city to set aside at 5% of their jobs for disadvantaged youth if the state provides subsidies and extra training or counselling on the side. These jobs can be subsidized by the TJTC, national service, JTPA, welfare to work, or other funds. It would put the kids in the mainstream and offer support to stay in the job and move ahead. Andrew Cuomo has expressed interest in supporting states that move in this direction.

Attachment A

AMERICA WORKS!

Description: America Works is a private, for-profit company that places women who have received welfare recipients for an average of five years in private sector jobs paying about \$15,000 and providing full benefits. They offer about 4 weeks of orientation and work habits training in addition to typing and other basic skills. After graduating from the orientation course, the participant goes out on job interviews until a placement is found. For the first six months the welfare recipient works for a paycheck from America Works, while America Works collects the welfare check and the wages from the employer. From the employer's point of view, it is like hiring a temp from an agency. The employer has no responsibility for covering benefits and can call the agency if there are any supervisory problems. At the end of six months, a permanent job is offered if the employee has worked well. The welfare benefits end, the company puts the person on the payroll with full benefits and America Works receives a \$5,000 payment from the welfare agency.

Cost/Benefit: A \$5,000 payment per person for nine months of work and an offer of a permanent job is very cheap compared to \$10,000 or 30,000 for a public job that ends. America Works acknowledges, however, that the TJTC and 6 months of welfare benefits in addition to the \$5,000 bonus makes participation more economically attractive to employers. Even counting the cost of the TJTC and the welfare benefits, placing people in permanent, private sector jobs through America Works is at the same cost as a temporary, government job.

On-the Job Training under JTPA

Description: JTPA's OJT program places participants in subsidized, private sector jobs in which the employers are supposed to provide training and possibly permanent placement. Program design varies considerably since they are operated under the authority of local public-private partnerships know as Private Industry Councils (PICs). Funds from Title II-A of the JTPA can be used for classroom training for youth and adults as well as OJT. Some programs probably provide more supportive services for the OJT participants than others. None of the programs are residential.

Cost/Benefit: Title II-A spends a total of \$1.8 billion annually on services such as OJT, education, and job search assistance for about one million low income adults. OJT slots cost about \$4,000 per person. A national study of JTPA found that the OJT was more beneficial than classroom training for adult men and women. However, for men and women aged 16 to 21, both classroom and OJT programs under title II-A have a negative impact on earnings relative to peers. Poor evaluation design may account for these results with insufficient correction for selection bias problems like

high rates of prison records among JTPA youth. Alternatively, poor program implementation may account for the dismal results. For example, OJT subsidies are used to attract new economic developers and to subsidize jobs for long periods with no measurable value for building skills. Congress has moved to limit the use of subsidies in firms which do not provide a permanent job offer at the end of the training period.

Also attached:

Census numbers of young, black men in 1991.

Summary of National JTPA Study (2 pp.)

Summary of YouthBuild (2 pp.)

**Table 5. Age, Sex, Household Relationship, and Hispanic Origin, by Poverty Status of Persons in 1991**

[Numbers in thousands. Persons, families and unrelated individuals as of March of the following year. For meaning of symbols, see text]

