

New Markets Initiative

**White House National Economic Council
U.S. Small Business Administration
U.S. Department of Housing and Urban Development
U.S. Department of the Treasury**

1999

Goals of the New Markets Initiative:

- **Provide incentives to stimulate \$15 billion of new private capital investment in targeted areas;**
- **Build a network of private investment institutions focused on economic development in underserved areas; and**
- **Provide the expertise to small businesses and microenterprises that will allow them to use new investment to grow.**

Elements of the New Markets Initiative

- **New Markets Tax Credit**
- **America's Private Investment Companies (APICs)**
- **SBICs Targeted to New Markets (SBIC-LMI)**
- **New Markets Venture Capital Firms (NMVCs)**
- **Microenterprise Lending and Technical Assistance**
- **Continued Growth for CDFIs**
- **BusinessLINC**

New Markets Initiative

U.S. Small Business Administration

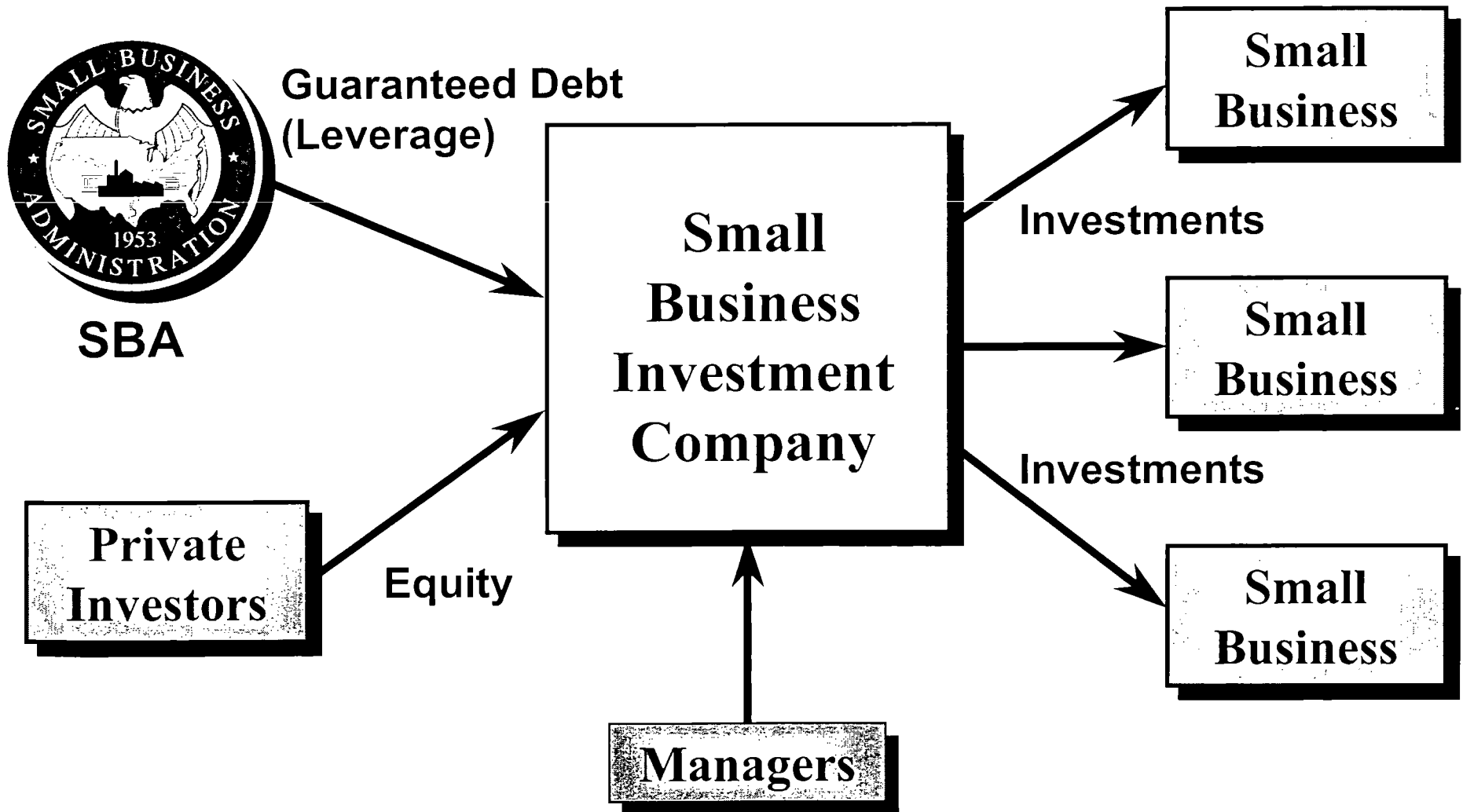
1999

What is an SBIC?

- **A Private Company**
- **With Private Management**
- **And Private Investors**

Formed specifically to invest in small businesses, generally where equity participation is a significant component of the financial return.

How SBICs Work



What is an LMI (Low and Moderate Income)-Focused SBIC?

- A Regularly Licensed SBIC
- \$5 Million Minimum Capital
- Up to 3:1 Debenture Leverage
- Five Year Deferral of Interest

Formed to invest in LMI areas where 20% of the population is below poverty level or median income is less than 80%.

What Is the SBIC/LMI Target Market?

- **Growth Small Businesses in Rural Areas, Inner Cities, or**
- **35% of Employees from LMI Areas**
- **Investments from \$150,000 to \$1 Million**

What is New Markets Venture Capital (NMVC)?

- **A Community Based Venture Capital Fund**
- **5 Year Deferment of Interest**
- **Formed to Invest in Companies Requiring both Equity and Technical Assistance in LMI Areas**

What Is the NMVC Target Market?

- **Small Businesses in Rural Areas or Inner Cities that Require both Equity and Technical Assistance**
- **Small Business Has Unique Market Niche**
- **Moderate Growth Prospects**
- **Investments from \$50,000 to \$300,000**

New Markets Initiative

**U.S. Department of Housing
and Urban Development**

1999

Overview: Goals and Need

APIC Adapted from:

SBA's Small Business Investment Companies

APIC Created to:

- **Expand private investment in large-scale businesses in LMIs.**
- **Reach untapped markets in urban and rural areas.**
- **Complement HUD's existing programs for large-scale revitalization.**
- **Enable a wide variety of project types, including commercial real estate.**

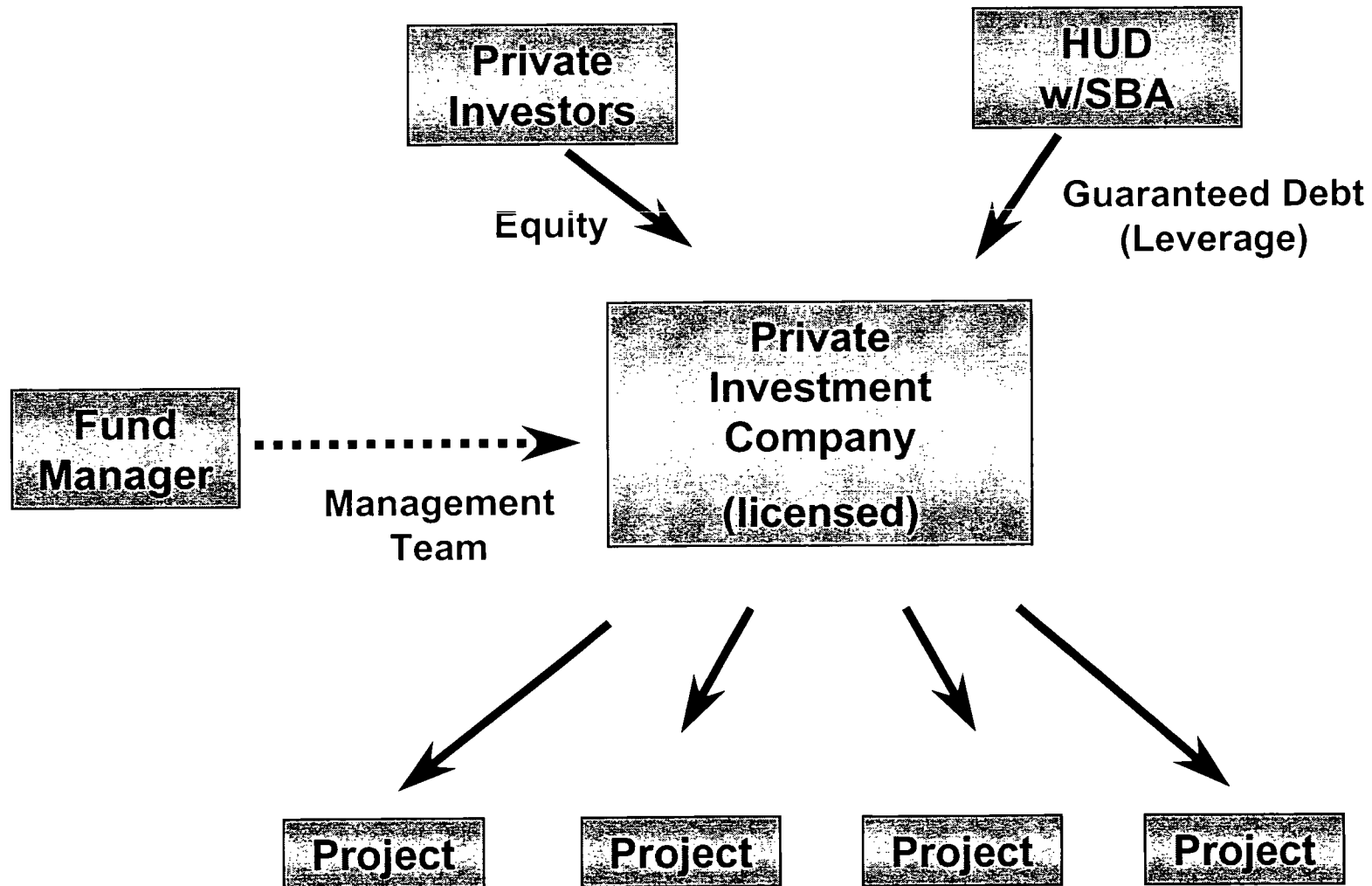
APIC: Long-term Capital Targeted to Development Needs

