

NEWS RELEASE



FROM REPRESENTATIVE CHARLES B. RANGEL **Ranking Democrat, Committee on Ways and Means**

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RANGEL INTRODUCES PRESIDENT'S NEW MARKETS PROPOSAL

***New legislation would spur \$6 billion in private investment
in low- to moderate-income communities***

WASHINGTON, D.C. – Rep. Charles B. Rangel (D-NY) introduced legislation to enact the tax credit components of President Clinton's New Markets initiative. The New Markets proposal was unveiled by the President in June when he toured regions of the country that continue to face difficult economic challenges despite national economic prosperity. Rangel's legislation entitled the "New Markets Tax Credit Act of 1999" (H.R. 2713) would spur \$6 billion of private sector equity investments in businesses located in low- and moderate-income rural and urban communities.

"Every local community in this great country should share in our journey of prosperity," said Rep. Rangel, the Ranking Democrat on the Committee on Ways and Means. "This President understands the need to enact policies that direct some of the fruits of economic growth to less fortunate communities across the nation."

Although the national economy is in an unprecedented era of prosperity, business investment capital tends to flow mainly to areas of the country that already are experiencing rapid economic growth. As a result, the residents of areas with large low- to moderate- income populations may be left behind. The people in these areas often lack access to basic businesses, such as supermarkets and other stores, that most Americans may take for granted.

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"Too many communities across the nation have become lost in a cycle of despair. They have good workers, but lack access to the capital they need to fuel job creation and growth. Without a growing economy, entrepreneurs and young people, who start to become successful, decide to leave the area for places with better services," Rep. Rangel stated.

"President Clinton has shown us the path out of this repeating cycle. His New Markets plan would provide \$6 billion to enhance the economic return to investors in these areas," said Rep. Rangel.

The legislation provides an annual nonrefundable credit to taxpayers who make qualified investments in selected community development entities. (These are groups – usually non-profit – that provide capital for economic development in low-income areas.) The amount of the annual credit is 6% of the amount of the investment. It is allowed for the taxable year in which the investment is made and the succeeding four taxable years. The credit is allowed to the taxpayer who made the original investment and to subsequent purchasers.

An investment in a community development entity would be eligible for the credit only if the Secretary of the Treasury certifies that the entity is qualified and only if the entity uses the money it receives to make investments in active businesses in low-income communities. Low-income communities are communities with poverty rates of at least 20% or with a median family income which does not exceed 80% of the statewide median family income (or in the case of urban areas, 80% of the greater of the metropolitan area median income or statewide median family income).

The Treasury Secretary would certify an entity as qualified if its primary mission is serving or providing investment capital to low-income communities and it is accountable to residents of the communities in which it invests.

The amount of investments eligible for the credit is limited to \$1.2 billion for each of the years 2000 through 2004. The Secretary would allocate that limitation among the qualified community development entities.

In addition to the tax portion of the Administration proposal, President Clinton has made other proposals designed to promote growth in emerging markets in this country, just as the Overseas Private Investment Corporation helps to promote growth in emerging markets overseas.

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NEW REPUBLIC

August 23, 1999

Growing the Inner City?

Bill Clinton thinks the answer
to poverty is capitalism.

Too bad it hasn't quite
worked in Harlem.

TAMAR JACOBY
& FRED SIEGEL



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Growing the Inner City?

Harlem's experience with the "third way" antipoverty approach.

By TAMAR JACOBY
and FRED SIEGEL

PRESIDENT CLINTON'S WELL-SCRIPTED "New Markets" tour didn't include a stop in Harlem, but it should have. Barnstorming across the country last month, posing in shirtsleeves on an Appalachian farm, in the Mississippi Delta, and in the Watts section of Los Angeles, Clinton hoped to sell the nation on a new, "third way" poverty program: a package of federal tax credits and loan guarantees intended to stimulate private investment in neglected neighborhoods. His proposals, which will soon go to Congress, reflect a new consensus, even on the left, that the answer to poverty is capitalism—not government handouts but private business. Corporations would tap into a forgotten pool of workers, while mainstream investors and indigenous entrepreneurs together would create a local economy that edged out ghetto culture. In theory, it's a great idea. But, before Congress rushes to approve the money, it should take a closer look at Harlem, where a 15-year experiment with a similar public-private model has produced mixed results.

The notion of harnessing market forces to eliminate poverty has hardly been limited to Harlem. Championed by Jack Kemp during the 1980s, the idea was reengineered by Democrats a decade later in the form of empowerment zones: legislation offering not just tax credits (Kemp's idea) but also sizable government grants and loans for businesses in poor areas. In New York, the concept dovetailed nicely with longtime local efforts pushed by Democrats and Republicans alike to get local government out of the antipoverty

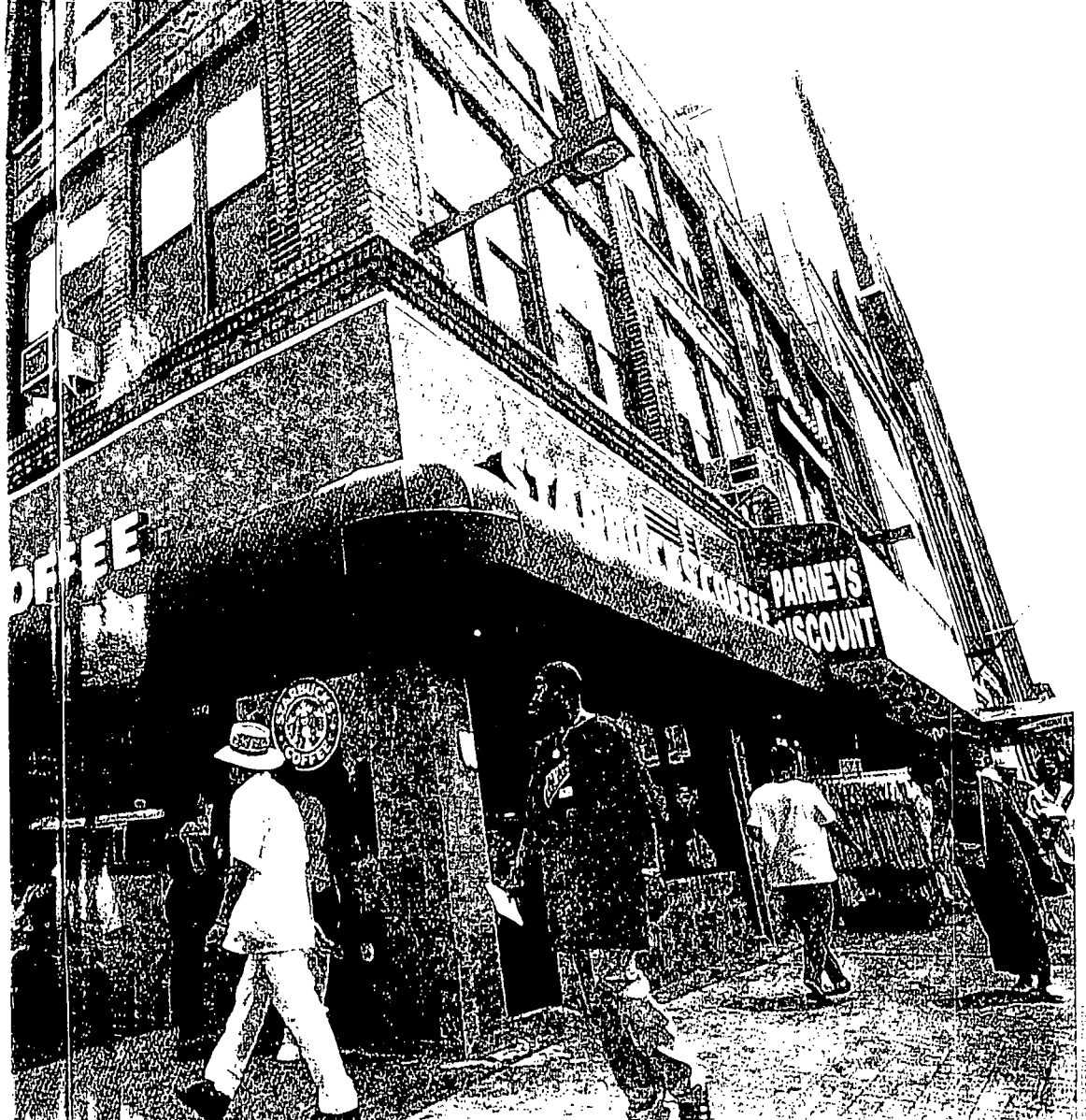
TAMAR JACOBY, a senior fellow at the Manhattan Institute, is the author of *Someone Else's House: America's Unfinished Struggle for Integration*. FRED SIEGEL, a senior fellow at the Progressive Policy Institute, is the author of *The Future Once Happened Here: New York, D.C., L.A., and the Fate of America's Big Cities*.



