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BY PRESIDENTIAL REQUEST
A BLACK REPUBLICAN
ANALYSIS OF INFLATION PRIORITIES

This highlight report has been prepared by Timothy Jenkins designated as coordinating analyst of the economy related views of the black Republicans assembled at the White House, September 13, 1974, on the subjects of Employment Support, Economic Development, Tax Reform and Housing.



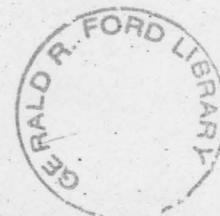
Submitted: October 2, 1974

the **match**
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institution

October 2, 1974

Hon. Stanley Scott
Special Assistant to the President
The White House
Washington, D.C. 20500

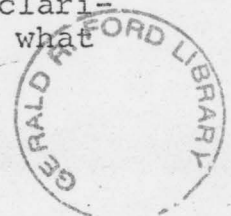
Dear Stan:

We are sure you can appreciate how difficult it is when asked to say anything to avoid saying everything on a subject as inviting as that of offering a black perspective on the solutions to problems in our economy. Yet, we have avoided the temptation. What we have presented here is a distillation of the many ideas and proposals to identify those which offer the best wholesale promise for achieving the retail special interests throughout the black community.

Needless to say, the decision to include some things and exclude others has been a series of values judgements for which we cannot escape responsibility. Suffice it to say that our entire effort nevertheless has been intended to represent the best thinking of the black Republican leadership you assembled with the President on September 13th, as to what steps his Administration ought to consider to address the economic needs of the most depressed elements of the black community and the nation.

At some other stage, we would similarly welcome your invitation to speak to the identifiable needs of middle class blacks, which although akin are decidedly different from those addressed here.

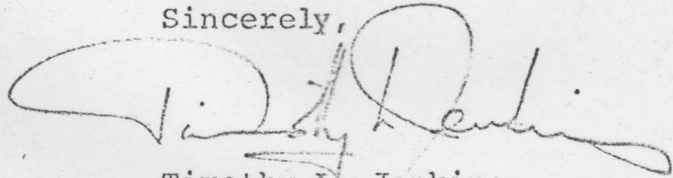
Finally, inasmuch as your requirements for brevity has cost us the luxury of making all of our arguments for the following reforms, after these propositions have been reviewed by senior Executive Office staffers, we would appreciate an opportunity for an oral elaboration, clarification or debate in the advancement or defense of what we have written here.



Hon. Stanley Scott
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Throughout what is written here, we have silently sought to make one fundamental proposition perfectly clear: Black America while having much in common with its white counterparts sees the priorities of this nation differently. And to the extent that the Administration wishes to record its inclusion of all perspectives in its design of public policy, it is crucial that blacks within the Republican ranks be given a careful hearing before final national judgements are made which have unequal consequences. With your assistance this process has been begun well, we trust it will continue so.

Sincerely,

A handwritten signature in dark ink, appearing to read "Timothy L. Jenkins". The signature is fluid and cursive, with a large, looping initial "T".

Timothy L. Jenkins
Chairman

TLJ:yg



A BLACK REPUBLICAN ANALYSIS OF INFLATION PRIORITIES

Background

The following discussion has been derived from a number of prominent black Republicans interested in assuring that the Administration remains sensitive to the special needs of minority and low income persons in the course of developing its strategy to fight inflation.

While inflation, the nation's most serious current problem, is hitting everyone, it is especially hurting black people, whose incomes are steadily shrinking. For blacks even more than whites, inflation appears to be only increasing the growing trend to more unequal income distribution.

However unjustified it may be, the black community has noted with particular chagrin the peculiar coincidence of the decline in their economic progress with the increase in Republican influence over the economy.

As reported in July by the Census Bureau, the income gap between black and white families that had been steadily narrowing until 1969, has, since then, increasingly widened. Among blacks alone, income distribution is far more unequal than income distribution among whites as a recent Wall Street Journal article discusses. "The black rich are getting richer. The black poor may not be getting poorer, but their numbers are increasing." Page 14, September 19, 1974.

With the attack of inflation sending the prices of basic commodities (such as food and utilities) soaring and creating

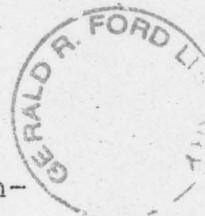


increasingly uncertain employment conditions, the working class -- whether black or white -- is being particularly hard pressed, but the black working class is faced by even more serious limitations than whites. The Census indicated that, for the most part, working class blacks, usually living in urban areas are concentrated in poverty neighborhoods, although they are not poor. A recent study by Orde M. Coombs, a respected black analyst of the middle class, found that "the black working class is under the worst pressure in this country, because they're forced by economic necessity to remain in the ghetto, surrounded by the floating under-class. The middle-class black has long since left. But in spite of the rhetoric of black solidarity, he argues, working blacks are helpless to pull the under-class out of its cycle of welfare, poverty and crime. "There's no way black middle-class people can change that," he says. "That change must come from the government." In this connection, the federal government has an obligation to improve circumstances affecting both the working class of blacks as well as the unemployed.

Employment Support

One of the most important initiatives which the government can undertake to assist a stagnant economy and increase tax revenues is in the area of employment assistance.

