

ENTERPRISE ZONES AS A CONCEPT

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ABSTRACT

"Enterprise zones" as a concept originated in England in the late 1970s. The idea is to free certain specified urban areas of taxes and government regulations to encourage private business investment and create new jobs. Empirical evidence to support the concept is lacking. This paper contains a discussion of the concept of enterprise zones, without reference to any legislative proposals in the United States. Analyses of legislation will appear as prime sponsors introduce new bills.

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ENTERPRISE ZONES AS A CONCEPT*

SUMMARY

This paper contains a discussion of the concept of enterprise zones, without reference to any legislative proposals in the United States. Analyses of legislation will appear as the prime sponsors introduce new bills. The original concept of "enterprise zones" (a phrase coined by Professor Peter Hall in England in the late 1970s) was to create, on an experimental basis, a number of geographic areas in distressed English cities that would be free of taxes and government regulation. Such zones would replicate the conditions existing in Hong Kong at that time. The purpose of the zones would be to stimulate private business investment, and thereby create jobs, in abandoned or "problem" inner city areas.

Many private sector spokesmen question the viability of the proposal. They note that specially tailored government services are also necessary requirements if private investors are to view depressed inner city areas as potential profitable locations for business.

Empirical evidence to support the validity of the concept is lacking. A proposal to test the effects of Federal tax incentives in inner cities would

* Preparation, and analysis contained in this report benefited from the contribution of Marietta Sharperson, Editorial Assistant, and Jeffrey Osborne, Reference Assistant.

simulate the tax reductions, using funds from an existing Federal program. This test would allow estimates of costs of the incentives to be made (estimates which otherwise are not feasible), and would not necessarily require new legislation.

An experimental program in the United Kingdom is authorized in enabling legislation enacted by Parliament in November 1980. Under this program, considerably modified from the original concept, there would be eleven zones in British cities, subject to agreements worked out with the respective local authorities. Officials have expressed hope that the first of these zones may be functioning by the summer of 1981.

The Hong Kong model, and experience under three decades of Puerto Rico's Industrial Incentives Act (a key element in the island's "Operation Bootstrap" program), indicate that low wages may be at least as powerful as tax exemptions as location incentives for industry. Hourly manufacturing rates in Hong Kong, for example, are estimated to be only 14 percent of the rate in the United States. About half of Hong Kong's population is housed in government-owned housing for low income people, at token rentals.

Some proponents of enterprise zones, particularly in Britain, including the originator of the concept, view them as a way of freeing specified areas from the effects of government regulations and policies. The concept does require government-sponsored incentives aimed to develop selected geographically defined areas in specified ways. The idea is less novel, therefore, than it might appear at first glance. On inspection, it does not represent a departure from government intervention in the economy (a government role it is intended to correct or replace), and in fact, might represent a disrupting action on the part of government, in that it may interfere substantially with market forces in the private sector, according to some observers.

II. ORIGIN OF CONCEPT

The phrase "enterprise zone" was coined by Professor Peter Hall in the late 1970s following visits to Hong Kong and Taiwan. Professor Hall was impressed by the vigor of the entrepreneurial activity in these places, contrasted to the depressed British economy. He attributed the difference to the relative absence of government regulation in the Hong Kong economy, and concluded that replicating this condition in Britain (reducing taxes and government regulations) might result in the same vigorous activity. 1/

In the U.S., enterprise zones have had as their chief advocate Dr. Stuart Butler. 2/ An enterprise zone, according to Dr. Butler and other writers on the concept, 3/ is a geographic area with specified boundaries that would offer special government (central and local) incentives to owners of land and capital stock in the zone, and to potential investors outside the zone, with the aim of stimulating private investment in the zone. The zone would have a specified life span. The recommended incentives package consists primarily of various tax reductions, and also of some relaxation of regulations in an attempt to

1/ Professor Peter Hall. Address to the Regional and Town Planning Institute Annual Conference, Chester, June 15, 1977.

2/ Dr. Butler is a policy analyst with The Heritage Foundation. He obtained a Ph.D. in economic history from the University of St. Andrews, in Scotland. He has taught economics at Hillsdale College, Michigan, and was executive secretary of the Adam Smith Institute of London before joining The Heritage Foundation in 1979. Dr. Butler has written on a number of subjects, concentrating on the effects of price and other incentives on economic choices. His publications include studies on national health insurance, rent control, telecommunications and inflation.

3/ See, for example, Enterprise Zones. Pioneering in the Inner City, Stuart Butler. The Heritage Foundation. Washington, D.C., 1980.

recreate conditions of earlier eras when taxation and government regulation of business and of resource development were minimal or non-existent. The direct beneficiaries are intended, according to proponents, to be new small enterprises (some include the requirement "innovative"), that would not otherwise be encouraged to come into existence. Indirect beneficiaries would be the unemployed or low income residents of the zones or of near-by areas, who would be hired to fill the jobs created by the new enterprise. Among the assumptions stated by proponents of the concept are: (1) that taxes and government regulations are major start-up deterrents to new small enterprises; (2) that new small enterprises would be attracted to areas offering the tax-free, regulation-free environment envisioned in the zones; and (3) that the enterprises thus attracted would create new jobs for the unemployed or low-income residents of the zones or their surrounding areas. A further assumption is that the tax reductions would be compensated for by future increased tax revenues generated by the new enterprises, and by decreased government outlays for unemployment insurance and social service payments. These assumptions have yet to be tested.

III. HONG KONG AS AN EXAMPLE

Hong Kong, the inspiration for the Enterprise Zone concept, does have several of the characteristics that would occur in a model zone: low tax rates, few government regulations, and a specified life span. The current lease of the territory to the British by China ends in 1997.