- **Direct investments in active businesses**
- **“Patient capital” -- long-term equity and debt**
- **Eligibility for New Markets Tax Credit**

Scale

- **\$36M in credit subsidy leverages \$1 billion in private loans and \$500M in private equity (\$1.5 billion per year)**
- **APIC will create large investment companies (expected \$75 - 450M) able to fund large projects (expected \$5 - 50M)**

III. How the APICs Will Work



The Investors

Broad Array Eligible:

- **Corporations**
- **Insurance Companies**
- **Banks** (eligible for CRA credit)
- **Pension Funds**
- **“Social Investors”**
- **Other Individual and Institutional Investors**

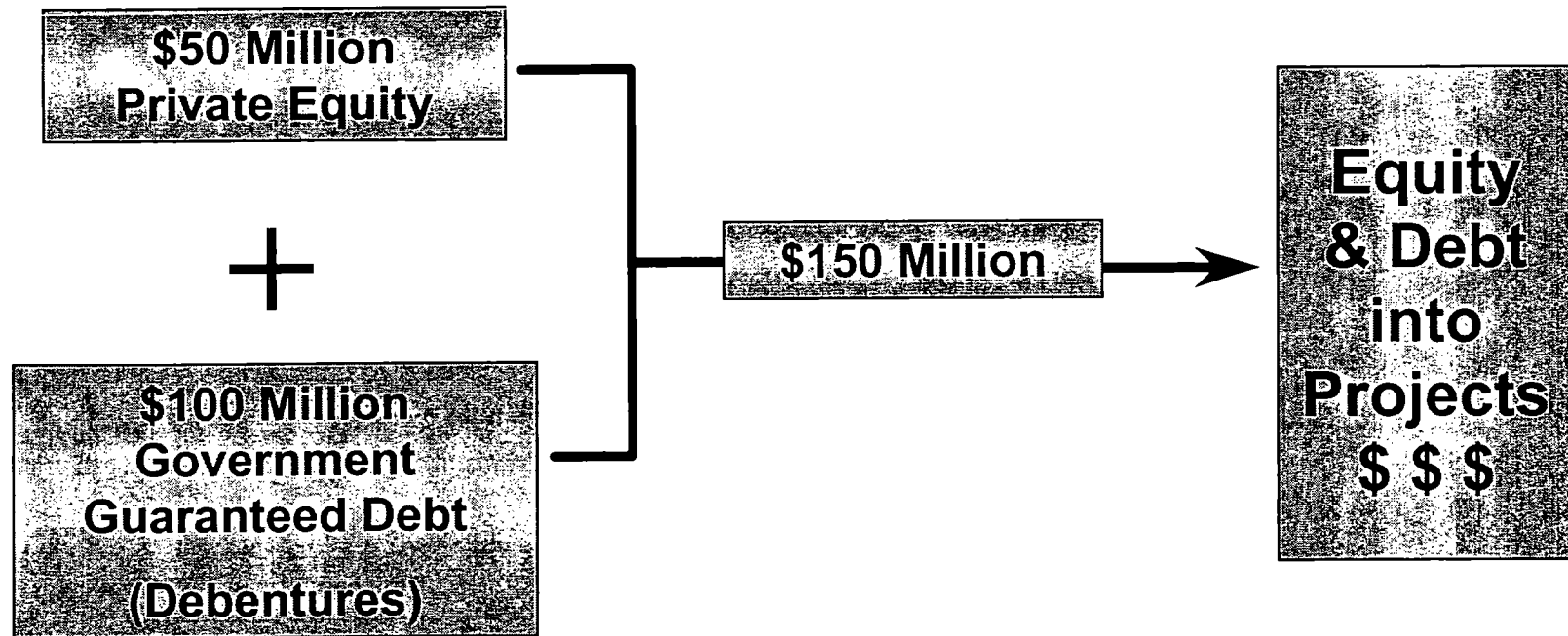
Selecting Experienced Fund Managers

Team Qualifications:

- Proven track record in direct equity investment and portfolio management
- Demonstrated ability to raise capital from private investors
- Experience in community development settings

APIC: Basic Numbers

Example



Ensuring Financial Soundness and Rewarding Performance

- **Financial Soundness Review**
- **Performance Review**
 - **Local hiring, quality jobs, other community benefits target by APICs themselves**
- **High performers eligible for more favorable financing**

New Markets Initiative

U.S. Department of the Treasury

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New Markets Tax Credit

“I remember from my time on Wall Street that there really had been no practical means, even for professional investors, to invest in inner cities even if they wished to do so. Hopefully the creation of CDFI and other vehicles, and this new tax credit, will interact to make investment opportunity more readily available and to provide incentive for such investment.”

Robert E. Rubin, U.S. Treasury Secretary

New Markets Tax Credit

“Businesses must have equity capital before they are considered viable candidates for debt financing... Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower income communities, where the weight of expansive debt obligations on small firms can severely impede growth prospects...”

Alan Greenspan, Federal Reserve Board Chairman

New Markets Tax Credit

- **Attract New Equity Capital to Businesses located in Economically Distressed Communities**
- **Build the Capacity of Institutions with Business Development Expertise and Knowledge of their Local Community**
- **Promote Partnerships between Skilled Community Development Entities and Mainstream Sources of Capital**

What Community Development Entities Can Use the New Markets Tax Credit?

- **A Flexible Approach**
- **The Community Development Entity Must meet a 3-Part Test:**
 - Primary mission to serve or provide investment capital for low and moderate-income communities
 - 60% of gross assets invested in qualified investments or residential property located in low-income communities
 - Accountable to residents of low-income communities

Eligible Community Development Entities

- **Community Development Financial Institutions:**
Banks, Thrifts, Credit Unions, Venture Funds, Micro-Enterprises
- **Community Development Corporations (for-profit subsidiaries of nonprofits)**
- **Small Business Investment Companies Primarily Serving Low and Moderate-Income Communities**

Eligible Community Development Entities

- **New Market Venture Capital Firms**
- **America's Private Investment Companies**
- **Funds that Invest in Other Community Development Entities**
- **Funds that Purchase, Pool and Sell Loans Made by Community Development Entities**
- **Other Targeted Investment Funds**

BusinessLINC: Learning, Information, Networking and Collaboration

- **In 1998, Vice President Gore launched Treasury/SBA's BusinessLINC.**
- **It encourages large businesses to work with small businesses to improve the competitiveness of firms located in economically distressed areas.**

BusinessLINC: Learning, Information, Networking and Collaboration

- **BusinessLINC**s help smaller firms gain a foothold while improving larger firms' bottom line.
- A **BusinessLINC** website will serve as a national database to identify business linkages.
- New private sector **BusinessLINC** coalition will work with local communities to foster more **BusinessLINC**s.