It is clear that as poor economic conditions continue, the unemployment problem is growing worse. It is particularly



difficult for blacks, who for almost every year since 1954 have had an unemployment rate at least double that of white workers. During this period the black unemployment rate has rarely fallen below 8 percent, and labor force participation rates, particularly for men, have continued to decline, as blacks have been unable to find jobs in the labor market. In a period of general economic stagnation, with job opportunities more limited, lack of adequate skills and training combine with discrimination to severely aggravate the unemployment and under employment problems of blacks.

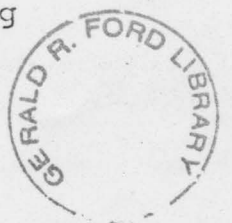
Clearly the federal government must provide employment assistance. Acceleration of funding for an already existing public-service jobs program has been ordered, but the objectives, program components and costs and administrative structure must be carefully evaluated. A program merely raising the budget and just to get people off the streets will be counterproductive to the alleviation of both inflation and employment programs. Any employment program should strive for long-range economic benefits. This could best be accomplished by any employment assistance program including an optional training component and careful selection of, and emphasis upon needed jobs which provide transferable skill development and work experience.

Contrary to the most commonly proposed scheme of a nation-wide system for public service employment, special attention should be given to the matter of providing first



for employment in smaller geographic areas where the needs are greatest. These will include inner cities as well as depressed rural areas with employment rates in excess of the national average. Then, should unemployment become greater than 7% nationally, in addition to a uniform public service employment program, there should still be a disproportionate allocation for funding where the unemployment ratio exceeds the national average by more than 3%.

Public jobs at the state and local government level are already provided for through federal funding with the Comprehensive Employment and Training Act of 1973. This program has already proved successful and should be continued. These new funds are filling unmet service needs for such slots as firemen, police cadets, social service aides, utility workers, medics and clerks. It is important to insure that public service employment carries with it the requirement that state and local governments not reduce their current employment levels. Hence, specific guaranty should be built in to insure that public service employment is not used to otherwise mask practices of racial discrimination in local Civil Service. This could be protected against by requiring a proportionate distribution of such new positions created throughout the grade scale and departmental divisions of the recipient government. With careful selection, those local areas whose employment problems are most critical can receive greater funding

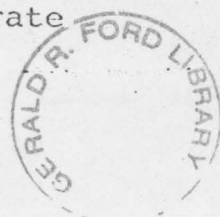


priority. An employment assistance program could also be expanded to include a "tandem-plan" with the private sector, whereby incentives could be provided to private industry, through federal contracts and grants to seek and employ workers, particularly members of minority groups and to provide training for them as well in areas which demand an expansion of technical talent not required in government.

A useful component of any minority employment program would be a "work-study" plan, under which the employee would, while receiving the same salary, have the option of undertaking a study or training program leading to a diploma or some form of academic or professional certification. This not only would provide taxable income at the local and national levels, but also skills for later career development and upward job mobility.

Without a training component, in the program, the untrained and uneducated, many of whom would be black would receive "dead-end jobs", thereby only increasing government inflationary spending without constructive use of the labor supply provided.

Clearly, the biggest problem in such an employment program is not the uncertainty of the benefits to be derived, but rather the cost involved. Most informed manpower specialists accept the suggestion that average annual salaries in such a public services job program would be about \$7,000. With each percentage-point change in the unemployment rate

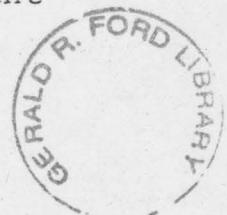


given the labor force size, the additional 900,000 jobless placed in public service jobs would cost \$6,3 billion -- a tidy sum. It has been argued, however, by Representative Richard Vander Veen that the actual cost would not be so high, with the accompanying reductions in unemployment compensation, welfare payments, food stamps. In addition, more tax revenues would be generated by the additional income. And, while a training component would add short-run costs to the program, over the long-run, it would encourage more efficient utilization of manpower resources by providing the skills and training necessary for upward mobility and varying job requirements.

Because of the high degree of interrelated social and economic factors affecting the ability to reduce welfare rolls through employment, a special welfare package plan should be experimented with. Under this arrangement, welfare recipients would be given with assistance a combination of housing, day care services, and job training which would free up essentially "welfare mothers" to upgrade their skills during a three to nine month period after which they would compete for higher skilled jobs. An essential link would be that of an employment information system to assist "graduate" in-job placement throughout selected regions, perhaps in public employment.

Economic Development

It can be established beyond a doubt that most minority business activity is located within inner-city ghettos, where



the unemployment is, and that they mostly employ persons who come from the immediate area. In a study conducted for the Department of Labor, dated September 1972, it was specifically found that ninety percent of such businesses were in the inner-city and eighty percent of their work force was comprised of inner-city residents. Clearly then any program aimed at strengthening the capacity of minority businesses predictably centers on the target geography and population with which the government is most concerned.

Statistics show that there is a dramatic shift of capital investment away from cities to suburbs. Statistics also show that with this shift of jobs fewer unemployed city dwellers are able to compete. Accordingly, there is an extremely urgent need to develop strategies for stimulating economic development once more within cities. And for the reasons described above minority business development is one of the most certain ways of being effective in reversing that trend.