Characteristic	All races			White			Black			Hispanic Origin <sup>1</sup>		
	Total	Below poverty level		Total	Below poverty level		Total	Below poverty level		Total	Below poverty level	
		Number	Percent of total		Number	Percent of total		Number	Percent of total		Number	Percent of total
<b>ALL PERSONS</b>												
<b>Both Sexes</b>												
Total	251 179	35 708	14.2	210 121	29 747	11.3	31 312	10 242	32.7	22 068	6 339	28.7
Under 18 years	65 818	14 241	21.5	52 523	8 648	16.4	10 350	4 755	45.8	7 648	3 004	40.4
18 to 24 years	24 434	4 120	16.9	19 962	2 781	13.9	3 517	1 123	31.9	2 798	771	27.6
25 to 34 years	42 493	5 508	13.1	35 318	4 870	11.0	5 423	1 428	26.3	4 248	1 026	24.1
35 to 44 years	30 571	3 582	9.1	23 486	2 384	7.1	4 452	968	22.1	3 184	636	20.7
45 to 54 years	27 023	2 187	8.0	23 257	1 541	6.6	2 787	544	19.5	1 812	328	18.1
55 to 64 years	10 629	1 019	9.6	9 063	718	7.9	1 195	248	21.3	682	113	17.0
65 to 64 years	10 530	1 120	10.6	9 196	790	8.7	1 011	278	27.5	549	115	20.8
65 years and over	36 580	3 781	12.4	27 297	2 802	10.3	2 808	680	24.2	1 143	237	20.8
65 to 74 years	18 441	1 981	10.8	16 315	1 548	9.5	1 665	547	32.9	732	137	18.6
75 years and over	12 148	1 800	15.0	10 980	1 457	13.3	941	333	35.3	411	100	24.3
<b>Male</b>												
Total	122 418	15 082	12.3	102 907	10 079	9.8	14 731	4 197	28.5	11 051	2 900	26.2
Under 18 years	33 756	7 205	21.3	26 807	4 458	16.6	5 275	2 362	45.2	3 880	1 572	40.5
18 to 24 years	12 083	1 831	15.1	9 807	1 132	11.4	1 664	399	23.9	1 427	331	23.2
25 to 34 years	21 124	2 048	9.7	17 738	1 506	8.5	2 585	432	17.2	2 227	400	18.0
35 to 44 years	18 506	1 483	8.0	16 738	1 061	6.3	2 027	340	16.8	1 584	260	17.8
45 to 54 years	13 114	884	6.8	11 427	869	7.6	1 235	195	15.8	860	142	16.5
55 to 64 years	5 108	387	7.6	4 373	271	6.2	536	87	16.2	324	60	17.8
65 to 64 years	4 828	406	8.4	4 357	293	6.7	439	95	21.6	283	42	18.2
65 years and over	12 800	1 015	7.9	11 431	893	7.8	1 058	271	25.8	486	77	15.4
65 to 74 years	6 298	632	10.0	5 692	407	7.1	739	180	28.1	310	45	13.4
75 years and over	4 533	383	8.5	4 108	288	7.0	319	78	24.6	157	30	19.3
<b>Female</b>												
Total	128 781	20 626	15.9	107 214	13 688	12.7	16 681	6 044	36.5	11 017	3 439	31.2
Under 18 years	32 182	7 188	22.3	25 586	4 392	17.2	5 076	2 382	46.8	3 768	1 531	40.4
18 to 24 years	12 351	2 487	20.1	10 045	1 659	16.5	1 864	728	39.1	1 371	443	32.1
25 to 34 years	21 368	3 319	15.5	17 581	2 366	13.5	2 918	960	33.1	2 022	629	31.0
35 to 44 years	20 085	2 099	10.5	18 757	1 323	7.1	2 435	648	26.6	1 574	375	23.8
45 to 54 years	13 910	1 273	9.2	11 800	872	7.4	1 552	348	22.5	952	186	19.5
55 to 64 years	5 511	632	11.5	4 710	444	9.4	618	159	25.8	327	53	18.2
65 to 64 years	5 823	714	12.7	4 839	520	10.4	572	183	32.0	328	73	22.3
65 years and over	17 790	2 786	15.6	15 888	2 129	13.3	1 549	609	39.3	677	166	24.5
65 to 74 years	10 174	1 329	13.1	8 992	939	10.4	929	355	38.3	422	96	22.7
75 years and over	7 616	1 438	18.9	6 874	1 171	17.0	623	254	40.8	255	70	27.4
<b>PERSONS IN FAMILIES</b>												
<b>Both Sexes</b>												
Total	212 718	27 143	12.8	177 818	17 268	9.7	26 564	8 504	32.0	19 687	5 541	28.2
Under 18 years	64 883	13 706	21.1	51 888	8 363	16.2	10 180	4 839	48.0	7 485	2 986	40.0
18 to 24 years	18 898	2 632	13.9	16 072	1 811	11.3	3 081	919	29.8	2 360	540	23.0
25 to 34 years	33 326	4 219	12.7	27 887	2 821	10.2	4 310	1 206	28.0	3 522	872	24.7
35 to 44 years	33 804	3 896	11.5	28 982	1 788	6.2	3 888	747	19.3	2 740	552	20.1
45 to 54 years	22 851	1 292	5.6	19 825	1 001	5.0	2 136	330	15.4	1 583	255	16.1
55 to 64 years	8 835	641	7.2	7 701	426	5.6	886	171	19.1	540	79	14.2
65 to 64 years	8 800	626	7.1	7 649	448	5.8	652	142	21.8	506	79	15.6
65 years and over	20 341	1 228	6.0	18 212	829	4.5	1 593	348	21.8	891	124	12.9
65 to 74 years	13 440	782	5.8	12 028	584	4.8	1 047	224	21.4	580	79	13.4
75 years and over	6 901	488	7.1	6 184	325	5.3	546	124	22.8	301	45	14.8
<b>Male</b>												
Total	104 431	11 781	11.3	88 091	7 724	8.8	12 240	3 436	28.1	9 654	2 527	26.2
Under 18 years	33 239	6 886	20.7	26 543	4 226	15.9	5 181	2 310	44.7	3 812	1 529	40.1
18 to 24 years	9 781	1 945	19.7	7 947	593	7.5	1 432	300	21.0	1 184	239	20.2
25 to 34 years	15 556	1 383	8.9	13 133	892	6.8	1 809	364	20.1	1 734	324	18.7
35 to 44 years	15 937	1 872	11.7	13 757	713	5.2	1 549	182	12.4	1 296	217	16.8
45 to 54 years	11 037	522	4.7	9 728	400	4.1	887	103	11.5	718	93	13.0
55 to 64 years	4 381	259	5.9	3 781	182	4.8	403	57	14.2	271	40	14.8
65 to 64 years	4 203	272	6.5	3 821	207	5.4	272	48	18.1	237	33	13.7
65 years and over	10 339	580	5.6	9 384	411	4.4	885	115	12.8	404	52	12.9
65 to 74 years	6 828	353	5.1	6 225	258	4.2	494	73	14.8	272	30	11.1
75 years and over	3 452	206	6.0	3 156	153	4.8	202	42	20.7	132	22	18.6
<b>Female</b>												
Total	108 288	15 362	14.2	89 523	8 544	9.5	14 324	5 068	35.4	10 003	3 014	30.1
Under 18 years	31 645	6 818	21.6	25 144	4 137	16.5	5 000	2 322	46.5	3 673	1 456	39.8
18 to 24 years	10 135	1 886	18.7	8 130	1 015	12.5	1 648	619	37.6	1 177	345	29.3
25 to 34 years	17 771	2 658	15.0	14 834	1 829	12.6	2 501	904	36.1	1 788	548	30.6
35 to 44 years	17 867	1 727	9.7	14 935	1 055	7.1	2 137	555	25.9	1 444	335	23.3
45 to 54 years	11 914	670	5.6	10 200	501	4.9	1 239	227	18.3	867	182	18.8
55 to 64 years	4 374	382	8.7	3 920	246	6.3	492	114	23.1	289	39	13.8
65 to 64 years	4 397	354	8.1	3 828	241	6.3	410	83	20.0	299	48	17.2
65 years and over	10 001	688	6.9	8 825	417	4.7	897	233	26.0	487	71	14.7
65 to 74 years	6 552	410	6.3	5 803	246	4.2	553	151	27.2	318	48	15.4
75 years and over	3 449	258	7.5	3 025	172	5.7	344	83	24.0	189	29	13.3
<b>Householder</b>												
Total	87 173	7 712	8.9	57 224	5 022	8.8	7 718	2 342	30.4	5 177	1 372	26.5
Under 18 years	27	23	(B)	25	21	(B)	2	2	(B)	5	5	(B)
18 to 24 years	2 615	914	34.9	2 045	556	27.2	488	326	66.7	386	178	45.6
25 to 34 years	14 379	2 650	18.4	11 802	1 748	14.7	1 984	612	40.9	1 526	511	33.4
35 to 44 years	17 533	1 788	10.2	14 728	1 147	7.8	2 119	531	25.1	1 422	387	26.8
45 to 54 years	12 187	861	7.1	10 511	583	5.6	1 211	226	18.6	832	157	18.8
55 to 64 years	4 733	389	8.2	4 004	245	6.1	558	117	21.0	301	52	17.4
65 to 64 years	4 563	361	7.9	4 082	245	6.0	384	100	26.1	471	41	14.7
65 years and over	11 135	728	6.5	9 949	489	4.9	999	229	22.7	425	83	14.7
65 to 74 years	7 330	461	6.3	6 541	289	4.4	653	148	22.7	291	43	14.7
75 years and over	3 808	277	7.3	3 406	182	5.4	317	81	25.7	133	21	15.9

See footnote at end of table.