The incentives that have drawn investors to Hong Kong contrast dramatically with conditions found in most countries. In Hong Kong, the highest tax bracket amounts to 17 percent of income. Virtually all tariff and nontariff barriers to trade have been removed. While businesses in the United States and most of Europe cope with growing thickets of administrative law, Hong Kong industries are given far greater flexibility to respond to the needs of the world market. The result has been a steady rise in per capita income -- averaging more than 6 percent a year -- and a prospect that its living standards will soon surpass those of its former colonial ruler, Britain. 4/

In addition to these incentives are the low wage rates prevailing in Hong Kong. In 1978, the estimated hourly wages of production workers in manufacturing was 14 percent of the U.S. rate, according to unpublished data of the U.S. Bureau of Labor Statistics, Office of Productivity and Technology (February 1980).

A recent report in the Wall Street Journal (November 19, 1980, p. 1), reflects real estate conditions in Hong Kong that have required government intervention. Real estate experts say that Hong Kong's rents are now the highest in the world. This may be a condition to be expected in enterprise zones. As a result, half the population live in small, government-owned apartments for lower-income residents, and their rents are minimal. To protect the

4/ Free Trade Zones: A Growing Phenomenon Around the Globe, by Marc Frazier. In Transatlantic Perspectives, a publication of the German Marshall Fund of the United States. Number Four. January 1981, p. 8.

middle-class who are not eligible for the public housing, the government imposed residential rent controls in December 1980. Since most of Hong Kong's territory is leased from the Chinese government under a lease that will expire in 1997, the real estate developers in Hong Kong appear to prefer making their profits before that time. This is a possibility which some observers believe may explain the extremely high rents.

Experimental a Nature of Zones. The original suggestions for enterprise zones emphasized that they would be experiments. Professor Hall expressed his views of the enterprise zone approach in an address to the Regional and Town Planning Institute, Chester, England, June 15, 1977:

Since it would represent an extremely drastic last-ditch solution to urban problems, it could be tried only on a very small scale. It is most appropriate to inner city areas that are largely abandoned and denuded of people, or alternatively areas with very grave social and economic problems.

In agreement with Professor Hall's idea that enterprise zones should be tried "only on a very small scale," Sir Geoffrey Howe, currently Chancellor of the Exchequer, in a speech in London, June 26, 1978, emphasized:

This suggestion would not be based on considerations of regional policy (which is an entirely distinct subject, with its own complexities and counterarguments). Rather the idea would be to set up test market areas or laboratories in which to enable fresh policies to prime the pump of prosperity, and to establish their potential for doing so elsewhere.

IV. BRITISH EXPERIMENT

The current experimental program of enterprise zones being developed by the British government represents some modification of Professor Hall's original idea. The enabling legislation for the British program is in the Local Government Planning and Land Act of 1980 (Chap. 65, Sec. 179), enacted in November 1980. The first of a group of 11 experimental zones in Britain may be ready to begin operation by the summer of 1981, according to Paul McQuail, Undersecretary of Her Majesty's Department of Environment.

During the legislative progress of the Enterprise Zone proposal, a number of cities were invited to submit suggestions for locations that might be designated as Enterprise Zones. By February 1981, eleven sites had been formally selected by the government for designation, pending successful agreement regarding boundaries and other matters with the local authorities concerned.

The Enterprise Zone legislation provides for contractual agreement between the central government and the local authority. Under this agreement the boundaries of the zone are to be set, and a procedure for permitting development is to be established. The procedure must include a drastically simplified regime of zoning and building permits. Any development that conforms with these broad zoning conditions would be allowed automatically. The conditions are not, however, to conflict with basic health, safety and pollution standards. If a proposed development does not fit these conditions, it may be still go ahead if its meets the normal criteria laid down by the local authority. The simplified zoning agreement can be modified, but only with the consent of both the local authority and the national government.

This relaxation in the permit procedure for development is a central feature of the Enterprise Zones in Britain, and is designed to encourage rapid physical development in the sites. ^{5/} Again, none of the eleven zones so far announced is yet in operation.

A. Incentives and Comments Under the British Plan

The concessions offered to business within each zone depend, in part, on the cooperation of local planning authorities. The following are the key elements of the program, which will be in effect for 10 years:

- *Exemption from development land tax.* This is essentially an exemption from capital gains tax, which is normally applied on the increase in value that a developer gains when he sells his land. Because land values

in enterprise zones are expected to increase significantly, this exemption will primarily benefit those who owned the land when the zone was declared.

- *Capital allowances of 100 percent.* This is a substantial concession, eliminating the tax normally paid on new commercial and industrial buildings. It is a particular inducement to new commercial development, such as office buildings or supermarkets, because industrial property already receives a 50 percent allowance.
- *Exemption from general rates.* General rates, like property taxes in the United States, are levied by local authorities. This provision is the major fiscal concession of the plan; it will affect virtually everyone. This is also the most costly element, because the central government will have to reimburse local governments for lost revenue. According to the Treasury, the general-rate exemption could cost as much as \$120 million a year once all zones have been fully developed.
- *Simplification of planning procedures.* This provision is the very core of the enterprise zone experiment. It represents an effort to break the stranglehold of the planning bureaucracy, to permit a maximum flexibility in land usage with a minimum degree of government interference. The provision is opposed by local planning authorities who stand to lose a substantial degree of control over a portion of their communities. Opposition is sharpened by the fact that the old industrial areas

nominated for enterprise zone status are often dominated by the Labour Party.