In order to focus directly on the employment problems of blacks and other minority groups, as well as on other economic development issues, such as business development, it is recommended that a new federal agency be established -- a Minority Business and Economic Development Agency (MBEDA). This permanent, independent agency would not be just another bureaucracy creating more jobs, and increasing government spending in a time as many spending cutbacks as possible are desired. Rather, it would pull together from existing agencies

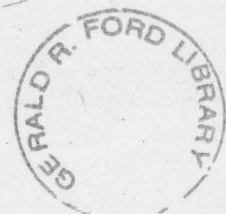
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(such as SBA, OMBE, in the Commerce Department, Labor, OEO, CSA, and others, existing programs and staff that deal with minority-related economic development. This coordination of related activities would enable a more efficient utilization of administrative and program resources. Federal monies could be saved by eliminating overlapping jobs and program components.

The theory of this new agency would be to combine the kind of equity investment programs best exemplified in the various components of OEO; with the various loan programs, best exemplified in SBA and EDA; with the technical assistance program, best demonstrated in OMBE and the Labor Department. Thus creating for the first time in one agency a complementary package of equity participation, loan support and integrally related technical assistance.

Under this agency, less emphasis should be placed on establishing new minority enterprises than on strengthening those businesses already in operation. Businesses already established would be likely to be more financially secure, thereby enabling the agency to reduce expenditures by a system of loan guaranties, with contingent liability, rather than having to undertake massive spending on direct loans.

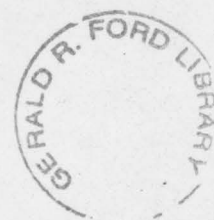
Ownership opportunities provide a number of benefits, often revitalization of worn-down neighborhoods, and increased tax revenues.



Another important program activity of this agency should be training and counseling. Minority businesses have typically experienced a high failure rate -- more through inexperience and poor management than lack of capital. Comprehensive Counseling programs -- in management, personnel, finance, accounting, and general business administration --- should be provided for potential or actual businessmen. In addition, funding should be available to assist in establishing educational programs in secondary schools and colleges which would provide for earlier development of the skills necessary for later employment and business so that blacks can become properly integrated into the economic mainstream of American life.

Historically, minority businessmen have had to seek advice from white educational institutions, white businessmen and white organizations. Most of the literature about minority enterprises has been published by the white business sector. This kind of situation has fostered an unfortunately prevalent trend of thought in the minority communities that only whites have the skills necessary to fulfill the business educational and informational needs of minority businessmen.

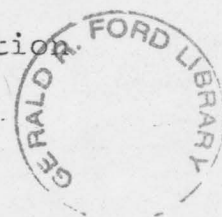
The importance of educating the entrepreneur cannot be overly emphasized. It is proposed that there be created at Howard University a National Economic Development Advisory Center on Minority Business Enterprise (NEDACOME) as an



economic development center which can provide that educational activity through a number of services available on a national and local basis:

- o Scheduling of training programs to assist the entrepreneur through dissemination of information.
- o Making available to the inquiring public reference materials on entrepreneur training programs across the country.
- o Establishing financial management training programs to assist entrepreneurs.
- o Surveying existing business structures to develop a case study method for use by those interested in the problems of the minority businessman and past efforts at finding solutions to those problems.
- o Establishing a data base which will provide information upon which well-thought out public policy decisions can be made.

No one is more acutely aware of the economic conditions existing within areas of high unemployment and underemployment than the black community. Howard University serves as the forerunner of the educational impetus to that same black community. Since its inception, Howard University has attempted to provide workable solutions to many of the problems, social and economic, existing within the black community. The University now seeks to impact upon the economic and commercial activities of that same black community through the creation of NEDACOME.



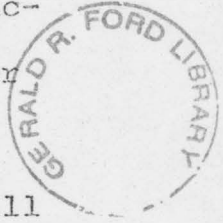
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In a larger sense, the creation of a thought center focused on the economic interests of deprived areas fulfills another aspect of the social mission through economic development. In addition to the short term concentration on projects, there should be a way in which such projects are analyzed against one another as well as the changing requirements of society.

With better wage earners both as skilled workers and owners, more tax revenues will be generated, and with careful consideration of the geographic distribution of business and employment assistance, central city areas can be regenerated providing a stronger tax and economic base for our cities.

An example of a general work training program some components of these new agencies might wish to adopt, is a successful effort implemented by OIC in Philadelphia and other cities with the assistance of Labor Department funds.

This job training program has emphasized not only skill development but also personal attitude development orientation to new working environments. This might even be provided as a private sector adjunct to the public employment efforts. For example, about half of the trainees in the OIC program -- welfare recipients in their twenties or thirties are acclimated to the daily routine of the predominantly white working world. As described, the students should learn basic procedures such as how to apply for a job, how to take employment tests, how to accept criticism from their future bosses. Grooming,

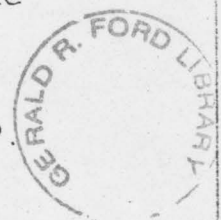


courtesy, and other social amenities are also included. In addition, basic courses in math, reading and oral communication are provided. Then more skill related courses are the next step -- for example, courses ranging from key punch operator to auto mechanic.

While there are drop-outs from the training program, in part because of financial difficulties, once placed in jobs, employment retention is high -- an estimated minimum of 50% full after six months.

Any of the programs called for in the economic agencies will despite stringent budget controls raise the level of government expenditures.

