

CORPORATION FOR
NATIONAL
AND
COMMUNITY
SERVICE

BR/SM
cover } plg

TO : Bob Rubin

FROM : Eli Sybil

DATE : 11/1/93

FOR :

Bruce -
F.Y.I.
I spoke at Hudson
Institute (as you
know the Empowerment
Zones) & have followed
up with a call regarding
Recommendation to his
suggestions
Maybe worth a call.

Per Your Request

Per Conversation

Please Return

Recommendation

FYI

Prepare Reply

Paul D.

DATE DUE:

*
BR → CALL

COMMENTS/NOTES:

Les Linkowky, the President of the
Hudson Institute, was an early &
effective ally of national service with
conservative Republicans. He can do the
same for a host of issues which require
dealing with, eg. enterprise zones, welfare re-
form. I urge you to have someone
contact him if for no other reason than it
will be helpful for me. Best regards,
Eli

Hudson Institute

BR - TO DO

November 1, 1993

Mr. Paul Dimond
Special Assistant to the President
The White House
Washington, DC 20500

Dear Paul:

Thank you, once again, for joining us at our recent conference on urban enterprise zones. I've heard nothing but positive remarks about your speech from a number of conference participants.

In response to your request for feedback, below is a summary of the key issues that relate directly to your internal process of finalizing the challenge grant process for empowerment zones and enterprise communities. Please feel free to call Bill Hudnut or Jim Wheeler to discuss any of these recommendations in greater detail.

These recommendations are linked to the four basic elements you outlined in your speech: a new compact, matching investments, selection criteria, and evaluation.

I. Local solutions to local problems.

Perhaps the greatest lesson learned from the many experiments in targeted community policy -- both inside and outside enterprise zones -- is the importance of local authority and autonomy. To reinvent the way government does business in distressed communities, residents, businesses, and community leaders from the affected neighborhoods must be deeply involved in the decision-making process. Much lip service is paid -- by both political parties -- to the importance of a "bottom-up" approach, but frequently, as we know, federal dollars have led to federal mandates. If enterprise zone policy is to work the way that your plan envisions, bottom-up strategic planning and program implementation involving all neighborhood stakeholders is the surest way to secure the necessary matching investments (*and not just dollars*) from within the community. We recommend that the inclusion of such a process be one of the primary evaluation criteria for proposals. There is a great amount of apprehension "in the field" that Clinton EZs may turn out to be another top-down micromanagement program. To engender a new way of doing business, you must begin with local autonomy in sight.

While most local practitioners view a community-based planning process as crucial to a program's success, the planning process itself raised considerable concern among conference participants. For now, it appears that planning must occur before application. Community representatives worry not only about funding the planning process and the time constraints involved, but also about what happens if the application process were not broad enough or flexible enough to encompass their community's efforts.

Herman Kahn Center
P.O. Box 26-919, Indianapolis, Indiana 46226
317-545-1000 • FAX 317-545-9639

B. Reed
Eli Segal
Let's meet to discuss.
I have followed up
w/ her already.
Paul D.



2. Enterprise Zones as Holistic Medicine.

(ugh - word)

A second major lesson of success was the importance of a holistic approach that builds on a working partnership between the public and private sectors (both for-profit and not-for-profit). Any program that can be expected to work (and that is working in various places throughout the country today) must be a win-win situation for businesses and for residents. Job creation occurs only if businesses can grow. Businesses can grow only if they see conditions improving sufficiently to justify investment. *Tax and financial incentives will not work -- at least not with acceptable expediency -- without a social mechanism in place to deal with community problems. The strength of the enterprise zone concept is its ability to address both concerns concurrently.*

How do we
address
the
problems
of
education
or
child
care
or
other
social
problems
that
are
not
addressed
by
the
market?

In your speech, you mentioned the deterioration of "informal job networks" in most inner city neighborhoods and the importance of rebuilding these ties between educational institutions, job training programs, employers and residents. No doubt, the issue of employability -- and the development of human capital -- is fundamental in making a positive change in these areas. The Administration should think also about how enterprise zones might help to buttress the sorts of institutions that work to develop what University of Chicago's Jim Coleman first called "social capital." These institutions might be churches, Boys and Girls Clubs, CDCs, or other civic organizations. The President's National Service program could be an important building block here as well. Such institutions are all the more important in the many neighborhoods where family structures have eroded and children are growing up without the instilled social norms and habits that families (and schools) once reinforced. You remarked that the President called for each of the Secretaries to look within their own programs to determine how they might better serve the people in these communities. Certainly there are welfare reforms that could be made to better deliver needed assistance in conjunction with the enterprise zone approach. Similarly, as you noted in your address, safety and security must be part of this comprehensive approach. The Weed and Seed program taught us some important lessons that you might want to review.

El.
S...
let's
do...

Br...
let's
do...

Proposals having a high potential for long term viability should make explicit how a community will build and maintain linkage among local government, area businesses, civic groups and institutions, and community residents to simultaneously address key economic and social impediments. To be successful, a zone must be both a package of tax breaks for business coupled with a set of necessary social tools to make revitalization happen. At root, the goal of this partnership is to reverse the conditions that lead to market failure in a given community. Such a partnership should be a fundamental part of the selection and evaluation criteria.

What
does
this
mean?

3. No Smoke and Mirrors.

The federal program must clearly offer real benefits. There is a great deal of skepticism as to whether the benefits of the Clinton program will offset the pain of the application process. This fear is accentuated by the limited number of designations available and the perception that the benefits to enterprise communities are both uncertain and small.

In order to achieve the goal of having everyone who participates in the challenge grant process be a winner (your Baldrige Award example), we recommend that you seriously consider pursuing the notion of a "third tier" of zones. This came up briefly in a question following your dinner address. While you weren't comfortable with the title of a "third tier," we believe that if benefits of consequence, such as priority access to program funds or special waivers, were given to communities producing high-quality proposals -- even if they do not qualify for a designation given current constraints -- both the incentive to go through the strategic planning process and the possibility of locking-in targeted state and local incentives rise significantly.

Of course, all three tiers must have obvious benefits, available only by meeting high standards. This will limit the number which qualify and improve the odds of success. At the same time, the standards must be clear and objective, with evaluation linked explicitly to the selection criteria, i.e., it must be possible to lose the benefits.

Your comments, though qualified, about requiring state and local resource commitments to be granted, even if federal designation was not awarded, created great consternation. Such a requirement likely would be counterproductive.

Further, to the extent that the federal enterprise zone program utilizes existing federal funds (such as CDBGs, AFDC, etc.), careful thought should be given to how these program funds can be made more flexible given current legislative constraints. In some instances, waivers may not be enough to accomplish the flexibility needed to effectively deploy these resources; a legislative fix may be necessary. Additionally, the urban leaders present at the conference expressed unanimous concern that we not "rob Peter to pay Paul" with this program; in other words, we not simply reallocate existing moneys to UEZ's at the expense of other good urban programs that are being funded. Significant new resources will have to be committed.

4. An Asset-Based Strategy.

As one of the selection criteria, you discussed the need to build on community assets. Although, we agree that this a critical component it just doesn't go far enough. Not only should there be a strategy to build on *community* assets, but also one to build on *personal* assets. Whether it be through home ownership, saving for education without losing welfare benefits, or developing ways for zone residents and businesses to accumulate enterprise capital, many of our conferees saw individual asset-building as a critical aspect of dealing with the challenges of distressed communities. We recommend that individual and community asset-building should be part of the Administration's urban policy.

A related issue is that of legal structure for the local "community" or "zone." There is a dispute between those who prefer to keep control in city hall and those who argue that organizational independence is critical; the consensus of the conference leaned towards greater independence. Legal structures also affect organizational behavior and innovation. Such innovation is required to work with businesses to increase jobs and build community and individual assets. Only some legal structures permit a community to pool resources from multiple

note: we should be private sector members

Brady Road: let's discuss

truly don't want to give away the number

sources and engage in activity that generates revenues. Organizational independence, such as incorporation under 501(c)(3), the ability to set up for-profit entities to manage selected programs, or the establishment of mixed (public/private) corporate firms can facilitate partnerships with philanthropic organizations, promote corporate donations, and create a framework for entrepreneurial behavior.

noted

5. A Road Map With Mile Markers.

Since applications for this program will be based upon local strategic plans, your selection should in part be an assessment of the clarity and focus of each community's vision of where it wants to go, how it is going to get there, and the criteria against which its achievements should be evaluated. Since, it is important that the criteria for success and failure be clear, the way to do so might be to make applicants define these criteria themselves. If they do not have the partnerships, the vision, and the local support to achieve them, then the applicants fail on their own terms.

6. Keep it Simple.

Finally, to reemphasize comments made above, the federal program must be kept simple, objective, and largely apolitical. If it is complex, the costs of applying will be so high that the widespread benefits you seek will not occur. If the criteria are not reasonably objective, the perception that this is yet another umbrella under which to dispense political plums will be reinforced, with the potential for real results having little importance. Finally, if the designations go mainly to payoff key Democratic mayors, then the current deep-seated cynicism about the seriousness of the Administration in dealing with urban problems that we found among conference participants will be confirmed. For now, the President has the benefit of the doubt, but this is very easy to lose.

yes!

I hope these observations are useful. A large number of detailed policy options were discussed during the conference. Some of them could become important policy initiatives. Bill and Jim plan to issue a policy monograph based on the conference by the end of November. We will send you a copy of the complete draft as soon as it is available. Members of the Hudson team are in Washington, D.C. frequently and would be delighted to visit with you to discuss the various ideas.

Thank you again for your help. We at Hudson wish you well with your enterprise zone initiative. I hope to see you again soon.

Sincerely,



Leslie Lenkowsky
President

Handwritten notes:
Bill
Jim
I'll like to see the two
copies of the monograph
when it's out. I'll visit in town
Paul D

Welfare Policy: Is There Common Ground?

By Anna Kondratas

Welfare policy has been one of the most hotly debated issues since President Johnson declared "war" on poverty in the mid-1960s. Early in the debate the lines were drawn quite clearly. Liberals emphasized the need for the federal government to help less fortunate members of society. Conservatives emphasized the high costs of welfare both for taxpayers and recipients.

The war on poverty failed. In fact, it coincided with a vast increase in numbers of poor people across the country. By the 1980s, in response to mounting evidence that federal welfare programs had failed both taxpayers and recipients, the two sides of the debate began to find a number of points on which they had common ground. Both sides agreed that too many people were on welfare; that the goal of welfare should be to help recipients become independent of the state; that development of good character among recipients is crucial; and that welfare recipients should be required to work if possible.

Hence a bipartisan drive for welfare reform came into being. In the 1980s various states began implementing work programs, and the federal government affirmed the trend in the Family Support Act of 1988, which made welfare receipt contingent on participation in employment and training programs. Unfortunately, saying that recipients should work proved much easier than making it happen, because the vast majority of welfare recipients are single women with children. These reforms were immediately followed by a huge increase in welfare caseloads, which rose by more than 25 percent in the late eighties and early nineties.

As it became clear that work programs alone would not decrease welfare dependency, states began to pass reforms intended to solve behavioral problems such as having children out of wedlock, neglecting to obtain prenatal care, and failing to ensure that one's children attend school. More than half the states have proposed or enacted programs designed to change lifestyles and life expectations of those on welfare. These programs are likely to be more successful than work programs alone, but not much more so. Policymakers are becoming increasingly aware of the need to treat the social and economic factors that help create welfare dependency.

Empowerment and asset-based welfare reform comprise the latest approach. Both Right and Left agree that the government should use welfare to empower people to take control of their lives. Grass-roots activism is an important element of the effort. If the Clinton administration remains committed to such an approach, the nation will enjoy an unprecedented opportunity to bring on "the end of welfare as we know it."

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a publication.

Publications have not been scanned in their entirety for the purpose of digitization. To see the full publication please search online or visit the Clinton Presidential Library's Research Room.

File:
E-Zones

MEMO

TO: Bruce Reed
FR: Tim Fong
RE: SUMMARY OF HEARING ON ENTERPRISE ZONES:
Friday, June 18

Witnesses:

Rep. Rangel (D-NY)
Andrew Cuomo, HUD
Maurice Foley, Treasury
Jack Kemp

Dr. Wolf, University of Richmond
Mr. Cowden, American Association of Enterprise Zones
Mr. Pryde, Pryde and Company

Lieberman:

Expressed concern about the Administration's enterprize zone:

- * the number of empowerment zones
- * the costs of the zones
- * the lack of capital incentives in the package

Already have ten years of experience and we know they work:

- * 36 states have adopted enterprize zone programs
- * since 1982 EZs have created 250,000 jobs and attracted more than \$28 billion in capital investments

Number of zones:

- * proposal calls for only 10 urban and rural communities to be designated as EZs
- * President does "purport" to create 100 "enterprise communities" and 10 "empowerment zones," the 100 cannot be characterized as EZs

Importance of capital investments:

- * must be a component of any program and should be targeted toward small businesses
- * unless the employer credit is refundable, few firms have a tax liability high enough to take advatnage of the \$5,000 tax credit per employec

"It is time to do something substantial on a national scale about urban decay."

Rangle:

- * Made many comparisons to economic conditions in Russia and U.S. aid to that country

Conditions of inner-city youths:

- * 30% of male high school drop-outs on probation, parole, or in jail
- * Over lifetime, each class of dropouts earn \$237 billion less than its high school graduate counterparts
- * Result: \$70 billion loss in tax revenues;
\$3 billion increase for unemployment and welfare;
\$3 billion for increased crime prevention

Bush administration estimate loss at \$300 billion per year

Points:

- 1) Admit that whatever is being done is not working;
- 2) Fixing blame is not production;
- 3) Answers are complicated;
- 4) Answers not cheap

Q & A:

Lieberman: Is their support in the House for EZs?

Rangle: There is substantial support for EZs

Lieberman: I am concerned about the number of EZs

Mack: Does the proposal go far enough to provide capital incentives?

Rangle: Why increase capital incentives unless environment improved for capital inflow? Having lots of zones doesn't make sense.

Lieberman: I am troubled by the small number of zones and small capital costs incentives

Foley: The 110 zones represents a carefully targeted limited amount of resources.

Cuomo: Tax incentives alone are not enough; \$30 million per empowerment zones for up to 200,000 people covering from 8 to 10 square miles. The Administration has a package of \$8.1 billion over 5 years with \$4.1 billion in tax incentives.

Lieberman: Why focus on only 10 zones?

Foley: Difficult to generalize from state level to federal level. States offer reductions in franchise and corp taxes, and the evidence is mixed; therefore use a limited number of zones and analyze the results.

Lieberman: The evidence from the state record shows enterprise zones work.

Cuomo: When focussing on 10, should not dismiss the other 100.

Lieberman: Concerns about the proposal. There is \$30 million per zone per year, and the focus of tax incentives is limited to the 10 zones.

Foley: There are two labor incentives: 20% credit up to \$5,000 in wage credit which can apply to training expenses (what is the second?)

Lieberman: Small business do not have the tax liability to take advantage of credits.

Cuomo: Fear of diluting the 10 for 100.

Kemp:

- * Clinton Administration proposal is a "weak imitation" and "falls far short" of what is needed

* reveals "the most anti-capitalist mentality in this century"

The problems:

- 1) only 10 zones eligible, with only 6 in inner cities;
- 2) tax incentives are "weak, misguided, and misdirected"; targeted jobs tax credit and wage credits would benefit only existing businesses; they give businesses little incentive to hire additional workers;
- 3) Clinton plan abandons entrepreneurial spirit through the creation of the Washington-based federal "Enterprise Board."

Prefers the Lieberman-Kasten proposal from last year:

- 1) dramatic increase in number of zones;
- 2) elimination of capital gains tax for anyone who works, saves, or invests in the zones;
- 3) stock expensing to give investors meaningful incentive;
- 4) limited federal interference

* Makes comparison with Hong Kong, which has 16% top bracket income tax, 17% corporate tax, and 0% capital gains tax

Cuomo:

* Opening statement responds to questions from Chairman:

1) Does the proposal focus and aid small firms?

Yes, through the employment credit for firms employing persons living and working in the zone and earning less than \$20,000;

2) Do the ten EZs affect nation-wide poverty?

There are 110 zones and communities, but there is not enough money for more.

3) What are the prospects for expansion?

Depends on the first round of success.

Cowden (American Association of Enterprise Zones):

Legislation should take into account what states are doing:

- New York offers zones preference in allocating forms of economic development;
- California require applicants to pursue comprehensive strategy and identify sources of distress;
- New Jersey created a special fund for responding to unique problems of zone;
- Indiana has converting tax benefits into funds

Washington should begin to develop budget-neutral benefits available for zones:

- coordinate community development banks within zones
- special rules for financial institutions

* S&L's must make 65% of loans to housing

* Banks should not face capital requirement higher for zone-based commercial borrowers than for home loans

* Limits on loans to businesses by credit unions should not be lower than loans made to members

- require corporate beneficiaries to fund local zone support organizations
- use waivers to make tax-exempt bonds which support the clearance of urban cities more readily issued by municipalities
- analyze programs for federal domestic assistance which could be awarded on a priority basis to zones
- Abandoned Land Reuse Act would provide federal support for decontamination of properties with potential for stimulating urban reinvestment

Foley (Treasury Department):

submitted Administration's proposal for EZs

Pryde (Pryde and Company):

- * Administration's bill "simply liberalizes" rules for depreciating and expensing investments
- * suggests that Section 179 be eliminated and replaced:
 - "equity expensing" incentive which permits individual taxpayers that purchase stock in zone firms to deduct the cost on tax returns;
 - allow investors to defer capital gains taxes on sale of assets when proceeds are invested in zone firms;

Wolf (University of Richmond):

Raises three issues:

- 1) Program design
 - 2) Area Selection
 - 3) Incentive
- * list of questions are available with attachment

Three major points:

- 1) State and local enterprise zones are "alive and well"
- 2) Clinton Administration atuned to state EZs
- 3) Needs a better mix, although labor and capital mix is good (eg many small businesses cannot take advantage of a nonrefundable credit)

Commentary

PERSPECTIVE ON THE INNER CITY

Back to Basics on Enterprise Zones



The Clinton Administration has turned a good idea into a half-baked recipe for failure.

By BARRY A. SANDERS

President Clinton's recently announced "empowerment zones" amount to half-measures, which are fine in cooking but a recipe for failure in public policy. Even though these zones are at the heart of his urban agenda and the President surely wants to do something that works, his plan fails to challenge the built-in bureaucratic and political hurdles that prevent success. The President must take on the obstacles of head-counting and logrolling mandated by Congress. For now, this urban agenda seems born not of government reinvented but of Warren Harding reincarnated.

Empowerment zones are the latest version of the federal enterprise zones championed by former HUD Secretary Jack Kemp but never enacted in the Bush Administration. The idea is that, since our worst inner cities are not generating business-tax revenue, we can give major tax breaks to businesses setting up in those areas at no cost to the government. Businesses then get a foothold in the inner city and grow and employ local residents: When the tax benefits expire, in five or 10 years, we should find a thriving, tax-paying economy in our former economic wastelands.

To make this concept work, you must give a tax break clear enough and big enough to motivate someone to start a business he or she would not have started, or to move a business to the inner city from another location, preferably another country. This idea has been tried successfully abroad in what are called "tax holidays," but it has never been tried here—and it is not being tried in the program President Clinton has sent to Capitol Hill.

The Clinton plan is for competitive selection of 100 "enterprise communities" throughout the country, each no larger than 20 square miles (less than one-eighth of Los Angeles' inner city). Of those, 10 would be designated as "empowerment" zones, with somewhat better benefits. Five of these would be in

major inner cities.

The maximum tax incentives in the five big cities' empowerment zones will be availability of some tax-exempt development bonds, a new kind of IRA for local residents, some better tax treatment of capital investments and some wage credits for new employees in a few of the zones. The wage credits are to be subject to "mid-course corrections" if they later appear too expensive. A handful of existing government spending programs are also supposed to start focusing on the zones.

This is thin gruel for our poorest areas. No one establishes a new business or moves a business from another country to a U.S. inner city to take advantage of "inducements" like these.

This experiment in motivating the private sector is dead on arrival, not because enterprise zones are economically or conceptually wrong, but because hidebound statutory rules on calculating costs and old-fashioned congressional politics stand firmly in the way. The congressional "scoring" of the cost of an enterprise zone is required by law to consider every dollar not paid to the IRS because of a tax benefit to be treated as if it were a dollar spent by the government. This means that a successful zone, with plenty of thriving businesses taking up residence in the inner city and employing thousands, will be considered an enormous expenditure by the government. Never mind the fact that the government gets almost no revenue from the zone now, and will get full revenue from the newly booming area when the benefits expire.

In short, the method of calculating

"costs" of an enterprise zone contradicts its theory and purpose, dooming any significant and successful effort by finding government expenditures where none exist. The more it succeeds, the more prohibitive is its artificial "cost."