- *Abolition of industrial development certificates.* The certificates have long served as a means of directing industrial development to the "assisted areas" (such as Scotland, Wales, and the north of England) where unemployment is highest. A developer who plans a large factory can only obtain the necessary certificate if he is willing to build in an area of great employment need. The zones will not require these certificates. This means that zones in the Midlands or even in London will qualify as sites for new heavy industry.

The remaining exemptions are relatively minor, involving abolition of the industrial training requirement (under which most firms must offer training to unskilled workers or pay a levy to an independent training board); reduction of government requirements for statistical information and other paperwork; speedier handling of requests for customs warehousing; and relief from levies on customs reprocessing. These exemptions may be expected primarily to benefit small enterprises that lack the staff or capital to meet the requirements.

What is not exempted is nearly as important as what is. There will be no relaxation, for instance, of worker health and safety legislation or of pollution controls. Although Sir Geoffrey originally spoke of abolishing any wage and price controls within the zones, and relaxing the Employment Protection Act provisions, the present Government has no wage or price controls to exempt, and it has already amended the Employment Protection Act for all industry. Minimum wage provisions will also remain in effect throughout the zones. ^{6/}

^{5/} Dr. Stuart Butler, The Heritage Foundation, in testimony before the Subcommittee on Intergovernmental Affairs, Senate Committee on Government Relations, Subcommittee on Intergovernmental Affairs, Senate Committee on Government Relations. February 26, 1981.

^{6/} Enterprise Zones: Tool of Urban Revitalization. In Transatlantic Perspectives, A Publication of the German Marshall Fund of the United States, No. 4, January 1981.

Critics of the British plan for enterprise zones have made a number of observations, including the following:

" . . . a surge in demand for space in the 500 acre zones could raise property prices and rents so as to cancel out the tax and rates concessions to industrialists with only the property developer really benefiting. The experimental nature of the zones may frighten off pension fund investment (despite all the anti-planning ideology, planning means 'security' to large investors) and rather than stimulate new investment the zones may simply attract existing activity, perhaps shunting it around from equally needy adjacent areas thus further damaging them.

Strongly opposing the scheme before it became Official Government policy in March, the Royal Town Planning Institute challenged the Government to produce evidence that it was planning controls which were stopping industrial development; removing controls would adversely affect residential areas and entail high costs to the community, with at best only marginal net gains to some private firms." 7/

Dr. Butler, while advocating the concept, also has noted some objections to the British plan for the enterprise zone:

First, small business organizations in Britain argue that the Enterprise Zone incentives will not encourage small entrepreneurs to move into the zones. Most new, small companies, they point out, do not have a significant tax liability -- if any at all -- and so tax allowances are not a major incentive. Small companies also tend to require inexpensive accommodation for their first location. Yet the incentives in the zone favor the construction of higher-priced facilities for ownership.

7/ Back to the 19th Century. New Statesman. v. 100, July 11, 1980. p. 43.

Second, while the incentives in the British zones may seem to be very substantial, capital assets for industrial purposes can already be depreciated totally in one year, and there is a 50 percent allowance against tax for industrial buildings in the first year. Despite these incentives that exist nationwide, British cities are not flourishing, nor is significant reindustrialization occurring. Furthermore, the small business sector is one of the weakest of any western country.

Third, the British emphasis on incentives to encourage major developers to move into the zones may cause a relocation of old jobs rather than the creation of new ones. Small businessmen -- especially retailers -- have also expressed the fear that large, well-financed competition from the zones may damage nearby businesses. 8/ Proponents have not yet directly replied to these criticisms.

8/ Statement to the Subcommittee on Intergovernmental Affairs, Senate Committee on Government Relations, February 26, 1981.

IV. GOVERNMENT PRESENCE IN ENTERPRISE ZONES

The central theme of eliminating government from the zones may be seen from the cover of a brochure announcing a seminar sponsored by The Heritage Foundation on enterprise zones:

**ENTERPRISE ZONES:
A Solution to the
Urban Crisis?**



An Editorial Seminar Sponsored by

THE HERITAGE FOUNDATION

513 C St., N.E.

Washington, D.C. 20002

September 24, 1980

at the Quality Inn Capitol Hill
415 New Jersey Avenue, N.W.

Washington, D.C. 20001

Originally, the enterprise zone idea was associated with "the most outrageous form of laissez-faire." 9/ Within such a zone, all government activity would cease. There would be no taxes, no public services, no government regulations except the most minimum required to maintain buildings for health and safety.

Despite this emphasis on keeping governments out, Dr. Butler views the zones as having multiple social objectives:

"The American proposals should be examined in the light of the British experience so far, but the differences between the two countries should be borne in mind. Crime and racial tensions are much less of a problem in British cities, and little attention has been given in the British zones to any social objectives. But in America the creation of jobs cannot be the sole purpose of the zones. They must also provide opportunities for local residents to enter business. If they fail to do so, they will not achieve the sense of community and racial harmony that is the foundation of a successful neighborhood." 10/ (Emphasis added.)

Other testimony before Congress, by officials of Control Data Corporation's City Venture Corporation, 11/ reveals a private sector attitude on the presence of government in enterprise zones. The top officers of City Venture strongly advocated that joint public/private comprehensive planning be part of any program

9/ Peter Hall, in a speech previously referred to on p. 3.

10/ Statement to the Senate Subcommittee on Intergovernmental Affairs, Committee on Government Relations, February 26, 1981.