New Markets Initiative

**White House National Economic Council
U.S. Small Business Administration
U.S. Department of Housing and Urban Development
U.S. Department of the Treasury**

1999



Cliff.Kellogg@do.treas.gov

07/27/99 11:21:11 AM

Record Type: Record

To: See the distribution list at the bottom of this message
cc: See the distribution list at the bottom of this message
Subject: Finalizing APIC for hill - participating securities -Reply

Date: 07/27/1999 11:15 am (Tuesday)
From: Cliff Kellogg
To: DOM3.DOPO6(BARRM), ex.mail("Xavier_Briggs@HUD.GOV",
"DON.CHRISTENSEN@SBA.GOV", "Lisa_Green@opd.eop.gov",
"Michael.Barr", "Sarah_Rosen_Wartell@opd.eop.gov")
CC: ex.mail("Allen_I._Polsby@HUD.GOV", "Cliff.Kellogg",
"David_S._Kass@HUD.GOV", "Frederick_J._Eggers@HUD.GOV",
"saunders.miller@SBA.GOV", "Susan_M._Wachter@HUD.GOV"),
ex.mail("nina.levine@sba.gov")
Subject: Finalizing APIC for hill - participating securities -Reply

Xav -- I think you're firmly in the realm of legislative strategy, since the real design work could be done in regs. For reasons of clarity and legislative strategy, you may choose to omit the PS provisions. Based on your descriptions of Hill reactions, I'd support your judgment to omit PS. The fact that the debentures may be deferred interest probably clinches the deal for me.

It seems that we may need to do what's feasible from a gov't point of view, rather than optimal from an business point of view. The PS structure is a better match of sources and uses of funds for the types of deals APICs seeks to fund, viz., growth businesses and turnarounds. Moreover, at a time when the credit markets are comparatively flush, an APICs distinctive niche may well be its ability to do equity-like participations rather than sub-debt. Deferred interest debentures relieve some of the cash flow pressures on the APIC, but do not fully substitute for a funding source that is truly a share-of-the-profits.

Cliff

Message Sent To:

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Sarah Rosen Wartell/OPD/EOP
Xavier_Briggs@HUD.GOV

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Xavier Briggs <Xavier_Briggs@HUD.GOV>

07/26/99 07:56:49 PM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP, Lisa Green/OPD/EOP, Michael.Barr@do.treas.gov,
DON.CHRISTENSEN@SBA.GOV

cc: See the distribution list at the bottom of this message

Subject: Finalizing APIC for hill - participating securities

like that nifty cathedral in barcelona, this bill may be beautiful but never done...

we have had, for some time, a "reserved," unspecified term--"participating securities" (PS) in the APIC definition list, though we use the term nowhere in the bill. we're thinking seriously of dropping it entirely cuz it doesn't seem important enough or worth the hassle, but mindful of the fact that that is more or less how IBM described the personal computer years ago before apple came along, i'd like to hear any views on the matter as soon as you have a moment. (below is saunder's.)

we think it odd to dangle the bill with an undefined term "reserved" but never employed. and we meant to come back to this but never did. one reason is that we ensured that debenture terms could be flexible (with deferred interest or "zero coupon" features) to do most of what PS do.

another reason we punted earlier, if you recall, is that OMB did not score APIC with PS in mind. thru this mechanism, HUD would assume greater risk. i should add that it is my sense, based on 4-5 in-depth discussions of the bill on the hill, that the simplicity of the debenture model, incl the defensible low-risk position for govt (solidly behind the equity dollars of investors), is a major selling point.

i would recommend dropping the term but being prepared to insert language we like if this became a significant legislative issue this cycle. else launching the program and letting it evolve a bit before a major, complicating step--with associated scoring changes--is added.

finally, since we're doing nothing to the body of the bill, i assume that this deletion would require no special clearance, but i look to the NEC on that.

-- xav

saunders.miller@sba.gov on 07/26/99 06:51:06 PM

To: Xavier Briggs/PDR/HHQ/HUD
cc: don.christensen@sba.gov
Subject: RE: APIC: credit subsidy, participating sec

Hi Xav -

Here's my personal opinion. I think you should leave PS out. The reason is that they will score terribly and be prohibited. Here's why I say this. In

order for the PS securities model to work, you have to assume that the players are hell bent for super high unadulterated IRRs.

In the final analysis, this won't be achieved by the majority. Our model assumes a 20% failure rate, a 21% ROI by 25% of the population, and a 10% ROI by 50% of the population. This has a weighted ROI of 10.75%.

When these numbers were set, it was tough enough agreeing on something, but at least we had the Venture Economics Benchmark Report of the results of the venture industry for 15 or so years. Here, you have nothing to go by. What will an APIC even look like? Modeling will be very difficult.

You see, with debentures, the profitability isn't the issue. It's only a question of whether it is believed there will be defaults and what the size will be. Of course, defaults also enter into the PS equation.

Finally, for PS to work, you need to assume a large number of SBICs using it or your risk assumptions are going to have to compensate for the fewness of the numbers of players in the pool.

Hope this helps to clarify things.

Saunders
202.205.3646

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nina.levine@sba.gov_At_Internet
Cliff.Kellogg@do.treas.gov

Ann C. Hertelendy 07/26/99 05:26:53 PM

Record Type: Record

To: See the distribution list at the bottom of this message

CC:

Subject: Meeting on New Markets Legislation Event

Loretta will be holding a meeting **tomorrow (Tuesday, July 27) at 1:00pm in her office** to discuss the upcoming New Markets Legislation Event. Please call/e-mail with questions. Thank you.
X62640

Message Sent To:

Thomas D. Janenda/WHO/EOP@EOP
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DRAFT

SBA's New Markets Venture Capital Companies

Meeting the Needs of Small Businesses in the 21st Century

The American people are enjoying a time of economic prosperity unprecedented for most of us. We've got the strongest economy in at least a generation, a record number of new business starts, the lowest unemployment rate in 29 years, the lowest core inflation rate in more than 30 years, and the highest homeownership rate in history.

But there remain many untapped, under-invested communities. The New Markets Venture Capital Companies (NMVCs) will address the unique capital needs of smaller businesses located in geographical areas that historically have not attracted much private equity investing. NMVCs will provide a combination of equity venture capital financing and technical assistance to smaller businesses in these Low and Moderate Income (LMI) areas. The President's FY 2000 budget seeks to support this important initiative.

NMVCs, with their focus on equity investments for smaller businesses, coupled with technical assistance, will respond to the needs of small businesses now and into the 21st century.

"... [W]e have an obligation to give every American who is willing to work for it a chance to walk across the bridge into the 21st century with us, so we can go forward together, leaving no one behind."

Remarks by President Bill Clinton
on the New Markets Initiative
July 8, 1999

"Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower-income communities where the weight of expansive debt obligations on small firms can severely impede growth prospects ..."

Remarks by Chairman Alan Greenspan
Federal Reserve System Research Conference
On Business Access to Capital and Credit
March 9, 1999

SBA's NMVCs will:

- **Fill equity financing needs not currently being met through existing public or private financing programs in rural and urban LMI areas.**
- **Open new doors for community development and economic revitalization.**

Features of NMVCs

- **Investments in smaller businesses** located in LMI areas – focusing on investments ranging between \$50,000 and \$300,000 (compared to a typical Small Business Investment Company (SBIC) investment of \$300,000 to \$5 million).
- **Community-based** – structured to specifically meet the needs of the area in which the NMVC invests.
- **Equity Investments** -- An equity investment is an infusion of capital that can be more patient in terms of repayment than debt financing.
- **Matching funds** – NMVCs will be privately managed and funded, with SBA providing matching funds to supplement the NMVCs' own capital.
- **Specialized Technical Assistance:**
 - Technical assistance at the *investor level* – As investors, NMVCs are committed to the companies in which they invest. Their objective is to build the businesses. It makes sense for NMVCs to provide the technical assistance these companies need to succeed and grow.
 - Specialized, long-term, hands-on technical assistance – As investors, NMVCs will have the incentive to devote *specialized staff* to provide marketing, sales, accounting, and management assistance.
 - SBA will provide *matching technical assistance grant funds* to supplement the NMVCs' own technical resources.