Starbucks comes to 125th Street.

business and to use private financing to build public housing.

The good news is that, thanks to these programs, Harlem is now awash in cash. The New York empowerment zone has three times as much money as its counterparts in other cities: a total of \$300 million in public funds that it hopes to leverage over ten years with \$1.25 billion in private money. And, together with some spillover prosperity from midtown Manhattan, these efforts are beginning to change the landscape above 110th Street. Encouraged by government subsidies, private developers have rebuilt or restored tens of thousands of apartments, providing homes for a stabilizing population of working-class families. For the first time in memory, a handful of national retail outlets have opened in the area: Starbucks, Duane Reade, RiteAid, Pathmark, Blockbuster Video, and Sterling Optical. Two major shopping complexes with multiplex movie houses are in the works, and even Harlem leaders, traditionally mistrustful of capitalism, are acknowledging what the market can do to lift the neighborhood out of poverty. "I recognize that, in order for this community to change, somebody's going to have to make a buck,"



says popular city council member Phil Reed. "I don't have a problem with that."

Administrators trying to engineer a market takeoff hope the government will eventually be able to bow out of the process. As publicly subsidized investment turns a profit, it will spawn a second generation of spontaneous business growth. Banks will be more willing to make loans. Supermarkets, pharmacies, and family restaurants will not only create jobs but will also draw working-class families—and then the middle class—back to the neighborhood. And this, in turn, will attract still more commercial investment—eventually without the help of public-sector incentives.

But none of this has actually happened yet in Harlem. A virtual city within a city, the neighborhood has as many residents as Atlanta. Much of the area is still vacant or crumbling. And while the officials midwifing change talk disparagingly of programs that create a "welfare mentality," they stop short of promoting a genuinely market-based approach. For all of upper Manhattan's competitive advantages, they believe, mainstream business will not find its way to Harlem without

government intervention. They may be right: some government stimulus and incentives still seem necessary to spur market activity in the area. But, as long as government is involved, it will bring inefficiency, bureaucracy, and politics. Government procedures will guide—and skew—investment decisions. Government agencies are unlikely to close themselves down when they're no longer needed. And, meanwhile, opportunities for patronage, corruption, and mistaken judgments abound—innumerable different ways to squander the investment intended to create wealth in poor neighborhoods. Though the new hybrid approach to poverty is a clear improvement over Great Society liberalism, it may also reenact many of the failings of that earlier era. That, certainly, has been Harlem's experience over the past few decades.

A mere three or four subway stops from midtown Manhattan, Harlem has long been an economic world apart. Racism and fear of crime prevented outsiders from investing;

lack of access to capital weakened black entrepreneurship; and, even in the best of times, the neighborhood was a business backwater—short on retail and largely without industry. Then, during the '50s and '60s, politicians with a big new idea began to make things worse. A generation of black elected officials—Representative Adam Clayton Powell Jr. and local Democratic leader J. Raymond Jones ("the Harlem Fox"), among others—pinned Harlem's economic hopes not on investment but on federal antipoverty programs, which, instead of spurring growth, ended up mostly stifling it. Urban renewal projects took over large swatches of land and razed them, but, bogged down by political wrangling, they often failed to construct anything new. And, without other market activity to point the way, downtown investors ignored the neighborhood, even as racism ebbed. "Over time," explains veteran nonprofit investor Kathryn Wylde, "the government displaced the private sector and destroyed any semblance of a free-market economy."

The political stranglehold on the neighborhood was institutionalized in the early '70s with the creation of the now

infamous Harlem Urban Development Corporation (HUDC). Meant to funnel government funding into the area, HUDC functioned instead as an all-but-prohibitive gatekeeper, spending more than \$100 million over 20 years with almost nothing to show for it. Much of the money was squandered on patronage—consultants, payroll, administrative overhead, campaign phone banks, and four-times-a-week car washes for top personnel. But even more destructive, in the long run, was the way the group managed to block both public and private development above 110th Street.

Using their influence at HUDC and a range of other uptown institutions, a coterie of politicians known as the Gang of Five—Representative Charles Rangel, businessman and former Borough President Percy Sutton, and former Mayor David Dinkins—were the best known—controlled not only all antipoverty funds coming into the neighborhood but also the government-owned land, which, at the time, accounted for roughly two-thirds of Harlem. “Anyone who wanted to do business in Harlem had to go through them,” recalls Randy Daniels, New York Governor George Pataki’s chief lieutenant in the area.

PART OF THE problem was old-fashioned cronyism. Part was political self-interest: by definition, HUDC’s influence was greater on government projects, which strongly prejudiced it against private investment. But both were secondary to the coterie’s economic nationalism: members wanted to attract development only if they could control it—only if it included black partners and did not displace poor, black residents. Over time this meant that virtually no business, private or public, was done in upper Manhattan. “If the [HUDC] gatekeepers weren’t playing a meaningful role in the project, if it wasn’t their people, if they weren’t getting a piece of the action, then it was better that nothing happened at all,” one New York businessperson recalls, “no matter how beneficial it might have been for the people of Harlem.” Even when other public agencies tried to build in the neighborhood, HUDC called all the shots—who was hired, how the deal was financed, which developers were involved—and often derailed projects. “If you didn’t want to use their people, you took your money elsewhere,” a local official remembers.

It seems that everyone who knows the history of Harlem recalls at least one deal that was blocked or fatally delayed. One prime site at the corner of Lenox Avenue and 116th Street sat empty for 25 years. A proposed international trade center to be built on 125th Street ate up millions of dollars before the idea was abandoned. Meanwhile, Blockbuster Video waited more than two years to open a store, stymied by HUDC officials who insisted that the chain find a minority partner. Throughout the ’70s, ’80s, and ’90s, successive mayors and governors looked the other way—even as members of the Gang of Five allowed Harlem’s assets, such as the legendary Apollo Theater, to deteriorate almost beyond repair. (Percy Sutton is now contesting a suit, brought by the state, claiming that his company shorted the theater \$1 million in revenue even as Rangel and other Apollo board members failed to pay for minimal upkeep.)

Pataki dismantled HUDC in 1995, and the revelations that

have come out since have turned even local opinion against it. Old-style, militant nationalism is now a minority voice in the neighborhood. Though the ever shrill Reverend Al Sharpton criticizes his fellow minister, Reverend Calvin Butts, for allying with “downtown money” to build subsidized housing, and Harlem’s leading newspaper, *The Amsterdam News*, complains that the new retail on 125th Street is a plot to gentrify the area, by and large the economic nationalism in Harlem takes a different, subtler form today. Still, it remains a major obstacle to development.

THE NEIGHBORHOOD’S NEW development model, so much like the one Clinton hopes to foster nationwide, is at once a radical break from the HUDC era and a continuation of it. Harlem’s bumper crop of new subsidized housing is a case in point. None of these units could have been built without private-sector involvement: private money and private contractors. But the process also required a new cohort of middlemen—gatekeepers, in their way not unlike the Gang of Five, mediating between uptown and downtown and deciding how private investment would be spent in the ghetto. Desperate to dispose of thousands of dilapidated ghetto buildings acquired through tax foreclosures, over the past 15 years the city transferred thousands of plots to large nonprofit organizations—the New York City Housing Partnership, the Local Initiatives Support Corporation (LISC), and the Community Preservation Corporation—that pooled investments from downtown banks and businesses and then collaborated with a new generation of indigenous community development corporations, or CDCs, to build or restore 30,000 units in Harlem. The result—a transformation that has left its mark on virtually every block of the neighborhood—speaks for itself, and Harlem insiders unanimously say it couldn’t have happened without the local development groups that mediate between the community and outside investors.

These CDCs are a strange species unnecessary in most other parts of the city. Many are church based. Some are led by prominent, semipolitical figures such as Reverend Butts, whose Abyssinian Development Corporation midwived the \$15 million Pathmark grocery store that opened in East Harlem this spring. In contrast to HUDC, most of these newer groups work to assuage neighborhood fears about the impact of new development. They also navigate local political obstacles and attract public subsidies as no private entrepreneur could. Perhaps most important, they ease investor concern about wading into the uncharted waters of upper Manhattan—and, so far, every sizable project in the neighborhood has involved a community group acting as codeveloper. The danger is that the nonprofits’ social agendas may ultimately skew the development process. They help decide, for example, just how expensive any new housing should be and, by extension, who should live in it. Perhaps most damaging, the CDCs only reinforce the idea that, alone and unaided, downtown entrepreneurs cannot make money in Harlem—not exactly a message that will encourage investors.

Over the past two or three years, the focus of Harlem development has shifted from residential to commercial. On

paper, the long underserved neighborhood looks like a retailer's dream. New housing has brought in a wave of new residents with more disposable income. In many retail categories there is no competition, and 60 to 70 percent of residents routinely travel out of the neighborhood to shop. But, as with the housing revolution, commercial development hasn't happened spontaneously: apart from a few drugstore and video rental chains willing to hazard small outlets in the area, national retailers are still wary of the ghetto.

