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SAVING OUR CHILDREN: THE AMERICAN COMMUNITY RENEWAL ACT OF 1996

INTRODUCTION

Congress soon will have an opportunity to promote the moral renewal and economic revitalization of America's most poverty-stricken urban and rural areas. The measure to accomplish this task is Saving Our Children: The American Community Renewal Act of 1996 (H.R. 3467), sponsored by Representatives J. C. Watts (R-OK) and James Talent (R-MO). The bill would assist families in areas with high rates of poverty, crime, welfare dependency, joblessness, and poor schools. Through serious tax incentives and regulatory relief, coupled with innovative school reform pilot projects and home ownership incentives, the bill would achieve:

- ✓ Increased job creation;
- ✓ Small business expansion and formation;
- ✓ Moral renewal;
- ✓ Expanded educational opportunities;
- ✓ Greater private philanthropy to aid the poor; and
- ✓ Greater participation by religious organizations in providing services to the poor.

Far too many of America's urban and rural neighborhoods are characterized by large numbers of people in poverty, as well as by juvenile crime, illegitimacy, joblessness, and female-headed households. Because companies are not investing in these areas, local economic growth and opportunity are hampered. And quick-fix short-term solutions, such as raising the minimum wage, do little to help improve the lives of people entangled in a web of poverty, crime, and illegitimacy.

The problems of these communities are related to weaknesses of the local economy and the weakening of the moral and social fabric of the community itself; for policymakers to view the decline of these communities as the result of only one or the other prevents them from bringing about real and sustainable reform. Congress needs to strip away regulatory and institutional barriers that thwart rebuilding the broken lives and economies of these areas. The adoption of a wholly new and comprehensive urban policy of the sort that is embodied in the Saving Our Children bill would help the citizens of these communities achieve a better life for themselves and their children, not just by creating a far more favorable climate for business activity, but also by empowering the citizens of these communities to become active decision makers in their own lives and the lives of their children rather than merely passive subjects of the decisions of inflexible government social service and education bureaucracies.

Recent studies have shown that a comprehensive approach to community development is the best way to bring substantive change to distressed and impoverished communities. It also appears that the social programs that work best are community-based. Such local initiatives are the most effective means of attacking the often difficult problems that individuals and families have with joblessness, poor education, crime, drugs, and welfare dependency. For example, a 1989 study reported that 81 percent of families in poverty face multiple obstacles to achieving self-sufficiency.¹ For many years, government agencies have tended to focus on single issues, such as housing or health. But policymakers increasingly are realizing that a piece-by-piece approach to urban policy is not likely to succeed. As Housing and Urban Development Secretary Henry Cisneros puts it, "We believe the best strategy to community development is a community-driven, comprehensive approach which coordinates economic, physical, environmental, community and human needs."²

The Saving Our Children bill gives Congress and the Administration an opportunity to act on this commitment and change the way the federal government has been involved in community development over the last 30 years. By lessening federal regulations and taxes, and increasing parents' freedom to choose schools that reflect their ideals, the communities that need the most assistance can serve as local laboratories of reform, generating ideas and inspiration for various other communities across the nation, as well as for policymakers in Washington.

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- 1 Sar Levitan *et al.*, *A Proper Inheritance: Investing in the Self-Sufficiency of Poor Families* (Washington, D.C.: Center for Social Policy Studies, George Washington University, July 1989).
 - 2 U.S. General Accounting Office, *Community Development: Comprehensive Approaches Address Multiple Needs But Are Challenging to Implement*, February 1995, p. 28.

WHAT THE SAVING OUR CHILDREN BILL DOES

The Saving Our Children bill has five main elements. The first two apply to the 100 "renewal communities" created by the bill. The remaining three major reforms apply nationwide.

1. Creation of Renewal Communities.

Title I creates up to 100 renewal communities across the nation, based on the degree to which an area is characterized by poverty and distress. Through tax relief, regulatory reform, and savings incentives for Earned Income Tax Credit (EITC) recipients, this title would aid the poorest communities in the nation. Specifically, it would:

- ✓ **Provide** federal, state, and local tax and regulatory relief through provisions such as 100 percent capital gains tax exclusion on qualified assets held within a renewal community for at least five years.
- ✓ **Enhance and increase** community involvement and ownership, in part through the creation of Family Development Accounts. These accounts would encourage EITC recipients to save money tax-free for certain expenditures such as higher education or buying a home for the first time.
- ✓ **Improve** the delivery of local government services by encouraging privatization and increases in efficiency.
- ✓ **Encourage** financial institutions to maintain a presence and invest in designated renewal communities.