*would be added to
Business NDC*

New Democrat Coalition

Membership List

Cal Dooley (20th District, CA)
Co-Chair

Jim Moran (8th District, VA)
Co-Chair

Tim Roemer (3rd District, IN)
Co-Chair

- | | | |
|--|---|---|
| * <u>Tom Allen</u> (1st District, ME) | * <u>Jay Inslee</u> (1st District, WA) | * <u>Silvestre Reyes</u> (16th District, TX) |
| * <u>Brian Baird</u> (3rd District, WA) | * <u>Darlene Hooley</u> (5th District, OR) | <u>Steve Rothman</u> (9th District, NJ) |
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| <u>Earl Blumenauer</u> (3rd District, OR) | * <u>John Larson</u> (1st District, CT) | * <u>Adam Smith</u> (9th District, WA) |
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* Supported by NDN in 1996 and/or 1998

Freshman Members in italics

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H.R.815

American Community Renewal Act of 1999 (Introduced in the House)

HR 815 IH

106th CONGRESS

1st Session

H. R. 815

To amend the Internal Revenue Code of 1986 to provide for the designation of renewal communities, to provide tax incentives relating to such communities, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

February 24, 1999

Mr. **WATTS** of Oklahoma (for himself, Mr. **DAVIS** of Illinois, Mr. **TALENT**, Mr. **CLYBURN**, Mr. **ARMEY**, Mr. **FROST**, Mrs. **FOWLER**, Mr. **ENGLISH**, Mr. **FORD**, Ms. **PRYCE** of Ohio, Mr. **KING**, Mr. **LIPINSKI**, Mrs. **BONO**, Mr. **KOLBE**, Mr. **DELAY**, Mrs. **CHRISTIAN-CHRISTENSEN**, Mrs. **EMERSON**, Mr. **KNOLLENBERG**, Mr. **HAYWORTH**, Mrs. **CUBIN**, Mr. **HORN**, Mr. **HILL** of Montana, Mr. **WELDON** of Florida, Mr. **TERRY**, Mr. **SOUDER**, Mr. **BALLENGER**, Mr. **CHABOT**, Mr. **CHAMBLISS**, Mr. **WELLER**, Mr. **TANCREDO**, Mr. **SENSENBRENNER**, Mr. **NORWOOD**, Mr. **METCALF**, Mr. **DICKEY**, Mr. **GILLMOR**, Mr. **GREEN** of Wisconsin, Mr. **HULSHOF**, Mr. **LARGENT**, Mr. **SCARBOROUGH**, Mr. **PITTS**, Mr. **ROHRABACHER**, Mr. **BURR** of North Carolina, Mr. **EHLERS**, Mr. **BUYER**, Mr. **LATHAM**, Mr. **SIMPSON**, Mr. **MCCOLLUM**, Mr. **LATOURETTE**, Mr. **CUNNINGHAM**, Mr. **COOK**, Mr. **LEWIS** of Kentucky, Mr. **BLUNT**, Mr. **NEY**, Mr. **GARY MILLER** of California, Mr. **PICKERING**, Mr. **NETHERCUTT**, Mr. **MCHUGH**, Ms. **GRANGER**, Mr. **FORBES**, Mrs. **MYRICK**, Mr. **SHOWS**, Mrs. **KELLY**, Mr. **OWENS**, Mr. **THOMPSON** of Mississippi, and Mr. **COBURN**) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Banking and Financial Services, Commerce, and the Budget, for a period to be determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide for the designation of renewal communities, to provide tax incentives relating to such communities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

(a) **SHORT TITLE-** This Act may be cited as the ‘American **Community** Renewal Act of 1999’.

(b) **AMENDMENT OF 1986 CODE-** Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) **TABLE OF CONTENTS-**

Sec. 1. Short title; etc.

TITLE I--DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES

Sec. 101. Designation of and tax incentives for renewal communities.

Sec. 102. Extension of expensing of environmental remediation costs to renewal communities.

Sec. 103. Extension of work opportunity tax credit for renewal communities.

Sec. 104. Conforming and clerical amendments.

Sec. 105. Evaluation and reporting requirements.

Sec. 106. Exclusion of effects of this Act from Paygo scorecard.

TITLE II--ADDITIONAL PROVISIONS

Sec. 201. Transfer of unoccupied and substandard HUD-held housing in renewal communities to local governments.

Sec. 202. Prevention and treatment of substance abuse; services provided through religious organizations.

Sec. 203. CRA credit for investments in **community development** organizations located in renewal communities.

TITLE I--DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL COMMUNITIES

SEC. 101. DESIGNATION OF AND TAX INCENTIVES FOR RENEWAL

COMMUNITIES.

(a) IN GENERAL- Chapter 1 is amended by adding at the end the following new subchapter:

'Subchapter X--Renewal Communities

'Part I. Designation.

'Part II. Renewal **community** capital gain; renewal **community** business.

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July 27, 1999

MEMORANDUM FOR: LISA GREEN

FROM: ALEX VEYTSMAN

SUBJECT: NEW DEMOCRAT COALITION MEMBERS

WAYS and MEANS COMMITTEE: - TAX CREDIT

Robert T. Matsui (5th district, CA)

John S. Tanner (8th district, TN)

SMALL BUSINESS COMMITTEE: - NMVC Firms

Carolyn McCarthy (4th district, NY; Ranking member on Subcommittee on Tax, Finance, and Exports)

Ruben Hinojosa (15th district, TX)

Tom Udall (3rd district, NM)

Dennis Moore (3rd district, KS)

Charles Gonzalez (20th district, TX)

David Phelps (19th district, IL)

Grace Napolitano (34th district, CA)

Brian Baird (3rd district, WA)

Shelley Berkley (1st district, NV)

BANKING and FINANCE COMMITTEE: - APICS

John J. LaFalce (29th district, NY)

Carolyn B. Maloney (14th district, NY)

Ken Bentsen (25th district, TX)

James H. Maloney (5th district, CT)

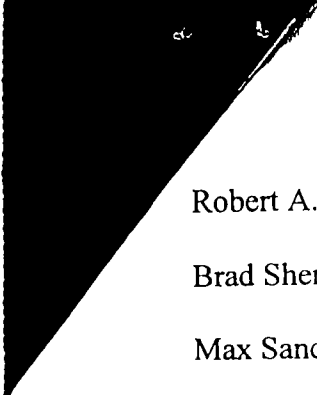
Darlene Hooley (5th district, OR)

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Robert A. Weygand (2nd district, RI)

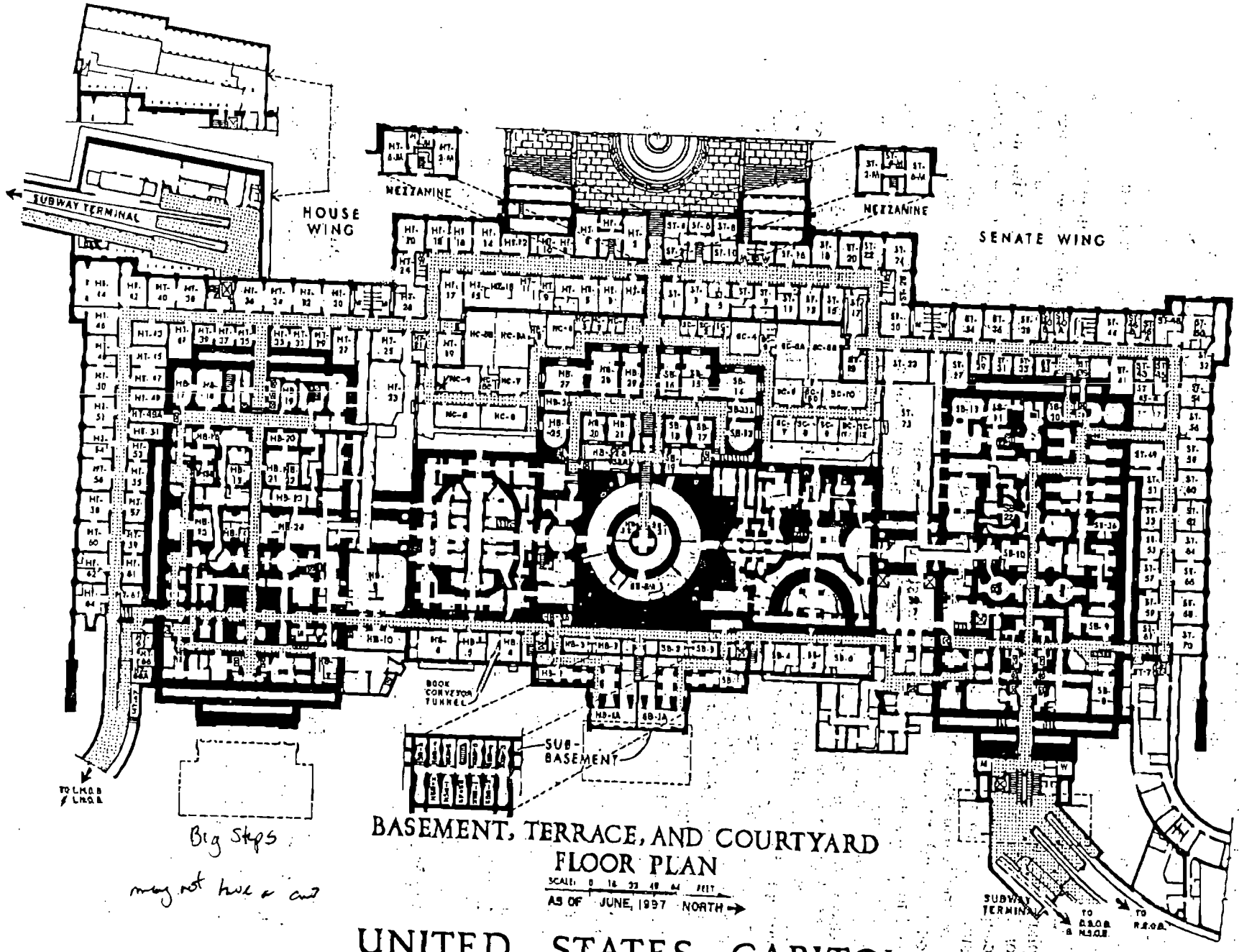
Brad Sherman (24th district, CA)