TODAY, YET ANOTHER middleman, the congressionally mandated Upper Manhattan Empowerment Zone (UMEZ), is working to change that. Not unlike the local CDCs, the zone organization is at once the answer to Harlem's economic problems (it has declared the neighborhood open for business and lured several high-profile retailers) and a continuation of them (it adds still another layer of bureaucracy to mediate—and inevitably skew—investment).

Unlike many other empowerment zones, which vary widely from city to city, the one in upper Manhattan is genuinely committed to a market-oriented approach. Rather than create a web of social services that would perpetuate Harlem's dependence on the public sector, UMEZ seeks to spur a business boom fueled by both outside investment and indigenous entrepreneurship. Aiming to create 23,000 new jobs, the organization's first president, former investment banker and city official Deborah Wright, consulted McKinsey & Company to determine what kinds of businesses would do best in the neighborhood; she then set out to encourage them with seed loans and tax credits. (The zone's charter also permits it to fund some social services, but primarily those that enhance business skills and job readiness in the neighborhood.)

The problem is that the zone is a quasi-public organization, and it functions like a classic government bureaucracy. The former investment bankers on the staff don't just go out and look for deals; as in a city agency, they issue requests for proposals and then wade through a flood of paperwork. Unlike a bank, which can issue a loan in days or even hours, the zone sends its likely deals through a convoluted, two-tiered approval process, and most of the major community groups in Harlem, the governor, the mayor, and Rangel himself have absolute veto power. Approval can take from six months to a year—a wait that can easily kill a small business start-up. And even more damaging than the delay is the inherently political nature of the screening process.

One consequence of this politicization is that social services have fared much better than business start-ups. Another is what insiders bluntly describe as patronage, much of it directed toward the same groups that benefited during the HUDC era. "Everybody [on the UMEZ board] wants their boy or girl massaged financially," says one local entrepreneur. "Board members and friends of board members are always telling [Wright] to take care of Willie and Suzie, and nobody asks who can do the job the most cheaply or the best."

What's remarkable, given these handicaps, is just how successful the zone has been in transforming the economic

climate of upper Manhattan. "They have changed the rules for doing business in Harlem," says downtown development lawyer Jesse Masyr. In marked contrast to HUDC, Wright has successfully signaled to major investors that Harlem is a safe and profitable place to do business, even as she has allayed the community's perennial suspicion of outsiders. Still, even the zone's greatest successes have come with costs—the inevitable costs of government involvement in the marketplace.

The biggest business success story in upper Manhattan is the Harlem USA shopping and entertainment complex scheduled to open at the end of this year on the prime spot where 125th Street meets Frederick Douglass Boulevard. In the early '90s, after nearly 20 years of fruitless prospecting, the CDC that owns the land teamed up with a downtown developer, Grid Properties, to attract investment. But, even then, Grid President Drew Greenwald recalls, "some of the things we met with were beyond belief. Unlike Scarsdale or midtown Manhattan, Harlem takes a lot of explaining in corporate America." The big break came in 1995, just as the empowerment zone was getting going, when the Disney Company decided to open a shop. Though the store is considerably smaller than most Disney outlets, the company's decision to sign a deal made the complex. Half a dozen other national retailers, including Old Navy and HMV, followed Disney, and before long the project was 75 percent leased—enough to convince Chase Manhattan to come through with an impressive loan. Still, even with Chase and Disney and a Magic Johnson movie theater in on the deal, it took an additional \$11.2 million from the empowerment zone to complete the \$65 million financing package.

THE RETURNS FROM the complex's first year or so will make or break investor confidence in Harlem. "It is going to prove the uptown market and prove it decisively," says Anne Habiby, director of research for the Boston-based Initiative for a Competitive Inner City. "It took some extra time and extra effort to put all the pieces of the deal together," concedes Chase Manhattan's Mark Willis. "But, if it works, the next one will be easier to put together—much easier." Others, even those who have a stake in the project, worry that expectations may have spun out of control. "The whole thing is a big maybe at this point," warns one uptown entrepreneur, "a lot of ifs." For one thing, though the neighborhood is a low-income enclave, much of the retail in Harlem USA doesn't fit a low-income profile. Misjudging the customer base is a mistake any retailer could make, but the involvement of the empowerment zone, with its non-market investment criteria, has made this kind of error much more likely. "There's too much social engineering," says another businessman from the neighborhood. "Harlem USA, the Starbucks down the street—these people have conceptualized a middle-class Harlem that doesn't exist yet."

Even more dangerous, the Harlem USA complex is already having an effect on the nearby real estate market, increasing demand and raising rents along 125th Street—and this jump may have raised the cost of doing business in the area above

what any retailer can recoup in profit. "It's one thing for Disney and Chase," says a Harlem businessman. "They can take a loss on a small store. They're up here as much for political reasons, anyway—to establish themselves with black consumers. But regular retailers look at it differently, and many of them are already priced out of the market."

It's a pattern of distortion that local players say they see elsewhere in the neighborhood. Though most uptown investors agree that some kind of incentives are still necessary to spur development, they also warn that the wrong sort of inducement can prove disastrous. "All too often," says one insider, "the city provides a subsidy of \$3 million, and the cost of the project goes up by \$3 million." According to knowledgeable Harlem residents, this is exactly what happened with the Pathmark that opened recently on East 125th Street. One person close to that deal claims that the supermarket could have been built at a fraction of its cost—but the developers, flush with low-interest loans and government money, chose to pay extra for the builder who got the contract. Meanwhile, these insiders say, the public-sector incentives that sparked the housing explosion have jacked up construction costs higher than an unsubsidized market can bear, and, now that the subsidies are shrinking, both contractors and builders accustomed to inflated profits are reluctant to take on leaner work.

THE EMPOWERMENT ZONE'S second goal—to stimulate the growth of local business—has proved even more elusive than attracting outside investment. It is an article of faith among those promoting the new-markets approach that the large-scale projects in the 125th Street corridor will have extensive ripple effects, generating increased business for the small stores around them, and UMEZ has spared no effort in assisting neighborhood retailers who might benefit from these opportunities. One of its first actions was to set up a sister program called BRISC (Business Resource and Investment Service Center), which provides capital and technical assistance to local entrepreneurs. Also during its first year, UMEZ created half a dozen loan funds and business-tutoring initiatives to help still smaller fledgling operations: home-based enterprises, mom-and-pop storefronts, and the like. Several of the local CDCs provide similar counseling and technical assistance.

The problem for all these initiatives is finding neighborhood businesses worthy of help. "The zone would have liked nothing better than to give its first \$10 million to local black entrepreneurs," says one downtown investor who has worked extensively in Harlem. "P.S.: There aren't any." The massive middle-class exodus from the area has caused a fateful erosion of entrepreneurial energy. And over two years, despite a strenuous search for clients, BRISC has helped no more than three dozen enterprises, all of them in business categories—small start-ups and neighborhood stores—that notoriously fail in record numbers. Concerned about creating dependency, officers at BRISC and other loan funds say they do all they can to maintain "a private-sector mentality," rigorously screening applicants and placing conditions on the aid they give. Still, like any bank with a risky exposure, the new breed

of planners has a stake in the entrepreneurs they help, and they don't like to see clients fail—for both emotional and financial reasons. Taken together, what all this means is that, in aiding local businesses, even more than elsewhere, third-way economic engineers don't receive the signals the market sends them. If the entrepreneur is black or the loan fund has gone out on a limb to help him, it doesn't really matter if his business is taking root and creating wealth in the community. The loan fund will stick with the business regardless.

The new Sterling Optical store at the corner of 125th Street and Malcolm X Boulevard is evidence of how this impulse to nurture start-ups can both help and hurt. A franchise owned by a team of black investors, Sterling Optical is the first shop in Harlem to sell expensive, brand-name eyeglasses, and, despite its seemingly middle-class orientation, it has reportedly done well since it opened last September. The people who run the store and its customers seem particularly proud that it is black-owned and operated. Elegantly designed and well managed, located on a choice corner of central Harlem, it is another hopeful sign that the neighborhood may really be open for business.

BUT THE REALITY is more complicated. The original idea for the store came not from its owners but from Gary Hattem, an executive at Bankers Trust. Building on the model of the decade before—the housing success story—Hattem asked friends at several CDCs to suggest types of new retail that the neighborhood needed. Then, together, the banker and the CDCs scoured the community for local people who could run shops. The most original part of the idea was the franchise concept: "It's a unique opportunity," says Hattem, "to help people without the business background overcome their lack of experience." The new eyeglasses store is the first fruit of this initiative. Clifford Simmons at the Abyssinian Development Corporation (ADC) found the six local investors: a group of old college friends, now professionals. ADC made the match with Sterling Optical. Bankers Trust and BRISC, the nonprofit loan fund, financed the deal at well below market rate. Each of the six entrepreneurs put down a small amount of money; ADC kicked in the rest and then walked the investors through every step of setting up the business: hiring, purchasing, marketing, day-to-day management, and more. "Everybody held each other's hand," recalls a proud Simmons.