11/ "City Venture is a for-profit consortium formed two and one-half years ago to plan and manage innovative, comprehensive and, most importantly, holistic programs for the revitalization of decaying sectors of urban areas. In going about this task, we are careful to avoid the piecemeal and fragmented efforts which have unfortunately characterized past efforts led by the public sector. The creation of jobs is City Venture's number one priority -- jobs for the unemployed and underemployed, with a related top priority of education and training." Source and same as in footnote 11. Appendix A contains materials describing the City Venture Corporation program in some detail.

of government assistance to the private sector in revitalizing urban areas. 12/

Herbert Trader, President of City Venture Corporation and Vice President of Control Data Corporation, outlined the comprehensive kinds of government assistance he views as essential for the success of private firms investing in inner city areas. They include the following:

- o Industry-specific vocational training funds tailored to the jobs the prospective business would create.
- o Land write-down techniques to overcome high costs of constructing facilities in the city compared to the suburbs. (If a site cannot be obtained at a cost comparable to suitable land in a suburban location, that fact alone may frequently discourage investment.)
- o Support services for employees and their families, such as health, day care, education, and pre- and post - employment counseling programs.
- o Property and casualty insurance, perhaps through government guaranteed re-insurance programs. (This suggestion is also mentioned by Robert Robin in his proposal outlined in a subsequent section of this paper.)
- o Land and facility grants (through the type of grants under Urban Development Act Grants or the Economic Development Administration.) The grants could be repaid from rents accrued from the facilities, or from a share of the tax credit granted for jobs, created as a result of the facility. Investors might be encouraged to provide reduced rent for small business clients in return for tax advantages or loan guarantees.
- o Improvement of the physical environment, and basic local services (police and fire protection, road network, public transportation).

12/ Testimony of Jim Harrington, Vice President, City Venture Corporation, before the Subcommittee on Economic Development, House Committee on Public Works and Transportation, March 11, 1981; and testimony of Herbert F. Trader, President, City Venture Corporation, and Vice-President of Urban Programs, Control Data Corporation, before the Subcommittee on Intergovernmental Relations, Senate Committee on Governmental Affairs, February 26, 1981.

VI. NEED FOR EMPIRICAL EVIDENCE

Puerto Rico. Although proposals for Federal tax reductions targeted to specific geographic areas are not new, there is little empirical evidence to suggest what the effects of such targeted reductions would be, since there are only rare examples of their actual application. One such example is the exemption of Puerto Rican corporations under section 936 of the Internal Revenue Code. This provision for Federal tax exemption complements Puerto Rico's Industrial Incentives Act. The Act is a prominent feature of "Operation Bootstrap," a series of economic development programs begun by the Government of Puerto Rico in the late 1940s.

The purpose of Operation Bootstrap is to attract businesses engaged in manufacturing, tourism, and exporting, in order to create jobs for the unemployed and to raise incomes. Puerto Rico's Industrial Incentives Act, offering tax exemptions to qualifying businesses, combines with section 936 of the Federal Code to provide virtually complete tax exemption to these businesses. There are provisions under the Act for total tax exemption for businesses for periods from 10 to 30 years, with the longer periods applying in geographic areas that are more depressed. A business may elect partial tax exemption for a longer period. The exemptions apply to the corporate income tax, the property tax, municipal license taxes, excise taxes on materials and equipment, and the individual income tax on dividends paid by exempt corporations.

Evaluations of the impacts of the program differ in the measures they emphasize, such as total new investment brought to the island, number of firms that have stayed on after the end of the tax exemptions, increase in per capita income since the beginning of the program, or change in unemployment

rates. There is little disagreement, however, that it has been a combination of low wages and other "real" economic factors, along with tax incentives, rather than tax incentives alone, that has attracted businesses to Puerto Rico. For example, the heavy concentration in investment in labor intensive industries in the 1950s and early 1960s, reflects the influence of Puerto Rico's relatively low wage rates during that period. The later build-up of the petro-chemical industry may owe much of its impetus to lower costs of oil compared to costs on the mainland, prior to 1973. Professor Lester Thurow of M.I.T. has concluded that tax incentives alone have magnified, but not created, Puerto Rico's attraction as an industrial location. The tax exemption, in other words, only brings industry to the island once it is demonstrated that Puerto Rico also offers other economic advantages compared to alternative locations. 13/

There is also general agreement that unemployment would be much higher in Puerto Rico, had it not been for the large migration of islanders to the mainland over the last three decades.

The Economic Study of Puerto Rico 14/ concludes that Puerto Rico's low wage rates were the chief incentive for business to locate there from the late 1940s to 1960, and that the island's tax incentives were not essential for the industrial development of that period. During the last ten years, the wage rates have reached higher levels (though still not equal to those

13/ "Puerto Rican Industrialization Incentives for the 1970s and 1980s." A paper prepared for the Puerto Rico Planning Board, 1970 discussed in Economic Study of Puerto Rico, Volume II. Report to the President prepared by the Interagency Task Force Coordinated by the United States Department of Commerce, December 1979.

14/ Report to the President prepared by the Interagency Task Force Coordinated by the United States, Department of Commerce. December, 1979.

on the mainland), and tax exemptions were found to have been more important as location incentives. Other low-wage countries, however, now compete with Puerto Rico for many manufacturing functions, and the tax incentives have been found to be no longer sufficient to attract new firms that would hire low-skilled workers.