Max Sandlin (1st district, TX)

Jay Inslee (1st district, WA)

Dennis Moore (3rd district, KA)

Charlie Gonzalez (20th district, TX)



UNITED STATES CAPITOL

July 27, 1999

MEMORANDUM FOR: LISA GREEN

FROM: ALEX VEYTSMAN

SUBJECT: NEW DEMOCRAT COALITION MEMBERS

WAYS and MEANS COMMITTEE: - TAX CREDIT

Robert T. Matsui (5th district, CA)

John S. Tanner (8th district, TN)

SMALL BUSINESS COMMITTEE: - NMVC Firms

Carolyn McCarthy (4th district, NY; Ranking member on Subcommittee on Tax, Finance, and Exports)

Ruben Hinojosa (15th district, TX)

Tom Udall (3rd district, NM)

Dennis Moore (3rd district, KS)

Charles Gonzalez (20th district, TX)

David Phelps (19th district, IL)

Grace Napolitano (34th district, CA)

Brian Baird (3rd district, WA)

Shelley Berkley (1st district, NV)

BANKING and FINANCE COMMITTEE: - APICS

John J. LaFalce (29th district, NY)

Carolyn B. Maloney (14th district, NY)

Ken B. Cohen (7th district, TN)

James H. Maloney (5th district, CT)

Darlene Hooley (5th district, OR)

Memorandum
Baird

Capital Budget
Congressional Budget

HC-8

430

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DATE

Robert A. Weygand (2nd district, RI)

Brad Sherman (24th district, CA)

Max Sandlin (1st district, TX)

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Possible Questions

1. Small Business Investment Company

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Third

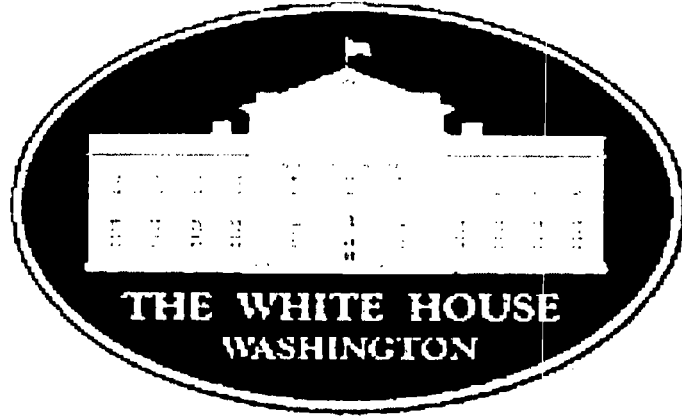
5 year vs. 10 year

total population vs areas

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T. E. ...

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AMERICA'S NEW MARKETS: UNTAPPED AREAS FOR POTENTIAL INVESTMENT

- **Background on New Markets Initiative** Pages 1-2
- **Budget Impact of New Markets Initiative** Pages 3-5
- **Gerald Seib:** The Wall Street Journal, July 7, 1999: "*Clinton on Tour: Battling Poverty the 'Third Way'*" Page 6
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**PRESIDENT CLINTON'S CHALLENGE TO THE PRIVATE SECTOR
TO INVEST IN AMERICA'S NEW MARKETS**
Presentation to the New Democratic Coalition – August 3, 1999

*"I think it's important to recognize that this is different, because we don't say the government can solve all these problems, but we do say the government can no longer ignore them --- and, in fact, we've been working on them for six and a half years, ever since I took office. This is a classic example, this approach to new markets, of **the New Democratic or Third Way philosophy** that I articulated back in 1991 and 1992. That is, government's role is to create conditions for success, give people the tools they need to succeed, and then, in effect, empower people to make the most of it. "*

-- President Clinton, MSNBC Interview, July 6, 1999

PROMOTING NEW EFFORTS AND AN INITIATIVE TO ATTRACT CAPITAL TO UNDERSERVED AREAS.

As part of a bipartisan focus on underserved urban and rural areas, President Clinton is seeking ways to expand current community development and investment efforts. President Clinton's New Markets Initiative will build upon these existing programs and help create the conditions for economically successful investment in underserved inner city and rural areas. Included among the elements of the plan are:

- **The New Markets Tax Credit.** To help spur \$6 billion in equity capital for investment in America's new markets, President Clinton and Vice President Gore have proposed a tax credit worth 25 percent for investments in a wide range of vehicles. Eligible investment companies include community development banks, venture funds and corporations, and the new investment company programs created by this initiative.
- **America's Private Investment Companies (APICs).** Just as America's support for the Overseas Private Investment Corporation helps promote growth in emerging markets abroad, APIC will encourage private investment in this country's untapped markets. HUD and SBA will guarantee loans up to \$200 million, creating investment funds as large as \$300 million to invest in new development projects and larger businesses that are expanding or relocating in inner city and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government
- **New Markets Venture Capital (NMVC) Firms.** NMVC firms will make both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas. Ten to twenty NMVC firms are planned. SBA will match the equity and technical assistance of private investors.
- **SBIC's Targeted to New Markets.** For more than 40 years, SBA's Small Business Investment Company (SBIC) program has provided roughly \$20 billion in equity and debt financing to more than 85,000 different companies, helping them to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited economically distressed communities. The New Markets Initiative includes proposed regulatory changes, that will enable SBA to offer more flexibility and new financing terms for Small Business Investment Companies (SBICs) that invest in underserved areas.

PRESIDENT CLINTON'S TRIP TO NEW MARKETS AND MOBILIZATION OF THE PRIVATE SECTOR.

From July 5-8, President Clinton led a delegation on an unprecedented trip of untapped markets throughout the nation, making stops in several impoverished communities including areas of Appalachia, a native American reservation and the Mississippi Delta. The trip was modeled after the type of trade missions that Cabinet Secretaries and CEOs often take overseas to identify markets, which – through trade and commercial agreements – can help to create jobs and expand economic development. As part of the trip, President Clinton mobilized a broad array of private-sector investments and announced several hundred million dollars in new commitments and innovative programs developed by companies, community leaders, non-profit organizations and investment firms around the country.

A RECORD TO BUILD ON. President Clinton's effort expands on the innovative approach to community empowerment that he and the Vice President have pioneered for nearly seven years.