In the short run, the outcome is exciting. But, in the long run, it's far from clear just what Bankers Trust and ADC have bought with their investment and their labor-intensive personal involvement. As long as ADC stands in the background, essentially running the store and guaranteeing its prospects, the franchise owners won't learn very much about the real risk and responsibility at the heart of launching a start-up. Encouraging as it seems for other Harlemites, in truth, the Sterling outlet is a Potemkin enterprise. The bank and the CDC behind it have succeeded in putting a black face on Harlem retail, and a few well-connected residents may make a little money as a result. But the program has done little to

create a genuinely entrepreneurial mindset in the neighborhood. "They're not teaching people business habits or business attitudes," says a skeptical downtown investor with experience in Harlem. Instead, he complains, they're creating another generation of people who make a living off local authorities.

The past six months have been a difficult period for the Harlem empowerment zone. Bad blood between Pataki and New York City Mayor Rudy Giuliani made it all but impossible for the able and well-liked Wright to do her job. The mayor's on-again, off-again relationship with Butts didn't make things any easier, nor has continued legal wrangling between New York state and Rangel in the Apollo Theater lawsuit. In early spring, local papers got wind of a feud between Wright and the mayor's office, and she resigned in April, ostensibly for personal reasons. But then, last month, the cloud hanging over the agency seemed to dissipate, thanks to an unlikely truce between Giuliani and Rangel. The zone's board of directors met quietly and released \$54 million for languishing projects approved in the past fiscal year, and, according to insiders, Wright's successor will soon be announced. Given the zone's symbolic importance in Harlem, this turnaround is probably a welcome development, but it will solve none of the fundamental problems slowing commercial takeoff in the area.

AS FAR AS anyone can see into the future, political circumstances in New York—both uptown and downtown—virtually guarantee the continued politicization of Harlem's economy. Part of the problem traces back to the city's stranglehold on much of the land. The Giuliani administration has made a determined effort to divest itself of these holdings, cutting its portfolio from 65 percent to roughly a third. But the process by which the Department of Housing Preservation and Development (HPD) returns the land to private ownership remains a nightmare for private developers: painfully slow, maddeningly bureaucratic, and—like everything in New York—politicized. "It can take two or three times as long to get to the construction stage," complains builder Drew Greenwald, "and that's if everything goes smoothly. It takes the city a couple of years just to pick a developer, and then, if the guy doesn't work out, the site goes back to the city. If they make more than one mistake—and they often do—it can take up to 10 years to turn over a site."

The city's arcane, multilayered system for public review of most construction doesn't help. Every development that requires a zoning change must be submitted to the local community board. That's a difficult gauntlet to run in any neighborhood, but it's especially arduous in Harlem, with its age-old suspicion of outside—i.e., white—investors. Politically sensitive city agencies often defer to the enclave's local leadership. "We go back to the community boards for approval even when we don't have to," explains an HPD official. And, for many projects, the community board is only the first step in the process. A big-box shopping complex planned for 119th Street by the East River is currently undergoing a seven-month-long public review that

began with Community Board 11 and will go through the borough president's office, the city planning commission, the city council, and the mayor's office before any construction can begin.

Local officials in Harlem know full well the power they wield in this process, and even those who say they welcome outside investment seem to feel an obligation to put up some resistance. "The elected officials of this community are going to make sure that the people who have been here a long time are not going to be sold out," declares Councilman Phil Reed. "We negotiate with the developers. We try to be reasonable. But, if you come through here and think you're going to make a profit by ripping someone off, you'll have a gorilla up against you." Often, the local demands are no different than they would be in any neighborhood: for example, that the developer of a large shopping complex pay for new Astroturf in a nearby playground. But even Harlem's planners admit that, in some cases, the area's unwelcoming politics can be prohibitive for investors. "I've talked to entrepreneurs trying to do things [in Harlem], and I tell them to contact the empowerment zone," says Richard Parsons, president of Time Warner and chairman of the UMEZ board. "They say, 'God save me from the empowerment zone—you get bogged down in all that political foolishness.'"

Though agencies like the zone and the CDCs that embrace a third-way agenda are slowly opening the door to outside investors, they have done little to challenge the public's unrealistic assumption that the neighborhood can be revitalized and yet remain otherwise unchanged. If anything, because of their political roots, the new planners have a stake in encouraging that illusion. But as long as they do—and as long as they let it guide their investment decisions—the economic change they seek is sure to be sharply circumscribed.

IT WOULD BE easy for members of Congress pondering Clinton's proposals to misread the lessons of Harlem. The costs associated with government efforts to jump-start market activity in poor neighborhoods are all too obvious in black New York, and, in a perfect world, it would be better to do without government intervention. But we don't live in a perfect world, and there are reasons why markets don't spring spontaneously from the soil in places like Harlem and the Mississippi Delta. As Kathryn Wyldé says of upper Manhattan, "the economy of the local community just isn't strong enough or attractive enough yet to support market-rate investment without some incentives." In circumstances like these, public-private solutions are needed to grease the way for capitalism, luring developers with tax credits and low-interest loans even as they prepare a commercial infrastructure and incubate a local business culture. But, in the end, devotees of the public-private model have to recognize that their methods may undermine their aims. The challenge for both Clinton and Congress is to design programs that minimize bureaucracy and political interference, leaving the market as free as possible—not so much for ideological reasons but because in the long run, only genuinely market-based investment will take root and connect places like Harlem to the mainstream economy. ■

DRAFT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

August 5, 1999

DRAFT POTUS STATEMENT ON NEW MARKETS LEGISLATION

Not long ago, I invited CEOs and other business leaders to join me in visiting New Markets across the country to highlight economic opportunities and to emphasize the need for greater investment in underserved rural and inner-city areas. Today, I am pleased to announce that bipartisan legislation implementing my New Markets Initiative will be introduced in both the House and the Senate. This legislation expands upon the innovative approach to community empowerment that Vice President Gore and I have pioneered for nearly seven years.

We need to provide the same encouragement to invest in Appalachia, Native American reservations, the Mississippi Delta, or the inner cities that we provide today to invest in new markets overseas. Through new tax incentives and investment tools, this legislation will help to attract equity capital that entrepreneurs and businesses need to start and expand enterprise and create new jobs in low and moderate income communities. It makes it more attractive for corporate America to develop new markets in places where they have rarely, if ever, looked before. It's good for business, it's good for America's growth, and it's the right thing to do.

I am encouraged by the bipartisan support for the New Markets Initiative, as demonstrated by the lead sponsorship of this legislation by both Democrats and Republicans. We will continue to work with Congress to pass this New Markets legislation into law. At a time of remarkable economic prosperity, we need to ensure that no community or person is left behind.

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**PRESIDENT CLINTON WELCOMES
THE INTRODUCTION OF NEW MARKETS LEGISLATION
August 5, 1999**

DRAFT

"When government provides the conditions and tools [and] acts as a catalyst to bring the power of the private sector to benefit all of our citizens... this is not only good economics, it is the right thing to do. We can build one America where nobody is left behind when we cross the bridge into a new century. And if we do, we'll all be better off."

--- President Clinton, The New Markets Tour, July 8, 1999

PRESIDENT CLINTON WELCOMED THE INTRODUCTION OF NEW MARKETS LEGISLATION ON CAPITOL HILL EARLIER TODAY. Two important elements of President Clinton's New Markets Initiative, which is designed to spur \$15 billion in new private investment in underserved areas, were introduced today in the Senate and the House. Both initiatives were originally proposed and included in President Clinton and Vice President Gore's FY 2000 budget. The proposals will help to encourage private sector equity investment in underserved communities and low and moderate income areas throughout the country:

- **The New Markets Tax Credit.** This tax credit will help spur \$6 billion in equity capital for investment in America's new markets. The proposed tax credit is 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 the New Markets 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. The government will guarantee up to \$200 million in loans, 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.

ADDITIONAL ELEMENTS OF THE NEW MARKETS INITIATIVE. In addition the above legislation which was introduced today, President Clinton's New Markets Initiative includes several other elements some of which will require new legislation and others which are expansions of existing initiatives.

- **SBIC's Targeted to New Markets.** For over 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 our cities and rural distressed communities. Through regulatory changes that will soon be proposed, SBA will be able to offer more flexibility and new financing terms for Small Business Investment Companies (SBICs) that invest in underserved areas.
- **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.
- **Microenterprise Lending and Technical Assistance.** Microenterprise initiatives in the FY 2000 budget include the proposed PRIME Act, under which the CDFI Fund will provide microenterprise technical assistance through competitive grants to microenterprise development

organizations that focus on low-income entrepreneurs. President Clinton's and Vice President Gore's proposal also includes a doubling of support for technical assistance in SBA's Microloan Program and a doubling of support for SBA lending to leverage over \$75 million in new microlending. The microenterprise strategy will also involve new funding for Individual Development Accounts (IDAs) and for SBA's One-Stop Capital Shops.