Add to the "cost" per zone, as calculated in Congress, the traditional political need to put zones in as many congressional districts as possible. Last year, Congress passed a law that proposed a mere 50 zones—more than enough to cripple the program with only meager benefits in each zone. Now we get a proposal for 100 zones, to be selected later in a time-consuming site competition, so no one knows now in whose district they will go. This is government of the oldest school—a little bit for everybody.

The problem is that enterprise zones are not less successful when tried with lesser benefits; they do not work at all. Until benefits reach a significant level, there will be no new investment response whatsoever. All you will see is the small geographic area set aside for the zone playing host to businesses sucked out of the surrounding neighborhoods by the chance to save a few bucks. A true exercise in "beggar thy neighbor."

The President must confront these issues to make the zones work. We have to try dramatic benefits, like a waiver of all corporate taxes and a 15% investment-tax credit for businesses that locate in and hire from the inner city. Do it for five years and do it only in our five most depressed cities. Attack the inappropriate "scoring" system, which finds costs where there are none, by changing the law. Have the courage to avoid using these zones as a sop to every member of Congress. Without these reinventions, an idea whose time is now is certain to be perceived as a failed experiment, and we who are devoted to the inner city will lose a lever that would multiply our success.

Barry A. Sanders, a Los Angeles attorney, is a co-chairman of RLA (Rebuild L.A.).

Will Pasadenans Tax Themselves for Books?

libraries: To keep its system
res an

libraries, will be closed on Jan. 1.

The troubles began for Pasadena, as for many California communities, in late 1989

fat and skip the tax.

Ordinarily, that is a no-
sloan But Pasadena

MEMO

File:
E Zones

TO: Bruce Reed
Mark Gearan
Gene Sperling
Ricki Seidman

FROM: Ann Walker

DATE: 6/9/93

RE: Summary of Yesterday's House Subcommittee Hearing on Enterprise
Zones

FYI -- The attached is a summary of the Second Roundtable on the Administration's Empowerment Zone and Enterprise Community Proposal.

MEMORANDUM TO ANN WALKER

DATE: June 8, 1993
COMMITTEE: Committee on Banking, Finance, and Urban Affairs
Subcommittee on Economic Growth and Credit Formation
SUBJECT: Second Roundtable on the Administration's Empowerment Zone
and Enterprise Community Proposal
FROM: Jamie Harmon and Candice Waldron

OVERVIEW

The Subcommittee met today to begin consideration of President Clinton's proposal to create a two-tiered system of 10 Empowerment Zones and 100 Enterprise Communities.

According to Representative Paul Kanjorski (D-PA), the Subcommittee Chairman, President Clinton's proposal differs from the previous administration's proposal in that it "stresses tax incentives for job creation (rather than capital formation), and it stresses more active federal involvement in the zones by targeting existing federal programs and by waving burdensome federal laws and regulations." Empowerment Zones differ from Enterprise Communities in that they have five additional tax incentives, most notably an employer tax credit of up to 25% of the first \$20,000 in salary for any employees living and working in these Zones.

POSITION OF MEMBERS

Both Members of Congress in attendance were supportive of Clinton's proposal. One possible reason for their support is that both Rep. Kanjorski and Herbert C. Klein (D-NJ) represent decaying industrial areas.

In the coming weeks, the Subcommittee will be examining and evaluating specific elements of the President's proposal.

COMMENTS ON CLINTON'S PROPOSAL

National League of Cities (NLC)

Hon. Tony Scallon, Chair of the NLC Community and Economic Development Policy Committee, stated that the NLC generally supports the President's Enterprise Zone concept. Reflecting the political concerns of their membership, which includes many smaller cities, the NLC is concerned that Clinton's proposal may leave many needy communities behind. While there are 800 areas which qualify as distressed areas, Clinton's proposal would help only 110 of these areas (10 as Empowerment Zones and 100 as Enterprise Communities). The NLC proposes to include more of the distressed areas by designating Zones on a criteria of fiscal distress. (For a complete copy of his testimony, please contact Communications Research.)

National Congress for Community and Economic Development (NCCED)

Mr. Robert Zdenek, NCCED President, applauds Clinton's proposal as a comprehensive, grassroots solution to the problem. But he felt that it could be strengthened by:

1. providing more of a role for community development institutions;
2. including supermarkets and branches of major corporations (which are both ineligible for incentives under the proposed law);
3. passing the Community Development Finance Legislation, which would create a government sponsored independent loan to give loans to institutions which do community development work, although the final details are still being worked out by Treasury; and
4. Passing the Abandoned Lands Re-use Act (HR 2070) which would rehabilitate abandoned industrial and commercial sites to create jobs and clean up the environment. This bill was introduced in the House by Rep. Mfume and in the Senate by Sen. Riegle.

Indiana Department of Commerce (IDC)

Craig Hartzner, IDC Deputy Director, and Art Banks, IDC Urban Enterprise Zone Program Manager, commended President Clinton for his creative proposal. However, they thought it could be improved by:

1. making the federal program complement the efforts of existing programs, and
2. mandating reinvestment of tax savings into the Zones.

(For a complete copy of their testimony, please contact Communications Research.)

THE INDIANA EXAMPLE

Much of the committee hearing focused on the success of Indiana's Enterprise Zone project, which has been in existence since 1984. The program created approximately 17,400 new jobs from 1986 to 1990 and brought approximately \$400 million in new capital investment by Zone businesses from 1989 to 1990 alone.

Hartzner and Banks attribute the success of their program to two factors: its grassroots approach and its reinvestment strategy. Urban Enterprise Associations, which are made up of community and business leaders, govern and oversee the Enterprise Zones. Under the Indiana plan, 100% of the tax savings earned through the program must be reinvested in businesses or employees in the Zone, or in the Urban Enterprise Association itself.

COMMENTS

In the question and answer section, three significant points were debated. In the national standards debate, Mr. Hartzner said that less government intervention is the key to bringing private dollars into the Zones. Mr. Scallon disagreed, saying that guiding principles (i.e. national standards) were critical to running an effective program.

On the question of whether the proposal would create good jobs, Rep. Kanjorski questioned the proposition that Empowerment Zones and Enterprise Communities

would create good jobs in high-technology industries. Mr. Banks responded by pointing out that in Indiana, thousands of good jobs have been created, including jobs at a number of GM plants and a major color TV manufacturer.

Playing "devil's advocate," Rep. Kanjorski wondered whether Enterprise Zones would simply encourage economic inefficiency by subsidizing employment in expensive inner cities. Rep. Klein jumped to the defense of cities, saying that the US has a moral obligation to help cities because they are part of America and because their deterioration affects us all.

Bruce

THE WHITE HOUSE

WASHINGTON

April 2, 1993

MEMORANDUM FOR INTERAGENCY WORKING GROUP ON EMPOWERMENT

FROM: BRUCE REED AND GENE SPERLING

SUBJECT: DRAFT DECISION MEMORANDUM FOR ENTERPRISE ZONES

Attached is a draft of a decision memorandum on enterprise zones for your review. If you can get back to Paul Dimond with your comments and suggestions by the end of the day on Monday, April 5, that would be most helpful. If this presents any problem for you or for your principals, let Paul know so that we can coordinate the timing for the rest of the process.

We plan to hold a meeting by mid-week that would include the Secretaries, as well as Bob Rubin and Carol Rasco. We would like to present the issues for review to the President by April 8 if at all possible.

We look forward to your comments and suggestions. We appreciate your continuing insights and assistance.

DRAFT

DRAFT -- PRESIDENT HAS NOT SEEN

PRIVILEGED & CONFIDENTIAL

April 2, 1993

MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: AN ECONOMIC EMPOWERMENT STRATEGY

I. INTRODUCTION

A. 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.

B. 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 to child care to the need for school reform and safe streets. We brought half a dozen agencies together to rethink existing programs and to begin developing 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. While we recognize that Congressional realities may force us to temper such ambitious proposals, we nonetheless believe that this proposal can be passed into law and will lay the foundation for dramatic progress in poor communities across the country.

C. ECONOMIC EMPOWERMENT STRATEGY

We believe that the economic portion of your comprehensive community development strategy should include four main pillars: economic empowerment zones, community development banks, strengthening the Community Reinvestment Act and fair lending requirements, and a major community partnership against crime that will enable these communities to promote enterprise. This economic empowerment strategy 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; and our empowerment agenda is designed to maximize the return on those investments.

This memorandum presents detailed options for the economic empowerment zones. Proposals on the other three pillars 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, a chance to take back their neighborhoods and, above all, new and expanding businesses that generate jobs.

II. ECONOMIC EMPOWERMENT ZONES

A. PRINCIPLES

In developing our economic empowerment zone proposal, 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. Our proposal challenges 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 proposal. 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 H.R. 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 previous Administration refused to designate any zones. In October 1992, with the leadership and considerable effort of Senator Bentsen, Congress passed H.R. 11, which Bush -- who had fought Senator Bentsen every step of the way -- 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 \$500 million a year for a broad array of federal programs within the zones in addition to tax incentives.

While H.R. 11 moved in the right direction due to Senator Bentsen's heroic efforts, our entire working group -- including Treasury -- agreed that we should go further.

Based on our review, our Interagency Working Group reached a substantial consensus and recommends 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 focused enterprise zones, 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 and additional investment 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.

III. 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 section, we summarize the consensus proposal. (The appendix attached at Tab A also provides a brief summary of the proposal in outline form). In Part IV we present the key options for your decision. The most consequential of these alternatives is a "low-cost" option offered by OMB.

1. 10 Economic Empowerment Zones, 100 Enterprise Neighborhoods: The Working Group agreed that greater resources should be focused on 10 Economic Empowerment Zones. We also recognized, however, the political problems we would face 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 development banking, 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 development banking and reinventing government-deregulation initiatives

Forty percent of all 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 in the first year of the program.

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 among three levels of government and horizontally among program categories
- 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 it submits a strategic plan demonstrating how the community will reinvent the delivery of relevant government services. The challenge grant process is designed to empower local communities to be as innovative as possible in their planning.

This challenge process consists of five components:

a. **National Competition.** All applicants will be required to present a strategic plan for economic empowerment—in partnership with the affected communities. The strategic plan will be judged on the following criteria:

- potential to enable the 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
- extent of coordination of local, state and federal funds across jurisdictional lines and among categorical programs
- 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 to promote enterprise, including availability of insurance and credit, participation of community organizations and the non-profit sector, and complementary actions by state, regional and local authorities
- innovation in leveraging existing assets and governmental programs and new federal empowerment initiatives to provide safe streets, access to private capital, a more skilled workforce and real enterprise opportunities for zone residents
- objective benchmarks for measuring progress in 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—the Enterprise Board—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 10 Economic Empowerment Zones receive a substantial Enterprise Block Grant, on the order of \$150–175 million per urban zone (and \$50–75 million per rural zone) for FY 94–98. This will enable local communities to craft a wide variety of creative initiatives to augment 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, environmental, and worker safety requirements
- implementation of the strategic plan without supplanting other federal support and
- periodic review of results

These Enterprise Block Grants could be used for a variety of purposes, such as:

- providing self-sustaining loan loss reserve funds
- leveraging community development banking initiatives for microenterprise, small business, real estate and community development
- contracting for technical assistance, entrepreneurial support, workforce skill programs and job-search and job-matching networks in the labor market

- providing equity or bridge financing for major business or commercial expansion
- providing 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: The consensus proposal calls for much more than just assuring that the 10 Economic Empowerment Zones have the capacity to reinvent government concerning the new Enterprise Block Grants funds. More fundamentally, all 110 zones will be provided with the flexibility to use a coordinated strategy for deploying existing funds and existing programs. Thus, all 110 zones -- both tiers -- would be offered significant deregulation. 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 next section -- Part IV, Alternative Options -- we therefore discuss several approaches to expanding the scope of the existing waiver authority.

e. Periodic Review of Results -- Independent Evaluation and Sunset. In consultation with the Enterprise Board, the Designating Secretaries (HUD and Agriculture) 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 terminate enterprise funding and tax incentives for any community that is not achieving results, unless the community revises its strategic plan.

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 the 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 serious consideration of the lessons learned from our experience with federally supported enterprise zones.

3. Tax Incentive and Investment Provisions. To provide a picture of the nature and scope of the incentives and investments in the proposal, we offer a list before briefly describing each.

10 ECONOMIC EMPOWERMENT ZONES

INVESTMENTS

- Enterprise Block Grants (\$50-175 million)
- Community Development Banks
- Community Policing
- Coordination and Flexibility with Existing Funds
- Education Enterprise Funds
- Eligibility 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 ("TETC") 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 Facility Bonds for investments in tangible property in the zone.
- Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- Resident Community Investment Corporations (CICs)
- Worker Controlled Enterprises (WCEs)
- Resident Empowerment Savings

100 ENTERPRISE NEIGHBORHOODS

INVESTMENTS

- Enterprise Neighborhood 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 Facility Bonds for investments in tangible property in the Zone
- Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- Resident Empowerment Savings Account

BRIEF DESCRIPTION OF ZONE TAX INCENTIVES:

We believe tax incentives should be designed to promote the creation of new enterprise in the zone, to encourage the expansion of existing zone businesses, 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 the following incentives:

Employment and Training Credits ("ETCs"). (Economic Empowerment Zones) 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. 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
- 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 \$12,000 in the second year of each new zone resident employee's wages and qualifying expenses for education and training.

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. The same card will allow them to open a Resident Empowerment Savings Account (discussed below) and a checking account with the nearest Community Development Bank. It also could be used in future experiments in electronic delivery of food stamps, AFDC and job training money.

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.¹ In addition, we also recommend that DOL, HHS and Treasury work with the Ten Economic Empowerment Zones to experiment 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.

Capital Tax Incentives. (10 Economic Empowerment Zones only) We recommend a cost recovery approach that is designed to aid enterprises with zone resident workforce representation of at least 35%. 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.

Stakeholder Empowerment Tax Incentives. (Economic Empowerment Zones) In addition to these work empowerment incentives, we also 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 additional incentives for Worker Controlled Enterprises:

- Community Investment Corporations (CICs), owned 51% by zone residents, could be spurred through interest exclusions to lenders for loans made to CICs for purchase of qualifying zone tangible assets. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, or to participate fully in new information networks.

¹ 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 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.

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 encouraged through tax incentives. First, interest on loans to permit resident workers to start, acquire and expand WCEs could be excluded from taxation to a lender. Second, repayment of principal and interest on the loan would 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 sale of shares, the WCE will 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 development banking initiative and the low-interest loans available through the Community Investment Program of the Federal Home Loan Bank System. 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.

Resident Empowerment Savings Accounts: (all 110 zones) This individual savings plan will provide the first proving ground for implementing your pledge to establish Individual Development Accounts to empower low-income Americans to take the first steps toward economic self-sufficiency. A 50-percent tax credit would be available for a contribution by an employer, CIC, or WCE 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 against) without penalty to pay for education, purchasing a first home, or starting a small business.

Tax Exempt Private Facility Bonds: (all 110 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) will be limited to \$3 million in any one zone and a total of \$20 million across all zones.

Expansion of the Low Income Housing Tax Credit: (all 110 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 of present value.

BRIEF DESCRIPTION OF ZONE INVESTMENTS

Enterprise Block Grants: (Economic Empowerment Zones) We recommend that the ten Economic Empowerment Zones receive a substantial Enterprise Block Grant, on the order of \$150-175 million per urban zone and \$50-75 million per rural zone. As described above, in conjunction with other federal investments and incentives, state and local resources, and private sector commitments, this will enable local communities to craft a wide variety of creative initiatives to build a thriving economy.

Community Policing: (Economic Empowerment Zones and many of the 100 Enterprise Neighborhoods): 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.

Community Development Banks: (Economic Empowerment Zones and many Enterprise Neighborhoods) 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 and financial services. Each applicant must demonstrate in its strategic plan how it plans to do so, including financing CIC's and WCE's, among other enterprises.

Enterprise Neighborhood Grants: (100 Enterprise Neighborhoods) The second tier zones will receive Enterprise Neighborhood Grants. The grants would range from \$15 million to \$20 million dollars for urban zones and from \$5-10 million for rural zones. This grant would defray the costs of planning and start-up, as well as provide funds to stimulate 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.

4. Eligibility for Participation in Innovative Federal Experiments: (Economic Empowerment Zones and many of the 100 Enterprise Neighborhoods). Empowerment zones and Enterprise Neighborhoods will open the door to a host of innovative initiatives by the public and private sectors. The planning, cooperation and commitments required of local communities by the Challenge Grant Process will inspire a wide variety of private sector initiatives and public-private partnerships. Once designated and in operation, 110 community laboratories across the country will be working to prove what works and what doesn't.

Several of the Agencies believe that the consensus proposal provides an excellent challenge grant process and a unique platform to try a number of significant new policy approaches that will also contribute to the economic revival of distressed communities. As a result, each zone will be eligible to compete through the enterprise challenge grant process for a variety of special demonstration grants offered by different federal Agencies.

The hallmark of each initiative 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 Enterprise Board, 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.

DoEd, for example, has asked to include, and to provide funds for, a comprehensive Enterprise School Communities initiative to implement the National Education Goals in order to promote enterprise in the zone. This proposal will provide the opportunity for communities, families, service providers, and the private sector to pull together to learn for a lifetime of earning, saving, investing, contributing, and participating.

DOL, HHS and DOJ have also requested that a variety of demonstration opportunities for such local innovation be included in the enterprise challenge grant process: e.g., school-to-work, apprenticeship, welfare-to-work, unemployment-to-work, drug prevention and rehabilitation-to-work, and related juvenile justice initiatives. Commerce has suggested foreign trade zones, entrepreneurship training and enterprise assistance. HUD, Agriculture and DOT will also make available similar opportunities for local innovation, including Section 8 and Moving to Opportunity vouchers, Access to Opportunities (including transportation and job matching), 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 in many of the zones. The appendix attached at Tab B provides a list of initiatives now under consideration by the Secretaries.

5. Budget. Your budget includes \$4.1 billion in tax expenditures for enterprise zones. The consensus proposal reaches for \$6 billion by using \$1 billion that is currently in the baseline for Community Investment (\$500 million of which has been assigned to community policing but may be spent in the zones), and \$900 million in "contributions" from existing HUD and Agriculture programs over the five-year period, FY94-FY98.

Source of Funds	\$ in Millions
Tax Expenditures	4,100
Baseline FY93-FY 94	1,000
HUD and AG Contributions	900
Total	<u>6,000</u>

While, under the current budget proposal, all of the \$4.1 billion goes to tax expenditures, the consensus proposal would transfer \$1.1 billion to the investment side once 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.²

Of course, the total amount of federal funds dedicated to the Economic Empowerment Zones and Enterprise Neighborhoods will be greater than \$6 billion. As described above, agencies will target portions of their new initiatives to the zones. All enterprise applicants will also be challenged to establish Community Development Banks and other Community Development Financial Institutions under your community lending initiative.

Use of Funds	\$ in millions
Tax Incentives	
In Economic Empowerment Zones	
Property Expensing	248
Accelerated Depreciation	35
ETC	1,370
TETC	700
CIC Interest Exclusion	140
WCE Incentives	327
	2,820
All 110 Zones	
Savings Plan	20
Facility Bonds	50
LIHTC	110
	180
Sub-Total	3,000

² 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. We chose the first of these alternatives because it is most within your control. You can defer decision on this issue until the larger budget picture becomes clear.

Investments

In Economic Empowerment Zones	
Enterprise Block Grants	<u>1,250</u>
	1,250
Available in All 110 Zones	
Community Policing	500
Enterprise Grants	<u>1,250</u>
	<u>1,750</u>
Sub-total	<u>3,000</u>
Total (excluding other federal initiatives)	<u>6,000</u>

IV. ALTERNATIVE OPTIONS

A. NUMBER OF ZONES:

Option 1. 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods:
This is the consensus proposal described above.

Option 2. 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. Treasury believes that such a proposal would more closely resemble the compromise reached last fall and would be more readily received in Congress.

RECOMMENDATION: While we understand the Secretary's concern, we nonetheless recommend Option 1. On policy grounds, the Working Group believes that the concentration of resources in 10 zones is critical to ever seeing whether these zones can be successful. By concentrating not only resources but Administration effort in these 10 zones, we enhance our chances of demonstrating visible successes in our inner cities and poor rural communities and building support for new investments in the future. On political grounds, we believe that combining the 10 Economic Empowerment Zones with the 100 Neighborhood Enterprises, is a promising way of both expanding our reinventing government experiment while giving more members of Congress a visible accomplishment for their constituencies.

DECISION

Number of Zones

_____ 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods

_____ 25-50 Major Enterprise Zone's

_____ Discuss Further

B. TAX INCENTIVES

There are two issues concerning tax incentives. (The appendix at Tab C is Treasury's analysis of the tax policy concerning these issues, as well as other tax incentives.)