- **Creating the CDFI Fund.** In 1994, President Clinton proposed and signed into law the CDFI Fund which, through grants, loans, and equity investments, is helping to create a network of community development financial institutions in distressed areas across the United States.
- **Reforming CRA.** In 1995, the Clinton Administration reformed the CRA regulations to emphasize performance. The private sector has pledged more than \$1 trillion going forward in loans to distressed communities – and more than 95% of these financial commitments have been made since 1992. (NCRC)
- **Creating the Empowerment Zones.** President Clinton and Vice President Gore proposed and signed Empowerment Zone legislation in 1993 establishing 105 EZs and ECs across the country. The EZ/EC effort has generated billions of dollars in new private sector investment in community development activities.
- **Brownfields and Second Round of EZs.** The Administration's Brownfields action agenda has marshaled funds to clean up and redevelop up to 5,000 properties, leveraging billions of dollars in private investment and creating and supporting 196,000 jobs. The President has also signed into law a second round of EZs – 15 new urban and 5 new rural zones.
- **Youth Opportunity Initiative and GEAR-UP.** In addition to expanding the Earned Income Tax Credit and raising the minimum wage, President Clinton has focused on bringing economic opportunity to young people through the Youth Opportunity initiative and GEAR-UP program. The Youth Opportunity initiative provides skills training leading to job opportunities for out-of-school youth aged 16-24. GEAR-UP helps disadvantaged high-school students prepare for college through mentoring and other forms of assistance.

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THE NEW MARKETS INITIATIVE: BUDGET IMPACT

The New Markets initiative will prompt approximately \$15 billion in new investment in urban and rural areas over five years through:

The New Markets Tax Credit --To help spur \$6 billion in new equity capital for investment in America's New Markets, the New Markets Tax Credit will be worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, new investment company programs (targeted SBICs, NMVC firms, and APICs -- see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to attract investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

Budget Impact: *The New Markets Tax Credit will cost approximately \$980 million over five years.*

America's Private Investment Companies (APICs). For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up to two times the private capital in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government.

Budget impact: *APICs will cost \$36 million in credit subsidy (at a rate of 3.6%, allowing up to \$1 billion in government guarantees) and \$1 million for HUD's administrative costs.*

SBICs Targeted to New Markets. Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly \$20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in

businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.

Budget impact: *No new loan subsidy budget authority is required for this initiative as the SBIC debentures program has a 0% credit subsidy rate. However, the commitment level for the SBIC debenture program must be increased (from \$640 million in FY 99 to \$800 million in FY 2000) in order to ensure that the new targeted activity does not crowd out activity by traditional SBICs.*

New Markets Venture Capital Firms (NMVCs). There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with loan guarantees of up to \$10 million per NMVC, with interest on the debt deferred. Investors must also provide at least \$1.5 million in technical assistance over five years to the target firms, matching SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

Budget impact: *The NMVC firms will cost \$15 million in credit subsidy for loan guarantees (at a credit subsidy rate of 15%, allowing \$100 million in government guarantees) and \$30 million for technical assistance grants.*

New Markets Lending Companies (NMLC). For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.

Budget Impact: *No additional budget authority is necessary to license these new non-bank lenders.*

Continued Growth for CDFIs. Community Development Financial Institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, represent an important vehicle for greater investment in new markets. The federal contribution to building these institutions must continue to grow.

Budget impact: *The CDFI Fund will cost \$125 million in FY 2000, including \$15 million for new microenterprise activities under the Program for Investments in Microentrepreneurs (PRIME) Act (now pending with bipartisan support before Congress) and an increase of \$15 million over FY 99 levels.*

Microenterprise Lending and Technical Assistance. Microenterprise initiatives in the FY 2000 budget include: (1) PRIME, under which the CDFI Fund will provide microenterprise technical assistance and capacity building program to award grants on a competitive basis to microenterprise development organizations and programs that focus on low-income entrepreneurs; (2) doubling support for technical assistance in SBA's Microloan Program, which links loans entrepreneurs with the provision of training and technical assistance; (3) doubling support for SBA lending to leverage over \$75 million in new microlending; (4) doubling funding for Individual Development Accounts (IDAs), to empower lower-income individuals to start a new business, invest in a first home, or save for post-secondary education; and (5) tripling funding for SBA's One-Stop Capital Shops, which offer microenterprise development (including direct access to microlenders), personal finance, and even credit repair services in Empowerment Zones.

Budget impact: *(1) As described above, PRIME will cost \$15 million in FY 2000; (2) SBA's microloan technical assistance and training will cost \$ 32 million in FY 2000 (up from \$16 million in FY 99); (3) SBA's microlending will cost \$5 million in credit subsidy (up from \$3 million in FY 99); (4) IDAs will cost \$20 million in FY 2000 (up from \$10 million in FY 99); and (5) One-Stop Capital Shops will cost \$10 million in FY 2000 up from \$3.1 million in FY 99.*

BusinessLINC. The President's budget provides resources to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez --to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.

Budget Impact: *BusinessLINC will cost \$3 million in FY 2000.*

Specialized Small Business Investment Companies (SSBICs). The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.

Budget Impact: *This change to tax rules will have a negligible budget impact.*

Clinton on Tour: Battling Poverty The 'Third Way'

AS HE TALKED by phone from the sweltering Mississippi Delta yesterday, it was clear that President Clinton was reveling in a return to his roots.

Not his Southern roots, but his roots as a New Democrat pushing a "third way" of using government that lies somewhere between traditional liberalism and traditional conservatism. Mr. Clinton is in the midst of a four-day New Markets Tour of the country, announcing new tax incentives and government-backed loans designed to generate venture capital for launching businesses in the nation's pockets of poverty.



There are plenty of reasons to be skeptical, even cynical, about another federal effort to battle poverty. But whatever its ultimate effectiveness, this initiative represents a nearly pure example of the kind of New Democrat thinking Mr. Clinton promised when he entered office—and the kind he would bequeath to the Democratic Party.

"In some ways it's the perfect embodiment of the third-way philosophy," Mr. Clinton said in an interview. "What we're doing basically is using the government to facilitate a public-private partnership at the grass-roots level. It's not government alone, it's not private sector alone, but it's a partnership, and I think it will genuinely change the landscape."

That, of course, remains to be seen. For starters, the legislation implementing his initiative still has to be passed by a Republican Congress that may not be seized by anti-poverty programs at a time of economic boom and 4.3% unemployment. But if Congress goes along, the initiative would allow both small and some large venture-capital firms that invest in low-income areas to qualify for \$2 in government-guaranteed loans for every \$1 they raise privately. Interest payments could be deferred for five years, and entrepreneurs could get technical help. Investors would get a 25% tax credit for investments in new ventures or community development banks.

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IT'S CLASSIC NEW Democrat thinking: Marshal public resources to create private-sector growth that gives an opportunity (but no guarantees) to people who help themselves. And it's designed for political advantage: It appeals to liberals by taking on a pet cause, poverty, and to conservatives by finding the answer in the marketplace.

"I believe basically that this ought to be something the Republicans would love, because it uses tax incentives to leverage private-sector investment in places where they decide whether they will make money or not," Mr. Clinton said. The initiative got a good start yesterday, when Bank of America Corp. announced that it is creating a \$500 million equity-investment fund for distressed areas.



Bill Clinton

If nothing else, the president's initiative shines a light on the changing nature of poverty in America. Those longstanding stereotypes of economic depression—Harlem, Detroit, Watts, the Bronx—have to be revised. Such places still have poverty, of course, but the list of communities left behind in today's economic boom runs more toward small to mid-sized cities.

"I think that the restructuring of the American economy has tended to favor the renaissance of the large cities," Mr. Clinton said. "A lot of these small and mid-sized cities, depending on their physical location and the nature of the pre-existing economic network, haven't gotten the new jobs to replace the old."

A RECENT REPORT by the Department of Housing and Urban Development on distressed cities lists a strikingly diverse array of names not normally associated with poverty and unemployment: Fresno, Calif.; Yakima, Wash.; Beaumont, Texas; Lake Charles, La. "A lot of the small and mid-sized cities were dependent on elements of the economy that are no longer thriving, and were relatively heavily dependent on a given factory, for example," Mr. Clinton said.

The promise of this week's initiative isn't to recreate those old businesses, but to provide seed money for new ones. Congress and the administration already have done some of this by creating "empowerment zones" to give tax breaks for investments in some specific areas. Yet many troubled towns "may never get an empowerment zone, even if Congress gives me 20 or 30 more," Mr. Clinton noted. The new incentives, by contrast, could apply to any troubled city.

Mr. Clinton's final appeal to the business community is a practical one. Investors have been worrying for months where the economy would find the workers and capacity to keep economic growth humming without inflation. The answer, he suggests, lies in the spots America's boom has left behind.

Clinton's 'Third Way' to Beat Poverty

President Touts Blend of Left and Right in Tour of Poor Areas

By CHARLES BABINGTON
Washington Post Staff Writer

LOS ANGELES, July 8—In stumping the nation this week to bring jobs and hope to impoverished regions, President Clinton has mixed a dash of liberalism's old War on Poverty with a pinch of conservatism's laissez-faire philosophy, yielding his latest recipe for centrist solutions to society's challenges.