- **Community Development Financial Institutions (CDFI) Fund.** The New Markets Initiative would expand funding for the CDFI Fund to \$125 million--a \$30 million increase from FY 1999. The Fund increases the availability of credit, investment capital, financial services, and other development services in distressed communities.
- **BusinessLINC.** The President's FY 2000 budget includes seed money to expand Business LINC --- an innovative public-private partnership launched by Vice President Gore --- for 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.

A RECORD TO BUILD ON. The legislation introduced today expands upon the innovative approach to community empowerment that President Clinton 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.

CONTINUED NEW MARKETS EFFORTS. As part of a bipartisan focus on underserved urban and rural areas, President Clinton will continue to seek ways to expand current community development and investment efforts in New Markets. The President's New Markets Tour during the week of July 5, helped to bring attention to conditions in economically distressed communities and also highlighted examples of private sector solutions that our legislative proposal will help to encourage and support. President Clinton will continue to make announcements throughout this year about efforts to attract private sector investment to impoverished, untapped markets throughout the nation. These announcements include a national program related to BusinessLINC that will be unveiled in the coming weeks as well as visits later this year to New Markets where innovative investment partnerships and initiatives are being developed by private companies.

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[American Banker,
Tuesday, August 10,
1999]

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LaFalce Offers Legislation To Reward Investments in Low-Income Neighborhoods

◆By KATHARINE FRASER

WASHINGTON — To get the ball rolling on President Clinton's New Markets initiative, Rep. John J. LaFalce, D-N.Y., introduced legislation last week that would guarantee bonds issued by companies investing and lending in poor areas.

Under Rep. LaFalce's plan, the Department of Housing and Urban Development would guarantee debt issued by for-profit community development companies that invest in businesses located in low-income areas. The bill would require these businesses to generate half their gross income in communities where 20% of the people are living in poverty.

HUD would license the investors as "America's Private Investment Companies." These companies, which could be owned by banks, would have to have \$25 million of equity capital and would have to be devoted to providing investment capital to low-income communities or low-income people.

"This legislation offers a practical plan that harnesses the financial muscle of the private sector to invest in communities that have been left behind," Rep. LaFalce said in a statement last week.

President Clinton's New Markets initiative was unveiled in early July and is designed to encourage corporate investments in domestic low-income areas rather than emerging markets overseas.

For instance, the President has called for a tax credit of 25% for corporations that invest in poor communities.

The proposed HUD program would mirror the Small Business

Administration, yet be more directly helpful to lower-income areas, a community advocate said.

"In metro areas, [SBA] loans are more likely to show up in new, outer-fringe suburbs," said Malcolm Bush, president of the



LaFalce

Woodstock Institute in Chicago. "That's really increasing the gap between the older areas and newer areas."

"What's encouraging about the LaFalce bill is this is targeted" on low-income areas, he said. The legislation seeks to generate \$7.5 billion in new investments in large-scale businesses operating in distressed communities.

HUD could guarantee up to \$1 billion of debt annually for five years. Private-sector companies would have to raise \$1 of capital for every \$2 of their debt guaranteed by the government.

Bankers and trade group representatives were either unfamiliar with the details of the proposal or unavailable to comment Monday.

The bill, which has 22 co-sponsors, would cost the government \$37 million a year, according to Rep. LaFalce. That estimate assumes a 3.6% loan-loss rate and \$1 million in administrative expenses.

"At a time when Congress seems eager to enact tax breaks and loan guarantees for a broad range of industries, it is not too much to ask for limited resources targeted to corporations which want to do business in the untried markets of our neglected communities," Rep. LaFalce said.

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U.S. Department of
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Memorandum

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Trade Mission not Aid Mission

BETWEEN THE LINES

TRADE MISSION TO MISERY, USA

Clinton's trip highlights the move from a 'War on Poverty' to a 'War for Profits.' Can it work?

By JONATHAN ALTER

HILLARY'S GOT THE MOJO now, but the more important trip last week was by her seemingly irrelevant husband. Yep, Bill Clinton was a caricature—sipping a Mountain Dew with the folks up the hollow in Kentucky, cying a Hostess cherry pie in East St. Louis as he explained that, of course, *he* was once poor, too, living on a dollar a day as a college freshman. Yadda yadda. The patter was old, the record on poverty is mixed, but he's still president, and presidential visits can still carry weight.

It's hard to believe, but Clinton is the first American president since Franklin Roosevelt to visit an Indian reservation—a stunning reminder of generations of neglect. Unemployment at South Dakota's Pine Ridge Reservation, the nation's poorest census tract, is 73 percent; alcoholism is off the charts. The other stops on the seven-state "poverty tour" were less desperate but plenty grim. Even so, I came away strangely hopeful.

The source of my good feeling was, of all people, an upbeat Jesse Jackson. God isn't finished with him yet—he's turning the reverend into a proud capitalist. "This isn't a War on Poverty, it's a War for Profits," Jackson told me on Air Force One. In the old days, that would have been an attack line; now, it neatly summarizes the message of Clinton's "New Markets" tour. Jackson's three-word mantra was once: "I am somebody." Today it's: "Access to capital."

This is hardly a new theme in anti-poverty circles, but the response from CEOs and bankers (several of whom came along on the tour) is much stronger than in the past. The smart ones see a way to do good and do well at the same time. "I'd sort of like these markets for myself," jokes Stephen Burd, CEO of Safeway, which has recently opened several successful supermarkets in depressed inner-city neighborhoods. (The key, Burd says, is to put a police substation in the store.) Over the years, countless efforts to revitalize inner cities have failed, but that was before today's labor shortages and huge new pools of investment capital. The purchasing power in poor areas is also greater than previously understood. For Sanford Weill, chairman of Citicorp, it's a no-brainer: "It makes no sense to invest in [Third World] countries and not in these places." Spoken like a banker who has written off more



'New Markets' tour: At the Pine Ridge Reservation last week, Clinton promoted his anti-poverty program—and his legacy

bad foreign loans than domestic ones.

Rejecting any talk of "charity," Clinton cast the whole trip as a domestic trade mission aimed at keeping the economy humming by opening new markets at home. This was partly flimflam: high tech largely drives the economy, and there's not much of it in distressed areas. And why would Clinton's new tax breaks for investing in poor neighborhoods work when existing low-tax "empowerment zones" have such a mixed record? (They depend for their success on shrewd local political leadership, which has been rare.)

The best argument for the new plan the president offered last week is simple fairness. His bill would offer corporations the same incentives and loan guarantees for investing in poor neighborhoods that they now get for investing overseas. This essentially amounts to replacing traditional welfare with corporate welfare, the latter being much more popular in Congress. With the GOP trying to show that it's compassionate, the odds of passage are good.

As president, Clinton has quietly done more for the poor than some liberals admit. The rising economic tide has pushed unemployment for blacks and Latinos to historic lows; half a million former welfare recipients have been hired by the private sector. Less well known is that Clinton got banks to start using a 1977 law, the Community Reinvestment Act, to lend more in the inner city. He never properly highlighted his expansion of the Earned Income Tax Credit or gave it a jazzier name. But that \$30 billion a year in direct payments to the working poor—rewarding those who just

scrape by—is arguably the most successful anti-poverty program in a generation.

The problem was follow-up. The president would visit inspiring nonprofits in poor areas every so often, hear a tale of triumph over adversity, shed a tear, reminisce about the Kennedys. But something always came up to keep him from making the problem of poverty sexy again. In 1995 he had to play defense against the Republican Congress. In 1996, re-election. In 1997, balancing the budget. In 1998, Monica Lewinsky. All the while, one in four children continues to grow up poor.

So in year seven of his presidency, under prodding from HUD Secretary Andrew Cuomo and others, Clinton is finally getting in gear. It's not too late for a sustained commitment. The challenge for him and future presidents will be to get thousands of companies and nonprofits to make pledges to ramp up their good ideas, then create a structure of accountability. That's tough organizational work—and a new model of governing.

Clinton has another New Markets tour planned for the fall, starting in Newark. If he makes 10 or 12 more such trips before leaving office—cajoling, coordinating, leveraging, *leading*—then his domestic legacy will move to the higher plateau he covets. "If we can't do it now, with this economy, we'll never get around to it," the president said in Watts last week, almost as if he were talking to himself.

Voices

THURSDAY, JULY 8, 1999 • 31

Clinton visits an alien nation

Better late than never in the Delta

Seven years into his presidency, languishing toward irrelevance and with no foreign oppression currently needing bombing, Bill Clinton ventured Tuesday to the vicinity of his roots.