2. Education Scholarships for Poor Children within Renewal Communities.

As a condition of becoming a renewal community, a locality would administer the federally funded Low-Income Educational Opportunity Scholarship Program established under Title IV of the bill. Low-income parents within the renewal community would be given federally funded scholarships to send their children to primary and secondary schools chosen by the parent. Poor parents would be able to use these scholarships to choose to send their children to a variety of schools, including alternative public schools, private schools, and private religious schools. Because religious schools can play a critical role in rebuilding the moral foundation of America's inner cities, they are included as an essential component of the scholarship program.

3. Charitable Contribution Tax Credit.

To encourage charitable contributions to private organizations aiding the poor, the bill would create a tax credit that refunds 75 percent of a taxpayer's contribution to any private charity engaged primarily in providing direct services to the poor. The maximum eligible contribution would be \$200 for single filers and \$400 for joint filers. The credit would be available to all federal income tax filers nationwide, regardless of whether they itemize deductions on their tax returns.

4. Prevention and Treatment of Substance Abuse.

Until now, religiously affiliated drug treatment centers have been hampered in their ability to receive funds under the Public Health Service Act. Title III of the bill would amend current law to allow such organizations to receive federal funds for the treatment services they provide without restricting their religious activity. In addition, this section recognizes that religious education and religiously motivated drug treatment personnel can have a vital and important role in effective drug treatment. Thus, it would loosen unnecessary bureaucratic credentialing requirements on treatment staff which may bar religious drug treatment programs from receiving federal drug rehabilitation funds. These provisions would apply nationwide.

5. Work Opportunity Tax Credit.

With teenage unemployment at nearly 20 percent, this provision gives employers tax incentives to hire individuals who are welfare recipients or "high-risk" youth, the persons who have a more difficult time securing permanent employment. This tax provision also would apply nationwide.

CREATING RENEWAL COMMUNITIES

Under Title 1, state or local governments would apply to the U.S. Department of Housing and Development (HUD) to have certain depressed areas designated as "renewal communities." Up to 100 such communities would be created nationwide. To qualify under the terms of the bill, the local area must be low income, and local authorities must agree both to ease regulations that impede economic activity and to operate the scholarship program for poor children provided in Title IV. If more than 100 localities applied to become renewal communities, HUD would select the 100 poorest. Upon becoming a renewal community, a locality would receive substantial tax and regulatory relief. Designated renewal communities would retain their status for seven years.

1) Eligible Areas.

To become one of the 100 renewal communities, a local area would have to be nominated by a state or local government officials and would have to meet the following criteria:

- ✓ The locality must be an economically depressed area within a larger city or county.
- ✓ The locality must be characterized by pervasive poverty and distress and entirely located within the jurisdiction of a local government eligible to receive Community Development Block Grant funds (according to Section 119 of the Housing and Community Development Act of 1974). This means that a renewal community must be a subsection within the jurisdiction of a local government that is itself characterized by poverty and distress, not simply a pocket of poverty within an area of general affluence.

- ✓ The unemployment rate within the locality must be 1 1/2 times the national unemployment rate.
- ✓ Each census tract within the locality must have a poverty rate of at least 20 percent.
- ✓ At least 70 percent of the households within the locality must have incomes below 80 percent of the median income of households within the jurisdiction of local government.
- ✓ The locality must have a continuous boundary and be located within the jurisdiction of one local government.
- ✓ If any part of an area is located within a metropolitan statistical area (MSA) with a population greater than 50,000, the minimum population within the renewal community area must be at least 4,000. For all other non-rural and non-MSA areas, the population within the proposed community must be at least 1,000 or located entirely within an Indian Reservation.
- ✓ Ten percent of the renewal communities must be in rural areas. For an area to be considered "rural," it must be within a local government jurisdiction with less than 50,000 people, be outside a metropolitan statistical area (MSA) as defined by the Census bureau, or otherwise be considered rural by the Secretary of HUD.

2) Required Commitments by Local Officials.

For an area to become a renewal community, state and local government officials and representatives of neighborhood organizations must express in writing their commitment to reduce taxes, regulations, and burdens on businesses within the renewal community area in at least five of the following seven ways:

- ✓ **Reduce** taxes and fees;
- ✓ **Increase** the level of efficiency of local services;
- ✓ **Develop and implement** crime reduction strategies;
- ✓ **Streamline** government requirements and regulations;
- ✓ **Foster** coordination between and involvement of private organizations and community groups, and encourage such groups to provide jobs and job training, technical, financial, or other assistance to employers, employees, and other residents from the renewal community;³

3 Prudence Brown, *Comprehensive Neighborhood-Based Initiatives: Implications for Urban Policy*, Chapin Hall Center for Children, University of Chicago, December 10, 1993. Studies have shown that initiatives to revitalize communities work best when the residents are involved, investing their own resources and aware of their own needs in such a way that they are able to bring about change and foster community pride and ownership.

