LOCAL INFRASTRUCTURAL IMPROVEMENT AND ECONOMIC REVITALIZATION FUND
May 13, 1998

Proposal: Establish a Federal grant program to fund local infrastructural improvements -- i.e., projects that would not qualify for ISTEA transportation enhancement dollars, primarily because the roads in question are not part of the Federal aid highway system.

Purpose: To spark revitalization of declining or stagnant low-income areas by providing funds to upgrade local infrastructure. These Federal dollars would leverage additional State, local and private funds for such infrastructural efforts.

Structure: The funds would be awarded on a competitive basis. An application could be submitted by a unit of local government (e.g., city or county) and/or any of a variety of neighborhood organizations, including a community development corporation, a homeowners' association or other civic group. The application would have to include evidence of consultation with relevant parties, including the aforementioned civic organizations (e.g., the local PTAs), as well as local government agencies such as the departments of public works and transportation. The application would identify the priority infrastructure needs in the community, provide evidence in support of these choices and detail plans for effecting improvements. Preference would be given to applications that indicate how the proposed infrastructure projects would promote creation of lasting jobs -- e.g., pledges by firms to establish or expand operations in the community if the improvements are made. Preference would also be afforded to applications which include strong evidence concerning the likely impact of the improvements on property values.

(?) ?

Allowable uses of the dollars could include the following:
1) installing street lights;
2) removing heavy trash;
3) cleaning and maintaining ditches;
4) constructing sidewalks adjacent to schools;
5) replacing or repairing traffic signs and signals;
6) replacing or repairing street signs;
7) upgrading parks, including providing new playground equipment;
8) overlaying asphalt on streets; and
9) upgrading water and wastewater service

rural areas are desperate for this stuff. !?

The program could be targeted to relatively low-income urban neighborhoods in which the population is stable (i.e., no sharp declines over the past few years), a sizeable percentage of the residential housing is owner-occupied and the majority of structures are fundamentally sound. These may be the areas that can benefit most from the program as described here -- for example, homeowners are more likely than renters to participate extensively in the process of applying for funds. Alternatives are targeting the program to the most disadvantaged neighborhoods or making the funding available to a wide range of low-income areas.

P ✓

Applicants would be required to provide a non-Federal match, which could include State, local or private cash or in-kind contributions. The match could be set at 50-50 initially, or at a lower level in the first year, phasing up to 50-50. The match would have to supplement rather than supplant existing infrastructure-related efforts.

CCC for Inner-Cities

Overview. While most Americans have benefitted from the strong economy, some segments of the population have been left behind. Those left behind include both those isolated in distressed urban areas and members of certain demographic groups, such as young black males. A "CCC for inner cities" helps both neighborhoods and specific residents. It would provide short-term, public employment to target populations in jobs that provide neighborhood services. The program would help more of the population share in the benefits of a growing economy, while at the same time providing needed public services and infrastructure development to disadvantaged neighborhoods.

The program. The program would build on our history of public employment programs for disadvantaged youth and adults, and draw from the most successful practices identified for both youth and adult employment programs. Key elements of the program would include:

If after 6mo. or a year, person still needs employment(?)

- **Characteristics of jobs**. The jobs would be of short duration (6 months to 1 year) and would pay the minimum wage. This minimizes the probability that participants become dependent on public rather than private sector jobs.

- **Potential target populations**. the program would be targeted to disadvantaged workers, particularly those with long-term spells of unemployment or non-employment. Key target groups could include disadvantaged adults and youth in urban areas with high unemployment rates, or groups with extreme barriers to employment such as employment disabilities, poor literacy skills, or substance abuse problems.

This seems a promising population for eventual transition to private-sector work.

- **Services provided**. The jobs would be used to improve the infrastructure of and provide services to disadvantaged neighborhood. Job activities could include cleaning up parks, rehabilitating housing, schools, and neighborhood centers, providing after-school and summer youth programs, providing transportation services, and improving school and neighborhood safety.

develop a way to assess what they are spending how so as not to crowd the other programs out.

Cost(?) w/ permanent staff(?)

- **Linkages to private sector employment**. The program would develop ties with employers, PICS, and One-Stop Job Centers to help participants move to unsubsidized employment.