The aim of the tax incentive program was to attract firms that would become established in Puerto Rico. The study found that many of those who which were attracted, however, left at the end of the tax exempt period, since they had not developed linkages with the local economy that would make it advantageous for them to stay. Puerto Rico has, therefore, served as a tax haven when it might have attracted many of the same firms without resorting to tax incentives, according to the Economic Study of Puerto Rico. Current promotional efforts for industrial development in Puerto Rico are based on the appeal of a highly trained, efficient work force with relatively lower wage rates than the mainland. 15/

15/ Mr. Randy Mye, Office of the Secretary, U.S. Department of Commerce, in a telephone conversation on March 23, 1981.

Proposals For Experimental or Demonstration Programs in the United States

Some observers in the U.S. favor a demonstration program of enterprise zones, following the original concept and the British example in this respect. Among them are spokesmen for the Administration, and Chairman Henry Reuss of the Joint Economic Committee.

A proposal for a simulated program of Federal tax incentives for community economic development, which would be carried out prior to enacting any legislation, appears in Robert S. Robin's article, "A Taxpayer's Choice Incentive System: An Experimental Approach to Community Economic Development Tax Incentives." 16/

The general question this proposed program addresses is whether and to what extent tax incentives would be used by taxpayers to locate in a given area. Rather than offer a fixed tax incentive package, the proposal would offer a choice of incentives, each one assigned a number of points, and the taxpayer would put together his own "tailor-made" package, based on a total number of points allowed, that his calculations indicated would result in maximum benefits to his business. The government would pay out to the taxpayer the difference between his actual taxes and the simulated taxes, from funds in an already existing program.

An example of a system for assigning points to various tax incentives that a taxpayer might elect is as follows: 17/

16/ In Law and Contemporary Problems. School of Law. Duke University. Vol. XXXVI, No. 1, Winter, 1971. p. 99-118. Mr. Robin is a practicing attorney in Chicago, Illinois.

17/ Robin, Ibid.

1. Rapid write off of physical facilities.
 - (a) Write off covering the physical plant but not real estate.
 - (i) in 36 months—X points
 - (ii) in 30 months—X plus 2 points
 - (iii) in 24 months—X plus 4 points
 - (b) Write off of both physical facility and real estate
 - (i) in 36 months—X points
 - (ii) in 30 months—X plus 2 points
 - (iii) in 24 months—X plus 4 points
2. Physical facility investment tax credit.
 - at 7%—X points
 - at 8%—X plus 2 points
 - at 9%—X plus 4 points
 - at 10%—X plus 6 points
3. Human investment tax credit.
 - at 10%—X points
 - at 11%—X plus 2 points
 - at 12%—X plus 4 points
 - at 13%—X plus 6 points
4. Postponement of capital gain on sale; non-re-capture in event of sale; sustained flexibility tax credit effective after sale.
 - (a) If elected—X plus 20 points
 - (b) If not elected, then double the amount of benefits otherwise elected may be chosen

Advantages of the simulation program proposal include the ability to determine whether tax incentives would attract businesses to the target areas, and to measure the costs of the tax incentives to the government.

There may be certain risks of cost for a business in locating in inner city areas that may not be offset by tax incentives (such as crime, fire hazards, absence of trained workers). To meet these risks, one suggestion is for a

special government insurance program in which private sector insurance companies develop a pooled risk program with government participation. 18/ This proposal, of course, is counter to the original enterprise zone concept which would discourage government presence in a zone.

18/ Robin, Ibid., p. 116.

VII. CONCLUSIONS

A. "The Ecological Fallacy"

Measurements of the impacts of industrial incentives for a given geographic area may reveal improved statistics on employment and per capita income (as in Puerto Rico and Hong Kong), without any actual improvement in the economic conditions of most residents of the area. This can happen, for example, if there is large migration out of the area, as in Puerto Rico in the past three decades, removing many of the unemployed, but still leaving many behind. Another example is the effects of higher real estate and housing costs on lower income residents. Also, income distribution may be skewed heavily to a small proportion of the population with high incomes (as in Hong Kong), allowing an improvement in the statistical measure of per capita income, but no actual improvement (or possibly a decline) in the level of income of the larger proportion of the population. These phenomena are sometimes referred to as examples of the "ecological fallacy."

Further, at the local level, when tax exemptions are granted to corporations at the same time that public expenditures must be made to supply infrastructures and services, the personal income tax must bear the burden of these public expenditures (as in Puerto Rico). Finally, there may be costs related to the natural environment, such as air and water pollution, noise, and depletion of natural resources (as in Puerto Rico, for example, with development of petro-chemical and other industries) which may not be accounted for in assessing impacts of industrial incentives.

It is, therefore, not easy to evaluate the effects of incentive programs such as those in enterprise zone proposals, and almost impossible to estimate their costs.

B. Are The Aims Compatible? Do The Policy Instruments Match The Aims?

The combination of aims that proponents of enterprise zones express attracts interest and support from a range of the spectrum of economic interests. The general overall aim to revitalize depressed inner city areas can appeal to owners of land and fixed capital assets, to unemployed residents, and to the local government seeking to improve its tax base. The more specific aim to generate new business by means of tax exemptions raises the question of whether tax exemptions are the incentive that business would elect (see testimony by Control Data Corporation officials, for example footnote 12, p. 13), and also of who would bear the cost of the incentives. The aim to create new jobs for the unemployed residents raises the question, based on experience in the Watts area of Los Angeles (See Appendix B) and in other places, whether the new firms can actually profit by hiring from this largely unskilled, inexperienced labor pool. (See Appendix C for an account of a successful private sector program). Cities find the enterprise zone concept appealing because it appears to offer yet another form of Federal assistance -- business tax exemptions -- in their attempts to rebuild obsolete areas. They emphasize, however, that they view enterprise zones as an addition to existing assistance programs (such as those of the Economic Development Administration, Urban Development Action Grants, and others), rather than as a substitute for them. ^{19/} After praising the recent bill introduced by the Chairman of the Washington, D.C., City Council to authorize enterprise zones in the Nation's capital, however,

^{19/} Urban Policy Round Table, Academy for Contemporary Problems, Washington, D.C. January 14, 1981.