- ✓ **Provide** state or local income tax benefits for fees paid for services, such as trash collection, that formerly were performed by the government but now are privatized; and
- ✓ **Encourage** the donation or sale of land, homes, and commercial/industrial structures to neighborhood organizations, community development corporations, or private companies.

3) Required Economic Growth Measures.

To establish a renewal community, state and local officials must repeal or suspend government regulations, except for those required to protect health and safety. These include:

- ✓ **License requirements** for occupations that do not require a professional degree;
- ✓ **Zoning restrictions** on home-based businesses that are not a public nuisance;
- ✓ **Permit requirements** for street vendors that are not a public nuisance;
- ✓ **Zoning and other restrictions** that impede the formation of schools and child care centers; and
- ✓ **Restrictions on competition** for businesses providing public services, such as cable TV, taxicabs, or trash removal.

4) Tax Breaks to Stimulate Jobs in Poor Neighborhoods.

Enterprise Zones, if crafted correctly, hold great promise in restoring economic vitality to poor neighborhoods.⁴ Experience with "enterprise zones" has shown that targeted tax relief on business activity in depressed inner city areas over time can cut the unemployment rate in those areas by a third or more.⁵ To create jobs and stimulate business activity in local communities, the Watts-Talent bill will match tax cutting and deregulation at the local level with a sharp reduction in federal taxes within the locality.

Exclusion from Capital Gains. Once a local area has been designated a renewal community, the bill would reduce federal taxes on private investment in any qualified renewal community enterprise (defined as a business that derives at least 80 percent of its gross income from within the community and has at least 35 percent of its employees living in the renewal community). The tax benefits for investment in qualified businesses within the renewal community area include a 100 percent exclusion of capital gains tax. An individual would not be taxed for any capital gains

4 See Stuart M. Butler, *Enterprise Zones: Greenlining The Inner Cities* (New York: Universe Books, 1981); see also Butler, "The Urban Policy America Needs," Heritage Foundation *Executive Memorandum* No. 330, May 5, 1992.

5 Terry Van Allen, *The Impact of Enterprise Zones on Employment* (San Francisco and London: Austin Winfield, 1995), p. 109. This research shows tax relief in the zones studied reducing unemployment in general by six percentage points, from 15.9 percent to 9.9 percent.

resulting from the sale of assets of a qualified renewal community enterprise held for more than five years. This exclusion is limited to \$100,000 per tax year and a \$500,000 total.

Deduction of Stock Purchases. Individuals in these communities would have the option to deduct certain purchases of stock of qualified renewal community enterprises instead of taking the 100 percent exclusion from capital gains.

Deduction for Tangible Property. Individuals and businesses in these communities also would have reduced up-front taxation on investments in tangible property within the renewal community. Under current federal income tax law, businesses and individuals may deduct up to \$17,500 from their federal income tax to cover current year capital investment costs.⁶ Under the Watts-Talent bill, an extra \$35,000 could be deducted for investment in renewal community businesses.⁷

Tax Credit for Revitalization. To encourage the renovation of decaying buildings that often blight impoverished areas, Section 107 of the bill gives taxpayers a tax credit equal to a percentage of their qualified revitalization expenditures within the renewal community. A person either could receive up front a tax credit of 20 percent of revitalization expenditures for the tax year a revitalized building is completed or could elect to receive a credit of 5 percent each year for ten years, beginning with the year the building is completed. The maximum expenditure for which a taxpayer may receive credit is \$10 million. The building may not be a residence and must be located within the renewal community, and the revitalization costs must exceed 25 percent of the fair market value of the structure.

Establishing Family Development Accounts for Renewal Community EITC Recipients. Section 106 of the bill also authorizes the creation of Family Development Accounts (FDAs) designed to encourage low-income families to save a portion of their income or their Earned Income Tax Credit refund. Cash donations would be deductible, even if the individual does not itemize. Withdrawals from these accounts would be tax-free if the money is used for certain specified expenditures. Contributions to FDAs would be limited to the lesser of \$2,000 or the total amount of a person's compensation included in gross income for a given tax year. Persons donating to the family accounts of others would be limited to a deduction of \$1,000.

6 This threshold was raised to \$25,000 in the Small Business Job Protection Act of 1996 (H.R. 3448), passed by the Senate on July 9, 1996, but not yet signed into law as of the date this paper was published.

7 For every dollar that expenditures for property exceed \$200,000 in value, the \$17,500 threshold under current law is reduced one dollar. For empowerment zone businesses, however, this reduction would be only 50 cents for every dollar, enabling a qualified business to spend up to \$305,000 and still be able to deduct a part of that expenditure in the first year of ownership.