1. "BLANKET" vs. "INCREMENTAL" ETC FOR ZONE EMPLOYERS

Option 1. Blanket ETC: This is the consensus proposal described above, a credit to the zone employer of 25% of the first \$20,000 of each zone resident employee's wages and qualifying expenses for education and training. The credit applies to all resident zone employees. The percentage amount of the credit would remain at 25% for the first six years and then be phased out proportionally over the next five years.

Option 2. Incremental ETC: This ETC is applicable only to increases in employment of zone residents (where total employment also increases) from a stated base, e.g., 80% or 100% of a three-year running average. It could be figured on the basis of the first \$20,000 in employee wages and training, and the percentage amount of the credit could be 25% or higher. The Incremental ETC costs substantially less than the Blanket ETC and is targeted to expansion in employment.

RECOMMENDATION: We recommend option 1, the Blanket ETC. We are unanimous in this recommendation, but the majority of the working group believes this is a close call.

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. In addition to costing more, however, the Blanket ETC has another potential flaw: by creating an incentive for employers to substitute zone residents for non-resident employees, there could be some unpleasant situations where non-zone residents are fired. The Incremental ETC avoids this problem by being tied to increases in total employment. On balance, the Blanket ETC should prove more

effective in reducing the cost of doing business in the zone.

DECISION

_____ Blanket ETC

_____ Incremental ETC

_____ Discuss Further

2. INTEREST EXCLUSION VS TAX EXEMPT BOND FOR WCE'S AND CIC'S

Option 1. Interest Exclusion: This is the consensus proposal described above-- lenders may exclude from taxation the interest received on qualifying loans made to Worker Controlled Enterprises and Community Investment Corporations.

Option 2. Tax Exempt Bonds: Treasury proposes providing such financing only through a Zone Empowerment Tax-Exempt Bond, which would be exempted from the caps on state and local bonding authority. Treasury is concerned that the impact the empowerment incentives under Option 1 will be uncertain and that the benefits will accrue primarily to outside investors rather than the zone residents. Treasury therefore proposes to insert a public bonding authority in the transaction between the lender and the CIC or WCE to assure compliance with applicable law.

RECOMMENDATION: We recommend Option 1. These "stakeholder" tax incentives are core components of the consensus proposal. Under either option, no loan will be made unless the underlying asset, whether a business or land, supports the loan. As these empowerment incentives are limited to the 10 Economic Empowerment Zones, we believe that it is important to test their full impact with as many potential lender-investors, with as low a transaction cost as possible. In fact, we believe that one of the private sector commitments that will be included by zone applicants in their strategic plans is investment and technical assistance to prospective WCE's and CIC's. Although the Treasury proposal provides one appropriate mechanism for overseeing the funding of such loans, we do not believe it should replace a more broadly available interest exclusion.

DECISION

_____ Interest Exclusion on WCE/CIC qualifying loans

_____ Tax Exempt Bond

_____ Discuss Further

C. FEDERAL WAIVER AUTHORITY FOR EXISTING PROGRAMS.

A particularly thorny problem for our proposal to reinvent government is the 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 free 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. 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. Just this week, Mayor Daley submitted a persuasive report on the burdens of the regulatory federalism that we have inherited.

Although we propose to eliminate all burdensome strings from the Enterprise Block 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:

Option 1. Pilot Regulatory Relief: seek Congressional approval in the Enterprise legislation to authorize the Interagency Council to issue general waivers, both within and across a specified range of programs relevant to promoting enterprise, in each zone.

Option 2. New Waiver Authority: seek legislative authority for the Secretaries on the Enterprise Board to develop criteria for general waivers within specified programs and greater assistance in coordinating across programs in each zone.

Option 3. Administration 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.

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.

The second approach -- new waiver authority -- will provide substantial flexibility and responsiveness compared with the current situation. To be effective, it must also be included in the Enterprise legislation; but Congress should 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 Enterprise Board, will be able (a) to develop reasonably general and flexible criteria for general waivers within programs and coordination of efforts across programs and (b) to provide a single point of contact for all applicants.

The third approach -- administration budgeting to enlarge the Enterprise Block Grant via a reduction in other programs -- could proceed beginning with the budget for FY96. This would also require the cooperation of Congress and the support of program constituents. By next year, we may also be in a better position to determine whether a more comprehensive "reinventing government" initiative based on waivers across programs is workable. In any event, the third approach is not a viable alternative at the outset; it can only serve as an important supplement to be added in FY 1996, if you decide to pursue new waiver authority from Congress at this time.

Given the uncertainties and the need for full Congressional cooperation to implement any of the three approaches, we recommend that this issue be explored fully with Congress and the constituency groups as a part of the process of working with Congress and the Secretaries to seek Congressional support for your enterprise initiative. We believe that such a cooperative and full consultation with Congress may offer the best prospects for agreeing on an approach that provides the most flexibility in federal regulation that we can achieve, even on a pilot basis, for enterprise zones at this time.

DECISION

- Propose sweeping regulatory reform now, albeit on a pilot basis, to allow the Enterprise Board to waive regulations across a designated set of programs as part of approval of applicant's strategic plan
- Seek new waiver authority now (and then use the administration budgeting process to increase Enterprise Grant beginning in FY 96)
- Consult with Congress
- Discuss Further

D. Consensus Proposal or "Low Cost" Alternative.

Option 1. Consensus Proposal: This is the \$6 Billion proposal for 10 Economic

Empowerment Zones and 100 Enterprise Neighborhoods described above.

Option 2. Low-Cost Alternative: OMB proposes an option that adopts much of the consensus 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.

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 "low 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 D summarizes OMB's proposal.

RECOMMENDATION: There are four reasons why the Working Group strongly supports the Consensus proposal. First, while some of the working group were skeptical about the effectiveness of tax incentives, we feel that we have come forward with a thoughtful and targeted tax incentive package that will make a significant difference.

Second, enterprise zones have popular, bipartisan support because they rely on tax and market incentives. If we delete this aspect, we may lose support for the proposal.

Third, it is politically untenable for you to wait a year before coming up with a

significant urban economic proposal. It would send a misleading and destructive signal of retreat on your commitment to urban and rural America.

Finally, and most importantly, we believe that the tax incentives, in combination with the reinventing government and new investments, add up to an excellent proposal. Both of the co-chairs, Bruce Reed and Gene Sperling, feel that this proposal will be perceived not only as a bold stroke on enterprise zones, but also as a thoughtful new direction for building a comprehensive empowerment and community development strategy. This proposal can lay the foundation for a new agenda to empower individuals and communities to take responsibility for their own economic futures, for becoming full-participants in the economic mainstream.

DECISION

- Interagency Consensus Proposal
- "Low-cost" OMB Proposal
- Reject all proposals, Discuss Further

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

AGRICULTURE	Robert Nash Ron Blackley Milke Alexander	CEA	Joe Stiglitz Kevin Berner
COMMERCE	John 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

Within a few days, we will also be sending you decision memos on the other three pillars of our economic empowerment strategy: Community Development Banks, CRA Reform, and Urban Crime Partnership. Beyond the economic empowerment initiatives, our Interagency Working Group will expand to include the other relevant Agencies so that we can continue working on your comprehensive strategy for community development and empowerment. In that process we will be reviewing all existing programs and a host of new approaches in order to help you implement the new direction that you are charting.

**EXECUTIVE SUMMARY
ECONOMIC EMPOWERMENT ZONES
ENTERPRISE NEIGHBORHOODS**

I. Eligibility

- objective criteria for zone--

Minimum Population	
Urban	15,000
Rural	5,000
Maximum Population	100,000
Maximum Area in Square Miles	
Urban	20
Rural	1000
Maximum number of non-contiguous areas	
Urban	3
Rural, if within state	3
Rural, if multi-state	0
Maximum number of States	
Urban	2
Rural	3
Minimum % of Households in Poverty	
In 50% of tracts	35%
In 90% of tracts	25%
In 100% of tracts	20%
Additional Rules:	
1. CBD may be included iff at least 35% poverty rate	
2. 0 population tract may be included	
3. Tract with 2000 or fewer residents may be included iff zoned 75% or more commercial or industrial (unless CBD)	
4. Secretary discretion to waive iff substantial compliance with criteria and targeted area boundaries coincident with state or local enterprise designation prior to January 20, 1993	

II. Challenge Grant Process

• a grant process to challenge the local applicant to develop a comprehensive strategic plan, in partnership with the affected community, to reinvent the way local, state and federal government does business in order to enable private enterprise to flourish in even the most distressed areas

- each applicant must demonstrate that it has a comprehensive strategic plan to coordinate government funding across jurisdictional lines and among categorical programs on the most effective, efficient responsive, and entrepreneurial basis in order to provide services and a regulatory environment essential to the growth of enterprise

- evaluation and approval by Secretary of strategic plans based upon the following criteria--

- extent of partnership with affected local community and residents in formulating and implementing plan

- nature and scope of tangible private sector commitment to promote enterprise, including availability of insurance and credit, participation of community organizations and the non-profit sector, and complementary actions by state, regional and local authorities

- innovation in leveraging existing assets and governmental programs and new federal empowerment initiatives to provide safe streets, access to private capital, a more skilled workforce and real opportunities for zone residents to promote enterprise

- potential to enable enterprise zone to become an integral part of the local region's economy and to empower its residents to become full participants in economic mainstream

- objective benchmarks for measuring progress promoting enterprise, reporting results, and making mid-course corrections

III. Designation and Operation

- Designation of 60% of zones HUD Secretary and 40% by Agriculture Secretary, in consultation with Interagency Council--the Enterprise Board

- Review, negotiation and approval of each local Strategic Plan by Designating Secretary, in consultation with Enterprise Board

- Designating Secretary acts as single point of contact for Enterprise Board to assure flexibility and necessary waivers to enable Designee to proceed with approved Strategic Plan

- Ten-year duration

- Performance review by the Designating Secretary every year based on progress of each designee in meeting its benchmarks

• Based upon review of results at the end of year 4 and 7, Enterprise Block Grant subject to reduction or elimination or Designation subject to termination by Designating Secretary, unless strategic plan revised

IV. Federal Inducements

A. Available to all zones (Enterprise Neighborhoods and Economic Empowerment Zones)

Defined Savings Plan

Community Lending Initiative

Community Policing, Safe Streets, Cops on the Beat

Eligible for applying for innovative federal initiatives pursuant to challenge grant (listed at Tab B)

Tax-exempt Private Facility Bonds Relief

Low Income Housing Tax Credit Designation

Small Enterprise Block Grants (\$15-20 million per urban Enterprise Neighborhood; \$5-10 million per rural Enterprise Neighborhood)

Federal Deregulation and One-Stop Assistance

• Available only to Economic Empowerment Zones

New Frontier Homesteading--Community Investment Corporation (interest exclusion) and Worker Controlled Enterprise Incentives (interest exclusion to lender, deduction for payment of P&I to WCE, deferral of gain to worker/shareholder)

Credits for employers in zone for wages and expenses for training zone residents ("ETC")

Targeted, 2-year ETC for employers, wherever located, of zone residents

Capital and investment incentives for Qualified CEP Business and Qualified CEP Property --

Property expensing (section 179)

Accelerated depreciation

Large Enterprise Block Grants (\$150-175 million per urban zone; \$50-75 million per rural zone)

V. Budget: 1994-98

In Millions

Tax Incentives

10 Economic Empowerment Zones

Expensing	\$ 248
Accelerated Depreciation	\$ 35
ETC	\$1370
TETC	\$ 700
CIC Interest Exclusion	\$ 140
WCE Interest Exclusion	\$ 327
	<u>\$2820</u>

All 110 Zones

Savings Plan	\$ 20
Facility Bonds	\$ 50
LIHTC	\$ 110
	<u>\$ 180</u>

Total TAX \$3000

Community Policing -- All 110 Zones \$ 500

Enterprise Grants

10 Economic Empowerment Zones	\$1250
110 Enterprise Neighborhoods	\$1250
Total Enterprise	<u>\$2500</u>

Total Investment \$3000

Total Budget \$6000

VI. Evaluation and Sunset

•Independent review and evaluation by the National Academy of Sciences and reporting of results, findings, and recommendations, first, in 1998 and, again, in 2003 following the decennial census

•Periodic performance review by the Designating Secretaries, with the Interagency Working Group, and report to the President and to the Congress of the results, with mid-course corrections as required

•Sunset for enterprise legislation at the end of ten years.

LIST OF POSSIBLE FEDERAL CHALLENGE GRANTS FOR WHICH
ALL 110 ZONES ARE ELIGIBLE TO APPLY

Enterprise School Communities (DoED with HUD, HHS, DOL, Commerce)

Foreign Trade Zone (Commerce)

Minority Business, Small Business, and Microenterprise (SBA)

Make Work Pay--earnings supplement, medical protection, child care and transportation, like New Hope Project in Milwaukee (HHS, Treasury)

JOBS Distressed Area Demonstration--intensive, longer term training and community support, job matching throughout labor market, with many more immediate benchmarks, like Project MATCH in Chicago (HHS)

JOBS welfare-to-work training, earnings supplements and employer wage and training incentives (HHS)

Guarantee jobs, require training and require work (HHS)

Make JOBS open to two parent families (HHS)

Help young people become self-sufficient before begetting children (HHS and DoEd)

Parents Fair Share Projects and other pilots to assure that fathers work and provide support for their children (HHS)

Youth Fair Chance, YouthBuild, and School-to-Work Transitions--link youth apprenticeship and education to economic and community development projects in the zone (DOL, HUD and DoEd)

One Stop Shopping and Opportunity Cards for job search, retraining and other services (DOL)

Incentives for zone residents to obtain and retain jobs (DOL, HHS and Treasury)

Access to Opportunities, including transportation, job matching throughout labor market, and Section 8-Moving to Opportunity vouchers (HUD, HHS, DOT)

HOME and PHA Tenant management and ownership (HUD)

Juvenile Justice and Youth-to-Work (DOJ, DOL)

Drug education and rehabilitation-to-work (HHS, DOL, DOJ)

B. Lead

THE WHITE HOUSE

WASHINGTON

October 25, 1993

MEMORANDUM FOR SECRETARY CISNEROS

FROM: PAUL DIMOND *AD*

SUBJECT: SPEECH AT HUDSON INSTITUTE

Attached are the notes (since typed) from my speech at the Hudson Institute's national conference with several hundred participants on empowerment zones. I'm not sure how much I took off from my handwritten scribbles during the talk, but any drift wasn't too far from the gist of the attached. The speech was followed by a half hour of questions. When the transcript arrives, I'll send that along to you for your information.

Despite an audience made up of academics skeptical of any enterprise initiative and practitioners wanting more, the questions and reactions following the address suggest that I didn't strike out pinch-hitting for you. The focus on economic issues, jobs and a hard-headed investment approach struck a responsive chord with all segments of the audience. Even the Conference Chair, former Mayor Hudnut, seemed almost to get over his initial pique at having me instead of you.

Les Lenkowsky from Hudson will get back to us with suggestions emerging from the proceedings of the ensuing three-day conference.

cc The Vice President
Carol Rasco
Bob Rubin

HUDSON INSTITUTE SPEECH
NATIONAL CONFERENCE ON EMPOWERMENT ZONES

I. Introduction.

● I'm here pinch-hitting for Secretary Cisneros tonight, just like Paul Molitor played in place of the American League's leading hitter, John Olerud last night. If I'm lucky I'll begin with a two-RBI hit and close with a home run. If you're lucky, this game won't go on for four and half hours and end at 1 a.m.

● Common ground with Hudson Institute? President Clinton often remarks: (1) that governments don't raise kids...Families do; and (2) We don't have a person to waste if we are going to win in the economic competition that is part of the free enterprise economy that is emerging all around the globe.

Two corollaries for enterprise zones shared by the Hudson Institute and President Clinton: (1) neither government nor tax breaks build business, jobs, families or communities....People working together do; (2) distressed communities -- that now act as backwaters in regional economies all across the country -- must be empowered to join the mainstreams of dynamic growth in all our diverse regions. As a nation, we are now engaged in a historic transition from what in retrospect seems like a safer old American industrial economy to a far braver, more competitive new global economy; we won't succeed as a nation in making the most of this crossing unless distressed communities and disaffected people join with us.

● We're gathered here to share experiences and ideas on how to make wise investments to empower distressed communities all across America to come together to do just that. This is the appropriate time to share ideas and experience because the Clinton-Gore Administration's Economic Empowerment initiative is a work in progress. [Summarize procedural history of legislation, President's September 9 memorandum creating Community Enterprise Board, tentative timeline for announcing challenge grant, receiving applications, making initial designations].

● Vice-President as chair -- symbol of importance of initiative to President; dynamic force to assure full commitment, cooperation and responsiveness of federal agencies; personally committed to working with communities all across America to make this initiative a success. [Personal story of briefing book and Vice-President's enthusiasm.] Vice-President's challenge to build a national challenge process for empowerment zones that, like the Baldrige Awards for business firms, will benefit all communities who choose to participate. Les Lenkowsky (President of Hudson Institute) has assured me that he will report fully to me all of your suggestions, questions, cautions, and ideas for designing and implementing such a transforming challenge process. We welcome your advice and counsel.

II. Three Basic Elements to our Economic Empowerment Challenge Process: (1) a new compact with communities, (2) matching federal investments, and (3) selection criteria to

assure safety and soundness and effectiveness of federal investments.

● **New Compact** -- reinvent the way we do business with communities: **if** communities will join together with localities, the state, and the private sector throughout the local region to plan strategically how they will become integral parts of dynamic local economies, to break down the barriers to private enterprise, to coordinating services and reinventing state and local government on the ground where it matters, in partnering in innovative ways with the community-based organizations and the private sector, **then** we at the federal level will break down all agency barriers and work cooperatively together to respond to each community's own plan. This is not top-down federal command and control, but bottom-up rebirth and revitalization. It is therefore no surprise that the President chose Mr. Reinventing Government, the Vice-President of the United States, to chair the Community Enterprise Board and lead this customer driven, performance-oriented economic empowerment initiative.

● **Matching Federal Investments** - 4 types, each providing over \$3 billion in additional investment. The first has been authorized by Congress, and the legislation describes how the benefits will be divided among 9 empowerment zones, 95 enterprise communities or made more broadly available. The other three types of federal investment are being added by the Administration; and we have discretion to target to 9 zones, some or all of the 95 communities, or offer separately to a larger number of participants in the challenge process.

1. **Budget Reconciliation** -- Substantial wage credits and increased expensing to reduce the cost of doing business in the nine zones and increase the hiring of zone residents. Block grants to build the capacity of community-based organizations to promote economic self-sufficiency for all persons and families in the zones and communities. Tax exempt private facility bonds to provide financing for the creation and expansion of businesses and community investment corporations in the zones and communities. Expansion of LIHTC to promote housing, capital gain deferrals and exclusions for investment in SSBIC's to build business, and designation of 20 CDC's with substantial tax credits to build the capacity of community-based organizations throughout the country.

2. **Additional Capital Investment for Business Expansion** -- 9 SBA one-stop regional or national centers, each with \$300-400 million in private capital for investing in business in distressed communities all across America. Reform of CRA to reward actual lending and investment performance by the regulated banks and thrifts rather than paperwork or participation in community meetings; this will provide each community with an opportunity to secure full support from the major regulated financial institutions for business. With passage of the President bill, CDFIs to provide the investment expertise and community catalysts to partner qualified businesses with regulated and unregulated financial institutions. [Story of Gene Ludwig, the flock, the golden

eggs, the new coalition between community groups and banks; the sudden interest of unregulated institutions in participating. Working together, we can show the way to pension funds, insurance companies, the mortgage and credit companies, and Wall Street: to make sound investments that work for the investors and for building business in distressed communities all across the country.]

3. Capital Investment for Housing and Community Development -- working with GSE's like Fannie Mae in partnership with FHA, HUD, USDA, and HHS to provide several billion dollars in capital for home ownership and mixed-income housing rehabilitation and development in selected zones or communities. [Conversation with head of Fannie Mae concerning relative mobility and effectiveness of providing capital for housing and home ownership to build economic base in distressed communities committed to economic revitalization -- if we can show that it works in a few communities through this initiative, we can replicate this housing investment strategy in to rebuild communities all across the country.]

4. Agency Contributions -- in addition to working together to break down agency and program barriers in order to respond to community strategic plans so that existing federal resources can be deployed much more effectively by each community on the ground where it counts, each of the agencies is offering additional programs that a community may choose to use if it fits into the community's own plan. (Examples. End with leadership of Secretary Cisneros. Given his leadership of economic empowerment legislation in the inter-agency working group from the beginning and in Congress in passing legislation that he has taken the lead in showing the way on Agency coordination and contributions.)

