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THE CLINTON ADMINISTRATION'S SHAM ENTERPRISE ZONE PROPOSAL

The Clinton Administration last week sent legislation to Capitol Hill to create federal enterprise zones in depressed inner-city and rural communities. With a record of success in 36 states over the last decade, and strong bipartisan support for federal legislation, enterprise zone proponents might have expected a bold measure based firmly on the key principles of the concept.

But the White House package has little in common with the enterprise zone idea. It is little wonder that a frustrated Senator Joseph Lieberman, the Connecticut Democrat who co-sponsored enterprise zone legislation in the last Congress, felt impelled to take to the Senate floor to express his disappointment with the Clinton plan. Lieberman complained that the enterprise zone provisions "show a fundamental misunderstanding of the enterprise zone concept and the reasons why so many of America's poorer areas have reached the point of decay that they now experience." The White House package is, in fact, just another dose of Washington-directed inner-city industrial policy—of the kind that has hastened the decline of America's cities. The Clinton program actually is worse than nothing, because state officials will be induced to adopt the Administration's misguided view of economic development as the price for questionable benefits.

The enterprise zone concept was introduced in 1979 as a radical alternative to decades of ineffective inner-city programs. These earlier programs, from "model cities" and "urban renewal" to "urban development action grants," assumed that Washington knew the solution to urban decline. Learning from the failure of this earlier approach, the enterprise zone approach is founded on three central principles:

- ✓ **Even depressed neighborhoods possess the seeds of economic development.** The vibrant economic activity which once characterized inner cities does not occur today in large part because the "entry costs" of opening a legitimate business have been increased by heavy taxation and an explosion of federal, state, and local regulation. Thus in an enterprise zone, taxes and regulation are sharply cut to encourage entrepreneurs to take the risk of starting a business in a depressed community.

- ✓ **Entrepreneurs risking their own money are more likely than a committee of government bureaucrats to come up with the right mix of ventures to spark economic improvement.** Thus the enterprise zone concept is the antithesis of government development micromanagement. Rather than tear down and replace buildings, or pick and choose firms to locate in an area, government would remove costly impediments and then allow entrepreneurs the maximum freedom to experiment within existing facilities.

- ✓ **Small, new businesses are the engines of job growth in the economy—especially in the inner city.** Such businesses are the ideal ventures for the uncertain markets and generally less-skilled workforce in depressed neighborhoods. The enterprise zone thus focuses on reducing the costs and problems of these firms, including local regulation and labor taxes, and it provides incentives to encourage investors to risk their capital in small, new firms.

These are the elements undergirding the system of state enterprise zones now in 36 states, responsible over the last decade for generating an estimated 250,000 jobs and $28 billion in investment. Federal legislation has been considered necessary primarily to deepen the investment incentives in zones, since states can do relatively little to address taxes on capital.

The Clinton Administration's proposal, however, has almost nothing in common with the enterprise zone concept, or the experience and needs of the states, or the federal enterprise zone bills previously introduced.

Example: The White House still sees enterprise zones as experimental, despite the successes of state zones. Clinton would establish just ten "empowerment zones," with only six of these in urban areas. One hundred "enterprise communities" also would be established, but these would have few enterprise incentives, and would seem to be merely targets for a plethora of federal spending programs.

Example: The zones would be micromanaged from Washington. To obtain a federal designation (and thus tax incentives) state and local officials would have to supply a federal "Enterprise Board" with full details of a "coordinated economic, human, community and physical development plan" for the zone. This would have to contain information on such things as who was involved in the planning process, what public and private resources would be committed, and precisely what institutions would assist in development activities. Washington would then approve or turn down the detailed plan. Clinton Administration officials, in other words, would force their views on local communities—the very top-down bureaucratic planning the enterprise zone idea was meant to end.

Example: The zone incentives are not right for start-up small firms. The Clinton incentives are aimed predominantly at labor costs, and generally are useful only to firms with a large income tax liability. Even the capital incentives, mainly expensing and accelerated depreciation, generally can be used only by profitable firms. But new, small firms in a zone usually make no profits in their early years, and so cannot use these incentives. What they need is investor incentives, such as capital gains relief, to encourage others to provide them with seed capital. "I cannot adequately stress the importance of capital incentives," said Senator Lieberman in his criticism of the Clinton program, "...they must be targeted toward small business."

As a presidential candidate, Clinton praised then-Housing and Urban Development Secretary Jack Kemp, and emphasized his support for Kemp's enterprise zone legislation. As President, however, Clinton's own legislation discards the bipartisan Kemp approach, except for borrowing Kemp's terminology. Indeed it stands the whole enterprise zone idea on its head. Enterprise zones were meant to rid the inner cities of suffocating bureaucracy and central planning, and instead give a green light to entrepreneurs with unorthodox ideas. But the Clinton zones would be shaped by Washington bureaucrats, and pioneering businessmen and local officials would in effect be forced to adopt whatever neighborhood development strategies currently were in vogue in the White House. That is why America's inner cities would be far better off if Clinton's bizarre vision of enterprise zones never reached the statute book.

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Economic Policy Studies

For further information:

Stuart M. Butler, "How to Create a Successful Enterprise Zone Program," Heritage Foundation *Executive Memorandum* No. 334, June 9, 1992.

Stuart M. Butler, *Enterprise Zones: Greenlining the Inner Cities* (New York: Universe Books, 1981).

Stuart M. Butler, "Enterprise Zones: A Solution to the Urban Crisis?" Heritage Foundation *International Briefing* No. 3, February 20, 1979.