Family Development Account funds can be used tax-free for the following expenses:

- ✓ Post-secondary education tuition and expenses;
- ✓ First-home purchasing costs;
- ✓ Business capitalization expenditures, including capital, plant, equipment, working capital, and inventory expenses, with such businesses required to have an approved business plan;
- ✓ Medical expenses not otherwise covered by insurance; and
- ✓ Qualified rollovers which involve paying into another individual's FDA with funds from one's own account.

If an employer paid into a worker's FDA, the employer's contribution also would be counted as compensation. Matches also could be provided by state or local governments, service organizations, corporations, local churches, foundations, or other such organizations.

5. FDA Matching Fund Program Demonstration Areas.

Under the bill, the Secretary of Housing and Urban Development could select up to 25 communities, with a minimum of two rural areas and based on their relative impoverishment, to serve as demonstration areas for an FDA matching fund program. Within these areas, each qualified individual would have an amount, equal to the amount deposited into the FDA account by the individual, matched by the federal government. This matching amount would be limited to \$1,000 each year. The maximum one person could ever receive from the federal government is \$2,000.

6. Community Reinvestment Act.

To encourage financial institutions to maintain a presence and invest in designated renewal communities, Section 501 of Title V directs that such efforts be taken into account when assessing an institution's compliance with the Community Reinvestment Act of 1977 (12 USC 2903).

7. FDA Application Fees.

Section 502 waives "application fees" required by the Food and Drug Administration (FDA) to approve a drug developed within a renewal community.

LOW-INCOME EDUCATIONAL OPPORTUNITY SCHOLARSHIP PROGRAM

In order to become a renewal community, local officials also must agree to operate the bill's Low-Income Educational Opportunity Scholarship Program for poor children within the community. The program provides federally funded scholarships to enable poor parents to send their children to a broader range of primary and secondary schools. It has two goals:

GOAL #1: To expand educational opportunity for poor children by giving their parents a broader range of choice in determining where the child goes to school; and

GOAL #2: To foster moral renewal in a community by enabling poor parents to send their children to religious schools which teach moral principles and instill virtue as an essential ingredient of education.

Parental Right of Choice. Parents would be eligible to receive funds under the scholarship program for their children if (a) they live in the designated renewal community; (b) the family income does not exceed 185 percent of the poverty line; and (c) they have elected to participate in the program.

Parents of children who received financial assistance under this program would be free to choose from a wide range of types of schools, including alternative public schools, charter schools, private schools, and private religious schools.

A parent would be able to redeem a scholarship at any private or private religious school within the locality which meets the health and educational standards for private schools within the locality which existed as of January 1, 1996.⁸ All schools which redeemed these special scholarships would be required to comply with the anti-discrimination provisions of Section 601 of Title VI of the Civil Rights Act of 1964 and not to discriminate on the basis of race.

The bill would require renewal communities to give parents timely information to enable them to make informed decisions about the education of their children. At the very least, the information would have to explain the scholarship fund, describe the eligibility requirements and selection procedure, and provide information about alternative public schools and scholarship schools.

A locality would have to allocate scholarships and transportation aid to eligible parents who apply for aid on a first-come, first-served basis or through another mechanism of selection determined by the locality which does not discriminate on the basis of the type of school selected by the parent. The scholarships are not entitlements.

⁸ The bill permits the scholarships to be redeemed in any private school that meets the standards for operation of schools in the locality in the beginning of 1996. The bill uses a fixed date in order to prevent a locality from creating a new set of regulatory barriers with the intent of blocking most private schools from redeeming scholarships.

Types and Value of Scholarships for Poor Children

Far too many poor children are trapped in poorly performing schools. Funds under the program are intended to broaden the educational choices of poor parents and children within the renewal community. If the parents chose to send their child to an alternative public school where tuition is already paid, under the bill they would receive funds to cover the costs of transportation. If they elected to send their child to a private school, they would receive a scholarship for the child which could be used only to pay for tuition and educational fees at the selected school.

Each locality would determine the precise monetary value of scholarships for children in their locality. The bill establishes the range of local options, but the maximum value of the scholarship also must not exceed the per capita cost of educating children in a public school in the locality. Further, the scholarship must have minimum value, which shall not fall below the lesser of a) 60 percent of the average cost of educating children in the public schools in the locality during the preceding year or b) the normal tuition charged by the private school.⁹

Each renewal community would be given a fixed amount each year to pay for scholarships and transportation aid for poor children. If the number of low-income parents who applied for scholarships and or transportation aid was insufficient to utilize all the funds available, any surplus funds could be used to assist in educating low-income children within the community's public schools.