The Washington Star comments in an editorial, "Until the concept is tried in several places, over a long period, no one can even be sure whether new jobs will be generated or old ones relocated to take advantage of the zones." 20/

This latter remark raises the question of how the enterprise zone incentives might complement, or run counter to, existing State and local industrial incentive packages. The State and local incentives represent "micro" economic policy, aimed to improve regional or local conditions, while a Federal incentive such as tax exemptions in enterprise zones, that aims to generate new enterprises, might be considered a "macro" economic policy, with a "micro" targeting element. Whether localities with existing incentives would tie in an enterprise zone policy with their existing programs is in question. If they did, then the enterprise zone might simply add to the already existing competition for industry among States and localities. 21/ On the other hand, if the enterprise zone were not related to other incentive programs, it might have the effect of fragmenting development efforts.

20/ The Washington Star. Thursday, March 19, 1981. p. 13.

21/ For discussion of State/local incentives and economic development, see, for example, the following: Hellman, Daryl A.; Gregory H. Wassall; and Lawrence Falk. State Financial Incentives to Industry. Lexington Books. D.C. Health and Company, Lexington, Massachusetts. 1976. 147 p.; Advisory Commission on Intergovernmental Relations. State Community Assistance Initiatives: Innovations of the Late 1970s. An Information Report M-116. Washington, D.C. May 1979. 51 p.; and Cornia, Gary C; William A. Testa; and Frederick D. Stocker. State-Local Fiscal Incentives and Economic Development. Academy for Contemporary Problems. Columbus, Ohio. June 1978. 19 p.

C. Would "Derelict" Areas In Inner Cities Be Developed Without An Enterprise Zone Program?

In testimony before the Subcommittee on Intergovernmental Relations, on February 26, 1981, Professor Donald A. Hicks of the University of Texas, Dallas, suggested that the enterprise zone is not immune to the charge of being "a quintessential example of 'social engineering'" (emphasis in original). For some, he noted, the suspending or weeding out of regulations, and the lowering of taxes, suggests a less fettered market process. For others, however, these moves may be viewed as creating an artificial business climate that cannot operate as part of the larger economic system. "Areas that are targeted for designation as enterprise zones may be in the process of evolving (emphasis in original) to the point that they can perform new functions for the larger community . . . countless central cities are transforming to play equally vital, if narrower, roles for the larger region . . . [compared to their earlier roles]." Possibly, he says, such public intervention as enterprise zones might disrupt this process, which might yield a more easily sustained economic activity than that induced by public sector intervention.

On the other hand, without relying on the enterprise zone concept, there are already underway many locally initiated public projects to attract industry to vacant or abandoned urban areas. In New York for example, the Port Authority has announced its first major venture into industrial development. It will spend \$33.6 million to create three industrial parks in the South Bronx, on Staten Island, and in Elizabeth, New Jersey. The aim is to attract industry that will provide 5,000 new jobs

for the New York region. 24/ Another public project for the South Bronx is the Bathgate Industrial Park, sponsored by the New York City Public Development Corporation in partnership with the South Bronx Development Organization. The question uppermost in the mind of the Public Development Corporation's president is not whether there will be a tenant in the first building, but rather what kind of tenant it will be. The hope is to attract as a tenant a relatively labor intensive business which will in turn attract other businesses to other sites in the eight-block area. 25/ What impact might an enterprise zone have on these efforts? This is a question that deserves careful consideration, and that points up the delicate linkages among various forms of public sector intervention in urban economies, and between public and private sector activities.

There may be some argument as to whether the "derelict" areas in industrial cities are really ". . . blighted by the planning process, and by rules and regulations that stifle private initiative," as Sir Geoffrey Howe says. If such areas have indeed been the result of unbridled laissez-faire free enterprise in earlier periods before taxation, planning, and regulation, and if planning and regulations imposed more recently by governments have been in an effort to preclude the creation of still more derelict areas, is there still a case for the argument that the measures intended as preventative may stand in the way of reclaiming areas already spoiled?

24/ Port Authority Plans 3 Industrial Parks. The New York Times. Friday, March 13, 1981, p. 1.

25/ Industrial Park Set for Bronx. The New York Times. Wednesday, March 18, 1981. p. D-21.

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PRIVATE SECTOR JOBS IN THE INNER CITY

The Control Data Experience

By Marc Bendick, Jr. and Mary Lou Egan

Can private enterprise provide quality jobs for inner-city residents and still remain profitable? The Selby Bindery, operated by the Control Data Corporation in a poor neighborhood in St. Paul, has done just that. The financial viability of the plant suggests that the experience can be replicated by firms in other cities.

Today, some 24 million Americans remain in poverty, more than half of them too young, too old or too ill to work. But for some 10 million of these individuals, one possible path out of poverty is earned income—well-paid, stable jobs with advancement opportunities.

Unfortunately, such “high-quality” jobs—and sometimes any job at all—remain a dream for many low-income persons. Partly because they lack specific skills or an established work history, and partly because school or home responsibilities prohibit them from taking full-time jobs, many remain unemployed, out of the labor force, or trapped in low-wage, no-advancement, high-turnover jobs.