- **Linkages to other life-skills development services**. Participation in the program could be tied to important life-skills development activities, such as literacy training, job skills development, substance abuse and mentoring programs.

Yes

Advantages of the program. This program would achieve three important goals:

- **It would provide jobs to individuals who are left behind by the "full employment" economy**. The program would provide employment to individuals otherwise unlikely to locate employment in a full-employment economy. This employment experience, combined with the life-skills development activities, could reduce some of the barriers to employment among the long-term disadvantaged. The program would also make it possible to help disadvantaged groups such as childless adults who otherwise receive very little economic support from the government.

- **It would provide a prototype for programs which could be expanded during an economic down-turn.** While many current welfare recipients have successfully moved from welfare to private sector employment, it may be much more difficult for disadvantaged families to find jobs during an economic downturn. This program would make it possible to develop successful models of public service employment, which could then be expanded during times of high unemployment.

- **It would improve infrastructure in disadvantaged neighborhoods**. The program would provide needed infrastructure development and public services to inner-city neighborhoods, thus improving the quality of life for neighborhood residents. Some programs, such as transportation services, could help boost employment and earnings among residents who are not participating in the program.

Potential criticisms of the program.

- **How does the program differ from CETA?** The program would differ from CETA programs on a number of dimensions. First, it would have a concentrated focus on geographic areas with high unemployment rates. Second, it would yield direct benefits to disadvantaged neighborhoods, in terms if infrastructure development and public services. Third, it would gradually implement programs in a way which makes it possible to identify and to maintain high quality program management. Finally, it would follow the "best practices" identified for current youth employment programs, such as forming linkages with job search services, schools, and other community organizations to ensure that participants are able to successfully transition to private sector employment.

- **How can we be sure that the programs won't just displace other private or public sector employment?** While displacement is a potential issue with any public service program, displacement of public and private sector jobs could be minimized by concentrating on services which would otherwise not be provided by the public or the private sector. To the extent that this program increases services available to disadvantaged neighborhoods, it will succeed in meeting this objective. Moreover, since the program will be focused on individuals with low employment potential (i.e. long-term unemployed or non-employed individuals in areas with high unemployment rates) it is unlikely to enroll individuals who otherwise could secure private sector employment.

- **How would this program fit in with current workfare programs?** The program could be coordinated with current workfare programs. However, it would have the advantage that it would not be limited only to current welfare recipients. This would make it possible to help individuals historically not helped by the welfare system, such as absent fathers, single adults, or individuals who have exhausted their eligibility for welfare.

① Inner-City Econ Dev.

5/13/98

CCC For Inner-Cities

How different from CETA?

→ This could be more focused geographically.

Evidence is effective for women, but maybe not for men.

long-term emp. opp. not as good.

income transfer
neighborhood improvement
link to life-skills development activities

impact on criminality?
(like Job corps)

Use of HUD §3 program? ($ through PHA to communities) to ask that a portion of new employees hired be hired ~~in a specific~~ from low-income

OR

Should we find another way to utilize existing funding streams to promote employment?

Emphasize linked services btw the job programs and the life-skills development activities

(+) broader than welfare recipients

WTW crowd-out?
Union issues?
Would want to include strong anti-displacement language.

Formula or competitive ?)

Concern w/being able to identify what jobs in community are not being done (to avoid displacement)

[Q. What ever happened w/empowerment contracting ?)
HUB zones ?)

SBA (w/final reg. early June ?)

Infrastructural Improvement

Is this a duplication ?) ISTEA transportation enhancement dollars can be used for ~~non federal roads~~ roads that are not part of the Fed. aid highway system.

Is a program like this in Houston that focuses on $ to more stable communities.

2 goals
(1) increase local property values (improve neighborhood)
(2) to make area more attractive for investment.

Ensure linkage. (UDAG model)
require infrastructure improvements to be linked to a potential private sector development.

do we need -- to be part of the deal ?)

EP prefers the model that improves the neighborhood, from which would flow job creation etc.

SR: Why then not increase $ for CDBG.

has a low/moderate requirement.

flexible
Can be used for neighborhood improvements.