## Does JTPA Increase Employment and Earnings and Decrease Welfare Dependence? Is It Cost-Effective?

With disappointing evaluation results, the Clinton Administration plans to hold JTPA spending at current levels until more effective approaches can be developed.

**Background** The Job Training Partnership Act (JTPA) program is the major federally funded training program for economically disadvantaged workers. At a cost of approximately \$1.8 billion annually, JTPA Title II-A programs serve roughly one million low-income participants.

Although the federal government has funded services through JTPA and its predecessor programs for more than 25 years, there have always been questions about impact and effectiveness. Early evaluations that compared the post-program experience of participants with that of a group drawn from national survey data yielded conflicting and inconclusive results. In 1986, the Department of Labor funded the National JTPA Study to obtain reliable estimates of the program's impact by randomly assigning applicants either to the program or to a control group.

### Program Design

The National JTPA Study measured the effects of ongoing JTPA programs in 16 local Service Delivery Areas (SDAs) across the country. Each provided a range of services that included classroom training in occupational skills, on-the-job training in private firms (OJT), job search assistance (JSA), basic education, work experience, and a variety of other less intensive employment and training services. Participants often received multiple services so for the purposes of analysis, they were categorized into three "service strategy" subgroups on the basis of the services for which they were recommended at program entry. These included:

- The *Classroom Training* strategy which was defined to include sample members recommended for classroom occupational skills training but not for OJT, regardless of any other services for which they might have been recommended. Most JTPA enrollees in this subgroup subsequently received either occupational skills training or basic education, or both.
- The *OJT/JSA* strategy which was defined to include sample members recommended for OJT but not for classroom training in occupational skills, regardless of any other services for which they may have been recommended. Most JTPA enrollees in this subgroup subsequently received either OJT or JSA, or both.
- The *Other Services* strategy which was defined to include sample members who were recommended neither for occupational skills training nor for OJT. Most adults in this subgroup received either JSA or one or more of a variety of less intensive services primarily aimed at immediate placement in an unsubsidized job. Most youths in this subgroup received services intended either to remedy deficiencies in their work-related skills or to better define their vocational interests and aptitudes, such as basic education, job-readiness training, vocational exploration, and try-out employment.

# An Introduction to YouthBuild

**T**he YouthBuild movement, growing out of the Youth Action Program in East Harlem in 1988 and already extending to 45 states, is creating a groundswell of programs which are committed to enabling young people to rebuild their communities and take charge of their own lives. The vehicle for this is the YouthBuild program. We are building this movement by doing the following:

- providing technical assistance and extensive training to groups committed to developing YouthBuild programs;
- organizing the YouthBuild Coalition to advocate for funding and to link interested groups with each other;
- developing a national core of youth leaders who can share leadership of the YouthBuild Coalition;
- providing training to adults in the theory and method of youth leadership development as a central part of youth programming.

There are currently more than 200 groups in the United States that want to launch YouthBuild programs. There are 383 groups in 45 states that have joined the Coalition. There are 50 young people from ten states in the leadership core, 19 of whom are on the Steering Committee of the YouthBuild Coalition, along with seven adult leaders of local programs.

## Summary of YouthBuild Program Design

In YouthBuild programs, young people with an interest in rebuilding their communities are trained in construction skills for 12 to 18 months, while they rehabilitate abandoned buildings to provide affordable permanent housing for homeless or very low income people. In rural areas they construct new housing, since there are few abandoned buildings.

We work closely with selected groups possessing a high level of commitment, organizational capacity, and philosophical agreement.

Students attend academic classes for half of the program time, mastering basic skills and preparing for their high school equivalency diploma. Also built into the program are individual counseling, peer support groups, driver's license training, recreation, and cultural activities.

Major emphasis is placed on providing opportunities for young people to develop as leaders through decision-making that affects the program and its policies, through involvement in community life, and through leadership training.

At the end of the program, graduates usually obtain unsubsidized jobs in the construction industry where they earn from \$6.00 to \$18.00 an hour. Follow-up counseling and support groups are available. Every effort is made during the program and afterwards to include trainees in pre-apprenticeship programs so that they may gain entry into the construction-related unions.

The program is comprehensive. It works extremely well for young men who have dropped out of school, since it gives them a chance to play a profoundly useful and respected role in their community, building the most essential commodity needed by their families and neighbors: affordable housing. This restores them to the traditional role filled by young men in healthy communities. The program also works well for young women interested in nontraditional careers.

*(continues)*

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### **Origins and Background of the Program**

The YouthBuild program was pioneered by the Youth Action Program of the East Harlem Block Schools between 1978 and 1984. In 1984, responding to an upsurge of community support for YouthBuild, the New York City Department of Employment replicated it by funding two additional agencies. One of these, the Banana Kelly Community Improvement Association in the South Bronx, joined the Youth Action Program in providing assistance to other groups through the national YouthBuild Coalition.

In addition, Public/Private Ventures, a national research and demonstration agency, has proven a variation of the model workable in more than a dozen cities under the name "Ventures in Community Improvement" (VICI).

### **The Replication Process**

We are providing general information, including a comprehensive implementation manual, to all interested groups, and inviting all to periodic three-day training seminars. We work closely with selected groups possessing a high level of commitment, organizational capacity, and philosophical agreement.

There are now 15 YouthBuild programs of various sizes operating in Atlantic City, Boston, Cleveland, Decatur (Georgia), Gadsden County (Florida), Gary, Indianapolis, Los Angeles, Milwaukee, New York City, Philadelphia, Pittsburgh, St. Louis, San Francisco, and Tallahassee.

In the current period, replication is dependent on private funds and locally-raised public funds.

### **The YouthBuild Legislation**

The YouthBuild Act (H.R. 501), authorizing \$200 million for YouthBuild programs administered through HUD, was introduced in the House

of Representatives by Congressman Major Owens of Brooklyn in 1990. Senator John Kerry of Massachusetts introduced it in the Senate as S. 1100 in 1991.