These circumstances are particularly common for “welfare mothers” who have been out of the labor market while caring for young children, teenagers in transition from school to work, persons

who have been unemployed for so long that they have lost work habits, and persons with a stigmatizing past such as an arrest record. No matter how much such individuals might need or want good-quality jobs, the jobs are simply not accessible to them.

This article is about one private sector industrial plant which, for over a decade, has provided several hundred high-quality industrial jobs to exactly such persons. The plant is the Selby Bindery, operated by the Control Data Corporation (CDC) in the inner city of St. Paul, Minnesota. Significantly, this plant has been able to provide these job opportunities while simultaneously meeting the private-market test of profitability; it has done so without substantial public subsidies and with relatively limited input from its parent corporation. Because of the financial viability of the enterprise, it is potentially replicable by other entrepreneurs.

The Selby Bindery

The Selby-Dale neighborhood of St. Paul, Minnesota is typical of many inner-city areas. In 1970, when Control Data Corporation established its Selby Bindery there, 58 percent of the residents were nonwhite; only 41 percent of persons over age 25 had completed high school; 30 percent of the children were living in families headed by females; 20 percent of the families were receiving public assistance; and 9 percent of adult males were unemployed, triple the rate for the metropolitan area.

The Selby plant, which employs about 300 persons, provides collating, binding, packaging and mailing services. Operations are performed largely by hand or with the aid of relatively simple machines such as shrink-wrappers, power staplers and power punches. In 1979, sales totalled about \$1.3 million, 86 percent of which represented internal work for the Control Data Corporation; the remaining sales came from over 80 outside commercial customers.

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For more than a decade, the Control Data Corporation's Selby Bindery has provided several hundred high-quality jobs for inner-city residents of St. Paul, Minnesota and has operated as a profitable private enterprise as well.

Selby's work force is drawn almost entirely from the surrounding neighborhood. Some 72 percent of Selby employees reside in the same ZIP code area as that of the plant, and an additional 25 percent live in an adjacent ZIP code area (see table). Nearly 90 percent of the employees are non-Caucasian, and 65 percent did not complete high school. Two-thirds are women, and nine out of ten are age 30 or under.

CDC's hiring policy gives preference to neighborhood residents and uses "economic need" as one employment criterion; these policies often do not produce the same selection decision that "ability to do the job" would produce. Virtually no production job in the plant requires prior technical skills, however, and most machine operations can be learned in a few hours. Lack of experience or training, therefore, need not be a barrier to hiring.

Selby jobs are made accessible to neighborhood residents in one important way: they are part-time jobs scheduled to match the times when workers are available. One shift runs from 8:30 a.m. until 2:00 p.m., which allows mothers of young children to be at home before and after school. Another shift from 3:00 p.m. to 6:30 p.m. attracts high school, college and vocational school students after their daytime classes. A third shift, from 5:00 p.m. until 9:00 p.m., is staffed by students and by mothers whose husbands care for the children after completing their work day.

Before going to work for Selby, 17 percent of employees were either unemployed or out of the labor force. Only 13 percent were in factory work; the remainder held a variety of jobs, including sales clerk, office clerk, domestic,

Selby jobs are made accessible to neighborhood residents in one important way: they are part-time jobs scheduled to match the times when workers are available.

restaurant worker, or nurse's or teacher's aide. Jobs such as these are characterized by low wages and the absence of fringe benefits, job security and advancement opportunities. Labelled "secondary labor market" positions by some economists, they are often all that is available to those with few skills, limited geographic mobility and no established work history.

The jobs available at the Selby plant contrast sharply with these prior jobs. The Selby starting wage of \$2.97 per hour in 1978 (\$3.82 in 1980) is 16 percent higher than the average \$2.55 per hour

Characteristics of Selby Bindery Work Force

Characteristic	Percent of Production Workers
Proximity of Home to Plant	
Same ZIP code as plant	72%
Adjacent ZIP code	16
ZIP code close but not adjacent	9
ZIP code elsewhere in metropolitan area	3
Sex	
Female	66%
Male	34
Age	
17-20	63%
21-30	25
31-60	12
Ethnic Category	
Black	57%
Oriental	19
Caucasian	12
American Indian	9
Hispanic	3
Education	
Less than high school	65%
High school graduate	29
Some college	6

that Selby workers earned in their previous jobs. Still, the starting wage at Selby is only 38 percent of the average hourly manufacturing wage in the Minneapolis-St. Paul metropolitan area.

Fringe benefits at Selby include Social Security contributions, holidays, vacation, access to employee-purchased health insurance and retirement plans, but not sick leave. Employee benefits average 17 percent of the payroll, which is lower than the 34 percent average for the printing and publishing industry. Thus, for both hourly wage rates and fringe benefits, Selby represents an improvement for its employees, compared with alternative part-time jobs available to them, but still modest compensation.

An even more important difference between Selby jobs and alternative employment is the opportunity for promotion and pay raises through good performance. An employee's work record is reviewed frequently, and raises are given on the basis of merit. Thus, within any group of workers of equal seniority, a wide range of wages are being earned. Last summer, for example, the hourly wage rates for workers who had been at Selby from two to four years ranged from \$3.52 to \$4.63.

Selby employees also have opportunities to transfer to full-time jobs with long-term skill development and higher wages, both within the Control Data Corporation and with other industrial

employers in the metropolitan area. Many transfers are arranged by Selby's plant manager and personnel director, who maintain extensive contacts with potential employers and consider placement part of their jobs.

Plant turnover averages about 20 percent a year. In terms of layoffs and arbitrary firings, however, positions at Selby offer greater job security than do the employment alternatives for these workers.