Increases in government spending do contribute to inflation, in the short run. However, the programs and proposals presented here, while requiring some additional government spending, will, in the long run, be cheaper and bring greater benefits to our economic system. Increased employment and business opportunities combined with more effective utilization of manpower resources through training will increase the overall efficiency of the economy. Underutilization of resources aggravates inflation. Undereffectiveness leads to underproduction. The better the education system and job preparation, the more productive will be the economy. Particularly with the large growth in the service sector, with its more labor intensive industries, better trained available labor and ownership will slow the soaring costs in this sector.



TAX REFORM

Reform is needed in the categories of income, Social Security and property taxes so that inflation required economic relief can be granted to those who need it most. Tax loopholes that have for an historic period avoided scrutiny need to be examined including capital gains, agricultural subsidies, particularly for corporate farmers, and depletion allowances. There should be correspondingly higher taxes on excess profits, upper incomes, and tax relief for low income wage earners.

Because of its particularly regressive character the Social Security Tax Administration support for its reform would be one of the clearest ways in which the President's sympathies for the low income sector of the population could be registered. Contrary to popular myth it is the employee who bears the entire burden of this tax either in reduced wages or reduced fringe benefits. Studies conducted by Dr. John Brittain of the Brookings Institution using comparative employment figures with and without employer contributions more than adequately show the adverse correlation of this type tax and salary levels.

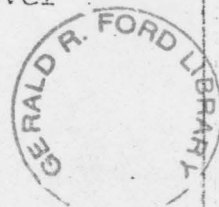
The chief indictment against the payroll tax is that it places a heavy burden on the low income worker, despite the ability-to-pay criterion that exempts him from the income tax. If we include the unemployment insurance payroll tax, the highest total tax rate on wages and salaries is now about 14



percent, and it is paid by those earning less than the unemployment insurance taxable ceiling -- generally \$4,200. Because of this ceiling, the payroll tax rate on one earner begins to decline after \$4,200; this decline accelerates, of course, after the social security ceiling at \$13,200. Thus, an individual earning \$150,000 will pay a tax rate of only about one percent. Although the income tax contains many special preferences, the general progressiveness of its rate structure is in sharp contrast to the regressive structure of the payroll tax.

The ability-to-pay criterion has always been accepted as fundamental to the design and evaluation of the income tax. When the Nixon Administration took office in 1969, one of its early acts was to provide low-income relief from the income tax. This was to alleviate the anachronistic situation in which families officially classified as living in poverty were paying this tax. Scarcely a voice was raised, however, concerning the payroll tax paid by these same families, even though it was a much greater burden for them than the income tax. Under the insurance principle, the working poor continued to be taxed at the highest rate of all. If the ability-to-pay guideline is valid for our largest and fairest tax, why it should not also be applied to the social security tax has never been explained.

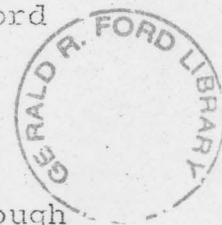
Despite the many undesirable features of the payroll tax, it appears certain to keep growing, though probably at



a slower pace than indicated by the more pessimistic forecasts. Not only are the existing taxes expanding, but new payroll taxes are contained in national health proposals now under consideration. The worst features of the payroll tax could be alleviated by at least partial substitution of general revenue financing; this is certainly a worthy long-run objective. However, although the new Supplemental Security Income program is financed from general revenues, no large scale substitution of general revenue financing for payroll taxes appears in the cards. Last September, Caspar Weinberger, Secretary of Health, Education and Welfare, spoke strongly of the unjustifiably high burden of social security taxes on low-income earners and raised the possibility of exempting some portion of these incomes from the tax. Although there appears to have been no follow-up to this statement, the consideration of payroll tax reform should be brought to the highest level of decision-making of the Ford Administration.

Reform of the Social Security tax system could come either by its being graduated according to income or through a lump sum rebate to all persons living near or below poverty income levels. Here as elsewhere in the tax system, poverty levels should be determined in accordance with actual cost of living shifts occurring in society rather than at fixed statutory levels.

In addition to other varied efforts at tax reform, the Administration should support legislation granting a one



time catch-up reduction in rate for lower and moderate incomes as a device to allow for a softened impact from inflation during this particular year. Similarly, serious consideration should be given to granting an energy related tax reduction at the lower end of the economic spectrum.

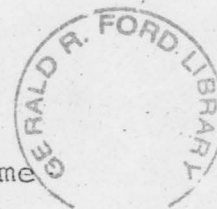
Indeed, a more equitable method for establishing tax rates for persons on fixed, low or median incomes during this period of inflation would be by "indexing" those rates in accordance with other price rise factors. Then should this device be considered too burdensome for implementation, across the board, it might be limited to persons in the fixed income categories such as pensioners, unskilled workers in non-promotable minimum wage positions.

Unfortunately, over the last several years the federal tax structure has become more regressive. Brookings Institution tell us that reliance on the payroll tax has increased from 16 percent of total revenue in 1960 to 30 percent in fiscal 1974, while the importance of the corporation income tax has declined from 23 percent of federal revenues in 1960 to 14 percent in fiscal 1974.

Brookings goes on to point out:

"In the last four years changes in individual income and Social Security taxes have dramatically increased the burden of those with very low wages and reduced the burden carried by lower-middle income groups."