Together, these four types of investments can be used by communities to lever substantial **matching** investments -- both dollar and in-kind -- from the State, the private sector in the surrounding region, the locality and the community. Why, I even suggested at an early meeting that we ought to count matches more if the commitments were made up-front and would be carried out even if the applicant were not designated an empowerment zone or community....[pause] There don't need to be any losers here: every community that participates in the challenge process can come together to build a gameplan that wins effective investments from a wide variety of investment sources.

● **Selection criteria.** In this economic empowerment initiative, we at the federal level are first, and foremost, an investor. This is not government business as usual, this is not pork barrel politics: if it were we'd have 435 empowerment zones and an open checkbook.

Instead, effective selection criteria for designation are now under consideration: Once finalized, they will provide the pre-conditions for our investment. An interagency

process is now underway that will propose criteria to the Community Enterprise Board. To stimulate your advice to us on what makes sense, consider five criteria that I believe, personally, merit discussion:

1. Safety and Security of Person and Property. In 1866, in the country's first civil rights act following the end of our civil war to end slavery, Congress understood that the newly freedmen needed first and foremost the same security of person and property as the white man. You would think we would know as much today: no place is free to build jobs, firms, families, and community unless it is free from the scourge of crime and violence. As a federal government, we will do all we can to help -- with the Crime Bill, the Brady Bill, and General Reno's campaign against violence. But I don't believe that we should be making any additional investments unless the community -- in conjunction with the state, the locality, and the private sector, who together bear the primary responsibility -- explains how the safety and security of all persons and property will be guaranteed. This should be a basic foundation requirement for any investment, period!

2. Building Jobs and Firms in the Zone. If a distressed community is going to become an engine of economic growth in the local regional economy, it must build jobs and firms within the zone. A wide variety of elements may go into helping people build jobs and firms; but it's up to each community to tell us how it's going to work to build both. We expect a substantial return on our investment in the form of new and expanding business and real jobs for real people.

3. Empowering Zone Residents to Work. While building jobs and firms in the zone that will contribute to economic growth throughout the region, we can't forget that zone residents, like all others outside the zone, are part of a local regional labor market: employers throughout the entire labor market -- business, non-profits, and governments -- must join to make their job hiring networks -- formal and informal -- fully available to zone residents, immediately. And if a few communities can demonstrate how to end the isolation of workers in distressed communities from jobs throughout the labor market, we can end the incredible unemployment that has ravaged so many distressed communities for too long.

4. Building on Existing Assets. Each community must examine its own assets and build off of strengths to exploit its unique competitive advantage. As one example, consider how in the old industrial economy of the 1950's and 1960's, center cities were at a tremendous disadvantage because the engine of economic growth was the single-story, long line mass production plant that required ample space -- usually green -- for development and expansion. The new economy presents no such competitive disadvantage for center cities: the means of production don't require any particular land area. Each community, of course, will have to review its own assets and develop its own

vision for building its own engine of economic growth in each region. But, there is no reason why the engines of growth in the year 2000 --like the long line plants in the suburbs in the 1950's and 1960's or the Silicon Valleys around Palo Alto, Boston, and the Research Triangle in the 1970's and 1980's -- won't also be located in places like Harlem adjacent to Columbia University or in South L.A. next to USC and why the current residents in these communities can't be highly paid partners working, harder and smarter, to add value to the these new enterprises.

5. Co-investing. Finally, we at the federal level should be co-investors. That means in most cases that we should expect state and local applicants to bring effective investments from a wide variety of state, local, private sector and the communities to the table. This also means that we should expect a real business plan -- with goals, baselines, benchmarks, and a process for periodic review and mid-course correction to permit our venture partners to exploit opportunities and to overcome obstacles. And, like any good investor, we want to learn from what works and what doesn't, so that we all can make better judgements and replicate success and avoid failure in the future.

These are just five possible criteria: they relate primarily to performance and outcomes. You may have better alternatives or additional ones. There may also be essential process and qualitative criteria that a wise federal investor should add. Now, is the time to give us your best advice and thinking on establishing selection criteria and designing a national challenge competition that will work for all communities.

III. Conclusion. Before I respond to your questions, I'd like to close with one final thought: Enterprise zones and community empowerment have been works in progress for over twenty years now in many states and localities all across the country; and, during this time, there was certainly a lot of talk from Washington on the subject. For the first, however, the Clinton-Gore Administration can come to a gathering like this and do more than talk: for the first time a federal administration comes with something of substance to put on the table.

Now, let's roll up our sleeves and get down to work, together.

Questions?

DRAFT -- PRESIDENT HAS NOT SEEN

April 2, 1993

MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: AN ECONOMIC EMPOWERMENT STRATEGY

Bruce -
I haven't proofed
yet. 7 a.m. this
morning, everything
began to look better.
Can you review --
one more time.
I'm not sure that
I got your last
set of comments.
Thanks.

Paul

I. INTRODUCTION

A. 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.

B. 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 to child care to the need for school reform and safe streets. We brought half a dozen agencies together to rethink existing programs and to begin developing 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 Development Banks, strengthening the Community Reinvestment Act and fair lending requirements, and a major community partnership against crime that will enable these communities to promote enterprise. 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.

C. ~~β~~ ECONOMIC EMPOWERMENT STRATEGY

This economic empowerment strategy 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 economic 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 the other three components 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 our economic empowerment zone proposal, 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. Our proposal challenges 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 proposal. 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 H.R. 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 previous Administration refused to designate any zones. In October 1992, with the leadership and considerable effort of Senator Bentsen, Congress passed H.R. 11, which Bush -- who had fought Senator Bentsen every step of the way -- 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 \$500 million a year for a broad array of federal programs within the zones in addition to tax incentives.

While H.R. 11 moved in the right direction due to Senator Bentsen's heroic efforts, our entire working group -- including Treasury -- agreed that we should go further.

Based on our review, our Interagency Working Group reached a substantial consensus and recommends 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.

III. 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 IV we present the key decisions that we made in reaching the Proposal, so that you can consider the major options presented within our working group. The most consequential of these alternatives is a "low-cost" option offered by OMB.

1. 10 Economic Empowerment Zones, 100 Enterprise Neighborhoods: The Working Group agreed that greater resources should be focused on 10 Economic Empowerment Zones. We also recognized, however, the political problems we would face 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 Development Bank, 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 it submits a strategic plan demonstrating 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.

This challenge process consists of five components:

a. National Competition. All applicants will be required to present a strategic plan for economic empowerment--in partnership with the affected communities. The strategic plan will be judged on the following criteria:

- 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
- extent of coordination of local, state and federal funds across jurisdictional lines and among categorical programs
- 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 to promote enterprise, including availability of insurance and credit, participation of community organizations and the non-profit sector, and complementary actions by state, regional and local authorities
- innovation in leveraging existing assets and governmental programs and new federal empowerment initiatives to provide safe streets, access to private

capital, a more skilled workforce and real enterprise opportunities for zone residents

- objective benchmarks for measuring progress in 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--the Enterprise Board--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 10 Economic Empowerment Zones receive a substantial Enterprise Block Grant, on the order of magnitude of \$50-175 million per urban zone (and \$50-75 million per rural zone) for FY 93-98. This will enable local communities to craft a wide variety of creative initiatives to augment 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, environmental, and worker safety requirements
- implementation of the strategic plan without supplanting other federal support and
- periodic review of results

These Enterprise Block Grants may be used for a variety of purposes. Examples include:

- providing self-sustaining loan loss reserve funds
- leveraging community development banking initiatives for microenterprise,

small business, real estate and community development

- contracting for technical assistance, entrepreneurial support, workforce skill programs and job-search and job-matching networks in the labor market
- providing the equity or bridge financing for major business or commercial expansion
- providing 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 much more than just assuring that the 10 Economic Empowerment Zones have the capacity to reinvent government concerning the new funds for the Enterprise Block Grants: the core of our proposal is to provide all 110 zones with the flexibility to use a coordinated strategy for deploying existing funds and existing programs. Thus, all 110 zones chosen -- both tiers -- would be offered significant deregulation. 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 next section -- Part V. Alternative Options -- we therefore discuss several approaches to expanding the scope of the existing waiver authority.

e. Periodic Review of Results --- Independent Evaluation and Sunset. In consultation with the Enterprise Board, the Designating Secretaries (HUD and Agriculture) 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 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 the 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 serious consideration of the lessons learned from experience with federally supported enterprise zones.

3. Tax Incentive and Investment Provisions. To provide a picture of the nature and scope of the incentives and investments in the proposal, we offer a list before briefly describing each.

10 ECONOMIC EMPOWERMENT ZONES

INVESTMENTS

- Enterprise Block Grants (\$50-175 million)
- Community Development Banks
- Community Policing
- Coordination and Flexibility with Existing Funds
- Education Enterprise Funds
- Eligibility for Participation in 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 ("TETC") 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 Facility Bonds for investments in tangible property in the zone.
- Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- Resident Community Investment Corporations (CICs)
- Worker Controlled Enterprises (WCEs)
- Resident Empowerment Savings

100 ENTERPRISE NEIGHBORHOODS

INVESTMENTS

- Enterprise Neighborhood 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 Facility Bonds for investments in tangible property in the Zone.
- Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- Resident Empowerment Savings Account

BRIEF DESCRIPTION OF ZONE TAX INCENTIVES:

Tax incentives should be designed to promote the creation of new enterprise in the zone, to encourage the expansion of existing zone businesses, 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 the following incentives:

Capital Tax Incentives. (10 Economic Empowerment 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 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. 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
- 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 \$12,000 in the second year of each new zone resident employee's wages and qualifying expenses for education and training.

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. The same card will allow the residents to open a Defined Savings Plan (discussed below) and a checking account with the nearest Community Development Bank.

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.¹ In addition, we also recommend that DOL, HHS and Treasury work with the Ten Economic Empowerment Zones to experiment 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.

Stakeholder Empowerment Tax Incentives. (10 zones only) In addition to these work empowerment incentives, we also 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 additional

¹ 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 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.

incentives for Worker Controlled Enterprises:

- Community Investment Corporations (CICs), owned 51% by zone residents, could be spurred through interest exclusions to lenders for loans made to CICs for purchase of qualifying zone tangible assets. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, or to 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 encouraged through tax incentives. First, interest on loans to permit resident workers to start, acquire and expand WCEs could be excluded from taxation to a lender. Second, repayment of principal and interest on the loan would 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 sale of shares, the WCE will 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 Development Banking initiative, including through low-interest loans from the Community Investment Program of the Federal Home Loan Bank System. 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.

Resident Empowerment Savings Accounts: (all 110 zones) This individual savings plan will provide the first proving ground for implementing your pledge to establish Individual Development Accounts to empower low-income Americans to take the first steps toward economic self-sufficiency. A 50 percent tax credit would be available for a contribution by an employer, CIC, or WCE 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 against) without penalty to pay for education, purchasing a first home, or starting a small business.

Tax Exempt Private Facility Bonds: (all 110 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 zones.

Expansion of the Low Income Housing Tax Credit: (all 110 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 of present value.

BRIEF DESCRIPTION OF ZONE INVESTMENTS

Enterprise Block Grants (10 Economic Empowerment Zones only). We recommend that 10 zones receive a substantial Enterprise Block Grant, on the order of \$150-175 million per urban zone and \$50-75 million per rural zone. As described above, in conjunction with other federal investments and incentives, state and local resources, and private sector commitments, this will enable local communities to craft a wide variety of creative initiatives to build a thriving economy.

Community Policing: (10 Economic Empowerment Zones and many of the 100 Enterprise Neighborhoods): 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 for meeting your pledge of 100,000 additional cops on the beat.

Community Development Banks: (10 Economic Empowerment Zones and many Enterprise Neighborhoods) The 10 Economic Empowerment zones will have a Community Development Bank. The other 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.

Enterprise Neighborhood Grants: (100 Enterprise Neighborhoods) The second tier zones will be eligible for Enterprise Neighborhood Grants. The grants for urban Enterprise Neighborhoods would range from \$15 million to \$20 million dollars, and for rural from \$5-10 million. This grant would defray the costs of planning and start-up, as well as provide funds to stimulate 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.

4. Eligibility for Participation in Innovative Federal Experiments: (10 zones and many of the 100 Enterprise Neighborhoods). These investments and incentives are only a first step. Empowerment zones and Enterprise Neighborhoods will open the door to a host of innovative initiatives by the public and private sectors. The planning, cooperation and commitments required of local communities by the Challenge Grant Process will inspire a wide variety of private sector initiatives and public-private partnerships. Once designated and in operation, 110 community laboratories across the country will be competing to prove what works and what doesn't.

Several of the Agencies believe that the consensus proposal provides an excellent challenge grant process and a unique platform to try a number of significant new policy approaches that will also contribute to the economic revival of distressed communities and to jobs for their residents. As a result, each zone will be eligible to compete through the enterprise challenge grant process for a variety of special demonstration grants offered by different federal Agencies.

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 Enterprise Board, 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. For example, DoEd has asked to include, and to provide funds for, a comprehensive Enterprise School Communities initiative to implement the National Education Goals in order to promote enterprise in the zone. This proposal will provide the opportunity for communities, families, service providers, and the private sector to pull together to learn for a lifetime of earning, saving, investing, contributing, and participating.

DOL and HHS have also requested that a variety of demonstration opportunities for such local innovation be included in the enterprise challenge grant process: e.g., school-to-work, apprenticeship, welfare-to-work, unemployment-to-work, and drug prevention and rehabilitation-to-work initiatives. Commerce has suggested foreign trade zones, entrepreneurship training and enterprise assistance. HUD, Agriculture and DOT will also make available similar opportunities for local innovation, including Section 8 and Moving to Opportunity vouchers, Access to Opportunities (including transportation and job matching), 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 to many of the zones. The appendix attached at Tab B provides a list of initiatives now under consideration by the Secretaries.

5. Budget. Your Budget includes \$4.1 billion in tax expenditures designated for enterprise zones. The consensus proposal reaches for \$6 billion by using \$1 billion that is currently in the baseline for Community Investment (\$500 million of which has been assigned to community policing but may be spent in the zones), and \$900 million in "contributions" from existing HUD and Agriculture programs over the five-year period, FY94-FY98.

Source of Funds	\$ in Millions
Tax Expenditures	4,100
Baseline FY93-FY 94	1,000
HUD and AG Contributions	900

from currently proposed Budgets	_____
Total	\$6,000

While, under the current budget proposal, all of the \$4.1 billion goes to tax expenditures, the consensus proposal would transfer \$1.1 billion to the investment side once 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.²

The final total of federal funds dedicated to the Economic Empowerment Zones and Enterprise Neighborhoods will be greater than \$6 billion. There are two reasons. First, as described above, the Agencies will target portions of their new initiatives on the zones, so that they can be part of this experiment, and so that they can see how different models of their initiatives 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 communities to respond through the challenge grant process with innovative demonstrations in the zones. Second, all enterprise applicants will be challenged to establish Community Development Banks and other Community Development Financial Institutions under your community lending initiative.

Use of Funds	\$ in millions
Tax Incentives	

² 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. In the text we chose the first of these alternatives because it is most within your control. You can defer decision on this issue until the larger Budget picture becomes clear.

Only in 10 Economic Empowerment Zones

Property Expensing	248
Accelerated Depreciation	35
ETC	1,370
TETC	700
CIC Interest Exclusion	140
WCE Incentives	<u>327</u>
	2,820

All 110 Zones

Savings Plan	20
Facility Bonds	50
LIHTC	<u>110</u>
	<u>180</u>
Sub-Total	3,000

Investments

Only in 10 Economic Empowerment Zones

Enterprise Block Grants	<u>1,250</u>
	1,250

Available in All 110 Zones

Community Policing	500
Enterprise Grants	<u>1,250</u>
	<u>1,750</u>
Sub-total	<u>3,000</u>

Total (excluding CD lending and agency challenge innovations) \$6,000

V. ALTERNATIVE OPTIONS

A. NUMBER OF ZONES:

Option 1. **10 Economic Empowerment Zones and 100 Enterprise Neighborhoods:** This is the consensus proposal described above.

Option 2. **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. Treasury believes that such a proposal would more closely resemble the compromise reached last fall and would be more readily received in Congress.

RECOMMENDATION: We recommend option 1, 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods. We believe that Congress is ready to welcome your leadership in proposing this new approach, which provides in the first year more fully enhanced zones, plus 100 additional Enterprise Neighborhoods to challenge communities everywhere to join us in reinventing urban and rural America. We also believe that the consensus proposal is more consistent with long-term budget constraints: the annual cost of the 25-50 zones, when all are up and running in 1997, is two to four times greater per year. Finally, we believe there is merit in experimenting to determine whether a relatively small incentive package -- coupled with reinvention of community participation, empowerment, and government, from bottom to top -- will work.

DECISION:

1. Number of Zones

_____ 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods

_____ 25-50 Major Enterprise Zone's

_____ Discuss Further

B. TAX INCENTIVES

There are two issues concerning tax incentives. (The appendix at Tab C is Treasury's analysis of the tax policy concerning these issues, as well as other tax incentives.)

1. "Blanket" vs. "Incremental" ETC for Zone Employers

Option 1. **Blanket ETC:** This is the consensus proposal described above, a credit to the zone employer of 25% of the first \$20,000 of each zone resident employee's wages and qualifying expenses for education and training. The credit applies to all resident zone employees. The percentage amount of the credit would remain at 25% for the first six years and then be phased out proportionally over the next five years.

Option 2. **Incremental ETC:** This ETC is applicable only to increases in employment of zone residents (where total employment also increases) from a stated base, e.g., 80% or 100% of a three-year running average. It could be figured on the basis of the first \$20,000 in employee wages and training, and the percentage amount of the credit could be 25% or higher. The

Incremental ETC costs substantially less than the Blanket ETC and is targeted to expansion in employment.

RECOMMENDATION: We recommend option 1, the Blanket ETC. We are unanimous in this recommendation, but the majority of the working group believes this is a close call.

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. In addition to costing more, however, the Blanket ETC has another potential flaw: by creating an incentive for employers to substitute zone residents for non-resident employees, there could be some unpleasant situations where non-zone residents are fired. The Incremental ETC avoids this problem by being tied to increases in total employment. On balance, the Blanket ETC should prove more effective in reducing the cost of doing business in the zone.

DECISION

_____ Blanket ETC

_____ Incremental ETC

_____ Discuss Further

2. Interest Exclusion vs. Tax Exempt Bond for WEC and CIC

Option 1. Interest Exclusion: This is the consensus proposal described above--lenders may exclude the interest on loans made (a) to WEC's to empower zone workers to start, buy, or expand zone businesses in which they work and (b) to CIC's to empower zone resident membership organizations to acquire tangible assets with profit, development and appreciation potential in the zone (e.g., land, utility and information infrastructures, buildings).

Option 2. Tax Exempt Bonds: Treasury proposes to limit both interest exclusions to a Zone Empowerment Tax-Exempt Bond, which would be exempted from the caps on state and local bonding authority. Treasury is concerned that the impact of such new empowerment incentives is uncertain and that the benefits will accrue primarily to outside investors rather than the zone residents. Treasury therefore proposes to insert a public bonding authority in the transaction between the lender and the CIC or WEC to assure compliance with applicable law.

RECOMMENDATION: We recommend option 1, the interest exclusion. These tax incentives for empowering zone residents to become full stakeholders in shaping their own enterprise destinies are core components of the consensus proposal. Under either option, no

loan will be made unless the underlying asset, whether a business or land, supports the loan. The resident worker/owners, by dint of their effort and creativity, can then reap the appreciation that results from building their own business or developing their own community. As these empowerment incentives are limited to the 10 Economic Empowerment Zones, we believe that it is important to test their full impact with as many potential lender-investors, with as low a transaction cost as possible. In fact, we believe that one of the private sector commitments that will be included by zone applicants in their strategic plans is investment and technical assistance to prospective WEC's and CIC's. Although the Treasury proposal provides one appropriate public process for overseeing the funding of such loans, we do not believe it should replace a more broadly available interest exclusion.

DECISION:

- Interest Exclusion on WEC/CIC qualifying loans
- Tax Exempt Bond
- Discuss Further

C. Federal Waiver Authority for Existing Programs.

A particularly thorny problem for our proposal to reinvent government is the 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. 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. Just this week, Mayor Daley submitted a persuasive report on the burdens of the regulatory federalism that we have inherited.

Although we propose to eliminate all burdensome strings from the Enterprise Block 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:

Option 1. Pilot Regulatory Relief: seek Congressional approval in the Enterprise legislation to authorize the Interagency Council to issue general waivers, both within and across a specified range of programs relevant to promoting enterprise, in each zone.

Option 2. New Waiver Authority: seek legislative authority for the Secretaries on the Enterprise Board to develop criteria for general waivers within specified programs and greater assistance in coordinating across programs in each zone.

Option 3. Administration 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.

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.