After two years of energetic advocacy, the bill was passed into law as "Subtitle D—Hope for Youth: Youthbuild," in the Housing and Community Development Act of 1992. Congress directed HUD to spend a minimum of \$17.5 million and a maximum of \$40 million on YouthBuild programs in 1993. HUD decided to commit the full \$40 million for 1993, and requested \$48 million for 1994. These funds will be administered by the United States Department of Housing and Urban Development, through a competitive process.

### **YouthBuild USA**

The YouthBuild effort has generated real momentum. As a result, YouthBuild USA incorporated in 1990 as a separate national organization to carry out the YouthBuild replication process, to provide training in youth leadership development for interested youth-involving organizations, and to ensure that the YouthBuild Coalition has an impact on national policy affecting young people.

### **For More Information**

Contact us at:  
YouthBuild USA  
58 Day Street, P.O. Box 440322  
Somerville, MA 02144  
(617) 623-9900  
Fax: 623-4331

(BR)GS/SM

File:

Commodity

Improvement

THE WHITE HOUSE  
WASHINGTON

DATE: 01/03/94

CAROL RASCO  
ROBERT RUBIN  
GEORGE STEPHANOPOULOS  
GENE SPERLING

**NOTE FOR:**

The President has reviewed the attached, and it is forwarded to you  
for your:

Information

Action

Thank you.

**JOHN D. PODESTA**  
Assistant to the President  
and Staff Secretary  
(x2702)

cc:



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
THE SECRETARY  
WASHINGTON, D.C. 20410

THE PRESIDENT HAS SEEN  
1-3-94 B.

This is very very good.

TO: President Bill Clinton  
FROM: Secretary Henry G. Cisneros  
DATE: November 24, 1993

Mr. President, I have two subjects to draw to your attention:

1. Our nation's cities and communities are in deeper trouble than I imagined when you nominated me to be Secretary of HUD a little less than a year ago. The crime that is so widely reported is but one manifestation of our nation's pain. I join all who have applauded the speech you delivered in Memphis last week, at once heartfelt and Presidential. I also know that while you are correct that there is much that we as Americans must do in the realm of civic engagement and moral renewal, that our people need help from their government. There will come a moment when people will say: "Yes, Mr. President, we hear you, but we need your help. We need you to do something". Already the critics say we have no beef behind our good intentions on matters of urban investment and race.

Mr. President, those critics are wrong. You have in place the threads of programs which can be woven together into a coherent fabric of urban policy. They require careful interweaving to make a whole, but what you have already put in place makes a formidable list:

Earned Income Tax Credit--will lift 20 million of the working poor out of poverty.

Permanent Extension of Mortgage Revenue Bonds--will support affordable homeownership for 130,000 first-time homebuyers per year.

Permanent Extension of Low Income Housing Tax Credits--will generate financing for 135,000 new units of affordable housing per year.

Full funding of Head Start--will expand education opportunities for 1.4 million low-income children.

Expanded Childhood Immunization--will double the rate of immunization, for 3.6 million at-risk children per year.

National Service--will create 100,000 new community service workers in the next 3 three years.

Empowerment Zones and Enterprise Communities--will provide economic empowerment for 6 million people in 104 low-income communities and create 140,000 jobs per year.

Strengthening the Community Reinvestment Act--will increase community lending by up to \$5 billion per year.

Anti-Crime Legislation--will put 100,000 more police on community streets.

Equally important are your initiatives in process:

Community Development Banks--will generate \$2 billion in community investment and create up to 80,000 new jobs.

Welfare Reform--will move half a million adults from welfare to work.

Health Care Reform--will provide basic coverage for 37 million uninsured people.

Worker Training--will assist or retrain 1.6 million workers per year.

I believe the time has come to pull these efforts together and explain how they support each other and work together. Through a series of Presidential actions you could articulate the themes that tie these programs together into a meaningful whole. Such an effort would answer the critique that we have no urban commitment and are unwilling to speak to the program needs of the urban poor beyond focusing on self-help ideas. I believe you can do this - stressing those programs that broadly touch all Americans (i.e., health care) - in a way that does not alienate suburban voters. I do believe it is important that you speak to your urban base and describe what you are doing for poor and working people. After the President has spoken it will also allow those of us in the departments to appropriately present the Administration's urban strategy when we are called upon to do so. You are already doing a lot; it is time to pull it all together. People know you were right in Memphis, just not finished.

2. My second point relates to themes that strike a rhetorical middle ground between your Memphis points and old-style urban advocacy. You see, I don't believe you will be able to speak for much longer about what people must do for themselves concerning family disintegration and couch the issues in the rubric of concerns about crime. Nor can you revert to the sixties language of big scale urban strategies; there isn't enough money, no one believes they would work, and the congressional will is non-existent. But I believe you will have to find a way to speak of urban problems because they are so

acute.

We at HUD have been working on two themes which give coherence to our work and which may be useful to you:

A. The first is our answer to Jack Kemp's much touted resident ownership program. We will arm you with a homeownership record that will dwarf what Kemp could have done with his approach. We are calling it "Project Transitions". The idea is that we can help people step up a ladder of assistance and climb toward self-sufficiency. It implies policies which are dynamic, providing movement upward to something better, instead of static services. This is easy enough to visualize, but hard to carry out because so much is actually related to "reinventing government". It is making diverse government agencies and functions come together so that we help people climb from one step to the next, reinterpreting government's role so that we see our responsibilities as preparing people for a next stage.

At HUD, Project Transitions will take many forms. It will mean helping residents in public housing move from welfare dependence to gainful employment. In many cases, we have the jobs -- generated by public housing rehabilitation, lead-based paint abatement and other federally-funded activities. In fact, we are required by law to use federal housing assistance to create jobs for low-income residents. What we need is training, education, child care services, union involvement; supports that other agencies -- DOL, HHS, DOE -- can and should provide.

Project Transitions will also mean helping working families -- in public housing and elsewhere -- move from renter status to homeownership. In many areas, we have single family homes available for sale -- from FHA's inventory of defaulted homes. What all working families need is homeownership counseling -- to prepare them for the burdens of owning. We're seeking a tripling of funding for our counseling programs. In some cases, they may need mortgage subsidies. That's why we're experimenting with using rental vouchers for homeownership; many low-income families already receive federal support for rent -- why not take the logical next step and use it for mortgage payments.