The so-called tax reforms of the past four years have sharply increased the tax burden of low wage earners and

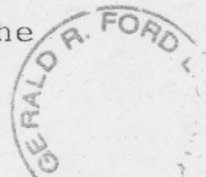


reduced the taxes of low-middle earners. For example, a family of four earning \$3,000 in 1969 paid a Social Security tax of \$288. (They paid no income tax.) Today, the Social Security Tax on the same income is \$351 -- a 22 percent increase. The combined changes -- Social Security increases and income tax cuts -- have increased the taxes of those earning less than \$3,350; decreased the taxes of those earning \$3,350 to \$8,900; increased taxes for those earning \$8,900 to \$13,000; and decreased taxes for those earning above \$13,000.

Furthermore, as a result of tax cuts in 1964, 1969 and 1971, federal personal and corporate taxes in 1973 will be at least \$40 billion lower than they would have been at the 1963 tax rate, and excise tax rates also have been reduced, resulting in at least another \$10 billion loss. The widespread belief that federal income taxes have increased is simply not valid. It is true that most individual taxpayers are paying more in federal income taxes, but this results from increased earnings and not from increased federal income tax rates.

Thus, while the progressive federal income taxes have been cut and the excise tax on business cut or sharply reduced, regressive payroll taxes have increased enormously. Of course the income tax cuts help those who need it least, while the wage tax increases hurt those most vulnerable -- the low income workers.

While there are many theories of taxation and what constitutes a just system, the accepted theory today is that the



cost of government should be borne by individual taxpayers according to their individual ability to pay. Put another way, this means taxes should be progressive -- people with high incomes should pay a larger share of their income than do those with low incomes. The rationale for this is clear enough. High income people can afford to pay more because, at most, they give up luxuries, while low income people give up necessities. The ideal system, of course, is a progressive income tax system from which those officially designated as poor would be exempt from paying taxes.

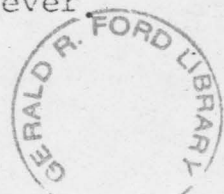


Housing

It is hardly necessary here to make the case that the homebuilding industry and its related commercial issues are in trouble. To what is so well known about its problems generally, however, must be added a special understanding of the even more acute hardships suffered by the minority businessman and worker. The previous Administration made special and significant efforts to create opportunities for minorities in the housing industry and to overcome the barriers, such as restrictive bonding requirements and racial discrimination in employment, that had so long excluded them. Minority bankers, contractors and construction workers were all helped as a result of these efforts. The industry's current crisis thus falls particularly cruelly on its minority members, brought in so recently only to be so quickly squeezed out and, in the process in many cases, wiped out as well.

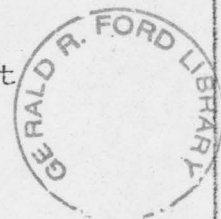
The homebuilding industry is not located only in the suburbs and its market is more than the middle and upper classes. Failure to recognize this can have grave economic impact, (not to mention its social consequences) that will undermine any effort to revive the industry.

The key to the success in bringing minorities into the homebuilding industry was the opportunities created by Federally assisted housing programs. This source of minority participation in the economic life of the industry, as contributing members of society, has virtually dried up, however



Whatever the problems with Federally assisted housing programs, they did contribute to a balanced economy. Before the moratorium, production was at an all-time high; afterward it plunged so low that the industry is now in crisis along with those who handled its paper and filled its jobs. The moratorium alone is not to blame, of course, but its impact cannot be denied. To help the homebuilding industry and its related parts in their struggle for survival without lifting the moratorium, therefore, would be to fight with only one hand.

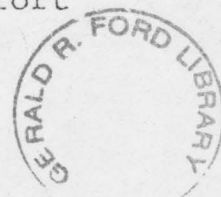
As a matter of economic policy, the programs just given extended life -- 235 and 236 -- by the Congress in the Housing and Community Development Act of 1974 (HCDA) should be implemented to their fullest; as should the revised section 202 direct loan program for housing for the elderly and handicapped. The new Section 8 program (a revision of the section 23 leasing program) should also be implemented as fully as possible by the Administration. Several other provisions of the new law would additionally help stimulate production or make possible a fuller realization of the economic advantages of more housing construction and should receive priority attention. For example, strong Administration encouragement of urban homesteading, using the authority contained in the HCDA, will not simply offer homeownership for the direct beneficiaries, but, more to the point here, stimulate greater



activity in residential rehabilitation, with the obvious opportunities that would offer to the small building contractors of which there is a very significant minority percentage. The expanded housing allowance experimentation authorized in the new law can similarly be used to stimulate more rehabilitation if not homebuilding activity. If housing market conditions are right, the introduction of housing allowance payments will, either directly or indirectly, stimulate both rehabilitation work and new construction, precisely in those sections of the geo-economy most severely depressed at present, namely the inner-cities of the nation. At least some cities for experimentation, therefore, should be chosen with this objective in mind.

HCDA also includes a program for homeownership and tenant counselling. The lack of such counselling has been identified as a significant contributing cause to the defaults and maintenance problems that have plagued Federal housing programs. Not only to protect the Federal dollars put into housing, but to preserve as well the advantages to the economy that such investment will produce à la property tax, etc., the Administration should seek sufficient funds to implement a broad counselling program. Perhaps this might even be done as an adjunct to the program for public service employment.