The second approach -- new waiver authority -- will provide substantial flexibility and responsiveness compared with the current situation. To be effective, it must also be included in the Enterprise legislation; but Congress should 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 Enterprise Board, will be able (a) to develop reasonably general and flexible criteria for general waivers within programs and coordination of efforts across programs and (b) to provide a single point of contact for all applicants.

The third approach -- administration budgeting to enlarge the Enterprise Block Grant via a reduction in other programs -- could proceed beginning with the budget for FY95. This would also require the cooperation of Congress and the support of the constituents to be implemented. By that time, we may 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. In any event, the third approach is not a viable alternative at the outset; it can only serve as an important supplement to be added in FY 1995, if you decide to pursue new waiver authority from Congress at this time.

Given the uncertainties and the need for full Congressional cooperation to implement any of the three approaches, we **do recommend** that this issue be explored fully with Congress and the constituency groups as a part of the process of working with Congress and the Secretaries to seek Congressional support for whatever enterprise proposal you choose. We believe that such a cooperative and full consultation with Congress may offer the best prospects for

agreeing on an approach that provides the most flexibility in federal regulation that we can achieve, even on a pilot basis, for enterprise zones at this time.

DECISION:

- _____ Propose sweeping regulatory reform now, albeit on a pilot basis, to allow the Enterprise Board to waive regulations across a designated set of programs as part of approval of applicant's strategic plan
- _____ Seek new waiver authority now (and then use the administration budgeting process to increase Enterprise Grant beginning in FY 95)
- _____ Consult with Congress
- _____ Discuss Further

D. Consensus Proposal or "Low Cost" Alternative.

Option 1. Consensus Proposal: This is the \$6 Billion proposal for 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods described above.

Option 2. Low-Cost Alternative: OMB proposes an option that adopts much of the consensus 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.

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 "low 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 D summarizes OMB's proposal.

RECOMMENDATION: We recommend the consensus proposal. First, we believe that tax incentives must play a part in a comprehensive approach to enterprise zones. Although we understand OMB's skepticism about tax incentives, we believe that they are more than just politically essential to maintain bi-partisan support. The package of tax incentives in the consensus proposal is also crafted to support our entire proposal to empower local communities to reinvent themselves.

Second, the combination of federal inducements will permit all of the designated local communities to attempt bold new initiatives to promote enterprise pursuant to their own, comprehensive strategic plans. This includes the 100 Enterprise Neighborhoods, which have a very modest incremental cost per zone. In fact, we do not underestimate the potential of these distressed urban and rural communities to work to become integral parts of their respective local and regional economies. Without the ten Economic Empowerment Zones, however, the proposal would -- for all practical political purposes -- just cede the initiative on enterprise zones to Congress.

Third, we are committed to continuing our review of urban and rural policy in the months ahead: in cooperation with the respective Agencies, including OMB, 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 urban and rural initiatives. For you to wait a full year on the legislative calendar before proposing such a major urban initiative, however, would be perceived by the country as a stunning retreat from your campaign commitments.

Finally, we believe that the consensus proposal is such a major initiative. It answers 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. Bruce Reed and Gene Sperling, the co-chairs of the Interagency Working Group on Community Development and Empowerment, are convinced that the consensus proposal will work -- for you, for the communities, and for America.

If the consensus proposal succeeds, there will be enough credit for all to share; and the cost will be understood as one of your best investments in the future. If it does not, we are

determined to persist in such bold experimentation to empower all persons and places to work to join the new economic mainstreams that will determine all of our futures.

DECISION

- Interagency Consensus Proposal
- "Low-cost" OMB Proposal
- Reject all proposals, Discuss Further

DRAFT - PRESIDENT HAS NOT SEEN

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

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.

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 the other three pillars 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 proposal, 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

ALL CAPS

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. ✓

~~III.~~ ~~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 ~~III~~ 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. section

~~IV~~ 1. **10 Economic Empowerment Zones, 100 Enterprise Neighborhoods:** The Working Group agreed that greater resources should be focused 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 levering 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.

any other word will do -
e.g.,
"levering"

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:

- 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
- 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
- objective benchmarks for measuring progress in 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--the Enterprise Board--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.

3per1

With respect to the new enterprise outlays, we propose an

[Handwritten signature]

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 search 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.

good section

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.

3. Tax Incentive and Investment Provisions. To provide a picture of the nature and scope of the incentives and investments in the proposal, we offer a list before briefly describing each.

LIST OF SPECIFIC TAX AND INVESTMENT PROVISIONS

10 ECONOMIC EMPOWERMENT ZONES

INVESTMENTS

- o Enterprise Block Grants (\$⁵⁰⁻¹⁷⁵~~75-200~~ million) *per zone*
- o Community Development Banks
- o Community Policing
- o Coordination and Flexibility with Existing Funds
- [o Education Enterprise Funds?]
- o ~~Eligibility for Participation in~~ Innovative Federal Experiments *Priority*

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 ^{every zone resident} (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 for investments in tangible property in the Zone.
- o Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- o Resident Community Investment Corporations (CICs)
- o Worker Controlled Enterprises (WCEs)
- o Resident Empowerment Savings ~~Trust~~ Account

100 ENTERPRISE NEIGHBORHOODS:

INVESTMENTS

- o Enterprise Neighborhood Grants ⁵⁻²⁰ ~~5-20~~ (\$8.25 million per zone)
- o Eligibility for Community Development Banks
- o Eligibility for Community Policing
- o Coordination and 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 for investments in tangible property in the Zone.
- o Expansion of the Low Income Housing Tax Credit

EMPOWERMENT INCENTIVES

- o Resident Empowerment Savings Account

BRIEF DESCRIPTION OF ZONE TAX INCENTIVES:

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 the following incentives:

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. 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 obtain training. 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
- 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 new zone resident employee's wages and qualifying expenses for education and training.

Every qualified zone resident will receive an empowerment card in the mail which they can present to a prospective employer to qualify for the credit. The same card will allow them to open a Savings Account at the local CDB and a checking account at the nearest CDB. *spell out (see below)*

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

MOVE Down (to match Gov's table) TO (A) p. 11

a Resident Empowerment

It could also be used in future experiment in electronic delivery of food stamps, AFDC, and job training money

market. In addition, we also recommend ^{ing} experimenting with an alternative to the Targeted ETC: provide the prospective employee with an incentive ~~for~~ ^{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.

*Insert
from
p 10* **Empowerment Tax Incentives.** (10 zones only) 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 additional incentives for Worker Controlled Enterprises.

- Community Investment Corporations (CICs), owned 51% by zone residents, could be spurred through interest exclusions to lenders for loans made to CICs for purchase of qualifying zone tangible assets. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, and to 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 encouraged through through tax incentives. First, interest on loans to permit resident workers to start, acquire and expand WCEs could also be excluded from taxation to the lender. Second, repayment of principal and interest on the loan would be a deductible business expense to the WCE. With full disclosure, worker control, annual reporting of individual share values to each zone shareholder, and deferral of taxes to the worker until sale of shares, the WCE will 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

good 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 is therefore essential with respect to the Enterprise TETC. The extent 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.

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.²

Resident Empowerment Savings (Accounts? 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.

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 Zones.

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 of present value.

BRIEF DESCRIPTION OF ZONE INVESTMENTS

Enterprise Block Grants (10 zones only) We recommend that the

²These 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.

Economic Empowerment Zones receive a substantial Enterprise Block Grant, on the order of \$150-175 million per urban zone and \$50-75 million per rural zone. As described above, in conjunction with other federal investments and incentives, state and local resources, and private sector commitments, this will enable local communities to craft a wide variety of creative initiatives to build a thriving economy.

Community Policing: (10 zones and many of the 100 Enterprise Neighborhoods): 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.

These
Community Development Banks (10 zones + many of the 100 E.N.'s): Every E.E. Zone will qualify for a CDE. The EN's will be prime candidates for CDBs and other banks to meet the new CRA requirements (True?)

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.

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 \$15 million to \$20 million dollars, and for rural from \$5-10 million. 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.

spert

4. Eligibility for Participation in Innovative Federal Experiments: (10 zones and many of the 100 Enterprise Neighborhoods). These investments and incentives are only a first step. Empowerment Zones and Enterprise Neighborhoods will open the door to a host of innovative domestic and economic initiatives by the public and private sectors. The Challenge Grant Process, itself, will inspire a wide variety of private sector initiatives and public-private partnerships. And, once designated and in operation, 110 communities across the country will be 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 will also contribute to the economic revival of distressed communities and to jobs for their residents. For example, DoEd has asked to include and provide funds for comprehensive Enterprise School Communities to implement the National Education Goals in order to promote enterprise in the zone. This proposal will provide the opportunity for communities, families, services, and the private sector to pull together to learn for a lifetime of earning, saving, investing, contributing, and participating.

~~DoD~~ ^{Labor} 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. Commerce has suggested foreign trade zones, entrepreneurship training and enterprise assistance. HUD, Agriculture and DOT will also make available similar opportunities for local innovation, including, for example, Section 8 vouchers, Access to Opportunities (including transportation and job matching), 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. The appendix attached at Tab B provides a list of such initiatives now under consideration by the Secretaries.

5. Budget. In A Vision of Change, there is \$4.1 billion in tax expenditures designated for enterprise 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: *ae*

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

Justice
might
target
these areas
for juvenile
justice
programs
as well
as comm.
policing.

[I talked
to them
today -
they liked
the idea,
which is good,
size, but re
spending their
weed & seed money]

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 and Enterprise Neighborhoods.]³ *in large part*

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 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 *spell* ✓)

³ 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.

being considered by the (Agencies).

IV. ~~VII.~~ ALTERNATIVE OPTIONS

BOLD < 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.

BOLD Option 2: [10 Economic Empowerment Zone and 100 Neighborhood Zones:] We 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

ALL CAPS
SEPARATE
LINE
"EXPAND THE CREDITS"
option 1:
Blanket
option 2:
Incremental

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.

CAPS LIKE
ABOVE

< 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:

- option 1 • 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
- option 2 • 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
- option 3 • 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

(option 1
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.

(^{option 2} 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.

(^{option 3} 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.

ALL CAPS < 4. "No Cost" ^{option} 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.

understand

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:

- Sperl*
- Don't sperl*
- Discuss further*

→ "lever": I hate this word
→ Zone: capitalized or not capitalized?

DRAFT ^{wednesday} ~~Tuesday~~ 3/30 6pm

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

L.A.

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, *and a chance to take their ~~own~~ neighborhoods back.*

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. ^{Entrepreneurial} ~~Reinvesting~~ 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.

VI. Consensus Proposal ALL CAPS

The Working Group reached substantial consensus on a proposal for your consideration. In this part (pp.4-13), we summarize this proposal. (The appendix attached at Tab A also provides a brief summary of the proposal in outline form). This summary will provide you with the context for reviewing the decision options which we present in the next section (pp.14-19), including a substantial alternative--a zero cost option--offered by OMB.

1. Budget. The consensus proposal is based on a total budget of \$6 billion 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 <i>Reallocations?</i> from currently proposed Budgets	.9
Total	6.0

\$500 million of the FY93-94 Baseline amount has already been targeted for cops and community policing. In the proposal the remainder of the budget is split between tax incentives and Enterprise Block Grants.¹

In addition, 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. The Agencies have therefore requested the opportunity to provide funds from their own budgets in order to encourage local 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).

2. 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:

¹ 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 ^{an increase} ~~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.

- 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

40% 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.

3. 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:

- 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
- short on strategic planning to promote economic development
- incomplete because there is no process to assure that affected local communities and residents are empowered as full partners and stakeholders in building enterprise in distressed areas.

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 federal enterprise grant process includes five components:

a. National Competition. The federal grant process will challenge 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:

Shorten
or omit

*Aren't these
the same
thing?*

- 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.

*This one should
come first*

b. 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.

*needs better
name -
Enterprise
Board?*

With respect to non-enterprise federal programs, some waiver authority already exists. Ideally, we would like to provide much greater 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, at p. 6, we therefore discuss three approaches to expanding the scope of the existing waiver authority.

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

- *must be used to promote enterprise*
- 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 ~~estimation~~ *estimation* 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. ✓

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 levering 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. ?

d. Periodic Review of Results. 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.

e. Independent Evaluation and Sunset. 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.

4. ~~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:

a. Capital Tax Incentives. 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.

b. Employment and Training Credits ("ETCs"). 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%~~^{25%} of the first \$20,000 of each zone resident employee's wages and qualifying expenses for education and training; or
- a two-year Targeted ETC ("TETC") for employers, whether or not located within the zone - ~~20%~~^{20%} of the first \$12,000 in

These tax incentives are meant ~~to lower the cost~~ ^{not only to lower the cost} encourage employers to hire zone residents, but to empower residents ^{to seek and obtain jobs.} ~~to seek and obtain jobs.~~ ^{Every zone resident should ~~also~~ get an Empowerment Card in the mail}

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.

~~Although both of these tax incentives lower the cost of doing business for employers who hire zone residents, their ultimate effectiveness depends on the extent to which they also encourage zone residents to seek and to obtain jobs. For that reason, we recommend that each interested resident be given an ETC Empowerment Opportunity Card which fully explains the increased value that each resident brings to a prospective employer, to qualify for the tax credit. The card will allow them~~

The TETC has an 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. ^{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. 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.}

Footnote

to open a Savings account at the local CIC (below) and a checking acc at the nearest CDB.

c. Additional Empowerment Tax Incentives. ^{We want} ~~The proposal also includes new incentives to empower zone residents to invest in assets that are valuable to the community and to own enterprises in which they work. We recommend interest exclusions to spur investments in Community Investment Corporations and Worker Controlled Enterprises:~~ ^{own a piece of their}

have a stake in the place where

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

Who's doing the lending?

~~Interest on loans made to CICs for purchase of qualifying zone tangible assets could be excluded from taxation to the lender.~~

STET (Sorry)

Worker Controlled Enterprises (WCEs), owned 51% by zone resident employees, could also be spurred through interest exclusions. Interest on loans to permit resident workers to start, acquire and expand WCEs would also be excluded from taxation to the lender.

→ Is this a kind of tax-free savings account for zone residents?

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.²

d. Enterprise Block Grants. 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 98-98. As described above, 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. \$100-\$200

5. Tax Incentives and Other Inducements for All Zones (100 Enterprise Neighborhoods & 10 Economic Empowerment Zones). In order to encourage a broader array of local communities to become innovative enterprise neighborhoods, we recommend an array of tax incentives and other inducements for all zones: to encourage residents to save and to invest, to promote investment in new facilities and housing, to provide safe streets, to provide access to capital and financial services, and to encourage participation in promising new initiatives. We therefore recommend that the following inducements be offered in all zones:

a. Resident Empowerment Savings Incentives: This stakeholder proposal makes this enterprise zone plan uniquely

²These 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.

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: In order to promote investment in buildings, plants 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 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 of present value.

d. Community Policing: 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 ~~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: 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: Each zone will also be eligible to compete through the enterprise challenge grant process for a variety of

These incentives are only a 1st step. Empowerment zones will open the door to a host of innovative... The real impact... domestic + economic initiatives by the public and private sectors. Under this

This should be a separate point, #6g.

... we will have 110 communities across the country competing to prove what works and what doesn't.

→ Let's list a few specific experiments we have in mind

- × Enterprise Schools
- × Work Bounties - lump sum within - UI
- × ATM Cards for food stamps + AFDC

Do we want to make a menu of experiments available?

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.

These should be a bigger deal

DOL, HHS, and DoEd have 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. DoEd also proposes to provide funds for comprehensive Enterprise School Communities to implement the National Education Goals in order to promote enterprise in the zone. 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. ~~The appendix attached at Tab B provides a list of~~ ~~each~~ ~~initiative~~ ~~now under consideration by the secretaries.~~

Private sector investment as well

CUT

The bundle of inducements available to all zones is substantial. When combined with the benefits resulting from reinventing the way the federal government does business, we believe that there will be intense competition from local communities to be designated as an approved zone, whether as an Enterprise Neighborhood or as an Economic Empowerment Zone. Indeed, we believe that it is important to determine the extent to which Enterprise Neighborhoods are able to lever a lower cost bundle of incentives into a thriving community. We do not underestimate the potential of your other investment initiatives in all communities, nor the energy and results that may be forthcoming from determined local initiative.

CUT

6. Summary of Consensus. The consensus of the Working Group is that this proposal provides an important first step in empowering opportunity, building community, reinventing government, and inspiring innovation and responsibility, from the bottom up. If our local partners in this process are successful in promoting enterprise in their own neighborhoods and empowering themselves to become full participants in the economic mainstream, there will be credit enough for all to share -- including for other communities across the country that also want to work to become integral parts of a dynamic local, regional and national economy.

VII.

B. ALTERNATIVE OPTIONS

1. Number of Zones -- 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.

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. ^{space} "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 appendix attached at Tab C provides Treasury's analysis of this issue, as well as the tax policy issues with respect to other incentives.)*
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 the 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 ^{legislative} approval authority ~~to~~ 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 *in each zone*
- 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 ^{with} 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. 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 D 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) ~~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 ^(our) ~~the~~ 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~~ ^{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.

VII. 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

I do not share this skepticism, and I don't think we should concede that we're allocating \$3 Billion for something we don't think will work.

_____ 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

TEN THE
EMPOWERMENT
NETWORK

Bruce Reed →

January 1993

Dear Colleague:

Earlier this month, Secretary Jack Kemp helped kick-off The Empowerment Network (TEN) at an overflow reception in Alexandria, Virginia. The following day, at the National Press Club, TEN unveiled its empowerment report entitled "Empowerment: A Blueprint for Change."

Enclosed is a copy of the report which is the product of more than forty leading grassroots activists, national figures and policy makers who invested their time and energy to offer advice and information regarding specific policy recommendations that would promote empowerment. The report highlights empowerment case studies and provides a detailed guide to practical and legislative action by the 103rd Congress and the Clinton Administration.

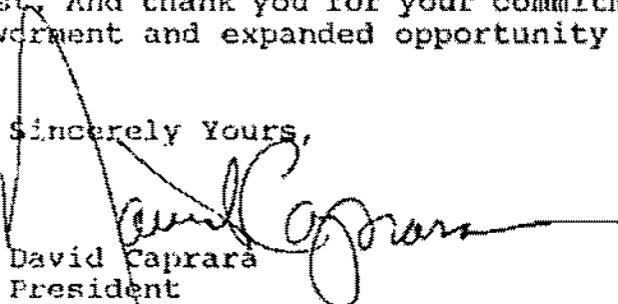
On Capitol Hill, a new Congressional Empowerment Caucus is being formed in response to the "Blueprint" report and other educational efforts of The Empowerment Network. This strong bipartisan interest is also evidenced by the cosignatories on the "Blueprint" report - Congressman Curt Weldon (R-PA) and Mike Espy (D-Miss), an incoming Cabinet Official.

We have also enclosed information on the first ever National Empowerment Action Conference which will be held in Washington, DC from February 15-18. We hope you can attend!

TEN is a non-partisan, non-profit organization that provides a vehicle for innovative leaders throughout the country to help shape the debate on public policy, promoting strategies that return decision-making authority and opportunity for self-determination to citizens and their communities. We hope you can join TEN by completing the enclosed response card to stay on our mailing list for vital policy information updates.

Thank you for your interest. And thank you for your commitment to the ideals of citizen empowerment and expanded opportunity for all Americans.

Sincerely Yours,


David Caprara
President

Enclosures

1606 King Street, Alexandria, Virginia 22314
Office 703-548-6619 • FAX 703-548-7328

Entrepreneurial Govt.

Tenant right. - See 8 weeks for home ownership

Ownership of capital + assets

Less govt.

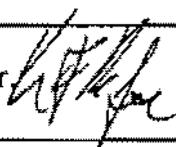
Target of stimulus

Reg. relief for startups

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Route Slip

To: DISTRIBUTION	Take necessary action	<input type="checkbox"/>
	Approval or signature	<input type="checkbox"/>
	Prepare reply	<input type="checkbox"/>
	Discuss with me	<input type="checkbox"/>
	For your information	<input type="checkbox"/>
	See remarks below	<input checked="" type="checkbox"/>

From: Christopher Edley, Jr. 

Date: March 31, 1993

REMARKS

Attached is a draft memorandum expressing OMB's views on the Enterprize Zone proposal. I would appreciate your comments by COB today.

c: Gene Sperling
Ellen Seidman
Paul Dimond
Bruce Reed
Paul Weinstein
Ben Nye
Frank Newman
Maurice Foley
Bruce Katz
Andrew Cuomo

DRAFT

March 31, 1993

OMB's Views on Enterprise Zones

OMB staff have been working closely with NEC staff to provide analysis, strengthen ideas offered by others and offer alternatives we believe deserve consideration. At the suggestion of NEC staff, I am writing to explain more completely our concerns, and the low-cost alternative we believe deserves your careful consideration.