We believe this will be our answer to the previous Administration's version of ownership, which was to sell large public housing developments to the tenants. That idea was flawed in that it did not address massive deferred maintenance and was not accurate about the amount of subsidy needed for residents without jobs. We expect we can transition tens of thousands more families to stable homeownership than ever imagined. This has never been done using public housing as the base. It can be a major success as a strategy that you will be able to point to over the next several years.

To apply this concept of "transition" more broadly requires the spirit of reinvention. It requires a driving force such as I believe the Community Enterprise Board will be with the Vice President as the chair. As I have worked on HUD's version of Project Transition, I have found that it has immediate appeal among such diverse experts as the staffs of Senate committees, national housing providers, and mayors. I submit it to you as one of those themes that can help you pull your human programs together, can give context to your "reinventing" efforts, and can infuse an upward momentum into your community-building message.

B. Another theme has helped us bridge the perennial dilemma at HUD as to whether we should concentrate our efforts on revitalizing poor neighborhoods or providing mobility for people to get out. It is a classic argument that pervades every discussion about urban policy. Our answer is that we must assist every American to achieve real choices about where they wish to live. People should be able to choose. If they wish to live in a central city area, that should be a choice; but living amidst drug dealing, violence and deterioration is no way to live: it is no choice. On the other hand, if people can afford to live in suburban settings, but are prevented by discriminatory housing practices or unfair mortgage lending then they have no choice. The operative conclusion for HUD, then, is that we must work on parallel tracks - central city neighborhood revitalization and mobility and fair housing. Our job is to help people achieve maximum choice.

You may find the idea of "choice" a useful rhetorical construct for a whole series of policies that have diminishing acceptance with the general public: civil rights, fair housing, equal employment opportunity, and urban policies. To the general public the idea of choice suggests we are willing to level the playing field, but it is still up to individuals to choose what they want to make of opportunities. To many minorities, achieving a position in society where real choices are possible is a far cry from today's experience. Choice implies fairness, it implies treatment as equals, it implies a world of mature judgements where individuals can chart their destinies, it implies our system works for everyone. It allows you to work on essential policies, though they may have lessened appeal to the general public, by stating them in the basic language of giving Americans a fair choice.

# CLINTON NURTURES HIGH HOPES . . .

**B**efore a roomful of black educators who'd gathered to watch him sign an executive order on Nov. 1 to benefit historically black colleges, President Clinton came to the end of his prepared remarks, took a deep breath and started to describe "a very disturbing article" he'd read that morning in *The Washington Post*. It was about the impact of crime on children in an especially grim neighborhood of the nation's capital. Most moving to Clinton was the description of an 11-year-old girl who was planning her own funeral.

He hasn't stopped talking about her since—on NBC News's *Meet the Press*, at a White House news conference, at the Memphis church where the Rev. Martin Luther King Jr. had foreshadowed his own death the night before he was killed. And he shows no signs of stopping. Clinton, as well as his wife, a White House official said, has sent word to the staff that crime "is an issue [that he plans to] spend a lot of time on in the near future," at a succession of public events in the wake of the tumult over the North American Free Trade Agreement.

But it's clear that Clinton has more in mind than crime. His trail of talk about crime, a senior aide said, is "a sort of a cultural attack on the kind of violence and dissolution of society that comes in advance of trying to fix" the underlying problems of poverty. By using crime as the springboard for an effort to reverse the social decay, Clinton might avoid some of the political pain that Democrats have suffered in earlier, sporadic attempts. At his Nov. 10 news conference, he seized on an innocuous question about his plans to combat crime to deliver a heartfelt plea about the larger problems.

"We have to rebuild families and communities in this country," he said. "We've got to take more responsibility for these little kids before they grow up and start shooting each other. I know the budget is tight, . . . but I'm telling you, we have to deal with family, community [and] education" and to find jobs for members of society's underclass to bring structure to their lives.

"We have to make our people whole again," he declared four days later in Memphis.

Not only in his rhetoric but also in the array of policy initiatives that his Administration has in mind, Clinton has shown signs of the ambitiousness about righting

social wrongs that President Johnson showed. "In the next 40 years, we must rebuild the entire urban United States," Johnson said in unveiling the Great Society in a 1964 commencement address at the University of Michigan.

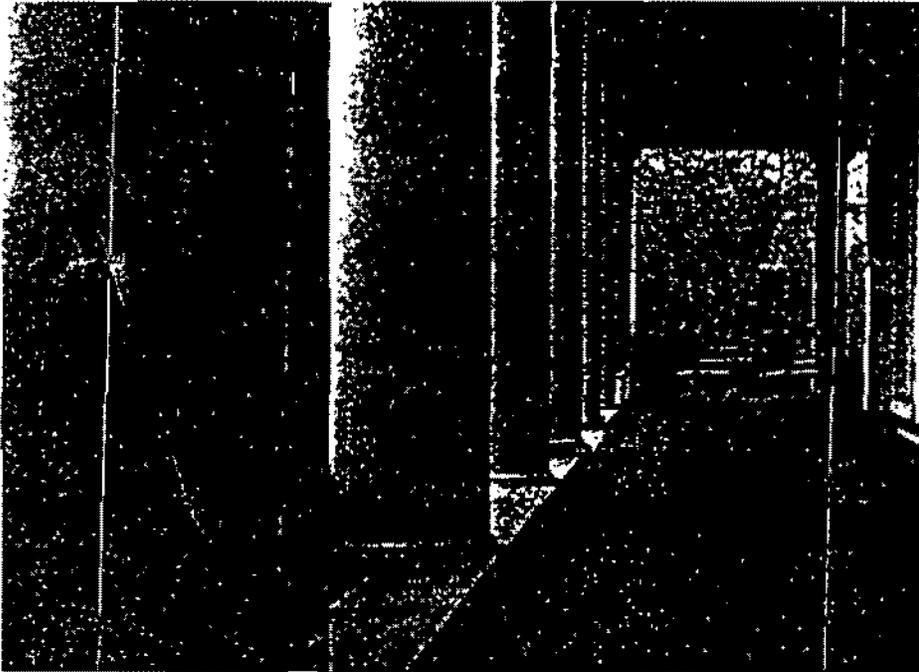
Clinton and his advisers seem to be thinking on a similar scale. "The Achilles' heel of the American future," Housing and Urban Development (HUD) Secretary Henry G. Cisneros warned in an interview, is "an angry, growing, rigid underclass" that, if left to languish, will jeopardize the nation's standard of living beyond the first quarter of the next century. "I don't think it is our ambition to end poverty with federal initiatives," Cisneros said, but "I think the President believes he can make a dramatic dent in poverty, in homelessness, in crime and the other pathologies" by the end of a second term in office if the economy thrives and if Washington works in tandem with state and local governments, businesses, labor unions, churches and other institutions.