At all six stops on his "New Markets" tour, which ended today with visits to job-training programs in this city's Watts and South Central neighborhoods, Clinton has flanked himself with corporate titans and staunch social liberals. His message: Hard-pressed areas need private investments to recover economically, but corporations won't spend their money there without increased government incentives, such as tax credits and loan guarantees.

The president calls it a classic example of the "Third Way" approach. The touchstone of "New Democrats," it holds that neither solidly liberal nor solidly conservative strategies will work, but a politically massaged blend of the two can.

Not surprisingly, some critics from the left and right deride the Third Way as wishy-washy compromise. Clinton, however, has ridden the philosophy from the Arkansas statehouse to the White House, convincing millions of voters that the smartest path lies somewhere between Ronald Reagan's tax breaks for the wealthy and Lyndon B. Johnson's government-driven Great Society.

The president summarized his thoughts in a speech Tuesday in economically depressed East St. Louis, Ill., at the midpoint of his four-day tour. In the 1992 campaign, he began, "I said that we ought to have a new role for government, that government couldn't solve all the problems, but walking away from them did not work very well, either. . . . In the inner cities and the rural areas of our country, lines have divided those who worked hard [but] had no money, and those who had plenty of money but didn't believe it could be very well spent in the inner city or in rural areas."

He underscored his message today in a round-table discussion on

youth training at Southwest College in Los Angeles. Those sharing the stage included the chief executives of United Parcel Service Inc. and Toyota Motor Sales USA as well as Rep. Maxine Waters (D-Calif.), an outspoken liberal. It was typical of the entourage Clinton brought to Appalachia, the Mississippi Delta and the other stops on his tour.

Every event featured announcements of government incentives and corporate pledges meant to create jobs, improve housing, stimulate investment or boost employee training. Today's announcements included \$250 million in Labor Department grants for the "Youth Opportunities" program, which targets low-income, out-of-school youths for job training. Also, Lucent Technologies and other corporations pledged \$8 million to create "information technology academies" to provide computer training that could help such youths launch careers.

Many advocates for the poor have saluted Clinton's trip, even if they privately complain that it has come late in his administration. Some conservatives, meanwhile, say that pumping more money into deeply depressed areas—even if it is both public and private funds—won't overcome entrenched behavioral patterns that tie people to poverty.

"The general rule in the United States is that people move to economic success, economic success doesn't move to them," said Robert Rector of the Heritage Foundation. Pouring investments into the Mississippi Delta, he said, will not dramatically increase jobs there because "that's not a good industrial area, it's a good cotton area"—and cotton no longer requires many workers.

Even though Congress and Clinton have reduced welfare benefits, Rector said, the government continues to "reward non-work and non-marriage." Until that changes, he said, high rates of joblessness, crime and illegitimacy will prevail in the areas Clinton visited this week.

But the more liberal Joint Center for Political and Economic Study praises Clinton's approach on poverty. "I think the general idea is certainly a useful combination of public and private partnership," said Margaret Simms, the

center's vice president for economic research. She added, however, that declaring a depressed area as an "empowerment zone" can backfire if businesses need to expand and relocate to suburban areas for transportation purposes. Such firms would lose their tax benefits, she said, even though research shows they still would hire mostly minority employees.

Al From, head of the Democratic Leadership Council and a champion of Third Way thinking, joined Clinton for most of this week's tour. He said the "New Markets" program "isn't a government solution."

"It's a way to use government resources effectively to leverage capital investment in these markets that have been left behind," From said.

Clinton summed up his thinking in an interview with CNBC during Tuesday's stop in Clarksdale, Miss. "This is a classic example, this approach to new markets, of the New Democratic or Third Way philosophy that I articulated back in 1991 and 1992," he said. "That is, government's role is to create the conditions for success, give people the tools they need to succeed and then, in effect, empower people to make the most of it."

In an interview published last Friday in the Los Angeles Times, Clinton suggested that Texas Gov. George W. Bush—the leading GOP candidate for president—is copying Clinton-Gore administration policies, especially in Third Way areas.

He said Bush's campaign is "very flattering in a way because it replicates the rhetoric" that Clinton has used in emphasizing themes such as linking opportunity and responsibility. He said Bush's "compassionate conservatism" might be a ruse to allow congressional Republicans to pursue a more conservative agenda if Bush gets elected in November 2000.

Asked whether Bush's lead in the polls over Vice President Gore indicates a public desire for change, the president said: "I think there is a constant desire for change. But I think what you will see by next year is that the vice president will be the candidate of change. People will have to decide if they want the change going on [now]."



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THE NEW MARKETS INITIATIVE: BUDGET IMPACT

The New Markets initiative will prompt approximately \$15 billion in new investment in urban and rural areas over five years through:

The New Markets Tax Credit --To help spur \$6 billion in new equity capital for investment in America's New Markets, the New Markets Tax Credit will be worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, new investment company programs (targeted SBICs, NMVC firms, and APICs -- see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to attract investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

Budget Impact: *The New Markets Tax Credit will cost approximately \$980 million over five years.*

America's Private Investment Companies (APICs). For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up to two times the private capital in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government.

Budget impact: *APICs will cost \$36 million in credit subsidy (at a rate of 3.6%, allowing up to \$1 billion in government guarantees) and \$1 million for HUD's administrative costs.*

SBICs Targeted to New Markets. Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly \$20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in

businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.

Budget impact: *No new loan subsidy budget authority is required for this initiative as the SBIC debentures program has a 0% credit subsidy rate. However, the commitment level for the SBIC debenture program must be increased (from \$640 million in FY 99 to \$800 million in FY 2000) in order to ensure that the new targeted activity does not crowd out activity by traditional SBICs.*

New Markets Venture Capital Firms (NMVCs). There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with loan guarantees of up to \$10 million per NMVC, with interest on the debt deferred. Investors must also provide at least \$1.5 million in technical assistance over five years to the target firms, matching SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

Budget impact: *The NMVC firms will cost \$15 million in credit subsidy for loan guarantees (at a credit subsidy rate of 15%, allowing \$100 million in government guarantees) and \$30 million for technical assistance grants.*

New Markets Lending Companies (NMLC). For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.

Budget Impact: *No additional budget authority is necessary to license these new non-bank lenders.*

Continued Growth for CDFIs. Community Development Financial Institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, represent an important vehicle for greater investment in new markets. The federal contribution to building these institutions must continue to grow.

Budget impact: *The CDFI Fund will cost \$125 million in FY 2000, including \$15 million for new microenterprise activities under the Program for Investments in Microentrepenuers (PRIME) Act (now pending with bipartisan support before Congress) and an increase of \$15 million over FY 99 levels.*

Microenterprise Lending and Technical Assistance. Microenterprise initiatives in the FY 2000 budget include: (1) PRIME, under which the CDFI Fund will provide microenterprise technical assistance and capacity building program to award grants on a competitive basis to microenterprise development organizations and programs that focus on low-income entrepreneurs; (2) doubling support for technical assistance in SBA's Microloan Program, which links loans entrepreneurs with the provision of training and technical assistance; (3) doubling support for SBA lending to leverage over \$75 million in new microlending; (4) doubling funding for Individual Development Accounts (IDAs), to empower lower-income individuals to start a new business, invest in a first home, or save for post-secondary education; and (5) tripling funding for SBA's One-Stop Capital Shops, which offer microenterprise development (including direct access to microlenders), personal finance, and even credit repair services in Empowerment Zones.

Budget impact: *(1) As described above, PRIME will cost \$15 million in FY 2000; (2) SBA's microloan technical assistance and training will cost \$ 32 million in FY 2000 (up from \$16 million in FY 99); (3) SBA's microlending will cost \$5 million in credit subsidy (up from \$3 million in FY 99); (4) IDAs will cost \$20 million in FY 2000 (up from \$10 million in FY 99); and (5) One-Stop Capital Shops will cost \$10 million in FY 2000 up from \$3.1 million in FY 99.*

BusinessLINC. The President's budget provides resources to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez --to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.

Budget Impact: *BusinessLINC will cost \$3 million in FY 2000.*

Specialized Small Business Investment Companies (SSBICs). The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.

Budget Impact: *This change to tax rules will have a negligible budget impact.*

Clinton on Tour: Battling Poverty The 'Third Way'

AS HE TALKED by phone from the sweltering Mississippi Delta yesterday, it was clear that President Clinton was reveling in a return to his roots.

