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## Senate

### ENTERPRISE ZONES

● Mr. HART. Mr. President, several bills have been introduced this year advocating the so-called enterprise zone approach to economic redevelopment. The administration has endorsed this approach for rebuilding our Nation's devastated inner cities.

It is offered as a free enterprise alternative to a long and expensive history of failed urban planning and social programming.

Despite many technical difficulties with the enterprise zone bills, there is obvious merit to dealing with high unemployment and poverty in depressed areas by stimulating business there.

Enterprise zones should not, however, be seen as a comprehensive strategy for urban redevelopment, nor should they be used to replace existing urban programs which have proven successful.

The search must go on for new solutions, and the details of this partial solution, the enterprise zone, must be scrutinized carefully.

As presently proposed, however, the enterprise zone is unlikely to work. It offers too few incentives and incentives of the wrong kind for attracting existing businesses to zones. More important, it offers little or no incentive for starting new businesses.

Continued refinement of enterprise zone legislation may reduce some of these problems. But the more important concern is whether the zone concept is focused on the right goals and whether it still meets its original, stated purpose. While the rhetoric surrounding zone bills emphasizes job creation, most provisions are actually designed to create profits for employers. Jobs and other economic benefits are expected to trickle down to the poor and unskilled. But zone bills do not target minority business nor even small business, the greatest source of jobs.

The problem with this very traditional economics is that not enough trickles down and what does trickle down does not go far enough and is not equitable. It is also true that what trickles down is not really what is needed most.

Is the purpose of urban development to attract business to a cheap source of labor and to create dead end, minimum wage jobs for the poor? Is this the best we can do with a supposedly new and innovative idea like enterprise zones?

These sorts of jobs certainly cannot be to the overall benefit of inner-city dwellers when they carry the cost of residential displacement.

We must look for approaches which lead to long-term, stable economic development in distressed communities, approaches which draw capital to productive uses in these communities. Without a stable, enduring market, few businesses, especially small businesses, will be able to survive in an enterprise zone.

If we can increase the financial reserves of the inner city community over time, few additional incentives will be needed to attract new business there.

But how do we increase buying power and financial reserves where there are few businesses or jobs of any sort to start with?

Two rules of thumb should guide our efforts:

First, any tax breaks or subsidies we offer to business owners or investors should be passed along to employees and owners wherever possible.

Second, percolate up rather than trickle down strategies for aiding the poor and unemployed should be tried; where possible, we should build on and stimulate the existing economic efforts of local communities first, then look to outside economic forces.

Consider the first guideline. Some may think that the relevant trade off—tax breaks for jobs—has already been struck between business and government in the very concept of an enterprise zone.

Actually, however, current enterprise zone bills include refundable job tax credits, in addition to other tax advantages. These credits subsidize the salaries of zone employees with tax dollars.

We would get more for our tax dollars if they were used to give employees and residents of inner cities more of an economic share and stake in their community, for example, by targeting some of the most attractive tax breaks to employers who are willing to adopt employee ownership plans. Such plans are entirely consistent with free enterprise and the expressed purposes of enterprise zones. They would increase productivity and competition by allowing more businesses to form, where employees pool resources, survive, and remain independent.

Stimulating new business in our cities is crucial, but so is keeping fledgling businesses alive and helping them expand. It does little good to create new jobs in zones only to have them disappear a year later. Yet most businesses fail, and small businesses, which create most jobs, fail at the astonishing rate of from 60 to 80 percent. In inner-city areas qualifying for zone status, the chances for survival will be even slimmer.

Employee ownership can help. Employees have an astonishingly good record in buying out failing businesses and turning them into more productive and profitable concerns.

Moreover, employee buy-outs provide a ready alternative to merger with large conglomerates which could pull business out of zones. In these ways, employee ownership increases and saves the number of jobs available, and decreases transfer payments from the Government which are needed when shutdowns and mergers cause layoffs.

By sharing in the risks and payoffs of entrepreneurship, employees and employee-residents of a zone could develop stronger commitments to their work. They could see that when they work for the success of their area business they are working for their own business and area, their own success.

This stake in the local economy would not only increase productivity, but might reduce crimes against business, vandalism and shoplifting. In all these ways, employee ownership makes people an active part of the recovery process of their own community.

Consider the second, percolate up, guideline. Authors of current zone proposals cite community-based small businesses in the South Bronx as models for the enterprise approach to urban re-

vitalization. Yet there are no provisions in their bills for building on or building up ongoing efforts within communities. Instead the emphasis is on incentives for the purchase and renovation of property which could lead to real estate speculation and gentrification.

On the other hand, if the emphasis was on incentives for capital formation, local residents, pooling their assets, would have a fighting chance to start their own companies. Some of the least known success stories in business involve groups of welfare recipients or farmworkers who started their own companies on a shoestring and now gross a million dollars or more per year.

Just as we need to encourage employee ownership where possible, we should also try to make community ownership attractive.

Closely related to the employee stock ownership plan (ESOP) is the General Stock Ownership Corporation (GSOC). This corporate form was enacted into law by Congress to provide all residents of a State with voting shares in the major economic ventures of their areas. The GSOC concept can be applied easily to a local area such as an enterprise zone where it would give the residents of a zone community a direct meaningful say in their economic future.

They could hire expert consultants, on credit, to generate various investment options for the development of their community. The advantages and disadvantages of these options could be presented, the dangers raised for the community by competing corporations could be explained.

Then residents could vote their common interest to create the sorts of economic changes they could live with and benefit from.

Funds could be generated for chosen GSOC projects from a variety of private and public sources, with eventual revenues paying back loans and providing resident-shareholders with dividend checks, dividend checks instead of welfare checks.

Of course, ESOP's and GSOC's represent only one path to the economic self-determination and development of communities with little economic power. They are not without problems.

Yet they deserve serious consideration, along with other means to like ends.

The proponents of enterprise zone legislation have proven themselves willing to revise their ideas and adopt new measures which increase the likelihood that zones will work effectively. I hope they will look into these kinds of incentives to economic recovery and consider adding them to their present plans. Economy with democracy must be our overriding goal.

I will soon be introducing legislation which seeks both to build on and transform the enterprise zone approach along the lines I have proposed here. This bill will provide special support for small and indigenous businesses in economically distressed areas and will target incentives for investment and credit to business activities which spread capital ownership broadly among zone residents and employees. I believe this will be an important contribution to the growing debate on enterprise zones. ●