~~(1) Increase CDBG $~~

→ CDBG bonus if you get a match?)
don't want to introduce a match into CDBG.

Get Urban Institute report ~~on~~ that evaluates CDBG (from a few years ago).

How would this program be diff. from CDBG?)
(1) non-cities could apply
(2) could require State match? Why would they participate?) HFAs?)

Do we want to run it through DOT to avoid comparisons w/CDBG?

JOB CREATION IN DISTRESSED AREAS

THE PROBLEM

Over the past few decades, urban poverty has become increasingly concentrated in high poverty neighborhoods. In the top 100 cities, the proportion of the poor living in census tracts with a poverty rate over 40% has increased from 16% to 28% from 1970 to 1990. At the same time, there have been increases in joblessness and decreases in median incomes of inner-city residents relative to the balance of the metropolitan area. This deterioration in the relative economic position of the inner city may lead to a number of other problems-- deterioration in public infrastructure, declines in school quality, increases in crime, and a deterioration in civic activity-- which can further weaken the economic position of inner city residents.

Below we summarize some of the major classes of explanations for the problems of the inner city and provide some policy options that are potentially suggested by each explanation. This document is meant as a summary of current ideas and is not intended as a recommendation for any particular options.

EXPLANATIONS

1. The Decline in Inner City Jobs

The number of jobs available to inner-city residents has declined due to a general decline in the demand for low-skilled labor and a shift in the composition of jobs from manufacturing to service sector employment. At the same time, a growing "spatial mismatch" has further skewed employment opportunities away from inner-city residents. While most of the job growth has been in the suburbs, housing market discrimination and the concentration of federally subsidized housing in the inner-city may make it difficult for many inner-city residents (particularly minorities) to move to where the jobs are. Key reasons typically given for the growth of jobs in the suburbs are greater public subsidies for transportation and other public infrastructure, lower tax rates, lower regulation, and lower congestion costs.

<u>Well-known proponents:</u> John Kane 1968, William Julius Wilson 1987

<u>Possible Implications</u>:

- Increase incentives to create jobs in inner cities.
- Adopt policies to increase demand for low-skilled labor.
- Increase transportation and job networks between inner cities and suburbs.
- Help families to move to where jobs are.

2. *Declining Educational Opportunities of Inner-City Residents*

The decline in middle class residents in the inner cities and the exodus of middle class residents from public to private schools could lead to a deterioration of public school quality, by reducing local support for taxes to finance public schools, and by removing more highly motivated students from the public schools. As a consequence, both years of schooling and basic skill levels of inner city residents may have deteriorated. This may substantially limit the earnings potential of inner-city residents, because the labor market is placing an increasing premium on education.

Possible Implications:
- Improve quality of education and training available to inner-city residents.

3. *Labor Market Discrimination*

Inner-city residents may be particularly hard hit by employer discrimination against minorities. A recent study of employers in four major metropolitan areas found that black new hires were concentrated in the inner-city relative to the suburbs. The study found that part of this differential is associated with differences in the racial composition of managers and customers in suburban and inner-city neighborhoods. There is also at least anecdotal evidence of discrimination of inner-city employers against low-skilled minorities. This suggests that discrimination at both the hiring and the customer level may limit the ability of inner-city blacks to find jobs.

Possible Implications:
- Better enforcement of labor market discrimination and equal opportunity policies.

4. *Neighborhood Effects*

The concentration of poor families in high poverty neighborhoods may lead to a number of problems which may further deteriorate the economic well-being of poor neighborhoods. For example, there may be a decline in role models that promote economically productive behavior, a decline in connections to mainstream job opportunities, an increase in crime, and a decline in civic activity and support for critical social institutions.

Well-Known Proponent: William Julius Wilson 1987

Possible Implications:
- It may initially be difficult to overturn problems in the inner-city, because there are multiple areas in which inner-cities are disadvantaged. However, once these problems are addressed, there may be positive feed-back effects which cause progress to accelerate.
- Single-approach initiatives may be less effective than a multi-pronged approach.
- Institutional change (criminal justice, public assistance system etc.) may be crucial.
- There may be an important role for voluntary and non-profit institutions.