Two other research provisions in HCDA relate to financing, and both should be pursued as part of any government effort



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to revive the homebuilding industry in more than token terms. One is a demonstration of experimental financing techniques involving rates of amortization corresponding to anticipated variations in family income (section 308). The other (section 822) is a study of various methods of financing, including direct loans from the Federal financing bank in connection with the 236 program and section 802 of HCDA (state housing financing and development agencies).

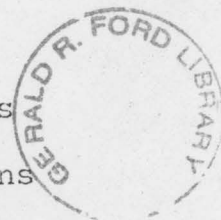
One of the hardest hit sectors of the building industry has been rehabilitation. At the same time, in HCDA Congress recently restated the national housing goal to put new emphasis on preserving existing housing and neighborhoods, particularly where deterioration is evident but not acute. In this regard, there are a variety of measures that Federal and local governments can take. At least some of these could complement the proposed expansion program of public service employment for in many areas, deterioration and high unemployment coexist and often feed off each other.

The section 312 rehabilitation loan program still has one year to run, and its last year should be a vigorous one. Notwithstanding HCDA's new block grant program into which section 312 is being absorbed, the current homebuilding crisis might justify Administration and Congressional action to retain Federal rehabilitation loans and to restore the section 115 rehabilitation grant program as well. At the very least, the Administration should make a vigorous effort



through the generous provision of technical assistance to encourage the use of block grants under Title I of HCDA to support local rehabilitation efforts. Rehabilitation can also be stimulated by the new section 223 (f) refinancing program authorized in section 311 of HCDA . This would make more funds available for rehabilitation without increasing the amount of monthly debt service borne by the property owner.

In addition to these programmatic changes and efforts, tax incentives that can be used to stimulate rehabilitation. In deteriorating neighborhoods especially, rehabilitation of rental property is often less a genuine capital input than simply the result of past failure to make proper repairs and maintenance, the expense of which would have been treated for income tax purposes as a current business expense. But IRS treats the cost of rehabilitation as a capital expense, requiring it to be amortized and depreciated over a period of years. If it were treated as a current expense, it could be deducted in its entirety in a single tax year. For many property owners, a single deduction of rehabilitation costs would be more desirable than smaller depreciation deductions that are spread over several years. To stimulate rehabilitation, therefore, owners of residential rental property within suitable limitations to prevent abuse, should be given the option of treating rehabilitation costs as either a capital investment or a current expense. A second tax change is related to local property taxes, which, as has often been pointed out, sometimes encourage slums. When a property is



kept in good repair and improvements are added, its assessed market value will rise and with it is likely to rise, the property tax that its owner must pay. This likelihood of higher property taxes, in turn, acts as a disincentive to rehabilitation and good maintenance. The problem could be eliminated by a Federal tax credit for the amount of increased property tax attributable to an owner's efforts to maintain and improve his property.

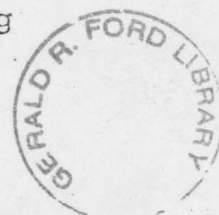
One painless or even profitable method for the government to put more money into housing would be to deposit in savings and loan associations some of the vast sums of money, such as tax payments not yet put into the Treasury, that now are put into interest free accounts in commercial banks. The thrift associations would have more money to lend out for housing and the government could even earn interest on its deposits. Such deposits should be made selectively to allow the government to take full advantage of the leverage they offer. For example, current efforts to support minority financial institutions could be augmented and greatly enhanced by deposits in minority-owned savings institutions or those with a history of sensitivity to the minority side of the loan market. Another relevant use of leverage would be to place the deposits so as to encourage increased housing investment in areas where an adequate loan money is known not to be available to potential minority borrowers which is the case in many inner city neighborhoods as well as Southern



rural areas. Deposits in any jurisdiction, for example, could be made only in those S&L's that had invested more than a specified minimum in local mortgages in such "underfinanced" neighborhoods, or whose proportion of loans in such neighborhoods was higher than that of most other institutions in that jurisdiction. Such a program of Federal deposits could be expanded to include any commercial bank that invested more than a specified minimum percentage of its loans in housing, with similar use of leverage to support minority institutions and housing investment in "underfinanced" areas.

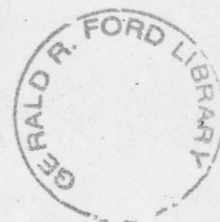
Several steps can be taken to help reduce the cost of housing to the consumer. One would be a negative interest subsidy for home mortgages, similar to the negative price subsidy that has been suggested for prices on consumer goods. When market conditions would otherwise produce a rise in the interest rate to the borrower, the government would pay the lender a subsidy to cover that added increment, thereby allowing the interest rate charged the homebuyer to remain stable.

A further measure to lower the price of new construction would be to suspend Davis-Bacon prevailing wage requirements. The policy decision here is admittedly a hard one. On the other hand, at least in areas where residential construction is not highly unionized, such a suspension would lower the cost of housing by lowering the cost of the labor to build it. This would stimulate greater demand for housing and thus more construction, which, should mean increased



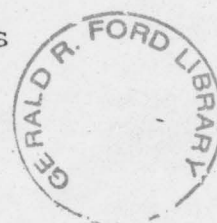
• employment for minority construction workers most of whom have not found admission to the building trade unions. On the other hand, however, keeping Davis-Bacon would mean more adequate wages for construction workers, but with it a higher cost of housing and less increase in construction activity or employment. Indeed it can forcefully be argued that the higher wages under Davis-Bacon aren't worth much to the construction worker who is out of work and thus has no wage at all. It might be desirable, therefore, to limit suspension of Davis-Bacon to job markets where construction unemployment is high, or to modify it to permit less and less than the "prevailing" wage in decreasing increments as construction unemployment increases.