Clinton matches Johnson's passion about addressing society's ills, "but he and the people around him don't have the same level of confidence that we know all the answers," William A. Galston, a deputy White House domestic policy adviser, said. So far, they're feeling their way, toward an ideological amalgam of the Left and Right that views the gov-

ernment as something of a catalyst. But if the theology has remained fuzzy, some of the themes are becoming clear. Clinton's advisers profess a disdain for the big bureaucracies that the Great Society used and a preference instead for solutions designed locale by locale. They speak of "leveraging" federal dollars and "empowering" communities to solve their problems themselves.

Their approach is similar to the notion of "empowerment" that a network of conservatives in the Bush Administration pushed as a response to social needs. But there's a big difference. President Bush's domestic activists got quashed in the Administration's inner councils. Clinton's are getting somewhere.

Clinton hasn't packaged his policies into a flashy whole and may have no intention of doing so. But his Administration has been moving on a lot of fronts. Some of his proposals are already in place. The budget bill enacted in August created nine "empowerment zones" and 95 "enterprise communities" to be eligible for \$3.5 billion in federal help; it also expanded the earned-income tax credit, which Galston described as "a giant step toward the abolition of the working poor in this country." At HUD, \$100 million was added to the budget to try new ways for cities to thwart homelessness, \$113 million more to move poor families into



# ... FOR RIGHTING SOCIETY'S WRONGS

better neighborhoods as well as smaller amounts that foundations and labor union pension funds may parlay into \$200 million spent in poor communities.

In September, Clinton set up a Cabinet-level Community Enterprise Board, chaired by Vice President Albert Gore Jr., that's supposed to help communities cut through the thicket of rules and to better fit the federal aid they get to local problems. Gore and his staff spent the fall getting counsel from panels of experts on parts of a "community empowerment" agenda, including creative ways to finance business expansion and to spur communities into plotting action. Within six months, Gore's staff hopes to design an application process that, by itself, will prompt local officials to think of new ways to ease society's troubles. "Of course we don't know how to solve" the sorts of problems that cause children to plan their own funerals, Elaine Ciulla Kamarck, a domestic policy adviser to Gore, acknowledged. But, she added, "you do find . . . a program here, a program there" that has shown success and can be emulated elsewhere.

Other Administration proposals are inching through Congress. The crime legislation that's moving toward enactment would subsidize the hiring of as many as 100,000 police officers by local communities that craft shrewd plans for using

them. Also running the congressional gantlet is a bill that would create a string of "community development banks" to lend money in neighborhoods that commercially minded banks ignore. Congress is also considering HUD's wish to fiddle with its rules so that public housing tenants who find jobs don't see their rents rise in lockstep with their incomes.

Other proposals are in the wings. Administration officials have been fashioning a welfare reform plan that is likely to become a political centerpiece for Clinton next year. The Departments of Justice and of Health and Human Services (HHS) are spearheading work on what Clinton recently described as "a comprehensive approach to the whole issue of violence in our society." HHS Secretary Donna E. Shalala, at Clinton's behest, set up an advisory committee that is expected to swiftly uncork proposals to extend the Head Start program beyond 4 and 5-year-olds to enroll younger children. In a recent speech, Carol H. Rasco, Clinton's top domestic policy adviser, committed the Administration to set up a high-level interagency group to ponder the problems of children and families.

Combined with Clinton's hope to extend health insurance to all Americans, "you have much more than an anti-crime agenda," Cisneros said. "It does seek to deal with the larger social questions."

How successfully, however, is far from clear. For one thing, Clinton's agenda is bulging already—notably, with health care reform. Can poverty be made a major thrust, too? "You got me," a White House official replied. "The Administration has many major thrusts."

Nor are Administration officials of a single mind about the course they're on. Some at HHS are said to have fought a waiver the Administration recently granted to Wisconsin to try a reform similar to what Clinton wants—to give welfare recipients two years of far-reaching help before cutting them off. The decision aggrieved the Children's Defense Fund, which Hillary Rodham Clinton and Shalala once chaired and whose founder and president is Marian Wright Edelman, the wife of Shalala adviser Peter Edelman. The waiver was granted because "the President just insisted," an Administration confidant said.

A bigger hindrance to Clinton's social policy ambitions is money. "A lot of these social experiments are not going to be cheap," Will Marshall, the president of the Progressive Policy Institute and a champion of empowerment, said. Community policing costs a bundle, he said, and so does welfare reform, at least in the short run. And the steps that are cheap aren't likely to have as much impact. But with health care reform so costly and the federal debt unrelenting, there's "no fucking money, c'mon," a White House aide said. "Not a prayer."

Instead, Clinton's activists are hoping to dip into billions of dollars that Congress appropriated for housing but Bush never spent, squeeze more from outsiders and put the money already at their disposal to smarter use. Clinton also plans to mount the bully pulpit, as federal officials have done to discourage smoking and illegal drug use.

Rhetoric, of course, goes only so far. Clinton could issue daily exhortations against, say, teenage pregnancy and still fail to stanch a trend that sociologists blame for so much else. And he must be careful not to raise expectations for more change than he can deliver. Unmet expectations helped to trigger the urban riots of the 1960s.

But Clinton needn't abolish poverty or crime to make a mark. Just to get the trends of social decay moving in the right direction at last, Galston said—"that's the legacy we want to leave." ■



BR/CS/Bo/SI-1



EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON, D.C. 20500

F.L.