Poor Parents, Poor Children, and Religious Schools

Americans are increasingly concerned about the character and quality of the social order, the apparent decline in the culture, and the corrosive influences of that culture on family life and the moral condition of the country. These concerns are common to Americans, regardless of their racial or income group or where they live and work. For a variety of reasons, individuals and families, children especially, are even more vulnerable to social pathologies, including violent crime, illegal drug use, and illegitimacy and family breakdown.¹⁰

Importance of Religion. A central goal of the Saving Our Children bill is to foster moral renewal in inner-city communities wracked by crime, drug abuse, sexual promiscuity, and family disintegration. The sponsors of the bill recognize that building a sound moral foundation is the most important aspect of a child's education and that moral renewal is critical to solving urban social problems.¹¹ The power of religion to help the poor help themselves is amply documented.

9 If a student has a disability, the average per-pupil cost per semester in the public school system or systems in the renewal community in the preceding year would be calculated using the same cost for students with the same special needs or handicaps.

10 For an account of the problems confronting inner-city families in the area of violent crime, see Patrick F. Fagan, "The Real Root Causes of Violent Crime: The Breakdown of Marriage, Family, and Community," Heritage Foundation *Backgrounder* No. 1026, March 17, 1995; see also Fagan, "Social Breakdown in America," in Stuart M. Butler and Kim R. Holmes, eds., *Issues '96: The Candidate's Briefing Book* (Washington, D.C.: The Heritage Foundation, 1996), pp. 163-196.

Investigating the condition of black inner-city youth, Richard Freeman of Harvard University finds that boys who regularly attend church are 50 percent less likely to engage in crime than boys of similar backgrounds who do not attend church; they also are 54 percent less likely to use drugs and 47 percent less likely to drop out of school.¹²

Boys and girls who attend church regularly are two-thirds less likely to engage in sexual activity in their teens. Regular church attendance halves the probability that a woman will have a child out of wedlock.¹³ Children attending religious schools are two-thirds less likely to drop out than are nearly identical children who attend secular schools.¹⁴ Children ages 10 to 18 who do not attend church are a third to a half more likely to exhibit anti-social and dysfunctional behavior.¹⁵

Social consequences follow from school choice.¹⁶ The bill therefore helps poor parents give their children a sound moral upbringing by allowing them to use scholarships to send children to religious schools.

Constitutional Issues. The Supreme Court has held that as long as the parent, not the government, decides where the scholarship will be spent on a child's behalf, public funds can be used for education in a religious institution because the government has neither advanced nor inhibited a particular religion and therefore has not violated the establishment clause of the First Amendment.¹⁷ For example, in the 1986 case of *Witters v. Washington Department of Services for the Blind*, Larry Witters, a blind man, wished to use state vocational funds to attend religious seminary to help him fulfill his personal goal of becoming a minister. The U.S. Supreme Court held unanimously that Witters's use of state vocational funds to attend seminary did not violate the U.S. Constitution. Writing for the majority, Justice Thurgood Marshall asserted:

11 See Patrick F. Fagan, "Why Religion Matters: The Impact of Religious Practice on Social Stability," Heritage Foundation *Backgrounders* No. 1064, January 25, 1996, pp. 13-14.

12 Michael Novak, *The New Consensus on Family and Welfare* (Washington, D.C.: American Enterprise Institute, 1987), p. 34.

13 Heritage Foundation research based on the National Longitudinal Survey of Youth.

14 James S. Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, Vol. 94, Supplement (1988), p. S1115.

15 Heritage Foundation research based on the National Longitudinal Survey of Youth.

16 See Denis Doyle, "The Social Consequences of Choice: Why It Matters Where Poor Children Go to School," Heritage Foundation *Backgrounders* No. 1088, July 25, 1996.

17 *Zobrest v. Catalina Foothills Sch. Dist.*, 509 U.S. 1 (1993); *Mueller v. Allen*, 463 U.S. 388 (1983); *Witters v. Washington Dept. of Services for Blind*, 474 U.S. 481 (1986). In *Zobrest*, Chief Justice Rehnquist wrote that "we have consistently held that government programs that neutrally provide benefits to a broad class of citizens defined without reference to religion are not readily subject to an Establishment Clause challenge just because sectarian institutions may also receive an attenuated financial benefit. Nowhere have we stated this principle more clearly than in *Mueller v. Allen*, 463 U.S. 388 (1983), and *Witters v. Washington Dept. of Services for Blind*, 474 U.S. 481 (1986), two cases dealing specifically with government programs offering general educational assistance."