Various proposals (e.g., those by Congressman Reuss and Senators Brooke and Cranston) have been made for channelling more money into housing by permitting or requiring changes in the practices of FHA, VA, the Federal Reserve Board, the Government National Mortgage Association and the Federal National Mortgage Association (including the GNMA-FNMA tandem plan). Whatever form these take, if any is ultimately adopted, it is essential that there be sufficient direction and focus to help the homebuilding industry benefit those areas in the housing industry most in need of assistance, including minority bankers and builders and the financing of low- and moderate income housing and of inner-city residential construction generally.

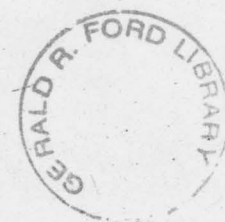


Such forms could come in part from

1. Setting aside a certain portion of all FNMA and GNMA funds for financing of various housing programs for the exclusive use of black-owned FHA-approved mortgage companies without requiring these mortgagees to compete for these funds in the now established bid/auction procedure.
2. Initiating a program to increase the number of black-owned FHA approved mortgagees and subsidize existing and future black mortgagees for a limited time.
3. Requiring HUD and VA under their resale programs to set aside a percentage of those units to be repaired, sold, financed, and managed for black-owned construction companies, real estate brokers, mortgagees, and property management agencies. This is very important, because HUD and VA resale programs are now accounting for 80% of all housing sold in the housing markets. The black mortgagee in most cases is completely excluded because of his inability to compete with the large financial institutions of our country.
4. In those cities where Revenue Sharing monies are used to provide seed money to effect housing for low- and moderate-income families, giving banks and savings and loan institutions "credit" for



mortgages provided to cover investments in "marginal" central city areas. The "credit" would be in the form of reduced reserve requirements. It would help ease the crunch during a liquidity crises when marginal inner city areas receive low priority.



APPENDIX

The following is a summary of the position papers presented at the White House Meeting with the President on September 13th by Black Republicans.

T. M. ALEXANDER

Basic Problems:

Income and ability to buy basic goods and services
(interest rates, unemployment, lack of training
for skilled jobs, no transportation to suburban
industry)

Home ownership, adequate housing

Health

Education -- increase grants

Small business (need management assistance)

Elderly -- health, nutritional services

Solutions

1. Link industry location to employment base
2. Home Owners Loan Corporation -- mortgage assistance
for unemployed.
3. Programs for elderly
4. Federal housing programs
5. Educational institutions -- help
6. Assist small businesses and monitor better

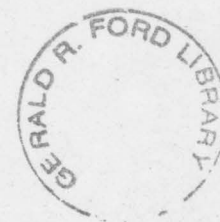


E. ALLENProblems

1. Economy -- income for food, shelter, clothes, utilities,
rising prices, unemployment
2. Employment
3. Housing
4. Education
5. Health
6. Criminal Justice
7. Welfare

Solutions

1.
 - a) Tax relief (especially housing, education, health)
 - b) "Human Shelter" limitations
 - c) rent control
 - d) public works projects
2.
 - a) affirmative action programs
 - b) public works programs
3.
 - a) more low income housing
 - b) development of national Urban Homesteading Program
 - c) established federally guaranteed mortgage market
 - d) SBA -- contractors bonding and more technical assistance
4.
 - a) early childhood
 - b) reassess vocational education and career
 - c) grant-in-aid for non-traditional careers
 - d) establish National Educational Construction Fund



E. ALLEN (cont'd)

5. a) National Health Insurance
- b) community health education programs
- c) increase subsidies for crippling
- d) health career development
6. Revise prison reform
7. a) day care
- b) change dehumanization

W. BANKS

Problems

Crime

Education

Employment -- especially youth

Health and Hygiene Training

Sex Education -- venereal disease

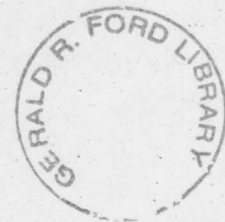
School Drop-Out -- manual training

Housing -- substandard

Child Care -- national program

Recreation --

Aid to Dependent Children/Welfare -- employment program



L. BRISCOE

Problems

- Lack of affirmative action, employment opportunity,
- r. business and social programs

L. BRISCOE (cont'd)

Absence of black appointments -- federal, headquarters
and regions

Absence of effective minority enterprise programs

Low employment -- lack of advance training opportunities

Inadequate housing programs

Drug Abuse

Absence of black participation in policy making of
Republican Party

Solutions

Appoint blacks -- high level headquarters, regions and
Area offices

Reevaluation of SBA -- revamp 8-A program

Public service employment -- manpower training. Increase
CETA funding

Housing -- specific solutions good

B. BURRELLProblems

Inflation

Adequate Housing

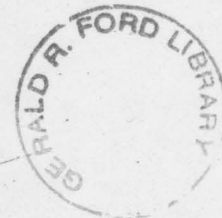
Access to health (not affordable)

Unemployment

Education

Deterioration of inner-cities

Burdens of current tax laws



B. BURRELL (cont'd)

Black economic development necessary (without it legal
and constitutional gains are useless)