The Enterprise Zones approach to urban and rural development proposed by the NEC would spend up to \$4 billion over five years, more than one-half of this for tax incentives to stimulate new business investment and jobs, primarily in 10 designated zones. My view is that this may not be the best use of our limited Federal budget for an urban and rural development initiative. First, I am concerned that the proposal relies too heavily on apparently costly and largely uncontrollable tax incentives. Even if it succeeds, these high costs may preclude its widespread application as the foundation of a major national urban/rural initiative. Second, I am concerned that committing a sizeable amount of resources now to an uncertain experiment may displace other, potentially more cost-effective responses to urban and rural problems. Third, if we want to conduct a resource-intensive "Model Cities-like" program, other short term pilots could surely make a strong claim for your consideration: dramatic welfare reform laboratories; mobility strategies for people in HUD's assisted housing programs; a dramatic increase in the Beacon Schools initiative, coupled with law enforcement and supportive social services.

SPECIFIC CONCERNS

My staff has been analyzing the proposed approach for several weeks, and through many interagency discussions. Some of their remaining concerns are set forth below.

The use of tax incentives to stimulate new business investment and jobs, if successful in a few places, is too costly to replicate widely in hundreds of other distressed areas.

Tax incentives are inherently inefficient. Most of the benefits of the tax package will flow to those already employed and to established businesses. Outside investors and middle-men will get a share of the subsidy. The long-term unemployed and welfare-dependent populations are least likely to benefit, unless they receive additional direct assistance to overcome a lack of skills and other obstacles to employment.

DRAFT

If Treasury's estimates of job growth and revenue losses are correct, Federal costs over 5 years will average \$50,000 for every job added in the Zones at the end of that time. This is *three* times the Federal cost per job estimated in a 1982 HUD evaluation of the Urban Development Action Grant (UDAG) program. Adding direct spending would bring the Federal cost per job added to around \$75,000 or more than *four* times the UDAG cost per job.

These figures count all job growth as beneficial. But, experience with enterprise zones in Britain and at the State level suggests that many of the jobs will simply be shifted from other, nearby distressed locations.

The jobs projections for enterprise zones may be too optimistic, because tax incentives do not address major causes of persistent urban and rural poverty.

Other barriers to development. Before many distressed areas can grow, critical barriers to their revitalization -- crime, low workforce skills, disincentives to work and savings, transportation -- must be addressed. Although the proposed approach is broader than previous Enterprise Zones proposals, it still may be inadequately focused on these problems.

Linkage with other major initiatives. Whatever strategies are developed for distressed areas, they should be linked to closely related Administration initiatives to restructure schools and reform welfare. Until these other initiatives are farther along, the linkages cannot be effectively addressed.

The President's urban and rural initiatives should be the product of a careful review of existing policies and alternatives, involving consultation with mayors and governors.

Complexity of urban problems. The cities are our most complex social institutions. Poverty, whether urban or rural, is the most intractable of social problems -- more complex and resistant to remedy than the health care system.

Reinventing government. The Federal government might better focus its energies on helping local and State governments to develop their own, individual strategies. Even if Enterprise Zones looked more promising, there would be no reason to dictate heavy reliance on tax incentives to communities capable of designing initiatives that make better use of Federal resources. The proposed approach takes steps in this direction but may not go far enough.

ANOTHER OPTION

The decision memorandum before you makes brief mention of another option. As an alternative to abandoning or postponing an Enterprise Zones initiative, my staff has designed an option that would set the stage for a major urban and rural development initiative to be ready

DRAFT

in time for next year's budget proposals. The alternative draws on the strengths of HUD's proposal -- particularly its comprehensive approach and emphasis on reinventing program delivery so that the large sums now spent in distressed areas are used more effectively to reduce dependency and move people toward economic independence.

The suggested approach would: (1) involve no, or minimal, use of tax incentives; and (2) concentrate, in a limited number of distressed areas, discretionary resources from existing programs (many of which your budget substantially increases) through an earmarking or set-aside mechanism. Community selection would be based on a competitive process that would, at a minimum, consider:

- o Evidence of creative approaches to economic development and ending dependency;
- o Level of commitment to reinventing and integrating local service delivery in distressed areas;
- o Financial commitments by State and local governments, including tax reductions for businesses;
- o Plans to have residents participate in all aspects of community development, including asset ownership.

In addition to receiving earmarked housing, community development, education, training, and other funds provided in the 1994 budget, these distressed communities could also receive:

- o Grants to plan and reorganize services in the Zones (these can be funded from the already appropriated \$500 million in 1993 Community Investment Program funds);
- o Money to promote community policing and put more cops on the beat in the Zones (\$500 million in Community Investment Program funds);
- o Waivers of CDBG, HOME, and other Federal program regulations to facilitate coordinated, more flexible service delivery;
- o Priority for Community Development Banks, provided they meet other qualifying criteria; and
- o Designation as "difficult to develop" areas where the eligible basis for computing the value of the Low-Income Housing Tax Credit would be 130 percent of the cost basis.

DRAFT

CONCLUSION

In light of the extraordinary fiscal pressures, it is more important than ever to limit our investments to those items in which we have a high degree of substantive confidence. In my view, this does not include an Enterprise Zones proposal centered on tax incentives. For now, the better choice may be to "bank" the \$4 billion for a more dramatic initiative, possibly encompassing welfare and school reform, that would offer a comprehensive approach to urban and rural economic opportunity. This alternative has two additional critical advantages:

1. The cost of tax incentive-focused Enterprise Zones is just too high, and their effectiveness too much in doubt, to justify a large-scale commitment of resources. \$3-4 billion is large indeed, and a nationwide program is unimaginable.
2. Starting small preserves the Administration's options while it develops a comprehensive, well-thought-out approach to urban and rural development worthy of your commitment to meet these needs. Meanwhile, communities are given early recognition and can go to work devising their own initiatives and laying the groundwork for the redevelopment effort.

TO: Paul Dimond
The White House

FROM: Marshall Smith
Under Secretary-Designate

SUBJECT: Department of Education Participation in Enterprise Partnerships

Brull:
 10 This is very interesting:
 Education Enterprise
 Communities
 plus 20-40 smaller
 National Education
 Planning
 Note how *Smith's* book has
 to economic development
 Paul

Purpose of the Joint Initiative

We believe that the Department of Education's proposed "Education Enterprise Zones" proposal (attached) and the "Enterprise Partnerships" (EP) can be successfully melded together to constitute part of a comprehensive Administration initiative to revitalize severely distressed urban and rural communities.

We are convinced that achievement of the National Education Goals should be a centerpiece for the initiative, giving communities a clear focus on improved outcomes for real people and balancing the improvement of physical capital and job availability with the development of human capital. The Goals represent the consensus of the nation's governors and the President on a broad range of knowledge, skills, and conditions required for our nation to remain competitive in the world economy and maintain its high standard of living.

Schools play a central role in any community development process, but the schools cannot go it alone in addressing the broad range of needs of children, youth, and families in very high-poverty communities. An integrated approach, combining economic development with education reform and comprehensive services supporting the National Goals, offers the best chance for success.

Description of the Plan

For those communities most in need of help to achieve the National Goals, our plan would be transfer funds to HUD (urban sites) and AG (rural sites) to support two tiers of grantees in the first year (FY94), as follows:

- 20 to 40 grants of \$100,000 to \$250,000 each, to communities selected from among the 110 Enterprise Partnership sites, to further develop and begin to implement comprehensive plans to coordinate community services to achieve the National Education Goals; and

Post-It™ brand fax transmittal memo 7871		# of pages = 3
To Paul Dimond	From Tom Fagan	
Co. NEC	Co. ED	
Dept.	Phone # 401-0113	
Fax # 456-2283	Fax # 401-1112	

- 10 grants of approximately \$1 million each to the 10 intensive EP sites to fund more intensive service coordination to achieve the National Goals and to provide additional education services (for example, after-school and summer enrichment programs) to residents of those communities.

Also in 1994, we would fund provision of innovative, meaningful technical assistance to all of the grantee communities (30-50), in an amount of up to \$1 million, as well as development of appropriate bases for a national evaluation.

In the out-years (FY 95-98 or beyond), we would plan funding to enable the 10 intensive sites to fully implement their plans (to the extent that they show significant progress). One possibility would be to provide sites approximately \$1000 per school-aged child, amounting to some \$5 to \$10 million per site, for continued operation of their Education Enterprise plan. We would also continue to provide lesser amounts of funding for operation of the 20-40 less intensive sites.

As part of this initiative, we would provide for annual Quality Reviews carried out by noted experts under supervision of HUD/AG and ED. Community progress would be judged on the basis of the improvement targets identified in communities' Action Plans; such targets could include not only outcome measures like graduation rates and achievement test scores, but also the extent to which the provision of services to community residents becomes more efficient and accessible. Again, continued funding would be conditioned on demonstrated progress toward the community's identified goals.

We would expect to work with the White House, HUD, the Department of Agriculture, and other involved agencies to achieve a workable and attractive package. Specifically, the Department of Education would expect to work closely with you on all aspects of program design and operation, including identification of selection criteria for sites, proposal review and site selection, project oversight, and evaluation.

Items for Discussion

Obviously, a number of the provisions of the plan remain to be worked out. In particular, we feel that attention needs to be paid to:

- incentives for communities to identify and coordinate existing streams of federal, state, and local funding in support of the Enterprise Partnership/Education Enterprise Zone goals;
- the potential involvement of other human service agencies;
- the composition of the coordinating group (we called it the "community alliance" in our proposal) in each community;
- the importance of systemic education reform in the overall plan to upgrade residents' skills and economic opportunities; and

- the payoffs to be gained from thorough early planning and careful evaluation of outcomes on the part of participating communities; and from meaningful, coordinated technical assistance from government agencies.

Finally, the authority for out-year funding would still need to be decided (whether from ED's FIE authority as in FY 94, or new authority under potential new legislation).

I look forward to discussing the particulars of the plan with you in the near future.

URBAN/RURAL INITIATIVE: OVERVIEW

The Administration needs to enunciate a coherent strategy to address the problems that very-high-poverty urban and rural communities face in attempting to improve the life outcomes of their residents. Education must be a major component of this strategy. Just as the problems of widespread and persistent poverty make achievement of the National Education Goals a distant dream for some communities, lack of educational progress is a major barrier to their economic vitality.

While a number of programs exist to address parts of the problem, they are highly fragmented, and desired outcomes are poorly defined. Communities suffering from severe long-term poverty need assistance to coordinate all of their resources in a comprehensive effort to achieve the educational outcomes that can help support community revitalization.

This paper identifies the essential education-related elements of a comprehensive urban/rural initiative.

Multiple, interacting problems

Reclaiming communities in high-poverty urban and rural areas has proven extremely difficult because of multiple, interconnected problems.

- o The loss of heavy industry and manufacturing in inner cities has eliminated most high-wage, low-skill jobs. Economic dislocations affect isolated rural communities in some of the same ways. The loss of good jobs has:
 - diminished reasons for people and non-manufacturing businesses to remain in cities and in some isolated rural communities;
 - hit male wage-earners particularly hard, dramatically raising poverty rates and weakening marriage incentives (with consequent detrimental effects on family structure) and fostering dependency, stress, and hopelessness;
 - produced a major underground economy that often rewards criminal activity more than legal economic activity; and
 - reduced student motivation to do well in school when few tangible rewards for high academic achievement are evident.
- o The loss of industrial and manufacturing base, coupled with improvements in civil rights enforcement of fair housing laws, has encouraged the most educated and successful members of minority groups to escape from inner cities and from some isolated rural communities. For those left behind, expectations for success are low. These low expectations are carried over into schools.
- o Dozens of disconnected and fragmented government programs designed to "help" have produced inefficient interventions in which the whole is often less than the sum of the parts. Accountability is weak, bureaucracies are bloated and

unresponsive, and interventions are short-term responses to crises. Many school systems, in particular, are characterized by large central administrations, a remedial mentality, and a feeling of helplessness in the face of extreme social problems, including safety concerns and dysfunctional families.

Creating Zones of Opportunity: Education's Central Role

An Administration urban/rural initiative should simultaneously address the need to improve job opportunities and the need to improve educational opportunities through a set of streamlined and locally developed interventions. The central themes would include:

- o **Empowerment.** Linking expanded job opportunities with expanded education opportunities through:

Economic empowerment. The presence of jobs (that would be created, for example, through economic enterprise zones) would create new opportunities for self-sufficiency and higher expectations.

Education empowerment. Residents in the community must possess the requisite human capital (i.e., education and skills) if they are to take advantage of the new economic opportunities.

Thus, job opportunities reinforce schooling by raising students' expectations about their futures, and education opportunities reinforce jobs by providing the skilled labor that businesses require.

- o **Neighborhoods.** Services managed and delivered around neighborhoods are potentially more responsive and accountable to community needs. Further, schools represent the one institution present in most neighborhoods that touches the lives of significant numbers of its residents.
- o **Mutual Responsibility.** Providers and recipients of public services have an obligation to do their best--to set high standards and seek to reach them. Government agencies should establish targets for service quality and report on the performance and progress they make toward performance targets. Recipients of services must make the effort to get the most out of government-provided opportunities to improve their life outcomes and become self-sufficient.

The National Education Goals provide the outcome focus to build a system of mutual responsibility.

Linking an Urban/Rural Strategy To the National Education Goals

The education component of an Administration Urban/Rural initiative could consist of:

- o **Education Enterprise Zones**, a demonstration to launch comprehensive, community-based reforms to improve community outcomes on the six National Education Goals; and
- o a broader federal reform and support initiative, involving the Education Department and other federal agencies, to provide resources and assistance to facilitate coordinated community actions that support the National Education Goals, especially within Education Enterprise Zones. Two kinds of assistance are provided:
 - education standards and restructuring assistance; and
 - other federal agency support of the National Goals.

These components are described below.

Education Enterprise Zones (see Tab 2). These zones would be established in identifiable communities, usually corresponding to the attendance area of a high school and feeder schools, characterized by severe problems of poverty, unemployment, and low educational aspirations and attainment. Each community would develop a coordinated community-wide plan to attain education goals for its residents - especially children and youth.

Education Enterprise Zone communities would be:

- o free to create incentives, coordinate services, and fashion environments that support learning and preconditions for learning (e.g., healthy children) both in school and out.
- o held accountable for providing a mix of services and strategies that achieves demonstrable progress toward the National Goals and related educational goals and intermediate improvement targets that the community sets for itself.

In return, the federal government would offer these communities incentives (see below) including: waiving requirements of existing categorical programs (like Chapter 1), and the possibility of additional funds and technical assistance. State and local governments would be encouraged or required to provide similar flexibility and assistance.

Linking education and economic enterprise zones together in the same place would create a powerful change agent for community development of its people and physical infrastructure. Priority for Education Enterprise Zone awards could go to communities winning the competition for Economic Enterprise Zones, or to any community that wishes

to connect business and economic development with schools and educational improvement. Examples of connections between economic and education initiatives include:

- o business-sponsored career awareness and mentoring
- o apprenticeships
- o job offers and wage levels linked with school performance
- o workplace-sponsored early childhood education, after-school programs, parenting training, and literacy programs

Education standards and restructuring assistance. The Education Department, in its unique position to lead the nation in undertaking systemic school reform, must ensure that all American students have access to high standards. The Department has a special obligation to guarantee that schools serving low-income inner city and rural communities are not left behind as higher standards takes hold in communities serving the more educated and economically advantaged. Priority for assistance could be given to those communities participating in the Education Enterprise Zone demonstration, to reinforce their own commitment to excellence.

As part of the urban/rural initiative, the Education Department should:

- o ensure that the new high academic standards, which the nation and the states set for themselves, are fairly applied to schools serving low-income urban and rural populations. In this regard, it is noteworthy that the United States not only has lower achievement on many international assessments than our international competitors with educational standards, but also more inequality in performance. The United States is distinguished by an absence of explicit, high minimum standards, consistent across all schools, that contributes to this inequality. The Goals 2000 legislation with its focus on high standards and state systemic reform provides a mechanism for establishing high standards across all communities.
- o provide resources and assistance necessary for schools in low-income neighborhoods to achieve these high standards. Essential actions to ensure adequate resource availability include promoting "Opportunity to Learn" standards and targeting Education Department funds, such as the \$8 billion of federal compensatory education resources, on very high-poverty schools. Identifying effective practices for schools serving at-risk students and focusing improvement assistance on such schools are also indispensable components of this strategy.

Other federal agency support. Although the federal Education Department has a leadership role in promoting attainment of academic goals for schools serving at risk students, the missions and programs of other federal agencies have a direct impact on other goals, such as school readiness, workforce preparedness, and drug- and violence-free learning

environments; thus, they reinforce Department of Education efforts.

The Education Department can take the lead to coordinate efforts of other federal agencies to reinforce the National Education Goals, especially in very high-poverty neighborhoods. Examples of other agency efforts include:

- o HUD locating study halls within its housing projects, offering family literacy training, and coordinating with schools to monitor student school attendance;
- o HHS efforts to prevent health problems (e.g., immunization and lead-exposure screening), directing social services toward improving parenting skills and helping dysfunctional families, and full Head Start participation in the highest poverty communities;
- o Department of Defense initiatives to aid poorest schools through mentoring, donation of surplus equipment, job training and expanded JROTC (to promote self-discipline and group values).
- o Commerce reaching out to coordinate business involvement in schools through career awareness and greater access to jobs.
- o Labor Department youth apprenticeship and other job-training activities.
- o Interior initiatives to develop self-sufficiency on Indian reservations through employment, training, and education.
- o National Science Foundation initiatives to launch systemic reforms in math and science within urban communities.
- o Agriculture directing its preventive efforts through school lunch and breakfast and the WIC program.

GOALS 2000 PRINCIPLES	URBAN/RURAL INITIATIVE
<p>1. Promote coherent, systemic education reform across the nation.</p>	<p>Promotes <u>community-based strategies</u> including systemic education reform along with coordination of community resources. Application on behalf of cluster of schools within a district committed to the Goals--not just a single school.</p>
<p>2. Define appropriate and coherent federal, state, and local roles and responsibilities for education reform.</p>	<p>Emphasis on ways that federal government can support local planning for educational improvement. Coordination of federally funded services. Flexibility provided by federal and state governments.</p>
<p>3. Promote the adoption of high-quality, internationally competitive performance standards and assessment measures.</p>	<p>Success measured by progress toward achieving the National Goals.</p>
<p>4. Promote educational excellence and equal educational opportunity by establishing the principle that all children can and should be held to high achievement standards.</p>	<p>Reinforces principle that low-income children can and should be held to high achievement standards. Outcomes judged according to progress in achieving National Goals.</p>
<p>5. Promote fair opportunities for all children to achieve high standards.</p>	<p>Help provide conditions and direct resources so that children in low-income urban and rural communities can achieve high standards.</p>
<p>6. Promote flexibility with respect to resources in return for accountability for results.</p>	<p>Emphasizes flexibility for communities to use their resources, with accountability measured by publicly available reports of progress toward National Goals and intermediate improvement targets.</p>
<p>7. In defining programmatic success, emphasize achievement gains and put less emphasis on process requirements and measuring inputs.</p>	<p>Accountability to be defined by educational outcomes for children, not compliance with process requirements and audit trails.</p>

**DRAFT SPECIFICATIONS FOR AN URBAN/RURAL INITIATIVE
DEMONSTRATION PROGRAM**

I. Criteria for Participation

A. Community Characteristics

The following criteria will be used to identify communities for participation in the demonstration: (1) community identity, (2) socio-economic need, (3) educational need, and (4) commitment to restructuring and collaboration.

1. Community Identity:

An identifiable Community, with generally recognized boundaries, based on school attendance zones, political subdivisions, generally recognized neighborhoods, or the like.

--in urban areas, it is likely that this community would approximately coincide with the attendance area(s) of one or more clusters of feeder related schools. In practical terms, a community thus defined could be expected to contain between 5,000 to 20,000 students.

--in rural areas, where population density is lower, a cluster of communities may be the relevant unit; for example:

small rural communities surrounding a larger population center, which has available services;
a county or parish;
a regional education service agency;
an American Indian reservation;
other cluster arrangements built around particular service delivery patterns existing in that state.

2. Severe and persistent socio-economic need, measured principally by the rate of poverty.

Eligibility language for legislation should be scrutinized to ensure that some of the rural communities we know to be most in need--communities of Native Americans on or near reservations; areas with migrant worker camps; those in Appalachia, the Mississippi Delta and other parts of the rural South--have the potential to win awards.

3. Severe educational need as evidenced by a variety of outcome measures, including low test scores and high dropout rates, failure to meet state requirements by a large number of students, and a very low percentage of graduates going on to further education.