THE CHAIRMAN

February 22, 1994

Count  
5 in power

MEMORANDUM FOR: COMMUNITY ENTERPRISE BOARD  
FROM: LAURA TYSON  
JOE STIGLITZ  
SUBJECT: EVALUATION OF EMPOWERMENT ZONES PROGRAM

At the initial meeting of the Community Enterprise Board, the Vice-President stated that a thorough evaluation of the Empowerment Zones/Enterprise Communities program should be a high priority. The materials distributed suggest that such an evaluation is planned, but the description of it is quite vague. This issue concerns us because an objective evaluation of the empowerment zone program is crucial if the program is to be expanded in the future. A comprehensive evaluation would enable us to determine which facets of the empowerment zone program work best and which need to be modified. Moreover, a well-done evaluation would provide us with some insight into the characteristics of the communities where the program works best, allowing future selections to be made where the probability of success is largest.

Accordingly, we propose that we attempt to contract with the National Academy of Science (NAS) to conduct an in-depth study of the entire Empowerment Zone/Enterprise Community program. The NAS is an impartial evaluator, and their work in difficult areas of analysis is of the highest caliber. An evaluation by the NAS would be consistent with the Administration's oft-stated position that decisions should be based on the most credible information available. Moreover, it is our understanding that the Empowerment Zone legislation proposed by the Administration called for an appropriation to fund two studies under the auspices of the NAS, one due in 1997 and one due ten years after enactment. This provision was removed due to Senate concerns about the Byrd rule, which puts any non-germane material contained in a reconciliation bill at risk for a point of order. Contracting with the NAS to conduct a study of the Empowerment Zone/Enterprise Community program would therefore be consistent with the original intent of the sponsors of the legislation.

We would be happy to discuss this matter with you, and hope the group can reach an agreement on it at the next meeting of the Community Enterprise Board.

THE WHITE HOUSE  
WASHINGTON

February 25, 1994

MEMORANDUM FOR LARRY KATZ

FROM: PAUL DIMOND

SUBJECT: UNDER- AND UNEMPLOYMENT OF AFRICAN-AMERICAN  
MALES

BR/GS/SM

File:

Community  
Unemployment

Thanks for your call this morning. Let me know how I can help in drafting a set of shorter term and long range options for consideration by Bob and Carol.

Enclosed for your review are two brief papers from Bill Dickens of the CEA and Bill Spriggs of NCEP with their take on these issues and their own sets of options, some of which were not discussed last night.

Could you also think about a couple of other options:

- combining an anti-discrimination campaign in employment (including the use of testers) with an affirmative education and networking campaign to connect qualified minorities with available jobs throughout the local labor markets?
- vigorous minority business promotion (where the statistics reflect a greater willingness to hire black males)?

At an appropriate point it might be worth exploring these issues with Duval Patrick, Drew Days, and Chris Edley (all of whom have substantial experience with employment discrimination and minority business issues), and with Tim Bates (202-554-3504, who has done considerable work on the relationship between minority business and minority hiring).

On the issue of values and behavior, given the much higher employment rates for African-American males who are married, is there a sensible long-term strategy that would encourage marriage and discourage out-of-wedlock births? I know the cause and effect problems here, but if there is a way to influence this dynamic, it could benefit both parents and their children -- perhaps, helping to end welfare and black male unemployment as we know it? I recently had a conversation with Greg Duncan (the dean of poverty research, much like Richard Freeman is the dean of black employment research): he has moved from a defense of the efficacy of income redistribution in Europe and Canada to a much "tougher" opportunity and responsibility approach as the more effective means to reward work and to encourage upward mobility for all in the new, globally competitive new economy. In thinking through possible longer term strategies, it may be worth exploring these issues more fully with Bill Galston and Greg.

## How to Address Inner-City Labor Market Problems

Bill Dickens, CEA

Although research has developed a fairly good picture of the causes of inner-city problems, our policies fall short of effectively addressing these causes. We have in place, or are developing, tools which might solve these problems, but unless we explicitly recognize the role these policies could play, and emphasize that role in our implementation, they will not be effective.

### The Important Causes of Inner-City Labor Market Problems

Huge numbers of jobs were created in response to the increased labor supply of women and others over the last two decades. Why aren't jobs created for people who live in inner-cities? Research suggests that it is because the labor is not effectively supplied. There are three reasons for this:

- Studies show that the best way to get a job is through personal contacts -- to find a job good job it helps to know someone who has one. In areas of concentrated unemployment, too many unemployed people are forced to rely on the contacts of too few employed people.
- Schools and other social institutions in areas of concentrated poverty do not adequately prepare young people for work. Young people in these environments are likely to lack both formal skills (such as literacy and numeracy) and affective characteristics (how one should behave at work) necessary for employment.
- Employment and housing discrimination continue to limit opportunity and act as disincentives that keeps people from acquiring job skills. Recent studies using matched pairs of black and white testers have demonstrated the significance of hiring and housing discrimination.

The problem is not a lack of jobs in the inner-city -- few people work in their own neighborhoods. Studies consistently find no link between location of jobs and neighborhood unemployment rates. This is not surprising when one considers that areas of high and low unemployment are often across the street from each other. Programs which have attempted to provide transportation to jobs for inner-city workers have generally been failures. The few that have had limited success not only provided transportation, but also arranged job interviews (thus solving the problem of lack of connections).

**What Can Be Done?**

Two strategies have been shown to work:

- **Organize communities.** Highly organized communities -- such as Washington D.C.'s Kenilworth-Parkside -- have been able to overcome problems of crime and unemployment by concerted community effort. Community organizations directly address the problem of helping people prepare for work and also help organize employment services. Kenilworth-Parkside operates its own employment agency. Unfortunately, the success stories seem highly dependent on the energy of a few committed people (such as Kenilworth-Parkside's Kimi Grey), so it is not clear what we could do to encourage this on a large scale. Still, our policies should facilitate rather than hinder such initiatives.
- **Break Up Concentrations of Poverty.** Low income families are much better off when they are not economically isolated. Studies of Chicago's court ordered public housing desegregation, and differences in life outcomes between residents of high concentration central city public housing and low density housing show this. Integration into middle income communities solves both the problems of job contacts and job readiness. A wide range of housing, urban and labor market policies could be used to help break-up concentrations of poverty, including accelerating the growth of the housing vouchers program, and improving incentives for the private construction of mixed income housing. Such a "quiet" approach to housing desegregation could work where construction of public housing would be politically impossible.

