

TIME TO ENACT REAL ENTERPRISE ZONES

There is a genuine and urgent desire in Washington to trigger an economic rebirth of America's inner cities. But two rival proposals to help achieve that goal are the products of two profoundly different visions of how to generate economic development within inner-city America. One vision, which is the basis for an initiative being prepared by the Clinton Administration, assumes that progress can be achieved only if government leads the process of development and primes the economic pump. It calls, in effect, for an urban industrial policy managed from Washington. The other vision, which forms the core of bipartisan legislation intended as an amendment to the budget reconciliation bill, recognizes that the wise approach is not to try to pick winners and losers, but instead to provide the best possible climate of incentives and simplified regulation to foster local enterprises.

The White House view is that depressed neighborhoods can best be helped by steering more government programs into them. The Clinton Administration is readying a plan to do this by giving preferential treatment in awarding government contracts to firms operating in troubled neighborhoods. This initiative flows from the Administration's "Enterprise Zone" program, enacted in the last Congress, which centered on channeling government programs into targeted areas. The name given to that government-led program was particularly ironic since the original enterprise zone idea, developed in the 1980s, explicitly rejected the notion that government could trigger an economic recovery in the inner cities and called instead for a sharp reduction in regulation and taxes to spur business formation. That earlier version was not enacted.

A very different view of urban economic development is enshrined in bipartisan legislation introduced in the Senate recently. The sponsors intend it as an amendment to the upcoming reconciliation bill.

The Enhanced Enterprise Zone Act (S. 1252) is sponsored by Senators Spencer Abraham (R-MI) and Joseph Lieberman (D-CT). Cosponsors include Senators Rick Santorum (R-PA), Carol Moseley-Braun (D-IL), John Breaux (D-LA), and Michael DeWine (R-OH.) The legislation would refocus and strengthen the Administration's enterprise zone program, based on a view of how to stimulate economic development in depressed neighborhoods that is very different from that held by the White House. Rather than have the government try to pick firms for preference in federal contracts, the Abraham-Lieberman bill seeks to make existing enterprise zones much more attractive to private investors. It would do this by eliminating the capital gains tax on investments in stock, business property, or a partnership in the zones, as well as by providing other tax incentives for direct investments and business redevelopment within the zones. The government would not limit these incentives to selected private investors or firms.

This approach understands that private investors are more likely than government officials to identify the entrepreneurs that can be the engines of economic development in depressed neighborhoods. It also recognizes that one of the main obstacles to business creation in these areas, particularly for small new firms, is the difficulty of attracting start-up and working capital. For small new enterprises, capital typically is obtained from personal savings or private investors, not from the government—or even banks. That is why the capital gains tax exemption and other investor incentives in the Abraham-Lieberman bill are so important. As Senator Lieberman put it in a 1993 floor statement criticizing the lack of such incentives in the Clinton enterprise zone legisla-

tion, "Capital incentives are important because they are the one way...in which the government, with a small expenditure, by reducing taxes, can draw in a large amount of private capital."

Stimulating a flow of private investor capital also recognizes that the firms most likely to succeed in a blighted area probably will not attract the attention of government. Robert Woodson of the National Center for Neighborhood Enterprise for several years has been drawing public attention to the remarkable economic successes of locally generated inner-city enterprises in the most unlikely situations. Most of these enterprises would not qualify for a government contract or grant even if they sought it. But with the incentives of the Abraham-Lieberman bill, they are exactly the kind of innovative, upstart firms that would be sought out by risk-taking small investors.

These firms in the inner city also would be helped by another feature of the bill intended to remove some of the obstacles that add to the cost and frustrations of starting an enterprise. Within the enhanced enterprise zones, local governments could request waivers from federal regulations (other than civil rights, public safety, and similar rules) that hinder economic development. This is important because federal rules often unintentionally stymie economic and social improvement in depressed areas. For instance, restrictions on business activity in public housing projects in the past have blocked the creation of tenant businesses to provide child care, transportation, or other services that would make it easier for residents to become employed. Realizing the barriers posed by well-intentioned regulations that ignore practicality, many state and local governments have taken steps to simplify or pare back their own rules. The Abraham-Lieberman bill would require the federal government to do likewise in the zones.

The Abraham-Lieberman legislation would take the first steps to help stabilize depressed areas in two other crucial ways. **First**, it would foster home ownership within enterprise zones. Based on proposals first developed by former Housing Secretary Jack Kemp, the legislation would provide incentives and grants to encourage resident management and ownership of public housing and the ownership of vacant property. Experience has shown that resident management and home ownership encourage the sense of long-term commitment among the residents of a neighborhood that is so crucial to establishing a favorable climate for enterprise.

Second, the bill would give some financial help to low-income parents wishing to obtain a better education for their children by choosing an alternative public or private school. Though the provision is modest, it indicates that the sponsors appreciate that improving the climate for education, as well as for business and home ownership, is crucial to achieving the economic turnaround of inner-city America.

The Abraham-Lieberman legislation brings together a surprising group of bipartisan co-sponsors. They are united behind an approach to urban improvement that recognizes the failures of government-led economic development and the need instead to create a positive climate for investing in small local enterprises. If Congress is to play its proper role in reviving the inner cities, and the hopes of those who live there, the first step would be to include the Abraham-Lieberman legislation in the budget reconciliation bill.

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