5. *Remove barriers to business investment*

Porter argues that the inner city has several advantages to offer businesses. In particular: a) Inner cities occupy a strategic location near high-rent business centers, entertainment complexes, and transportation and communications nodes. b) Businesses in inner cities could try to capitalize on regional clusters, c) There are large unmet local consumption demands, due to the high population density of local residents, and d) Inner cities offer human resources in the form of a cheap, low-skilled workforce.

However, these advantages are not fully utilized due to intrusive, burdensome, costly regulation (such as environmental regulations), inadequate infrastructure and public safety, and workers lacking some needed skills (e.g. reliability).

Well-Known Proponent: Porter 1995, 1997

Possible Implications:

- Streamline or reduce regulatory policies, such as burdensome environmental regulations or zoning and land use laws. (Many of these policies are locally based).
- Increase human capital investment by improving public schools and training (with a focus on private sector involvement).
- Reduce crime and improve infrastructure.
- Government should not subsidize business operating costs (e.g. EZ/EC approach) because then businesses do not become sustainable in the long run.

6. Personal behavior / lack of responsibility

The decline in inner-city neighborhoods may be due to deterioration in work-orientation and family responsibility of inner-city residents. This may be a result of many forces including the inner-city job problems described above as well as the historical incentives of the welfare system, which tended to discourage work and family formation. It also may result from a decrease in the extent to which other institutions (such as schools and the criminal justice system) penalize socially unproductive behavior.

Possible Implications:

- Adopt welfare policies which promote work and family responsibility.
- Strengthen criminal justice system.
- Increase academic standards and improve school to work transitions.

KEY QUESTIONS

In considering different options to address the problems of inner-city neighborhoods, two fundamental issues emerge:

- **Helping communities or people?** Revitalizing communities may benefit current residents, and helping individuals in a distressed area may generate positive feed-back effects that spill over to the entire community. However, there may also be some tension between strategies whose primary aim is to revitalize communities and those whose primary aim is to aid the individuals located in those communities. Community revitalization may drive up prices and push current residents out, just as the neighborhood is improving. Improving the skills, or job and housing opportunities of residents may result in their leaving the area, thus creating even more distressed communities for those left behind.

- **How many things to address at once?** The interrelatedness of many of the problems faced by distressed communities -- lack of employment, crime, inadequate infrastructure, low income -- suggests that strategies that concentrate on addressing several problems simultaneously may be more successful than individual programs for individual problems. This in turn suggests concentrating funding in relatively fewer areas -- where it can be used to address several problems simultaneously -- rather than spreading it more thinly to tackle a single problem in multiple areas.

WHAT DO WE KNOW ABOUT WHAT WORKS?

1. Residential Mobility Strategies

Recent experience with the Moving to Opportunity Demonstration program suggests that offering a Section 8 housing voucher to public housing recipients substantially increased mobility out of high-poverty neighborhoods. If the housing voucher is also coupled with extensive mobility assistance services and with a requirement that families move to a "low-poverty neighborhood", there may be a somewhat lower rate of mobility out of high poverty neighborhoods, but families are more likely to locate in much more affluent neighborhoods. HUD is now testing a separate program which combines a housing voucher with mobility assistance services, and which does not require families to move to a low-poverty neighborhood to receive the housing voucher.

2. Transportation Programs

We currently have little information on the impact of policies which expand transportation between the inner-cities and the suburbs. The Bridges to Work Demonstration program, implemented by Public/Private Ventures in five large cities, should provide further information on whether this approach can be effective.

3. *Education and Training Activities*

A number of employment and training programs have been shown to increase employment and earnings of disadvantaged adults, particularly disadvantaged women. Most of these programs have not increased hourly wage rates, but this may be due to a relatively low rate of investment in educational services. Programs for disadvantaged youth have been less successful, with a few notable exceptions. While we currently have little information on saturation approaches, the recent Youth Fair Chance program appears to have produced a decline in drop-out rates.