These strategies would be complimented by two additional efforts:

- **Action to reduce the effects of discrimination.** More vigorous enforcement of anti-discrimination law is needed to increase the effects of other policies. Studies of who hires minority workers suggest that the development of more minority businesses would improve minority employment prospects.
- **Help People Make Connections.** The job placement company America Works shows that a short program of motivation, and training in basic job decorum, can effectively prepare long-term welfare mothers for successful employment at good companies. By initially offering workers to firms on a temporary basis America Works gives firms the opportunity to try workers out before they buy. These elements could be built into the welfare reform and any Administration jobs program. The development of other programs that could help connect people to the labor market -- such as school-to-work - - should be followed to be sure they serve the populations that need the connections most.

NATIONAL COMMISSION FOR EMPLOYMENT POLICY  
1522 K Street, NW, Suite 300  
Washington, D.C. 20006

(202) 724-1648

February 24, 1994

- Employment Discrimination  
[Notes??]

MEMORANDUM FOR Paul Dimond  
Director to National Economic Council

FROM: William Spriggs  
Director-designate

RE: Disparate Unemployment Rate of Black Males

This is in response to our conversation, Tuesday, February 15. Since that conversation, Tony Carnevale and I have talked about this issue, and the NEC's concern as he understands it. I am very interested in this issue, and would want to be as involved as much as I can with it. I am very familiar with the scholarship in this area, and with the players representing the constituency. I hope there is room for me to play a role.

You asked for a brief memo outlining the problem of unemployment for African American males as I see it. Let me preface this with my belief that I think the problem as most often discussed has incorrectly been on the so-called "underclass." This focus is too narrow because the deterioration in labor market outcomes for African American males, particularly young adults, has been across the education, income and location spectrum. A solution aimed at only one end of the income distribution is therefore ignoring the broader trend. And, I believe the broader trend is the greater danger.

The disparity in African American and white male unemployment rates is not new. So a policy issue is to understand the persistence in the gap. Yet a more important policy question is why the gap in the economic fortunes of African American and white males grew in the 1980s. During the 1970s, the ratio of unemployment for adult male African Americans to whites was 2.2, and in the 1980s grew to 2.4. This was despite a dramatic increase in the educational attainment of African American men compared with whites.

A reason for the difference in the 1980s and 1970s may be found in the weaker relationship between the unemployment rate of adult male African Americans and general economic growth than is true for white males. My own work on this, using spectral analysis, shows that the correlation between quarterly unemployment rates and the quarterly growth rates of GDP are lower for African American men than whites for economic cycles of every length. This suggests a structural reason can explain the gap in unemployment rates.

Examining the growing disparity in wages for African American and white men, after controlling for differences in education and region, reinforces the argument for a structural reason. Studies using cross-sections of individuals from the Current Population Survey by William Rodgers (College of William and Mary), and John Bound (University of Michigan) and Richard Freeman (Harvard) show that the gap grew most for the starting wages of college educated men. An analysis of longitudinal data from the Panel Study for Income Dynamics by Steven Rose (here at the Commission) shows that for prime working-age, college-educated men, African Americans were almost twice as likely as whites to suffer a loss in income from the start to the end of the 1980s. Looking at high school graduates, David Howell (New School) found that from 1979 to 1989 the change in the industry and occupation mix of high school graduates was less unfavorable to young white males (ages 19-35) than to African Americans. Young white high school-educated men were much more successful in increasing their share of the dynamic sectors of the economy, while African Americans lost employment share in two of the three most dynamic sectors.

An argument can be made that the economy changed in the 1980s. That could be the case, based on the changes that occurred between the 1970s and 1980s in unemployment rates, and wages in the general economy. If the change is a structural change, then the data suggest that the change was accompanied by barriers that denied African Americans access to the new dynamic sectors of the economy. That would not be new. It would follow history, as in the economic transformation at the turn-of-the-century from agriculture to manufacturing.

I think that other reasons, most often connected to "undercastles" issues are clearly insufficient in explaining the 1980s. As you and I discussed, the spatial mismatch theories appear hollow. First, the gap in unemployment between suburban blacks and whites, and central city blacks and whites are about the same. Second, that gap between the fortunes of inner-city and suburban blacks was constant during the 1970s and 1980s, with only some cyclical variation. So, there is little support that the growing gap between African American and white males is the result of central city woes.

The skill mismatch theories are not clearly better. The most alarming changes occurred within educational and skill groups. Further, the human capital of African Americans compared with whites improved dramatically from the 1970s to the 1980s. The most dramatic increase was among young workers. Dropout rates among African Americans declined dramatically, and standardized test scores made great improvements among high school graduates. Yet the gaps in earnings grew for the youngest African American cohort. There is some evidence, though not without controversy, that a possible explanation is that the returns to cognitive skills as measured by standardized test scores increased more rapidly than the average test scores of blacks. A difficulty with that explanation is that the earnings gap between black and white workers grew till the late 1980s, and then (during the recession) reversed itself.

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 or  
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 value?

Strategies assuming that the barriers are benign, and represent "statistical discrimination," beg too many questions. Most important, this does not answer why common perceptions of human capital differences would persist when human capital differences have narrowed dramatically.

Strategies assuming an "underclass" explanation will have difficulty because they assume human capital differences are the problem when those differences are so small, while the economic outcomes are so vastly different. Such a strategy ignores the work of Robert Haveman and Barbara Wolfe (University of Wisconsin), and Cecilia Rouse (Princeton) showing that African American youth are already significantly more likely than similar whites to finish high school, and having finished high school to attend college. Given the already higher drive by African Americans for more education, the higher unemployment rates for black college graduates (in 1993, for those under 24, black college graduates had an unemployment rate of 11.3% versus 3.7% for white college graduates, and 11.0% for all whites 16 to 24 not enrolled in school) may make it difficult to succeed in closing the college attendance gap. The dropout gap is already small, again because of the higher drive by African Americans for education. Closing that gap can best be achieved by closing income gaps among parents.

I think that an effective strategy is to expand along the work of David Howell. Identify those industry and occupations that are growing, and have declining shares of African American workers and target them for affirmative action efforts. Further, combine the technology policies of the Administration to those efforts. I fear that other policies not done together with this one will not attack the problem head-on, and may leave people disillusioned about the efficacy of federal efforts.