He came to the lower regions of the Mississippi River Delta, though not the Arkansas side, and declared something less than a war on the poverty.

He went to Clarksdale, Miss., across the bridge and down the road from Helena.

Clarksdale is sure enough bad off, as the photographs of downtown's boards reveal. But it's maybe not as bad off as, say, Marianna, in Clinton's home state. After all, Clarksdale has a four-lane and a thriving cabinet manufacturing plant.

But there's no point competing. There is plenty of poverty to span both sides of the river in Arkansas, Mississippi and Louisiana.

Clinton came from a stop in Appalachia, more famously poor than the Delta, but now less actually so. In the Delta, he visited what amounts to an alien domestic nation. You enter it about 70 miles east of Little Rock and find its center as you near the shadows of Memphis.

It is an island—a depressed and undeveloped region where people aren't starving, but wasting—smack dab in the middle of the world's richest country, which so happens to be enjoying its greatest peacetime growth ever.

It is a land of population flight, leaving poor, black majorities. It is a land where racial division is such an embedded way of life that you take it for granted, which is the saddest thing.

When you visit, even if better late than never, you may as well tell the truth. And Clinton did tell the truth, at least once, while on his poverty tour.

He began by saying government can and must help. There's no other force that can direct policy and money and attention. Yes, some government money spent on poverty always seems to get wasted—lost to fly-by-



John Brummett

night schemers who didn't know anything about catfish farming in the first place; used for pointless infrastructure; hijacked by the bureaucrats, well-meaning and otherwise.

But in those cases, you just have to back up and reappropriate, and try harder.

The greater truth that Clinton spoke was that things won't get notably better in the Delta, or in Appalachia or inner cities or on Native American reservations, until corporate America, the president's more natural constituency in recent years, is shown evidence that it can make a profit by investing in such places. Profit is the point. Period.

You need only look at weed-overgrown industrial parks and examine the hollow remains of plants built with Act 9 bonds to know that government is, while the necessary beginner, a poor finisher.

So the best thing to come from a poverty study undertaken under the direction of Transportation Secretary Rodney Slater—from Marianna, don't forget—is the description of the Delta as a captive market for current business opportunities.

It might be a Walgreen's drugstore that would come to a dying Delta town, persuaded by government reports of opportunities and lured by tax and other advantages bestowed the government. There the Walgreen's might sell some goods and hire some kids in summer who could learn a few skills and earn money for college and maybe someday come home better equipped to start a business, support the local public schools and offer themselves for civic service.

About all a lame-duck president from Arkansas could do at this point for the Delta is what Clinton did. He called attention to the region's plight and told corporate America that there are tax advantages available along with statistical studies that indicate there's money to be made there.

Meanwhile, I must tell you of one tangibly good thing to come to the Delta from the Clinton administration.

It is the new activism of Little Rock's rural development office of the federal Agriculture Department under the direction of John Edwards, the young scion of Scott who ran credibly as a Democrat for 2nd District congressman in 1986 and was given the USDA job by Clinton on the nomination of Dale Bumpers and David Pryor.

More people need to know that this unused agency exists to make widely discretionary grants and loans for public infrastructure, housing and entrepreneurship in communities defined as "rural" by populations of less 50,000, which covers nearly every community in Arkansas.

Edwards can sit in his office in Little Rock and tell you about millions spent on water and sewer projects, self-help housing in Marianna, a new fire truck for Helena, a health clinic in Bradley and the conversion of the officers housing at the closed Eaker Air Force Base in Blytheville to a retirement community.

All his agency needs to get cracking, he says, is for the locals in towns of 50,000 or fewer to describe their need and ask.

It may not seem like much: a doctor here, a row of modest brick houses there, a fire truck down the road.

But if you blend it with a new chain drugstore and an improving school, you might be on your way making this alien nation called the Delta a partner in the America that surrounds it.

John Brummett's column appears every Tuesday, Thursday, Saturday and Sunday.



"Parven, Scott" <Scott.Parven@aetna.com>

08/18/99 02:01:38 PM

Media

Record Type: Record

To: Jackson T. Dunn/WHO/EOP

cc:

Subject: FW: Letter to the Editor

Jay--

Final draft as Dick was boarding the plane to Latin America. As you can see, he sent it to the WSJ from his laptop.

A quick hit to further the New Markets cause...

Regards.

Scott

> -----Original Message-----

> From: Huber, Richard L

> Sent: Monday, August 16, 1999 4:28 PM

> To: Bolton, Roger; Oberdorf, Joyce A; Parven, Scott

> Subject: FW: Letter to the Editor

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> -----Original Message-----

> From: Huber, Richard L

> Sent: Monday, August 16, 1999 4:27 PM

> To: 'letter.editor@edit.wsj.com'

> Cc: Huber, Richard L

> Subject: Letter to the Editor

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> To the editor:

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> Edward L. Glaser's criticism of President Clinton's New Markets Initiative

> ("Help Poor People, Not Poor Places," Editorial Page, August 12, 1999)

> misses some fundamental points.

>

> Rather than focusing on whether the aid policy should be people-based or

> place-based, the President has rightly mobilized the business community

> and framed legislation that would give businesspeople the same incentives

> to invest in developing communities in America that they get to invest in

> developing countries. This plainly makes sense and is something that both

> Republicans and Democrats should support.

>

> I don't think anyone would argue that perpetuating democratic, free-market

> economies in developing countries is a bad idea. So why should we only
> invest overseas while ignoring domestic, ethnic markets that have great
> potential but that have simply been traditionally underserved?
>
> The New Markets Initiative is only one solution to address the needs of
> poor communities. The focus of this initiative is on providing access to
> capital to business owners in these areas who have not traditionally had
> such access-and who can provide more employment if their businesses have
> the opportunity to grow and expand. Other Clinton Administration
> programs, such as Welfare to Work, which Aetna also supported, are more
> focused on the individual. The New Markets Initiative is not a
> stand-alone panacea, but Americans like me who believe in market solutions
> ought to believe in this initiative.
>
>
> Richard L. Huber
> Chairman and CEO
> Aetna
> (860) 273-7851
>

Help Poor People, Not Poor Places

By EDWARD L. GLAESER

President Clinton's six-city "New Markets" tour earlier this summer signaled a renewed focus on the problems of the poor. But while the president's concern is appreciated by all of us who care about the islands of poverty in America's sea of affluence, his proposals are fundamentally flawed. They may still help some of the poor, but also risk repeating some of the worst mistakes of the Johnson era.

The trouble with the president's recommendations is that they violate the first economic rule of urban poverty policy: Programs should be person-based, not place-based.

Economists have long argued that place-based programs are a mistake. They strongly prefer person-based policies that create transfers, entitlements or relief from regulation on the basis of personal characteristics. Examples of person-based policies include the Earned Income Tax Credit and the GI Bill.

Place-based policies, on the other hand, give transfers or other government support on the basis of location. Examples of such policies are housing projects and enterprise zones. President Clinton's recent Rural Housing and Economic Development Assistance for Kentucky or the new Empowerment Zone Grant for East St. Louis, Ill., are quintessential place-based policies.

The problem with place-based programs is that they create incentives to keep the poor in the ghetto. By subsidizing the place, not the person living there, these policies make it more attractive for the poor to stay in high-poverty areas. Indeed, current research shows that supposedly

benevolent pro-poor housing and transfer policies play a major role in herding the poor into inner cities.

It's hard to see the logic in artificially limiting migration and concentrating the poor in areas with low productivity. Movement out of low-productivity, high-unemployment areas is one reason that unemployment rates in the U.S. stay low. Moreover, flight from the ghettos has enabled many African-

The president's proposals may help some of the poor, but they also risk repeating some of the worst mistakes of the Johnson era.

Americans to avoid the social costs of the inner city, and black-white segregation in the U.S. has declined substantially because of it.

Place-based programs also suffer from the fact that their benefits go disproportionately to property owners in the targeted areas—and not to the intended beneficiaries. If the government offers tax credits to firms that invest in a poor region, for instance, then firms will locate there, pushing up property values and rents. But the benefits of the increased economic activity will evaporate as higher housing costs eat away the planned benefits to the needy. New research is beginning to provide evidence showing that empowerment zones have significantly increased housing prices in affected areas.

Therein lies the fundamental unfairness underlying place-based policies: They help property owners, not renters. And they help firms in poor places even if these firms hire middle-income employees who live elsewhere.

If place-based policies are so bad, why are they so popular? A cynic might say that the residents of wealthy suburbs prefer that the poor remain in ghettos. A more practical explanation is that we have place-based politicians who lobby for place-based policies (as evidenced by the government's bizarre and ever-changing geographic definition of Appalachia which seems meant only to maximize congressional support for the Appalachian Regional Commission). Defenders of place-based policies also argue that a person's place of residence can be a signal of need which helps target scarce resources.