4. *Wage Subsidies*

There is limited evidence on the impact of "pure" wage subsidy programs for adults. Most programs have had low take-up rates, and there is some experimental evidence that targeting wage subsidies to welfare recipients can actually *decrease* employment (this may be because the narrowly targeted subsidy stigmatizes the recipients by clearly identifying them to employers as a welfare recipient). On the other hand, programs which combine wage subsidies with job development and job search services have been effective in increasing earnings, particularly for adult women. Experience with both the Targeted Jobs Tax Credit and the Youth Incentive Entitlement Pilot Project suggests that wage subsidies can increase aggregate youth employment. Estimates suggest that roughly one net job is created for every two jobs subsidized by the program.

5. *Earnings Subsidies*

Programs which target workers rather than firms have the advantage that they can be targeted more carefully on the basis of family income, without unnecessarily stigmatizing the worker in the eyes of potential employers. Recent studies of the Earned Income Tax Credit find that it has increased employment and earnings of single mothers. Other experimental studies in Canada and Minnesota have found that earnings supplements and expanded earnings disregards can increase employment rates of welfare recipients.

6. *Publicly Subsidized Employment*

Experience with the CETA program in the 1970s suggest that public employment programs can generate post-program earnings gains for adult women, but not for men. While CETA public service employment programs appeared to increase employment for participants while they were in the program, there is substantial disagreement about the magnitude of the net employment effects of these programs, after accounting for displacement of other public or private sector employment. Programs for youth, on the other hand, have been effective in generating aggregate increases in youth employment rates.

7. *Efforts to Promote Private Job Creation*

Since the early 1980s, 37 different states have adopted some form of enterprise zone program, and a Federal EZ/EC program was launched in 1994. These programs try to encourage firms to move into or expand their operations in distressed areas and to hire local residents. Incentives, in the form of tax subsidies and regulatory relief, are designed to reduce the firms' costs of investment and hiring. Most careful efforts to evaluate state enterprise zone outcomes have found little impact on employment or capital investment. The federal program -- which supplements the tax incentives with direct assistance in the form of block grants and requires community participation in the development of a strategic plan -- has not yet been evaluated.

8. *Anti-Discrimination and Equal Opportunity Policy*

There is evidence that passage of the Civil Rights Act in 1964, and the Equal Employment Opportunity Act of 1972 were associated with acceleration in the relative wage growth of blacks, and that this increase was largest in southern states where fair employment laws were weaker. In addition, the implementation of affirmative action provisions for federal contractors was associated with a moderate increase in the representation of minorities in firms that are federal contractors. There is also some evidence that the intensity of enforcement matters, since black relative wage growth was more rapid in the 1970s when anti-discrimination policy was more vigorously enforced than in the 1980s when enforcement was weaker.

9. *Expanding Access to Credit Markets*

There is some evidence that the tightening of regulations and increased enforcement of the Community Reinvestment Act under this administration has increased access of minorities to home mortgage loans. From 1993 to 1996, conventional home mortgage lending has increased by 67% for blacks and by 49% for Hispanics, substantially more than the overall increase in lending. In addition, the community development financial institutions fund (CDFI) has begun to create a network of institutions which promote lending to distressed communities. At this point, there is little formal information about the effectiveness of this approach.

10. *Specific Initiatives Aimed at Improving Public Institutions*

Specific initiatives could be developed to improve existing public institutions, most notably public schools, criminal justice, and public assistance.

ROLE OF THE FEDERAL GOVERNMENT

As the above discussion demonstrates, there are a multiplicity of (non-mutually exclusive) explanations for the causes of the problems of distressed areas. And there is little evidence to point to in evaluating the relative roles of these explanations, or in judging whether proposed solutions will be effective. If there is one thing that we do know, it is that there is not a clear formula for success that can be nationally imposed and uniformly applied.

Nevertheless, the federal government can serve a useful role in encouraging, facilitating, and supporting locally-driven revitalization efforts. In particular the federal government can:

- Increase awareness of the issue. Highlight the problems of distressed communities and encourage communities to address these issues. The federal government can also serve as an information resource and provide technical assistance. public transport
- Provide federal funding resources for infrastructure investment, housing improvement, school reform efforts, improved policing etc. Federal resources in such areas, which have not traditionally been federal oversight activities, could be a necessary component of any successful revitalization strategy, but past efforts suggest that federal dollars are not sufficient by themselves, and must be linked with major local involvement and planning.
- Increase federal funding for human capital development. Again, funding for employment and training could be a necessary, but not sufficient, component of a successful revitalization strategy.
- Design model neighborhood programs. Where information on the efficacy of innovative program ideas is lacking, the federal government could sponsor and evaluate small demonstration projects. In particular, this could be a constructive role for the Federal government in DC.