Not his Southern roots, but his roots as a New Democrat pushing a "third way" of using government that lies somewhere between traditional liberalism and traditional conservatism. Mr. Clinton is in the midst of a four-day New Markets Tour of the country, announcing new tax incentives and government-backed loans designed to generate venture capital for launching businesses in the nation's pockets of poverty.



There are plenty of reasons to be skeptical, even cynical, about another federal effort to battle poverty. But whatever its ultimate effectiveness, this initiative represents a nearly pure example of the kind of New Democrat thinking Mr. Clinton promised when he entered office—and the kind he would bequeath to the Democratic Party.

"In some ways it's the perfect embodiment of the third-way philosophy," Mr. Clinton said in an interview. "What we're doing basically is using the government to facilitate a public-private partnership at the grass-roots level. It's not government alone, it's not private sector alone, but it's a partnership, and I think it will genuinely change the landscape."

That, of course, remains to be seen. For starters, the legislation implementing his initiative still has to be passed by a Republican Congress that may not be seized by anti-poverty programs at a time of economic boom and 4.3% unemployment. But if Congress goes along, the initiative would allow both small and some large venture-capital firms that invest in low-income areas to qualify for \$2 in government-guaranteed loans for every \$1 they raise privately. Interest payments could be deferred for five years, and entrepreneurs could get technical help. Investors would get a 25% tax credit for investments in new ventures or community development banks.

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IT'S CLASSIC NEW Democrat thinking: Marshal public resources to create private-sector growth that gives an opportunity (but no guarantees) to people who help themselves. And it's designed for political advantage: It appeals to liberals by taking on a pet cause, poverty, and to conservatives by finding the answer in the marketplace.

"I believe basically that this ought to be something the Republicans would love, because it uses tax incentives to leverage private-sector investment in places where they decide whether they will make money or not," Mr. Clinton said. The initiative got a good start yesterday, when Bank of America Corp. announced that it is creating a \$500 million equity-investment fund for distressed areas.



Bill Clinton

If nothing else, the president's initiative shines a light on the changing nature of poverty in America. Those longstanding stereotypes of economic depression—Harlem, Detroit, Watts, the Bronx—have to be revised. Such places still have poverty, of course, but the list of communities left behind in today's economic boom runs more toward small to mid-sized cities.

"I think that the restructuring of the American economy has tended to favor the renaissance of the large cities," Mr. Clinton said. "A lot of these small and mid-sized cities, depending on their physical location and the nature of the pre-existing economic network, haven't gotten the new jobs to replace the old."

A RECENT REPORT by the Department of Housing and Urban Development on distressed cities lists a strikingly diverse array of names not normally associated with poverty and unemployment: Fresno, Calif.; Yakima, Wash.; Beaumont, Texas; Lake Charles, La. "A lot of the small and mid-sized cities were dependent on elements of the economy that are no longer thriving, and were relatively heavily dependent on a given factory, for example," Mr. Clinton said.

The promise of this week's initiative isn't to recreate those old businesses, but to provide seed money for new ones. Congress and the administration already have done some of this by creating "empowerment zones" to give tax breaks for investments in some specific areas. Yet many troubled towns "may never get an empowerment zone, even if Congress gives me 20 or 30 more," Mr. Clinton noted. The new incentives, by contrast, could apply to any troubled city.

Mr. Clinton's final appeal to the business community is a practical one. Investors have been worrying for months where the economy would find the workers and capacity to keep economic growth humming without inflation. The answer, he suggests, lies in the spots America's boom has left behind.

Clinton's 'Third Way' to Beat Poverty

President Touts Blend of Left and Right in Tour of Poor Areas

By CHARLES BABINGTON
Washington Post Staff Writer

LOS ANGELES, July 8—In stumping the nation this week to bring jobs and hope to impoverished regions, President Clinton has mixed a dash of liberalism's old War on Poverty with a pinch of conservatism's laissez-faire philosophy, yielding his latest recipe for centrist solutions to society's challenges.

At all six stops on his "New Markets" tour, which ended today with visits to job-training programs in this city's Watts and South Central neighborhoods, Clinton has flanked himself with corporate titans and staunch social liberals. His message: Hard-pressed areas need private investments to recover economically, but corporations won't spend their money there without increased government incentives, such as tax credits and loan guarantees.

The president calls it a classic example of the "Third Way" approach. The touchstone of "New Democrats," it holds that neither solidly liberal nor solidly conservative strategies will work, but a politically massaged blend of the two can.

Not surprisingly, some critics from the left and right deride the Third Way as wishy-washy compromise. Clinton, however, has ridden the philosophy from the Arkansas statehouse to the White House, convincing millions of voters that the smartest path lies somewhere between Ronald Reagan's tax breaks for the wealthy and Lyndon B. Johnson's government-driven Great Society.

The president summarized his thoughts in a speech Tuesday in economically depressed East St. Louis, Ill., at the midpoint of his four-day tour. In the 1992 campaign, he began, "I said that we ought to have a new role for government, that government couldn't solve all the problems, but walking away from them did not work very well, either. . . . In the inner cities and the rural areas of our country, lines have divided those who worked hard [but] had no money, and those who had plenty of money but didn't believe it could be very well spent in the inner city or in rural areas."

He underscored his message today in a round-table discussion on

youth training at Southwest College in Los Angeles. Those sharing the stage included the chief executives of United Parcel Service Inc. and Toyota Motor Sales USA as well as Rep. Maxine Waters (D-Calif.), an outspoken liberal. It was typical of the entourages Clinton brought to Appalachia, the Mississippi Delta and the other stops on his tour.

Every event featured announcements of government incentives and corporate pledges meant to create jobs, improve housing, stimulate investment or boost employee training. Today's announcements included \$250 million in Labor Department grants for the "Youth Opportunities" program, which targets low-income, out-of-school youths for job training. Also, Lucent Technologies and other corporations pledged \$8 million to create "information technology academies" to provide computer training that could help such youths launch careers.

Many advocates for the poor have saluted Clinton's trip, even if they privately complain that it has come late in his administration. Some conservatives, meanwhile, say that pumping more money into deeply depressed areas—even if it is both public and private funds—won't overcome entrenched behavioral patterns that tie people to poverty.

"The general rule in the United States is that people move to economic success, economic success doesn't move to them," said Robert Rector of the Heritage Foundation. Pouring investments into the Mississippi Delta, he said, will not dramatically increase jobs there because "that's not a good industrial area, it's a good cotton area"—and cotton no longer requires many workers.

Even though Congress and Clinton have reduced welfare benefits, Rector said, the government continues to "reward non-work and non-marriage." Until that changes, he said, high rates of joblessness, crime and illegitimacy will prevail in the areas Clinton visited this week.

But the more liberal Joint Center for Political and Economic Study praises Clinton's approach on poverty. "I think the general idea is certainly a useful combination of public and private partnership," said Margaret Simma, the

center's vice president for economic research. She added, however, that declaring a depressed area as an "empowerment zone" can backfire if businesses need to expand and relocate to suburban areas for transportation purposes. Such firms would lose their tax benefits, she said, even though research shows they still would hire mostly minority employees.

Al From, head of the Democratic Leadership Council and a champion of Third Way thinking, joined Clinton for most of this week's tour. He said the "New Markets" program "isn't a government solution."

"It's a way to use government resources effectively to leverage capital investment in these markets that have been left behind," From said.

Clinton summed up his thinking in an interview with CNBC during Tuesday's stop in Clarksdale, Miss. "This is a classic example, this approach to new markets, of the New Democratic or Third Way philosophy that I articulated back in 1991 and 1992," he said. "That is, government's role is to create the conditions for success, give people the tools they need to succeed and then, in effect, empower people to make the most of it."

In an interview published last Friday in the Los Angeles Times, Clinton suggested that Texas Gov. George W. Bush—the leading GOP candidate for president—is copying Clinton-Gore administration policies, especially in Third Way areas.

He said Bush's campaign is "very flattering in a way because it replicates the rhetoric" that Clinton has used in emphasizing themes such as linking opportunity and responsibility. He said Bush's "compassionate conservatism" might be a ruse to allow congressional Republicans to pursue a more conservative agenda if Bush gets elected in November 2000.

Asked whether Bush's lead in the polls over Vice President Gore indicates a public desire for change, the president said: "I think there is a constant desire for change. But I think what you will see by next year is that the vice president will be the candidate of change. People will have to decide if they want the change going on [now]."