But the current programs don't use place in this kind of limited, thoughtful manner. Supporting business investment is a fine idea, but programs should be based on the workers that the business hires, not on the location of the company. A wise alternative to such faulty place-based poverty assistance would be a program that offers tax credits to companies that employ the disadvantaged. This would be a less distortionary means of assisting the poor. As the president pushes forward and requests a second round of funding for empowerment zones, perhaps his better instincts will overcome political expediency. Person-based programs are a good place to start.

Mr. Glaeser is a professor of economics at Harvard University.

Today's WST
8/11

Media

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Mr. Glaeser is a professor of economics at Harvard University.

minister letter

NSJ 8/12/99 A22

Suggested Points for Huber to Make in a Response

- The New Markets Initiative will help to encourage business growth and consequently job growth in low and moderate income communities. The goal of the program is to create opportunities for the people who live in these communities. By supporting businesses in low and moderate income areas we are helping to create wealth and improve conditions for those living there.
- Our proposal will also rely, in the same way that the Empowerment Community Initiative does, on the involvement of local community development organizations who can serve as intermediaries. These organizations help encourage companies to employ individuals living in low and moderate income areas and to equip residents to appropriately benefit from increased economic activity in their communities.
- The New Markets Initiative is only one solution to help address the many needs of poor communities. The focus of this initiative is on providing access to capital, which will ultimately help create wealth and generate new jobs within low and moderate income areas.
- The Clinton-Gore administration has a strong track record of creating and supporting programs that focus on helping and supporting poor people. These types of initiatives, like the Earned Income tax and Welfare to Work programs, obviously help to improve conditions for disadvantaged people. The New Markets Initiative complements such programs by addressing the problems of business owners in these areas who have not traditionally had access to capital and who can and will provide employment if their businesses have the opportunity to grow and expand.

I will also do some research this weekend. There have been a lot of studies about the pros and cons of place based strategies. I'm sure some of the agencies (particularly HUD) have done analysis and research in this area. I may also have information in my own files. I'll see what I can find and then provide a summary on Monday.

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- Our proposal will also rely, in the same way that the Empowerment Community Initiative does, on the involvement of local community development organizations who can serve as intermediaries. These organizations help encourage companies to employ individuals living in low and moderate income areas and to equip residents to appropriately benefit from increased economic activity in their communities.
- The New Markets Initiative is only one solution to help address the many needs of poor communities. The focus of this initiative is on providing access to capital, which will ultimately help create wealth and generate new jobs within low and moderate income areas.
- The Clinton-Gore administration has a strong track record of creating and supporting programs that focus on helping and supporting poor people. These types of initiatives, like the Earned Income tax and Welfare to Work programs, obviously help to improve conditions for disadvantaged people. The New Markets Initiative complements such programs by addressing the problems of business owners in these areas who have not traditionally had access to capital and who can and will provide employment if their businesses have the opportunity to grow and expand.

I will also do some research this weekend. There have been a lot of studies about the pros and cons of place based strategies. I'm sure some of the agencies (particularly HUD) have done analysis and research in this area. I may also have information in my own files. I'll see what I can find and then provide a summary on Monday.

TIME OF TRANSMISSION:

TIME OF RECEIPT:

**WHITE HOUSE
SITUATION ROOM**

PRECEDENCE

IMMEDIATE

CLASSIFICATION:

UNCLASS

RELEASER:

DATE/TIME:

MESSAGE #:

EDH

7/6/99 070109Z

SR055

FROM:

Green

PHONE:

2-2807

ROOM:

2nd floor

SUBJECT:

PAGES:

10

PLEASE DELIVER TO:

LOCATION	DELIVER TO	ROOM	PHONE
Air Force 1	LISA GREEN		

SPECIAL DELIVERY INSTRUCTIONS/REMARKS:

Nicole R. Rabner

07/06/99 08:49:22 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP

cc:

Subject: new draft

Revised version (mainly re-ordered) that is now going to Mrs. Clinton for her review/comment is below. She may or may not have substantial edits. Let me know the likelihood of hearing from the road. I'm probably leaving fairly soon, but am, of course, reachable -- by 11pm, however, it will be put to bed.

FIRST LADY HILLARY RODHAM CLINTON
"TALKING IT OVER"/CREATORS SYNDICATE
COLUMN FOR PUBLICATION JULY 6, 1999

As I've traveled around the country, I've seen Americans enjoying the fruits of our economic prosperity. But I've also visited big cities and remote rural regions where, despite the rosy economic forecasts, unemployment statistics are bleak, good jobs are hard to come by and families are struggling. It is in places like these, I've learned, that small economic investments can go a long way toward helping our poorest citizens.

I'll never forget a visit I once made to a women's resource center in Denver that was founded to promote economic independence for low-income, primarily Hispanic women in one of that city's poorest neighborhoods. Many of the women I met had been on welfare, but they had skills such as baking and sewing, and wanted to start their own businesses. What they didn't have was access to credit, because most banks refused to give them loans. One woman turned to me and said, "Too many great ideas die in the parking lots of banks."

I have seen successful small loan -- or microcredit -- programs helping to lift people like these women out of poverty in many parts of the country -- from here in Washington, D.C., to Chicago and Arkansas, where my husband and I introduced the concept when he was governor. I have also seen them in action in far-flung corners of the globe such as Nicaragua and Bangladesh.

My husband and I have often talked about how we would like to see successful public-private partnerships like these expanded to help more communities in our own country.

For years, our government has offered the private sector a variety of incentives to invest in emerging markets overseas. In order to introduce them to these potential new markets, the Secretary of Commerce has taken American business leaders and members of Congress on trade missions around the world.

But there are actually \$85 billion in untapped markets right here at home

This week, accompanied by a delegation of corporate CEOs, community leaders

and members of Congress, my husband embarked on a four-day, six-state tour to highlight some of the communities here at home that are ripe for such investment. Using new tax incentives and investment tools, the President's proposals would make it more attractive for corporate America to invest in these "new markets," where they have rarely, if ever, invested before.

America is in the midst of its longest peacetime expansion ever. We have witnessed the creation of 19 million new jobs, wages for ordinary people are on the rise for the first time in 20 years, and we have the lowest minority unemployment rate ever recorded.

But let me tell you about a family my husband met this week in Tyner, Ky. Ray Pennington is a self-described "old timer," who, at age 69, had never met a President of the United States – until this week. Under the shade of a walnut tree, Pennington and his daughter, Jean Collett, described life in the neighborhood of mostly dilapidated trailer homes where they live. Pennington, who recently lost his wife of 51 years, has emphysema and uses a portable oxygen tank to help him breathe. Collett quit her job at the local Dairy Queen to care for her father. Now, their primary source of income is her son-in-law's \$6.30 an hour job at Mid-South Electronics, Inc.

Pennington and his neighbors desperately need better transportation and housing. Most of their homes have tar-paper roofs and broken windows covered with cardboard or wood. Electricity came to the development in 1961, but Collett didn't have running water in her bathroom until five years ago.

I can't help but wonder: If we can't help families like these when times are good, when are we going to get around to doing it?

The President's trip this week is designed to be a trade mission – a domestic trade mission – aimed at prompting \$15 billion worth of new investments in places like Tyner, Ky., Clarksdale, Miss., East St. Louis, Il, Phoenix, Az., Los Angeles, Ca., and the Pine Ridge Indian Reservation in South Dakota, much of which is in the poorest county in the nation.

Ray Pennington's story should remind us that, although this has been a great time for America, not every American has benefited from our country's success. As we move into the 21st century, if we don't make a commitment now to help every willing and hard-working citizen reap the benefits of our prosperity, we will have failed not only to meet our moral obligation, but also to make the most of America's promise.

[750 words]

Investing in Youth and Expanding the Economy:
A Partnership with the Private Sector

President Clinton and Secretary Herman are honored to join with a broad-based private sector coalition of Youth Opportunity Movement "Founders" who today are announcing meaningful commitments to help out-of-school youth, both in Los Angeles and around the nation. These Founders represent the first wave of a partnership between the federal government, private sector companies, private foundations and youth role models from the sports and entertainment world that will get the movement off the ground and get many other partners involved.