4. Evidence of community commitment to:

- restructuring schools to improve educational outcomes: setting high expectations based on the National Education Goals and providing curriculum and instruction calibrated to those standards; increasing the capacity of building level staff; increasing the flexible use of teacher and administrator time; and otherwise supporting staff, students, and families; ②
- streamlining educational administration, ideally with a decrease in the percentage of district funds going to central administration, with real discretion over programs and budget at the building level; ③
- dedicating existing strands of education and other human service funding (e.g., Chapter 1) to achieving project goals; and
- developing effective collaboration among key education, health, and other human service agencies at all relevant levels of government to provide an integrated, child and family centered approach to the delivery of needed services.

The specific evidence to accompany applications for funding is discussed below.

B. Eligible Grantee

1. Only a Community Alliance may receive a grant under this program. A Community Alliance shall consist of:
 - a. a school district or districts¹ on behalf of a cluster of related schools in high-poverty areas. Such a cluster may, for example, consist of one or more high schools plus its feeder junior high or middle schools, elementary schools, and, as appropriate, preschools; or several middle and/or elementary schools); plus
 - b. a combination of public entities, which together provide the range of support services needed by that community's children. These agencies must include the general purpose municipal (or county) and state governments, and should include service-delivery entities that provide major physical and mental health, social, recreational, housing, juvenile justice, and other services; and

¹ We can learn from previous efforts (e.g., the Annis E. Casey Foundation's New Futures initiative)—significant change at the school level cannot take place without central district policies that authorize that change and support school staff's creating new practice and taking risk.

② These activities would be supported primarily through the Goals 2000 ² bill and ESEA (reauthorized).

- c. other community-linked entities and individuals, as appropriate, including not-for-profit community-based organizations, postsecondary institutions, representatives of teacher unions and/or other professional groups, parents, students, and businesses with strong community ties.
2. The Alliance may designate any non-profit member organization or agency to act as its fiscal agent for the grant.

II. Planning and Operational Grants

We envision projects will have two phases - planning and operation. The planning period will generally be for one year, with implementation to extend for four or five years thereafter.

Note: Legislation needs to provide for meaningful and on-going technical assistance to be provided to the Alliance during proposal development, planning and operational phases of demonstration, including for development of a data collection and management information system (see Technical Assistance, below).

A. Planning Grants

1. Duration and Amount of Grant:

- a. Planning grants shall be for the period of up to one year, except that, when circumstances warrant, a planning grant may be renewed for a second year.
- b. Planning grants shall be approximately \$100,000.

2. Supporting Evidence for Planning Grant Award

- a. a memorandum of agreement to collaborate, signed by all members of the Alliance, outlining their responsibilities and relationships during the planning grant;
- b. evidence that school district has adopted the National Education Goals, is in the process of or is willing to adopt curriculum frameworks and assessments based on high standards, and is committed to collaboration with other agencies;
- c. a letter of endorsement from the Governor of the state.
- d. designation of participating elementary schools as Schoolwide Chapter 1 Projects (or application to be so designated).

3. Community Alliance Responsibilities under a Planning Grant

- a. Survey and report on where the community currently stands in relation to achievement of the National Education Goals;
- b. Survey and map the service delivery patterns that currently exist, gaps in services and problems in accessing services, along with identifying the agencies that are responsible for providing these services;
- c. Based on the above, develop a Community Alliance Action Plan that specifies:
 - the community's long-term educational improvement goals (tied to the National Education Goals)
 - intermediate indicators of progress, which may include indicators not specifically "educational" in nature, for example:
 - rates of immunization;
 - weight gain in young children;
 - out-of-home placements avoided in domestic problems;
 - rates of teen pregnancy;
 - participation in sports, arts programs.
 - planned milestones for each year of operation;
 - plans for articulating programs as children move from preschool to elementary to secondary schools;
 - plans for collection of data, including functional requirements of a management information system;
 - the Alliance's planned mechanisms for governance and communication;
 - any waivers that are needed; and
 - an evaluation plan.
- d. Ensure community input to and build community support for the Plan.

B. Operational Grants

1. Duration and Amount of Grants

- a. Operational grants shall be for the period of five years. Annual on-site reviews by a team of peer experts shall be conducted, with grants terminated if insufficient progress is demonstrated. These reviews will result in written progress reports to be made public.
- b. The size of operational grants will vary with the size of the population served; however, per student funding should go on top of a base level that provides staffing, space, and materials whose levels are not wholly dependent on number of individuals served.

*Other community org =
Churches -
Police, fire, state w/old ags
hospitals*

2. Criteria for Evaluation of Application for Operational Grants

- a. Quality and feasibility of the Action Plan developed during the planning phase and the degree to which the plan builds on and confirms the commitments required in the planning grant criteria.
- b. Strength of commitments contained in the formal agreement developed during the planning phase, including the statement of roles and responsibilities of Alliance members. Supported by submission of a written Memorandum of Agreement.
- c. Results of an on-site review that includes participation by external experts.

3. Community Alliance Responsibilities Under an Operational Grant

- a. Oversee implementation of the Action Plan;
- b. Assist in integrating services from diverse agencies, by seeking to remove barriers and assure access to currently existing services and bring new services on-line;
- c. Continue to ensure community input and build community support; and
- d. Coordinate efforts to collect data, and measure and report on progress toward intermediate targets and long-term goals.

III. Nature of Services and Service Integration

A. Communities will be allowed broad flexibility in designing their own mix of services; nevertheless, guidance will be offered on the range of possibilities, within the context of supporting achievement of the National Education Goals.

We envision that funds could be used for a broad and imaginative range of activities, for example:

- 1. development or implementation of new curriculum and instruction models or materials, e.g., conflict resolution for middle-school students; child health instruction for parents; "Hands-On Science;" cross-disciplinary instructional units; innovative use of technology to hook up schools to home or community centers, etc.
- 2. use of funds for "glue" to coordinate existing services and make them accessible-- e.g., to hire a full-time coordinator and/or case manager for school-linked services;
- 3. significant professional development activities for teachers, and possibly for cross-training of professionals from different disciplines; development of plans for master teachers or teaching opportunities for promising recent graduates (e.g.,

*School list
need to have
problem list*

Ag. list schools on this

"Teach for America"). In rural areas, there may be a need to train teachers in social service skills like identification of problems or how to make a home visit;

→ may need to modify.

4. activities that take place outside of "normal" school hours (before- or after-school enrichment, tutoring, recreation, summer or weekend programs, longer schoolday);
5. education-enhancing activities that take place off school grounds (e.g., learning centers in housing projects or community centers);
6. services that support learning, although traditionally they have not been classified as educational (recreation, nutrition, health, counseling);
7. programs designed to involve parents in their children's education, in school and at home;
8. services to families as well as children (e.g., literacy and parenting training for adults as in Even Start; counseling services; language services); and
9. transportation services, especially in isolated rural communities.

→ may need to modify.

IV. Flexibility in Return for Accountability

A. Flexibility (applies to demonstration program and more broadly)

1. Waiver authority for ED would be incorporated within the legislation.
2. Specific waivers would be granted at the time of award of operational grant.
3. Waivers should cover eligible activities and participants, record-keeping requirements, and permission to commingle funds from now-separate "streams".
4. Waivers for this purpose would also need to be granted by agencies that currently have waiver authority--HHS, HUD, and AG.
5. States and localities should be strongly encouraged to grant similar flexibility (such a guarantee would be a "plus" for any grant application).

*match on services - from other sources after 3 years
not any lol*

B. Accountability

1. The community's progress would be measured and made public against long-term goals and intermediate improvement targets set in its Action Plan.

2. Evaluation

- a. Legislation must authorize a national impact evaluation and a cost/benefit evaluation of the demonstration.
- b. Local process (implementation) evaluations must be authorized.
- c. With technical assistance provided by the government, data collection at the local level must be comparable from site to site.

*initially none
non-compliance
type of assistance
at first*

V. Technical Assistance and Dissemination

- A. There will be an on-going need for effective technical assistance to grantees and others in order to make successful planning and implementation of collaborative efforts possible. The legislation needs to set aside separate funding for technical assistance and dissemination. However, we strongly discourage setting up a new outside "center" for this purpose.
- B. Technical assistance should be provided beginning with preparation of proposals (it may be especially necessary for poor rural communities), and continuing through planning, operation, and evaluation.
- C. All available mechanisms, including federal ones (e.g., National Diffusion Network, Department publications, newsletters) should be used to effectively disseminate results of the initiatives--including successes, failures, and lessons learned. The Department should issue periodic progress reports on the Initiative sites.

VI. Award of Grants:

Award should be made by the Secretary of Education.

THE WHITE HOUSE

WASHINGTON

March 29, 1993

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND

SUBJECT: URBAN POLICY REVIEW -- NEXT STEPS

The Vice-President's office is in charge of "Reinventing Government." Bruce Reed advises that this process will be divided into two parts:

- a review of performance, program by program, agency by agency
- a review of organization and means of delivery

Bruce also advises that the Vice-President's office may not want OMB to conduct a "spring review" which would duplicate this effort. Bo Cutter suggests, instead, that the Vice-President take full advantage of the hundreds of experienced analysts at OMB to assist in whatever review process there will be.

As set forth in my March 4 memorandum to you, Bruce and Bo, I believe that no such performance review and reinvention will get much beyond "eliminating waste, fraud and abuse," "improving efficiency" and "reorganizing the delivery of existing programs" unless some coherent policy direction informs the process.

To meet that need, I recommend a joint NEC/DPC Working Group on Urban (and Rural) Economic Policy. The Group could be headed by the four NEC/DPC Deputies and could include the following:

- NEC/DPC--Dimond (Group Chair), Cashin, Dean
Weinstein, Way, [Welfare/education person]
- OMB--Edley, Sawhill
- Commerce--Parks
- HUD--B. Katz, Cuomo
- HHS--Ellwood, Bane
- DoEd--M. Smith, Estel
- DOL--L. Katz, Ross
- Ag--Nash, Alexander
- Treasury--? [Newman, Mathis, Foley]
- CEA--Stiglitz
- VP--Kamarck, Hayes

Each of the agencies is already doing its own internal policy review so that it can "reinvent" itself. Each has already done an inventory of existing programs (as has OMB). My goal would be to stimulate a more penetrating discussion of urban issues so that we

could--within six to eight weeks--develop options for a policy focus that builds off of the community and economic empowerment messages that the President may be announcing shortly.

I believe that we could run this policy review as a very lively, thoughtful, but efficient seminar, with stimulating presentations by the participants (or even selected outsiders). We could meet twice a week for two hours at a time, with background materials on the agreed agenda items sent out beforehand. If this approach makes sense to you, I will prepare a timetable and a tentative agenda. [N.B.:I have already prepared a discussion draft of an initial background paper that could serve as a starting point to stimulate this policy discussion. I'll be glad to share this with you when you have the time to review.]

At the very least, this process would help each of the agencies in their own "reinvention" efforts, provide additional substantive focus for the VP and/or OMB reviews that will go on this spring, and compel each of the agencies to fundamentally rethink the problems, the goals, the alternative approaches, their own organization, and how they might relate to other agencies or participate in a more major reorganization.

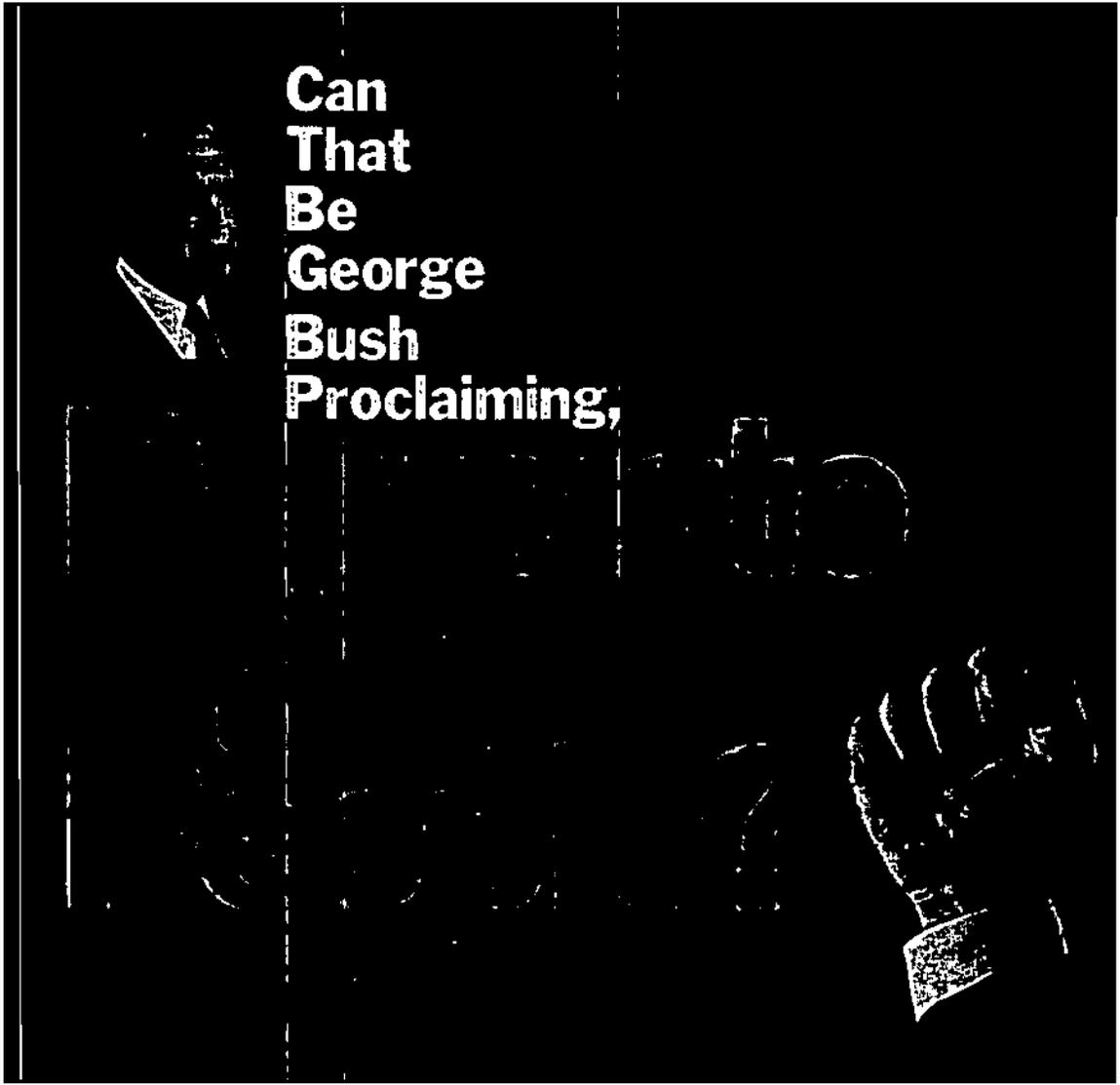
Let's discuss at your convenience.

cc Bo Cutter
Bruce Reed

National Journal

THE WEEKLY ON POLITICS AND GOVERNMENT

JAN. 26, 1991/NO. 4



**Can
That
Be
George
Bush
Proclaiming,**

Power to the People?

President Bush plans to send Congress an empowerment package, with new spending in the range of \$2 billion. But doubt persists about how far the concept will get.

BY BURT SOLOMON

James P. Pinkerton is unrepentant for having chosen such a pedagogical term. "I'm under no illusions that this will be gracing bumper strips," President Bush's long-term policy planner said of his hot New Paradigm, an intriguing set of conceptions about how to confront social ills more responsively than bureaucracies have done since Kafka's day.

"I think the term is absolutely accurate for the intellectual construct," Pinkerton said as he sat coiled on a couch in his office in the Old Executive Office Building next to the White House. "I'm counting on politicians as opposed to people like me to find their own language, to find the words they can take it to the American people [with]. 'Empowerment' strikes me as such a word."



Bush policy planner James P. Pinkerton
 "A system this sick" can't reform itself.

Pinkerton's spacious, disheveled office, strewn with books and stacks of newspapers, hardly seems like a command center for a social revolution. But there's a hint of high stakes in the prominent painting near his desk of Sir Thomas More, who was executed by Henry VIII for his stand on principle. Pinkerton admires More but hopes not to emulate him.

He's unlikely to. A publicized swat he took last fall from budget chief Richard G. Darman served only to further Pinkerton's crusade, not hinder it. (*See NJ*, 12/15/90, p. 3046.) Pinkerton has become the most profiled member (other than chief of staff John H. Sununu) of Bush's staff, causing some resentment among more-senior advisers. Empowerment has become the shibboleth of Administration domestic policy, so that even Darman doesn't say a word against it.

More is coming. A paean to empowerment will grace Bush's State of the Union message on Jan. 29 if domestic policy—amid a war—is mentioned at all. His fiscal 1992 budget will feature an empowerment package of 10-15 pieces, an official said, with new spending in the range of \$2 billion for housing, education, enterprise zones, Indian affairs, small business and possibly welfare reform. And that will merely mark "the end of the first quarter" in a policy mission that may extend to job training and welfare reform later this year and possibly to health care in 1992, an aide said in describing the Administration's "short and long-term agendas."

This prospect has brought a touch of vitality to an otherwise dreary time for domestic policy, given Washington's budget constrictions and a President more taken with geopolitics than intractable social problems at home. Reformers and social scientists frustrated by a decade of seeing social problems ignored have delighted

Richard A. Blumenthal

PUBLIC SCHOOL 'CHOICE' GATHERING MOMENTUM

To the empowerment team at the White House, New York City's East Harlem school district is the epitome of what empowerment in education is all about.

There, public school students can choose among dozens of educational programs, with schools that specialize in the performing arts, sports, science and mathematics, communications, health services, the environment and other programs.

Many of the schools are small, with several housed in a single building. The curricula are overseen by teams of teachers who are given wide latitude to innovate.

East Harlem schools attract hundreds of white students from outside the district, where the population is predominantly Hispanic and black and largely poor. Academically, East Harlem pupils' test scores rose from last place among New York City's 32 school districts in 1973, the year before the "choice" program was launched, to 16th last year.

Across the nation, the movement to give public school parents more latitude in choosing schools for their children is gaining political momentum. Schools such as those in East Harlem have improved, choice advocates say, because parents there can pick the schools their children attend instead of being forced to accept the school district's assignment. As a result, choice supporters say, schools work harder to deliver innovative and quality education; otherwise, they lose enrollment and go out of business.

Such free-market notions once came mainly from conservatives, but now a growing number of Democrats and liberals agree. The main reason is that a massive wave of school reform efforts in the 1980s failed to raise the achievement levels of U.S. students.

In 1988, Minnesota became the first state to implement a statewide school choice program. Since then, seven

more states have adopted versions of school choice, as have several major urban school systems. Advocates say choice programs spur more educational diversity, catalyze more parental involvement in schools and weaken the power of centralized school bureaucracies, which often act as roadblocks to educational restructuring. "Almost without exception, wherever choice has been attempted, choice has worked," President Bush told a 1989 White House education conference.

But a good chunk of the nation's education establishment, including school superintendents, principals and local school boards, remains skeptical. These officials worry that school districts may be rushing into choice plans without careful attention to the details or the program's impact. They point out that some school districts, such as Seattle's, have experienced major administrative problems trying to implement choice programs.

"School systems have to do several things simultaneously, or choice can be harmful," Charles Vert Willie, a Harvard University education and urban studies professor, said. Willie fears that choice programs that rely solely on market forces will have the harshest impact on poor and minority children by undermining one of the few remaining institutions in underclass neighborhoods—the public schools. School districts ought to provide choice, Willie said, but they should also invest heavily in failing schools, not shut them down.

Another concern is that so many divergent education concepts now march behind the school choice banner that some programs "may end up creating more problems than they solve," said Joe Nathan, a senior fellow at the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs and an adviser on the choice issue to the Bush White House.

Among the ideas being promoted as

part of the choice movement are magnet schools, which are proliferating around the country, and publicly financed vouchers to permit poor parents to send their children to private schools, an idea being tried in Milwaukee. But magnet schools, though they often offer strong academic programs, frequently "cream" off the best students, Nathan said, and absorb a disproportionate share of a locality's education resources, weakening other schools.

As for vouchers, Washington financed an experiment in the 1970s that provided \$7 million in vouchers to permit some students in the San Jose suburb of Alum Rock to attend the school of their choice. But the experiment produced no academic differences between students who used the vouchers and those who did not.

Until last year, choice strategists concentrated primarily on promoting more choice within public schools. Then last June, political scientists John E. Chubb and Terry M. Moe co-authored a plan, published by the liberal-leaning Brookings Institution, to include private schools in the mix. Under the plan, parents could choose any appropriate public or private school for their youngster, with state and local funds following the student to the school. The White House empowerment team has endorsed that idea, but others say that public and private schools alike could end up worse off under such a program.

"Competition alone isn't enough to stimulate school improvement," Nathan said. In his view, school districts with successful choice programs, such as East Harlem, also offer parents diverse, strong schools from which to choose and make special efforts—from providing transportation to sponsoring massive parent education programs—to ensure that all children can take advantage of the program.