It is well settled that the Establishment Clause is not violated every time money previously in the possession of a state is conveyed to a religious institution. For example, a State may issue a paycheck to one of its employees, who may then donate all or part of that paycheck to a religious institution, all without constitutional barriers.¹⁸

Justice Marshall further argued that it was permissible for Witters to use government vocational funds to attend seminary because the individual, not the government itself, was determining how to allocate the money:

Any aid provided under Washington's program that ultimately flows to religious institutions does so only as a result of the genuinely independent and private choices of aid recipients. The decision to support religious education is made by the individual, not the state.¹⁹

Under the bill, local officials may not prohibit poor parents from using the Watts-Talent scholarships to pay for tuition in religious schools and may not discriminate in any way against parents who choose to place their child in a religious school. If provisions of a state constitution prohibit state and local funds from being spent at religious institutions,²⁰ the renewal community can segregate all federal funds from state funds. But state and local officials may not prevent poor parents from using federal scholarship funds designated for poor children to pay for tuition in religious schools.

Eligible Schools and Civil Rights Safeguards

To receive scholarships, a school must comply with relevant anti-discrimination provisions of the Civil Rights Act of 1964 and also must satisfy applicable state and local requirements for curriculum and facilities and meet health and safety standards which existed as of January 1996. Schools are ineligible, however, if they advocate criminal behavior or are operated by an organization advocating criminal behavior.

The sponsors of the bill are careful to ensure that the scholarships will not become a Trojan horse leading to a government takeover of private or religious schools. The bill includes specific safeguards both to protect private schools which redeem scholarships from government intrusiveness and to protect the liberty of religious schools:

- ✓ No additional regulations on burdensome paperwork may be imposed on private schools which redeem scholarships;

18 *Witters*, 474 U.S. 481, 487-488 (1986).

19 *Witters*, 474 U.S. 481, 487-488 (1986).

20 These provisions often are state-based versions of the Blaine Amendment, a legal restriction on assistance to religious schools motivated by anti-Catholic bigotry in the 19th century.

- ✓ Private schools redeeming scholarships will not be subject to regulations restricting religious instruction and shall be protected by the rights granted in the Religious Freedom Restoration Act of 1993;
- ✓ Any religious school may require its employees to adhere to its religious tenets and moral code of behavior;²¹ and
- ✓ Private schools will be permitted to operate as single-sex institutions, or to operate classes separated by gender (Section 409[b][6]).

The bill's language also includes a critical clarification to protect personal and religious liberty: No provision may be construed to give the federal government authority to direct or control the curriculum, administration, or personnel of any private school participating in the scholarship program (Section 410[c]).

The bill would require evaluation of the effects of the scholarship program. It authorizes studies comparing the performance of children with similar backgrounds to determine whether those from renewal communities who participate in the scholarship program outperform those who do not. In addition, the authorized studies would examine parental involvement and the degree to which it is improved when parents are able to choose where they send their children to school.

Targeting Education Funds to Poor Communities

Federal scholarship funds would be channeled to renewal communities through two funding tiers, with 80 percent of the funds allocated through the first tier. Under the first tier, the share of federal funds received by a renewal community shall be pro-rated based on the number of school-age children with family incomes below 185 percent of poverty residing in the community, relative to the total number of such low-income children residing in all renewal communities nationwide.

Twenty percent of scholarship funds must be allocated through the second tier. To encourage private-sector and state and local government contributions to the scholarship program, second tier funds are to be divided according to the level of non-federal financial support given to the program within each locality. The share of these funds given to a specific renewal community would be equal to that community's pro-rated share of non-federal contributions to the scholarship program within all renewal communities nationwide.

REINFORCING AMERICA'S INDEPENDENT SECTOR

To an increasing degree, Americans realize that government solutions to poverty enacted during the latter part of this century have failed. Since the beginning of the War on Poverty in 1965, the U.S. has spent \$5.4 trillion to aid low-income Americans.²² But in many ways, poor communities are worse off now than

²¹ However, this provision may not be used as an excuse to permit racial discrimination in employment.

when Congress started to establish this vast array of federal social programs over 30 years ago. The following provisions would apply nationwide.

✓ **A Charitable Tax Credit**

The Saving Our Children bill creates a new tax credit, intended to encourage Americans to allocate more of their charitable contributions to private organizations that are fighting poverty effectively with low administrative overhead. According to Section 201 of Title II, taxpayers who donate to a qualified charity would receive a 75 percent tax credit for donations up to \$200 for single and \$400 for joint filers. This credit would be available regardless of whether a taxpayer itemizes deductions.

A charity is qualified to receive donations under this provision if its predominant activity is the provision of direct services to individuals whose annual incomes generally do not exceed 185 percent of the official poverty line. A qualified charity must provide direct services to low income persons and may not participate in political activities such as lobbying, litigation on behalf of service recipients, public policy advocacy, public policy research, or voter registration.

The bill's underlying philosophical premise is that individual taxpayers, because they are closer to the needs of their communities, are better able to make decisions about where funds should go than are bureaucrats in Washington. They can target funds to programs that work. Giving taxpayers additional means with which to make financial contributions to worthy poverty-fighting organizations would enable them to become more involved in their communities, fostering a greater sense of civic duty and fellowship.