CEA Paper 4/29/98

Inner City Econ. Dev.

2 Key Qs:

(1) Given multiple set of overlapping causes, how many things do you try to do @ once.

should we try to do a bunch of things @ once (EZs)

(2) Should focus be on the community or the people.

Research on all this is spotty.

Last Q: What can the fed govt do?

schools, crime, private industry

traditionally local issues

Does this group have (should it have) a focus on job creation (?)

Main economic actors in urban communities — hospitals and universities

~~[illegible]~~

how to link outputs etc. from these large institutions to the community.

systems to encourage universities to set up "research parks" or incubator space.

Universities would be subsidized in their expansion (to create research industrial parks adjacent to the university).

LISC
- supermarkets
- movie theatres

(1) (Commercial tax credit (akin to low-income housing tax credit))

(2) historic rehab credit

We want to identify an asset that can be leveraged off of.

People driven (+) development of communities to make them better ~~peop~~ places (more attractive) for all people.

inner-city job creation as futile???

Community Conservation Corps

CCC for the inner-city
targets infrastructure issues
one-years employment

Emil E. Parker
04/13/98 03:37:08 PM

Record Type: Record

To: Julie A. Fernandes/OPD/EOP, Paul J. Weinstein Jr./OPD/EOP

cc:
Subject: Hypothetical SBA 7(a) Targeting Initiative

---------------------- Forwarded by Emil E. Parker/OPD/EOP on 04/13/98 03:37 PM ---------------------------

Francis S. Redburn 04/10/98 05:21:08 PM

Record Type: Record

To: Emil E. Parker/OPD/EOP, Cecilia E. Rouse/OPD/EOP, Sarah Rosen/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: Hypothetical SBA 7(a) Targeting Initiative

At yesterday's meeting, I volunteered to describe how an initiative to target SBA 7(a) loan guarantees to underserved areas might be designed along the lines of the Ginnie Mae targeted lending initiative.

Ginnie Mae

Ginnie Mae, which is part of HUD, guarantees timely payment to investors in securities backed by FHA and VA guaranteed loans. Ginnie Mae's Targeted Lending Initiative, begun Oct. 1, 1996, provides lenders who originate FHA loans (who are also the issuers of Ginnie Mae's securities based on these loans) with a fee reduction of up to 50 percent (3 of the normal 6 basis points annual fee paid to Ginnie by the lender) on loans made in specified target areas. The target areas include Empowerment Zones and Enterprise Communities as well as adjacent areas identified as underserved by the private mortgage market based on their income and racial characteristics. Ginnie Mae's initiative is intended to stimulate an additional $5 billion in FHA lending in these areas through FY 2000. It is unclear, however, how much of this credit represents an increase in FHA loans or in total credit in these areas relative to what would have occurred without the Initiative. The incentive for increased lending is modest, as is the projected annual reduction in Ginnie Mae earnings.

SBA 7(a)

The SBA 7(a) program provides partial guarantees on loans to small businesses. The program charges up-front fees ranging usually from 2 to 3.88 percent, depending on the size of the loan, plus an annual fee of 0.5 percent of the outstanding balance. The SBA guarantee covers a percentage of the loan that varies between 50 and 80 percent; up to 80 percent for loans under $100,000 and up to 75 percent for loans over $100,000. Both the guaranteed and unguaranteed portions are securitized and traded in secondary markets, but these transactions are sponsored and handled by private parties. The program has administratively set goals for lending to various groups, such as minorities and vets, but no financial incentives or variation in terms related to to these goals. The program is expected to support over $9 billion of loans this year; the 1999 request would support $11.1 billion. Because premiums do not fully offset expected losses, the program has a positive credit subsidy rate (expected cost, expressed on a present value basis as a proportion of the credit extended) of 1.39 percent. Thus, Congress would have to appropriate about $150 million to support the Administration's 1999 request.