The **California Endowment** will invest \$15 million in out-of-school youth activities. *Contact: Peggy Hinz, 818-703-3311.*

The **Ms. Foundation for Women** is committing \$2 million to support Youth Opportunity grant project participants nationwide. *Contact: Kelly Parisi, 212-742-2300.*

The **Enterprise Foundation** and **FreddieMac Foundation** announce a \$1 million commitment to participants in its Family Child Care Home Ownership Program in Los Angeles, to make home ownership easier for young people. *Contact: Staci Jones, 202-543-4599.*

The **United Way of the Bay Area** and the **Barry Bonds Family Foundation** announces a \$1 million "Link and Learn" initiative to fund computer learning centers in San Francisco and Oakland to help out-of-school youth. *Contact: Eric McDonald, Vice President, 415-772-4310.*

Toyota Motor Sales USA will commit up to \$1 million over three years to Los Angeles area nonprofit organizations that the company finds meet specific criteria, including referring qualified 18 to 22 year olds who will be admitted to the Los Angeles Urban League Automotive Training Center. Toyota pledges to hire some of the graduates of that program. *Contact: Tracey Underwood, 310-618-5278.*

Cisco Systems of Los Angeles will expand the Cisco Networking Academy information technology training course offerings from the current level - in 15 different empowerment zones and enterprise communities - to at least 35 of those economically disadvantaged areas. The Los Angeles-based company will partner with every one of the Labor Department's current Youth Opportunity grant communities if

possible as well as selected Job Corps centers, and will also develop a web-based placement system to allow students to be matched with employers. Cisco will recruit employers through an information campaign to customers, partners and the general business community, with the potential to reach 65,000 people in the first two years. The estimated financial commitment from Cisco is in excess of \$800,000.

Contact: Diane Hinz, 408-525-0199.

The **Fluke Corporation** will provide all the above-mentioned Cisco Networking Academies with test tool equipment valued at \$750,000. *Contact: Taunya Terry, 425-356-5659.*

United Parcel Service will commit to hire 2,000 out-of-school youth by the end of the year 2000, and become a partner with all 11 existing Department of Labor Youth Opportunity communities. The partnerships will include human resource expertise, curriculum development for training programs, and mentoring.

Contact: Teresa Gaines, 415-356-1031.

Shell Oil will double the size and scope of its Watts/South Central-based Youth Training Academy with an additional half-million dollar investment. *Contact: Clyde Bouligny, 323-751-5050.*

KCBS-TV of Los Angeles will commit the equivalent of \$500,000 in air time to promote youth programs including extensive airing of Department of Labor Youth Opportunity Movement public service announcements. The news division will commit to news coverage of issues related to out-of-school youth challenges.

Contact: Linda Perry, 323-460-3474.

The **Los Angeles Dodgers** National League Baseball franchise will host a job fair to connect youth with employers and launch a mentoring relationship with the Los Angeles Youth Opportunity grant organization and other youth in Northeast Los Angeles. *Contact: Monique Brandon, 323-224-1516.*

Prudential Insurance will commit to ensuring that affordable child care is provided for participants in Youth Opportunity grant programs in Los Angeles, Houston, Chicago, Boston and Denver, and will provide those sites with the curriculum for the Prudential Young Entrepreneurship Program which teaches business management skills.

Tower Health and Pro Patient Plus will open a minimum of five clinics in

inner city Los Angeles, partner with the Los Angeles Youth Opportunity grantee, and hire at least 25 youth in the next year. *Contact: Bob Levey, 949-640-6649.*

PDQ Careers.Com of Los Angeles will hire 100 at-risk youth in the Los Angeles area. *Contact: Janet Ault, 323-938-3933.*

McDonald's Corporation will hire 200 more Los Angeles area out-of-school youth. *Contact: Regional Vice President Jeff Schwartz, 818-594-0525.*

State Farm Insurance of California will mentor 50 young people, hire 10-15 out-of-school youth, volunteer resources for youth training curriculum design, including training videos, and donate computers and office supplies to training programs. *Contact: Elenore Williams, 818-707-6521.*

Xerox Corporation will provide job shadowing and paid internships for 50 youth in a partnership with the Los Angeles Youth Opportunity grant program. *Contact: Kim Haydel, 714-565-1177.*

Act 1 Personnel Services of Torrance, Calif. will partner with the Los Angeles Youth Opportunity grant program to provide skill assessments and counseling. *Contact: Graycee McDonald, 310-370-5939.*

Starks and Associates of Upland, Calif. will hire five out-of-school youth. *Contact: Anita Starks, 909-931-4441.*

Megatoys, a small Los Angeles toy manufacturer, will hire three to five targeted youth this year as part of their new partnership with the Youth Opportunity Movement. *Contact: CEO Charlie Woo, 213-617-1353.*

MRA Managed Care Solutions of Long Beach will hire three out-of-school youth. *Contact: MRA President Victoria Fullerton, 562-437-4331.*

bd Systems Inc. of Torrance, Calif. will hire three out-of-school youth. *Contact: BD Systems President Clarissa Howard, 310-618-8798.*

Flanigan Farms of Culver City, Calif. will hire two out-of-school youth. *Contact: President Patsy Flanigan, 310-836-8437.*

Western Badge and Trophy Company of Los Angeles will hire two out-of-school youth. *Contact: President Wesley Ru, 323-735-1201.*

EA International Technical Services of Tustin, Calif. will hire some out-of-school youth. *Contact: Iris McCammon, President, 714-544-5835.*

Founders National Bank will partner with the Los Angeles Youth Opportunity grantee to design a curriculum on working in the financial industry. *Contact: President Carlton J. Jenkins, 323-290-4848.*

The Village Foundation and the **Kellogg Foundation** will host a national foundation roundtable in September on the Youth Opportunity Movement and the New Markets Initiative. *Contact: Paul Brock, Village Foundation, 703-548-3200.*

Entertainers and Athletes

A growing list of youth role models from the entertainment and sports industries will work with the Department of Labor and the private sector partners to produce public service announcements, make appearances, and work with young people to expand the scope of the Youth Opportunity Movement. Those who have agreed include

Keyshaun Johnson from the NY Jets; actress, **Rosie Perez**; **Eriq La Salle** from E.R; actor **Andrew Shue**; Los Angeles Laker, **Rick Fox**; actor, **Edward James Olmos**; "Mr Cub" and Baseball Hall of Famer, **Ernie Banks**; TV talk show host, **Starr Jones**; actor, **Diego Serrano**; actress, **Jenny Gago**; National Football League Hall of Famer, **John Mackey**; actor **Esai Morales**; actress and choreographer, **Debbie Allen**; former Los Angeles Dodger, **Lou Johnson**; actor, **Kevin Sorbo**; entrepreneur, **Steadman Graham**; and TV News Anchorwoman, **Giselle Fernandez**.

###



Heyman Stephen <heyman-stephen@dol.gov>

07/06/99 07:47:17 PM

Record Type: Record

To: Rajiv Y. Mody/WHO/EOP

cc: Carl Haacke/OPD/EOP, Melissa G. Green/OPD/EOP, Anne E. McGuire/WHO/EOP

Subject: RE: List to be vetted for LA event

Rajiv: Please add the following names to the list I just sent you:

Magic Johnson (I forgot to point him out on the email I just sent you)

Victoria Dahlia - Celebrity

Alexis Cruz - Celebrity

Barry Bonds - Baseball player, Bonds Family Foundation

Clarence Avant - Celebrity - former Motown Exec.

I think that does it! Thanks for all your help.

From: Heyman Stephen
Sent: Tuesday, July 06, 1999 7:26 PM
To: 'rajiv_mody@who.eop.gov'
Cc: 'carl_haacke@who.eop.gov'; 'melissa_green@opd.eop.gov';
'Anne_E._McGuire@who.eop.gov'
Subject: List to be vetted for LA event
Importance: High

Rajiv -- Good to talk to you and thanks for your help in advance!

Lisa Green and Jay Dunn asked that I forward this list to you to be vetted for the LA event. We know that you have vetted most of these, but please check the following numbers (see chart attached):

New names: #7 - Ernie Banks, #9 - Rick Fox, #10 - Mel Farr, #12 - Bruce Saito, #13 - Steve Trippe

Different name (same company): #33 - Dr. Dale Laurence - Occidental Petroleum Corporation

New entity and invitee: #36 - John Mack - Urban League; #37 - R. Thomas Decker - Bank of America; #41 - Thomas Ruppanner - United Way/Barry Bonds Foundation

New person/entity already vetted: #38 - Bobby Austin - Village Foundation; #39 - Bart Harvey - Enterprise Foundation; #40 - Lew Reid - California Endowment; #42 - Latifa Simon - Ms. Foundation.

Call me at 202/693-4628 or page me at 800/662-4151 when you know

what the deal is with these. We have verbally notified all of the above of the event; We were told that all but the above folks have been vetted, and therefore we gave them details on time and place. The ones above we are holding final notification of details on time, place, etc. pending your vet. It would be great if we can get the "ok" by early tomorrow so we can send the rest of the list the details on time, place. Please let me know early if you run into any problems. Thanks.

<<File: VIP list.wpd>>



Heyman Stephen <heyman-stephen@dol.gov>

07/06/99 07:27:01 PM

Record Type: Record

To: Rajiv Y. Mody/WHO/EOP

cc: Carl Haacke/OPD/EOP, Melissa G. Green/OPD/EOP, Anne E. McGuire/WHO/EOP

Subject: List to be vetted for LA event

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<<VIP list.wpd>>



- VIP list.wpd