✓ **Using Faith-Based Drug Treatment Centers**

Section 301 of Title III (Prevention and Treatment of Substance Abuse: Services Provided through Religious Organizations) applies nationwide. It amends the Public Health Service Act to meet three goals:

- ❶ **To permit** faith-based substance abuse treatment centers to receive federal assistance and to prohibit discrimination against such centers;
- ❷ **To make** it easier for individuals receiving federally funded drug treatment to select drug treatment therapy that is religious in nature; and
- ❸ **To protect** the rights of individuals receiving drug treatment by ensuring that no individual can be required to receive services from a religious organization and guaranteeing that individuals who do not wish to receive drug treatment services from religious entities must be provided with alternative secular services.

22 For a discussion of the size and scope of the American welfare state, see Robert Rector and William F. Lauber, *America's Failed \$5.4 Trillion War on Poverty* (Washington, D.C.: The Heritage Foundation, 1995). See also Patrick F. Fagan, "Liberal Welfare Programs: What the Data Show on Programs for Teenage Mothers," Heritage Foundation *Background* No. 1031, March 31, 1995.

Faith-based drug treatment is different from secular treatment in that it encourages a person to look beyond himself for the strength to overcome addiction. That apparently is why faith-based treatment is more effective than secular treatment: Individuals in any religious denomination or group have lower levels of drug use regardless of whether the denomination teaches against the use of alcohol, although denominations that teach against any use of drugs or alcohol exhibit the highest rates of drug avoidance.²³ Likewise, religion has been shown to be a powerful force in helping alcoholics abstain from alcohol. For over half a century, Alcoholics Anonymous has encouraged participants to invoke a higher power to help them recover from their addiction.²⁴

In reviewing the religious treatment of addicts, research psychiatrists at the Duke University Department of Psychiatry concluded in 1992 that the "role of religious commitment and religiously oriented treatment programs can be significant factors which ought to be considered and included when planning a mix of appropriate treatment alternatives....Perhaps the greatest advantage of religious programs is their recourse to churches as a support system....Religious treatment programs are not suitable for everyone. For those men and women who can accept the creeds, rituals, and commitments required of such programs there seem to be certain advantages."²⁵

Eliminating Discrimination. Under Title III of the bill, religious organizations are eligible to receive program funds and provide drug treatment services on the same basis as any other nonprofit private organization. While religious organizations would be required to meet the general requirements for effective drug treatment, neither the federal government nor any state government receiving federal treatment funds shall discriminate against an organization because of its religious character. Neither the federal nor any state government could interfere with the definition, practice, or expression of an organization's religious beliefs; nor could they require the organization to alter its form of internal governance or remove religious art, icons, sacred scripture, or other such symbols. Religious organizations which receive funds under the bill also could require any or all employees to adhere to their organizational religious and moral tenets.

At the same time, the language of the bill would protect the religious liberty of drug users receiving treatment. Any person who objects to participating in a drug treatment program operated by a religious organization shall be given the

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- 23 Achaempong Yaw Amoateng and Stephen J. Bahr, "Religion, Family, and Adolescent Drug Use," *Sociological Perspectives*, Vol. 29 (1986), pp. 53-73.
- 24 Orville S. Walters, "The Religious Background of Fifty Alcoholics," *Quarterly Journal of Studies on Alcohol*, Vol. 18 (1957), pp. 405-413; F. Lemere, "What Happens to Alcoholics?" *American Journal of Psychiatry*, Vol. 22 (1953), pp. 674-676; B. Larson and Susan S. Larson, "The Forgotten Factor in Physical and Mental Health: What Does the Research Show?" (Rockville, Md.: National Institute for Healthcare Research, 1994).
- 25 John Muffler, John Langrod, and David Larson, "'There Is a Balm in Gilead': Religion and Substance Abuse Rehabilitation," in *Substance Abuse: A Comprehensive Textbook*, ed. J. H. Lowinson, P. Ruiz, et al. (Baltimore, Md.: Williams and Wilkins, 1992), pp. 584-595.

option of receiving treatment in an alternative program operated by a secular organization.

Personal Help. States may provide beneficiaries with vouchers that enable them to choose among a wide variety of drug treatment programs under Title III. If a person needing drug treatment is given a voucher or other mode of reimbursement which enables that person to select the treatment program in which he will participate, the drug treatment monies may be used for any religious worship and instruction which is part of the overall drug treatment. This provision is fully in accord with U.S. Supreme Court rulings on the religious establishment clause in *Zobrest v. Catalina Foothills School District*, *Mueller v. Allen*, and *Witters v. Washington Dept. of Services for Blind*.