Apply philosophy of economic integration to social
problems

Minority business enterprise development

Employment

Solutions

Establish Minority Business Administration

Assist equity capital for minorities -- legislation

Enforce regulations -- anti-trust, non-discrimination,
affirmative action

Coordination of Federal programs -- minority business
enterprise

Reevaluation of tax laws -- especially, small business,
encourage investment

Shift from attention on new to strengthening existing

OMBE -- authorize to issue grants, Minority Business
Administration

L. DICKERSON

Republican Party has less than 40% grassroots confidence
and support of blacks

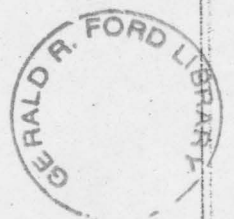
Problems

1. Political Alienation and Apathy

Republicans = haves

Democrats = have-nots

2. Job Related Education and Training



L. DICKERSON (cont'd)

3. Housing

Solutions

1. Increase black involvement in Human Resources and
Economic Development Programs
2. Government, industry and educational institutions programs
marketable skill training
3. Federal involvement in low and moderate income housing

K. DREW

Tax Reform

Health Insurance

Welfare Program

Housing Rehabilitation

Job Creation

Restore OEO

More Minority Media Involvement

Expand Minority Business Enterprises

Equal Opportunity

Equal Employment Opportunity Commission -- more power

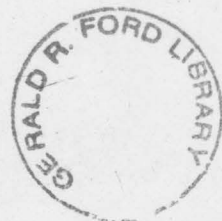
J. FORD

Housing -- subsidies

Transportation -- more public

Health -- national program

Education -- more federal assistance



J. FORD (cont'd)

Social Services -- federal government needs to provide
more social services assistance to local government
Utilities -- safety and better
Elderly
Public employment program

J. HARTH

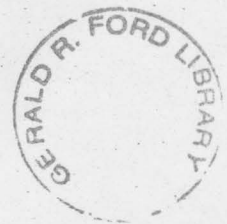
Adequate income -- the problem
Change tax structure
Minimum Wage
Education
Job Discrimination in Employment
Health
Elderly
Drug Problems
Pass Consumer Protection Act creating Consumer Protection
Agency
Pass Health Services Act
Housing

N. HOUSTON

Relative vs. absolute progress, status

Principal Problems

Unemployment -- public service employment program incentives
to industry, more local government involvement



HOUSTON (cont'd)

Inflation -- tax relief (Special price ceiling and/or
subsidies -- basic retail items for poor)

Health Care and Rehabilitation

Nutrition and Health Maintenance

Housing -- incentives for development, managmeent

Economic Literacy (money, credit, consumer problems)

Education and Job Training.

Private Enterprise Development -- minority business
assistance

Transportation

Family Planning and Home Management

Federal government, industry, educational institutions,
voluntary groups.

T. JENKINS

Public Employment Program

Civil Rights Requirements and Enforcement

Discretionary funds for minority health, education,
manpower, housing and community development

Voting Rights

Blacks in political positions

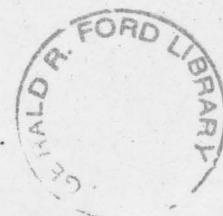
OMBE & 8-A -- strengthen

Black Scholars and professional participation

Black universities as policy centers

Federal assistance for minority officials

Community programs -- drugs, narcotics, crime



F. McKISSACK

National Problems

1. Inflation and economy
2. Civil Rights

Problems

Racism

Segregation

Health

Black business ownership, investment

Solutions

Reaffirm integration and equal opportunity policy

Use TV

Put Rockefeller in charge -- Civil Rights Act

Expand Scott's position to = cabinet position

Blacks in more prominent government positions

Pass S.3798

New Communities

Expand OMBE, also SBA

P. PHILLIPS

Problems

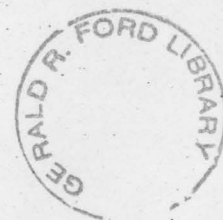
Inflation

Unemployment

Racial Discrimination

Job Mobility

Closed Unions



P. PHILLIPS (cont'd)

Inadequate Housing
Inadequate Education
Access to Health and Hospital Care
Lack of Good Mass Transportation
Lack of Day Care Centers
Drugs
Penal Systems
Welfare Reform
Black Veterans

Solutions

Civil Rights -- affirmative action program for hiring
Base income (public jobs)?
Social service agencies
National Health
Domestic Marshall Plan

E. H. POSTON

25 million families living "below poverty level", eight million of these families are black. Five million of the eight million black families headed by females. ✓

Problems

Health services
Inflation
Crime
Inequality of opportunities for women

E. H. POSTON (cont'd)

High rate of unemployment

Lack of access to public transportation

Equal employment opportunity

Reduction in housing and urban redevelopment programs

Too few blacks in policy-making

Removal of Federal categorical programs

Solutions

Expand the neighborhood clinics and facilities is
required.

Increase the food stamp allocation

Liberalize the unemployment insurance

Modify the Social Security Law

A guaranteed minimum annual income

Legal Services

Court Reform

Education and Rehabilitation

Child Care services and programs

Training

Full employment can be the solution

Subsidizing of mass transportation

Resources to carry out enforcement

Condominium concept in federally-funded housing