—Carol F. Steinbach

in the burgeoning discussion of a policy redirection that Washington University social work professor Michael W. Sherraden said could—if it helps poor Americans accumulate property—"be the most important since the New Deal." Stuart E. Eizenstat, who was President Carter's chief domestic policy adviser, called empowerment an "important and interesting" idea and exulted that the debate is

about "how to help the disadvantaged rather than whether to."

Champions of empowerment make big claims. Putting decisions on education, housing, health care and other social services in recipients' hands would bolster the programs' effectiveness, they say, and reduce the costs by eliminating bureaucratic middlemen. By empowering poor people, the so-called underclass would

"evaporate" in 20 years, Pinkerton predicted. "Over the long run—and let's be clear I'm not talking about [fiscal] '91 or '92—if we want this country to be better, we've got to rethink in a pretty profound way a lot of what we're doing." A colleague discerned nothing less than "an effort to reinvent participatory democracy in America."

Nor are the stakes small for Bush. Em-

powerment offers him a chance for long-term political gain by simultaneously providing a vision of domestic policy that he can afford and swiping his Democratic opponents' best issues. (For a report on Democrats' ideas, see this issue, p. 210.)

This stew has been spiced by the emergence of peculiar political coalitions. On Capitol Hill, do-gooders and cost cutters—camps usually at odds—have joined forces. In Washington, empowerment has mainly been Republican conservatives' policy property. But many Democrats have taken to it, too, and are competing for political control. In both parties, sentiment toward empowerment varies less by ideology than by generation. It appeals more to baby boomers of assorted political hues than to traditionalists of any stripe, suggesting an issue with staying power.

But it's far too soon to presume that empowerment will rise from the pages of its prophets in a fashion that someday will seem to have mattered. Bush won't decide until the Persian Gulf war is finished, officials say, whether empowerment will be a half-hearted Administration theme or a meaningful centerpiece of the government's domestic policy. Among Administration policy makers, open opposition to empowerment has ceased. But true believers remain few, and even adherents wonder whether it carries enough resonance with voters, who "don't have confidence in government to turn [social problems] around fundamentally," a senior Administration official said.

Voters' skepticism may prove well-placed. For hard questions about empowerment remain. Its proposed programs are mainly unproven. Social scientists warn of a profusion of nitty-gritty obstacles to achieving the advances that its advocates foresee. In many cases, empowerment would entail infusions of federal funds that are, at best, unlikely to be available any time soon.

Robert Greenstein, director of the Center on Budget and Policy Priorities, a liberal Washington think tank, said he finds "some interesting things" in empowerment but fears it's been oversold. "I'm a bit suspicious of sweeping principles," he said. "There are no simple answers."

VOTING WITH THEIR FEET

There's not much new about the New Paradigm. Proponents discern its underlying notions in the 1862 law granting homesteaders 160 acres in the West and, even earlier, in Thomas Jefferson's vision of democracy among a propertied yeo-



Stuart Butler of the Heritage Foundation
The new empowerment has to do with economics.

manly. It carries a ring of the 1960s' pleas from the Left for "power to the people." Empowerment served then as a rallying cry for the civil rights movement and in the 1970s for feminists and the disabled, whose independent-living movement sought "to empower individuals to take control" of their own care and circumstances. Disability Rights Education and Defense Fund lobbyist Patrisha A. Wright recounted.

"The New Paradigm is ancient wisdom," New York Gov. Mario M. Cuomo recently told reporters.

Today's empowerment doctrine differs from the 1960s' version in its focus on economic—not political—power, according to Heritage Foundation domestic policy director Stuart Butler, one of the current concept's intellectual fathers. It is a reaction to what Pinkerton described as the entrenched system's "red tape and bureaucracy and rules and regulations and institutionalized redundancies and stupidities," which perhaps sufficed in the 19th century but not in this "infinitely more sophisticated time, when people are achingly more aware of their rights and entitlements."

This so-called Old Paradigm, empowerment advocates say, rewards the wrong behavior—abandoning a family, losing a job—and demonstrably hasn't worked, resulting in terrible schools, deteriorating cities and increasing millions of children with no reason to hope. "It's hard to

see how a system this sick," Pinkerton said, "can reform itself."

Proponents say the strength of empowerment is that it takes human nature as it is, not as a welfare-state engineer would hope it to be. "Adults are motivated by money—why not kids?" House Minority Whip Newt Gingrich, R-Ga., explained in describing a venture he sponsored last summer in Georgia to induce schoolchildren to read by paying them \$2 a book. Bureaucracies may work in Europe, where the culture supports the pervasive presence of government rules, Gingrich said, but America was settled by people who chose to leave rules behind. "We have to reshape government to fit America," not the reverse, he said, judging Pinkerton "right in raising the debate to the paradigm level."

The core idea in what Pinkerton portrayed as "looking at the world through new eyes" is to let consumers of social services vote, in effect, with their feet. That can happen in a variety of fields. The educational "choice" movement, now spreading in state after state, would let parents instead of government officials decide where children should go to school.

(See box, p. 205.) Poor people could spend government-supplied "vouchers" to line up housing rather than inhabiting a high rise that hardly feels like home. (See box, p. 209.) Vouchers could also be used for purchasing health insurance (see box, p. 207) or job training.

Another tool empowerment advocates favor is tax credits. Congress enacted \$12.5 billion worth (over five years) to subsidize child care last fall, and Bush is expected to propose other credits in his 1992 budget to lure employers to "enterprise zones" in inner cities. Housing and Urban Development (HUD) Secretary Jack F. Kemp, the leading advocate in Administration councils of enterprise zones and other forms of empowerment, has pressed for major tax cuts (such as for capital gains and social security) but isn't expected to prevail.

But some proponents mean more by empowerment than a mechanism for funneling aid to recipients. That has made the buzzword expansive as well as elusive. Empowerment also means ensuring that "people can vote with their feet," said assistant Labor secretary for employment and training Roberts T. Jones, a member of Kemp's Cabinet panel on empowerment. Only with a decent education and upbringing can an individual compete in a market economy, this thinking goes, and so escape the dependency fostered by having the government subsidize day-to-day consumption.

ESTABLISHING A FREE MARKET FOR HEALTH CARE

As yet, Bush Administration theoreticians haven't extended their theories of "empowerment" to the problems of the nation's crumbling health care system: the inexorable cost increases and the 30 million-plus Americans without health insurance.

Health and Human Services Secretary Louis W. Sullivan has used the term to exhort people to take responsibility for their own health, but he has not presented President Bush with a plan to improve public access to health care and restrain costs—the charge Bush gave him in his State of the Union speech last year.

"It's the last area the conservatives have tackled," Heritage Foundation health care policy analyst Edmund F. Haislmaier said. "It has taken conservatives a while to hash out the issue—other than just to react against [liberal proposals]—because coming to grips with this issue is difficult and complex."

But Haislmaier and several of his Heritage colleagues say they think they have come up with an alternative to a government-run or government-regulated health insurance system, either of which, they say, would be inefficient and cumbersome. The Heritage proposal has been widely circulated and has attracted some interest in the business community.

The key, the Heritage people say in a proposal first unveiled in 1989, is to turn the health care system into a true market system.

To accomplish that, they would do away with the employer-based system of health insurance that now covers the vast majority of Americans under age 65. That would recoup almost \$40 billion in taxes that are currently lost each year because employer-paid health benefits are not taxed as income to workers.

In its place, they would require that individuals purchase catastrophic health insurance to cover high-cost injuries and illness. For lower-cost, more routine medical expenses, people could buy insurance or pay the costs themselves.

To make this health insurance affordable, the federal government would provide tax credits that would partially subsidize the purchases. The subsidy would be larger for those with low incomes or with high medical costs. State governments could also experiment with special risk pools or other aid to the unemployed and to medically high-risk individuals.

This arrangement, the Heritage analysts argue, would not only redistribute existing tax subsidies more equitably, but would also make consumers more cost-conscious and health care providers and insurers more competitive and efficient. Haislmaier and his Heritage colleagues don't buy the prevailing view that consumers can't make informed choices about their own health care. They say that interested consumers could draw on the expertise of a health plan or an insurer in making complicated medical decisions on big-ticket health services.

Proposed changes in Medicare, the federal program for the elderly, are more tentative. Under a plan proposed by Peter J. Ferrara, a senior fellow at the Cato Institute, Medicare would be changed to provide insurance only for catastrophic illnesses; premiums would be eliminated, but the elderly would have to buy or pay for insurance to cover lower-cost, routine care. Each Medicare beneficiary would receive a voucher equal to the value of the average amount that the government now spends on their health care and could then choose among competing medical plans.

The federal government would provide long-term nursing home and home care for the elderly poor under a new program. Medicaid, the joint federal-state program for welfare recipients, would no longer serve as a payer of last resort for elderly people who have been impoverished by the costs of such care.

More affluent elderly would be encouraged to purchase private long-term care insurance policies, and workers would be encouraged to save toward the cost of their retirement health care needs with tax-free savings accounts and sizable tax credits. They would continue to be eligible for Medicare benefits, but they would face higher deductibles.

Some analysts have greeted the proposal with skepticism. It "shifts from the efficient administrative system [of group insurance] to reintroducing the inefficiencies of the individual health insurance market," said Judith Feder, co-director of the center for health policy studies at Georgetown University School of Medicine and former staff director of the congressionally established Pepper Commission on health care reform.

Feder's view is that private insurers are notorious for their high marketing costs and their attempts to avoid customers who are seen as bad risks. She also questioned how much would be needed in direct government subsidies or tax subsidies to make care affordable to all.

The proposal's authors concede that the scheme comes with a host of unanswered questions. "We don't claim to have all the answers, all the i's dotted, all the t's crossed," Haislmaier said. "We just wanted to lay out a philosophical framework and run it up the flagpole."

—Julie Kosterlitz

That has caused proponents to count as empowerment a wide range of welfare and job training programs—even those that are run by bureaucrats in big buildings—along with sundry initiatives to combat illegal drugs, discourage racial hiring quotas and let employees work at home and carry their pensions from one job to the next. "That's stretching it, don't you think?" a House Republican aide said.

It's been stretched further. Roger B. Porter, Bush's economic and domestic

policy adviser, said he has in mind "a more fully developed sense of empowerment" that includes not only rights and opportunities but also individuals' responsibility to, say, read to children or voluntarily recycle. Also counted by some as empowerment is the notion of measuring government performance by its results—by whether a caseworker helps a client, for example—instead of by how much the agencies spend. "I don't personally care whether you call that empowerment or . . . good government,"

a White House adviser said. "It's obviously a good thing."

ON THE CHEAP

Crucial to the concept of empowerment is an assumption about psychology: that giving people a stake in the economy will alter their expectations about upward mobility and change their behavior. This is the basis for the proposal by Washington University's Sherraden of "individual development accounts," fed-

erally subsidized savings accounts to be applied only to such laudable goals as college tuition or a first mortgage. "With assets," he has written, "people begin to think in the long term and pursue long-term goals." Legislation that House Select Committee on Hunger chairman Tony P. Hall, D-Ohio, will soon introduce would try this idea in a dozen or so pilot projects.

A hope of altering down-and-outers' expectations also stands behind some Labor Department ventures already in the works. In six poor urban neighborhoods and one rural one, any youth is deemed eligible for a coordinated program of social services (job training, drug counseling, etc.) and is guaranteed a job or—in one locale—a college education. Starting this spring, Labor will also team with HUD in perhaps a dozen communities on what assistant Labor secretary Jones described as "a holistic approach" in social services to restore homeless people to the economic mainstream. If these experiments work, Jones said, they could affect how tens of billions of existing federal dollars are spent and "probably drive more money in."

Those are 2 of 31 empowerment-related initiatives—most fairly modest—on a White House list of things seven agencies might do without Congress's approval. Some were already under way; many still aren't. Other initiatives, mainly pilot projects, will be in Bush's 1992 budget, possibly including a controversial test of letting states fiddle with welfare rules for disbursing aid to families with dependent children. The budget will propose some "pretty significant" expenditures for housing as well as grants to cities and states for administrative costs in adopting educational choice, an official said, but "there's not a whole lot of room for new spending" or programs.

That doesn't faze White House policy makers, who insist that they can pursue empowerment on the cheap. They've undertaken a "distributional analysis" (overseen by Council of Economic Advisers member Richard L. Schmalensee) of how much Washington already spends on the poor, and they expect to have useful information in hand later this year. The purpose is to "build a case," an official said, that "the current system isn't working."

That isn't a hard case to build. What exists now is a "crazy-quilt . . . of well-meaning programs that don't add up to a sensible" whole, Urban Institute senior fellow Isabel V. Sawhill said. Harvard University welfare expert Mary Jo Bane, a onetime New York State welfare chief,



Progressive Policy Institute's Will Marshall
Empowerment did not "spring from a void."

considers public housing "an invention of the devil." Few would disagree.

But they and other social scientists remain wary of empowerment advocates' assertions. Educational choice, for instance, can "be part of real reform" in schools but hardly all of it, Bane said. "It's not just one thing or another [that brings reform]. It's a whole bunch of things." In addition to the manifold practical problems in overhauling social service delivery systems and in scaling up pilot ventures into full-fledged ones, Washington seems to have precious little leverage to effect real change.

In education, certainly, for which Washington pays only 7 per cent of the costs, it is up to state and local governments to manage and oversee the schools. The Education Department has established a toll-free telephone line to counsel school systems thinking of trying educational choice, and Bush may visit successful programs to raise their profile. (Aides say they've seen no variant of choice they don't like.) But it's "not very important what the federal government does" in promoting choice, said Progressive Policy Institute president Will Marshall, an empowerment booster.

The government could do more in other fields—notably, housing, welfare and health care—if it had the money. But without it, empowerment can do little beyond tinker at the edges. The government could establish a secondary mort-

gage market for low-income homes or encourage tenant management of public housing. But empowerment "doesn't build new housing," Rep. Charles E. Schumer, D-N.Y., objected, or provide money for fuel oil. "Letting people help themselves would cost more than [the White House] is willing to spend," Economic Policy Institute president Jeff Faux said.

Empowerment advocates say there's no point in spending more money until the system works. But "unless hard budget choices eventually get made," Heritage theorist Butler conceded, "empowerment is a boutique program."

POLITICAL SHELL GAMES

Empowerment may prove politically useful to Bush, however, even if its substance falls short. That prospect gives Democrats fits. The "best empowerment bills of all time" were the Federal Housing Administration subsidies enacted during the Depression and the GI Bill for financing veterans' educations after World War II, both Democratic ideas, Democratic Leadership Council (DLC) executive director Al From said. A congressional Democratic aide said that Sen. Daniel Patrick Moynihan, D-N.Y., who'd proposed poverty programs in the mid-1960s in which the poor were to participate, should "be picketing the White House" for thieving his ideas.

For some Democrats, empowerment remains an unacquired taste. That includes those who'd prefer to see additional funds go first to proven programs such as Head Start, Rep. Dennis E. Eckart, D-Ohio, said. That's also the case for many liberals who are politically beholden to public employee labor unions and have a vested interest in the old, bureaucratic ways.

Political suspicions also play a part. A House Democratic leadership aide assailed the White House for what he took to be a political "shell game" intended to "dismantle programs that benefit low and moderate-income people."

But empowerment has proved popular among many Democrats, who see a political threat in the idea and are struggling for a share of the issue. Those Democrats are common in the South, where Govs. Lawton Chiles of Florida and Bill Clinton of Arkansas plan to place legislative emphasis this year on empowerment-related issues. There's a demographic correlation as well. A constituency for this sort of theme may reside in the third of baby boomers in knowledge-related occupations who, University of

HOME OWNERSHIP POWER TRIP

There's something sacrosanct about home ownership. When you own a home, when you have something to leave to your children, you start thinking about life in terms of long-term horizons instead of just existential, overnight survival."

Like a meditator chanting a mantra, Jack F. Kemp has uttered these words and words like them in hundreds of public forums across the country since he became Housing and Urban Development (HUD) Secretary two years ago.

Congress has finally given Kemp a chance to test his theories about home ownership as a tool to break the poverty cycle. In November, it enacted a wide-ranging housing bill that incorporates Kemp's "Homeownership Opportunities for People Everywhere" (HOPE) program. If Congress finds the cash to pay for it, HOPE would provide \$1 billion over two years to sell off public housing units to their tenants. The money would also be used to promote tenant ownership of private apartments and single-family homes in the federal inventory of foreclosed properties.

The HOPE plan offers poor people potential ownership of more than two million government housing units, says Kemp, who likens the new law to the 1862 Homestead Act, which offered 160 acres of land to settlers who wanted to make a go of it in the wilderness. The plan would also try to improve coordination between housing aid programs and other social services to encourage government aid recipients to move toward greater economic self-sufficiency.

HOPE's tenant ownership provisions have widespread appeal. But some analysts contend that the high cost of transferring rental housing to poor tenants could severely limit the impact of Kemp's program. Housing experts estimate that the price tag for rehabilitating public housing projects and providing the needed financing assistance to tenant purchasers will run as high as \$50,000-\$60,000 a unit. If they are correct, HOPE spending would pay for the transfer of only a few thousand public housing apartments annually.

Some housing activists would rather see the federal government spend its scarce housing resources on

programs that expand the share of poor and homeless people who receive government assistance. Raymond J. Struyk, senior research associate at the Urban Institute, suggested that the money authorized for HOPE's ownership programs could pay for rental vouchers for 150,000 poor families who qualify for federal housing programs but receive no aid. According to HUD's own estimates, more than four million eligible households receive no federal housing assistance because of a shortage of funds.

Practical obstacles also exist. There may not be enough experienced non-profit groups that can help train tenants and offer practical assistance. And some public housing officials worry about scandals if tenant ownership plans aren't painstakingly crafted and monitored. "If you don't go in and train tenants properly, provide financial management training so they can be fiscally responsible and put in good accounting procedures before you turn the housing over, my experience is that tenants will steal," said the director of a large public housing agency who asked not to be named.

Though Congress, in its new housing bill, endorsed many of Kemp's ideas, it failed to adopt another central tenet of the Kemp plan to revitalize poor communities: enterprise zones. The HUD Secretary's proposal, which would have created several dozen zones within which businesses would receive generous tax breaks to spur job creation, would have cost the federal government an estimated \$1 billion in forgone tax revenues over four years.

In the absence of a federal program, about two-thirds of the states have set up hundreds of enterprise zones. Supporters say the zones have been responsible for thousands of new jobs in poor communities. But skeptics say the job growth was the result of general economic expansion in the 1980s and can't be attributed to the tax incentives in enterprise zones. They'd prefer to see the forgone revenue spent instead on social service programs, such as Head Start and job training. In their view, the prevailing barrier to economic growth in poor communities isn't high taxes, but crime and the inadequate work skills of the people who live there.

Carol F. Steinbach

Massachusetts (Amherst) professor Ralph Whitehead Jr. has found, are more skeptical of big institutions than their parents were. This suggests that empowerment didn't "spring from a void," Marshall said.

Both parties seem attentive to the political implications. The DLC's From "absolutely" can see a Democrat running for President next year on an empowerment platform. Possible Democratic presidential candidates known to sympathize with empowerment-related notions include Sens. Albert Gore Jr. of Tennessee, Sam Nunn of Georgia and Charles S. Robb of Virginia and Govs. Clinton and L. Douglas Wilder of Virginia. Sen. Bill Bradley of New Jersey is said to have started to think them through.

Republicans are already intrigued. Capturing the policy momentum on education, poverty and health care would let them challenge the status quo with innovative ideas and bring them considerable political succor. The more Bush is criticized for domestic do-nothingness, the more he may want a way out.

At least in words, he's thought sure to take it. Bush has twice described empowerment in speeches as his "centerpiece" of domestic policy. "The rhetoric of empowerment will continue to be important," an adviser said. But how far policy will fit the label "is less clear to me," he added, noting that some Bush aides think the concept "too cute by half."

Empowerment also poses some political risk to the White House. The concept has little to say except in the long run about pivotal economic issues—of recession and competitive strength—on which a presidency can turn. Among empowerment-related issues, only school choice would directly benefit middle-class voters, who already have choice in schools by having chosen where to live. Otherwise, those who'd benefit aren't customarily Republican—though the White House would be pleased to convert them.

These issues may not be enough to constitute "a central core" for domestic policy, a senior Administration official said, or "to speak that powerfully to most Americans."

Nor is it evident that empowerment speaks that powerfully to Bush. Aides say the President has an affinity for youthful ideas and an anti-Establishment streak he's not given credit for. But they concede he's no radical. For empowerment to work in a way that will matter decades hence, advocates say, Bush's enthusiasm for it must be genuine. But "it is hard to see him leading a 'power to the people' campaign with fist clenched," Eizenstat said. "It's dubious to think that George Herbert Walker Bush is going to be the Eldridge Cleaver of the 1990s."