If a person with a drug abuse problem freely elects to participate in a religious drug treatment program rather than secular alternatives, the individual could be required to follow the rules set forth in the program and to participate in any religious practice or instruction that is part of the treatment program. Any individual who does not wish to participate in a drug treatment program operated by a religious organization is given the full right to refuse such treatment. Such individuals must be given the option of attending an equivalent alternative secular treatment program.

Broadening Help for the Addicted. The bill's language also stipulates that state or local governments should recognize that religious education can have a critical role in providing effective drug treatment. In applying education qualifications as a condition for receiving federal funds, state or local governments would have to give credit for religious education that is equivalent to the credit given for secular course-work of similar grade levels and duration. Furthermore, any religious organization which is barred from receipt of federal drug treatment funds by means of education and credentialing standards imposed by state or local government could appeal to the Secretary of Labor to waive such standards. The Secretary must waive the standards if:

- ① The organization has provided effective drug treatment for at least three years;
- ② The Secretary determines the requirements for education and training of personnel effectively bar the organization from receipt of funds; and

The state or local government is unable to demonstrate empirically that such qualifications are necessary to have a successful drug treatment program.

CREATING REAL JOBS IN POOR NEIGHBORHOODS

The Work Opportunity Tax Credit, found in Section 201 of Title II of the bill, is designed to encourage the employment and economic betterment of those whose past makes it difficult for them to secure a job and make a fresh start. The bill would replace the expired Targeted Jobs Tax Credit (TJTC). The Work Opportunity Tax Credit offsets the cost of hiring persons who fall into a number of categories, including AFDC or food stamp recipients and their families; economi-

cally disadvantaged veterans, ex-felons, and high-risk youth; vocational rehabilitation referrals; and qualified summer youth employees.

Employers would be eligible to claim a 35 percent credit on the first \$6,000 of first-year wages paid to a qualifying individual (for a maximum credit of \$2,100). In the case of certain summer youth, employers could claim a 35 percent credit on \$3,000 of wages (for a maximum credit of \$1,050).

CONCLUSION

Congress has an opportunity to change the direction of American social policy. The American Community Renewal Act of 1996 contains a new comprehensive strategy to help resolve America's urban problems. It assumes that the choices and decisions of low-income Americans who want to help each other and themselves should be respected, is grounded in the experience of local organizations and community groups, and harnesses the initiative and genius of local institutions in an empowerment strategy that can work.

Specifically:

- ✓ **The bill would reduce urban unemployment by reducing the tax and regulatory burden on businesses in inner-city areas.** This type of economic policy can reduce unemployment in affected localities by a third or more.
- ✓ **The bill would expand educational opportunity by providing poor parents with scholarships which could be used to pay for tuition in private schools.** By giving poor parents the same sort of choice in education that middle-class families already have, the bill would increase parental involvement, improve the quality of education, and reduce the rate of school failure.
- ✓ **The bill would help churches and religious institutions rebuild the moral foundations of inner cities by allowing poor parents to enroll their children in religious schools.** The authors of the bill recognize the simple and uncomplicated truth that the development of a strong moral character, reinforced by religious discipline and the habitual practice of virtue, is the necessary basis for success in school, in work, and in life itself. The church, as an institution, is society's most effective weapon in saving children from alcohol abuse, illegal drugs, violent crime, sexual promiscuity, illegitimacy, and dependence. By allowing inner-city churches, through a school choice program, to play a far greater and more decisive role in shaping the hearts and minds of America's young people, the Saving Our Children bill would be a large step forward in combating the social ills that plague America's inner cities.
- ✓ **The bill would further encourage Americans from all walks of life to become more directly involved in the basic business of financing social service programs to help the poor.** It would expand the role of private-sector charity in aiding the poor. Federal, state, and local governments spend nearly \$400 billion each year on a wide variety of programs to aid low-in-

come Americans. By a wide margin, the public regards many, if not most, of these government programs as failures. By providing a generous tax credit for individual taxpayer donations to private charities which aid the poor, the Watts-Talent bill would enable the private sector, and religious charities in particular, to bring new and innovative local approaches to the struggle against poverty, drugs, family disintegration, and crime through programs that work and can make a real difference in the lives of young men and women.

The comprehensive urban policy embodied in the Saving Our Children bill gives Congress an excellent opportunity to make a bipartisan stand for children. It rejects the premise that all that is needed for our nation's poorest communities are larger benefit checks from the government. It goes beyond simply managing the symptoms of impoverishment to tackle the root causes of poverty, crime, and illegitimacy. It establishes the economic conditions which enable depressed communities to become more profitable places for work and business. And it recognizes and harnesses the positive energy of the nation's churches and religious institutions to advance the character and quality of American life.

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