A Possible Analog to Ginnie Mae's Initiative

Incentives could be provided to lenders to make more SBA-guaranteed loans in specified target areas. In addition to EZs and ECs, for example, target areas might include the HUBZones that, under new legislation sponsored by Senator Bond, are areas where businesses may receive preferences for Federal contracts.

Incentives might be provided either by reducing the fee or by increasing the proportion of the loan guaranteed by SBA. Because fees are passed through to the borrower, it is not clear that a reduced fee provides much incentive to lenders although it would reduce the cost to SBA borrowers in those areas. Reducing the fees in areas where lending may be riskier than average also runs counter to a standard principle of good credit management, as codified in the OMB credit management circular, that favors risk-based pricing. On the other hand, increasing the SBA guarantee proportion directly reduces the proportion of loss to the lender in case of default and thus should make lenders more willing to lend to the favored borrowers. Therefore, at first glance, the more effective stimulus would seem to be to vary the guarantee amount.

Other things equal, a higher guarantee amount or lower fee would increase the credit subsidy cost and require increased appropriations to support the same loan volume. Because the program has been demand-driven, subject to appropriation of an annual loan volume limit, any stimulus that increased total volume also would increase costs and the need for appropriations. (Can you tell this paragraph was written by someone at OMB?)

A third option for incentivizing lenders would be to vary the method of claim resolution. Currently, based on my limited understanding of the program, I believe there are two methods of paying a claim, one involving a fixed early payoff and the other based on shares of the actual losses after recoveries. If lenders prefer one to the other, then tying the preferred method of payment to lending in a target area could incentivize increased SBA lending in that area.

A practical barrier to implementing such an initiative is identifying the loans that, because of their location, are eligible for the incentive. Although SBA may capture the business address of the borrower and the lender, it may not have data on the locations of the investments supported by its credit, i.e., the addresses of the establishments that are being created or expanded with the loan. This won't be an issue to the extent that the business headquarters and establishment locations are identical, as is true for many small businesses.

Message Copied To:

Alan B. Rhinesmith/OMB/EOP
Edward A. Brigham/OMB/EOP
Theodore Wartell/OMB/EOP
Adam Hoffberg/OMB/EOP
Derek A. Chapin/OMB/EOP
Courtney B. Timberlake/OMB/EOP

Sky pager for week-end

Ingrid: Y2K letter

4/9/98

Ideas for promoting inner-city job creation

Summary of what we are currently doing

Nature of the problem

(1) barrier removal

–

–

(2) disinvestment / lack of investments by private sector

(3) market failure b/c of discrimination

Should we explore a variety of theoretical proposals on causes and solutions?

Do we have a theory? Do we need a theory?

We should look @ what we have proposed in the past. What happened to them?

Treasury - Tax policy
EC/EZ
Low-income housing tax credit

EDA @ Commerce
Grant making (discretionary grant program)
to states & local govt. rolling process
Tied into network of econ. devel. organizations.
Lots of investment has been rural (70%)
Have a planning program.
• public works program (carrot that keeps planning going)
• economic adjustment program
(place where economy was good, but gets bad quickly — base closings, disaster etc.)
Economic recovery.

SBA
7(a) ~~B~~ small business lending program
subsets targeted to various parts ~~of~~
Increase targeting to minority communities.
No geographic targeting.
~~Distinb~~ SBA offices are largely suburban.
Want to expand into inner-city.
Have one-stop capital shops
where people can go to get access to programs & maybe advise (if working well)
Micro-loan program.
(guarantees providing micro-loans)
8(a) programs
targeted to minority contracting

Housing (as an econ. dev. strategy)
(Rapid rate of disincentive
(barrier to commercial investment)

Set a goal for removing concentrated public housing.
Will reach 100K goal from demolishing

HOPE 6 → HUD conversion program
mixed w/ LIHTC
to ~~g~~ create mixed-income developments.

Middle income communities
also could use housing development
— to counter the creation of ~~office~~ retail,
space that is not being surrounded by residential, and thus less viable.

70% use voucher in the same area when move from

CDBG

CRA — large increase

CDFI up for reauthorization this year.

Next steps

- Review of research on causes & what works (Amy)
- Group Past Clinton initiatives by problems (including safety issues — community policing)