The combination of higher wages, fringe benefits, promotional and training opportunities, and job security makes jobs at Selby "primary labor market" jobs: they provide improved opportunities for employees in both the short run and long run. These are employment opportunities with which a poor household can at least begin working its way to economic independence.

Profitability

The most striking fact about the Selby operation, however, is not simply that it provides inner-city employment, but that it does so while simultaneously operating as a financially viable private enterprise without substantial government subsidies. A comparison of the profitability of the Selby enterprise with that of the bindery industry as a whole clearly indicates that Selby is a financially viable operation. Selby's gross margin on sales, at 56 percent, is virtually identical to that of the industry's;

and Selby's profit margin of 7 percent for internal sales to Control Data Corporation and 9 percent for external sales brackets the industry average of 8 percent. Selby's return on investment of 13 percent, however, is substantially below the industry average of 25 percent.

These figures suggest that if Selby were independent of CDC and required to stand alone financially, then it could do so. The fact that its return on investment is lower than the industry average raises some questions about the long-run ability of Selby, if it were independent, to attract equity capital. Furthermore, losses as high as \$20,000 in previous years, which were covered by CDC's "social responsibility budget," indicate that it has taken a number of years for the plant to break even. Nevertheless, as of today, Selby appears financially viable.

At least five critical factors have contributed to the profitability of the Selby plant:

- economically efficient, labor-intensive production technology;
- high-productivity atmosphere;
- guaranteed markets;
- support services provided by the parent corporation; and
- good community relations.

Production technology. The labor-intensive production technology that the Selby plant has adopted is economically efficient. Using large amounts of low-

skill labor in combination with a few basic pieces of equipment not only provides maximum employment opportunities, but also produces small-batch collating, binding and packaging at the lowest unit cost.

A recent internal study by CDC, for example, compared the costs of the current hand collating approach with the costs of doing the same job with a \$62,000 automated collating machine. The study estimated that machine production was somewhat cheaper than the hand method but that the cost difference was too small to justify the capital expenditure. The study found that other Selby operations were even less attractive for conversion to capital-intensive production.

High productivity. A second factor contributing to the profitability of the Selby venture is the high-productivity atmosphere in the plant. Selby workers do present more human relations challenges to management than do workers at other industrial plants. Supervisory personnel have had to adjust to workers with limited literacy and English language skills, workers who have difficulty accepting normal discipline and authority relationships, and workers with complex, unstable home situations that intrude on their work performance. Problems involving irregular attendance, drug and alcohol abuse, and personal financial management have all

been addressed at various times by special classes conducted during work hours. Informal individual counseling, extra assistance, and flexibility in the application of rules are routine in plant operations.

Nevertheless, a businesslike atmosphere prevails, and the financial necessity of individual and plant productivity is stressed. Troublesome workers are quickly released; weekly staff meetings emphasize the importance of Selby's output to the overall profitability of CDC; and peer pressure on the plant floor reinforces an orientation toward hard work and upward mobility.

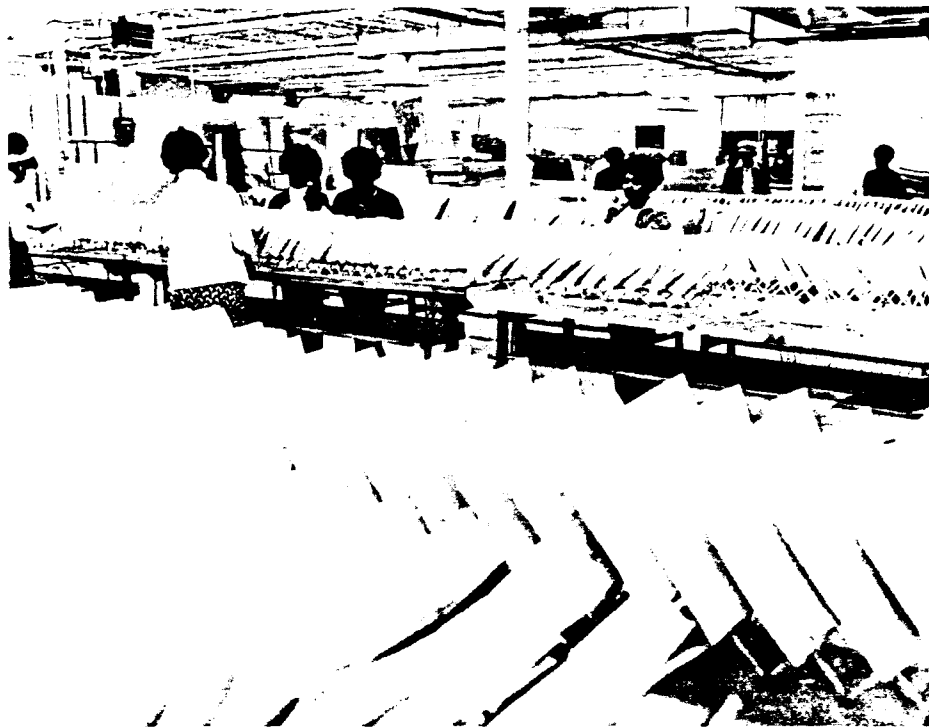
Guaranteed markets. Over 80 percent of Selby's output is "sold" internally to the Control Data Corporation, with divisions of the corporation required to purchase all bindery services from Selby. Since the quality and timeliness of Selby work is generally reported to be excellent, this requirement may be unnecessary. Nevertheless, it does provide a guaranteed market which not all attempted replications of Selby would enjoy. Such a guarantee might be particularly important during the early months of plant operations before an organization has become established.

Similarly, the largest outside purchaser of Selby services, an insurance company, places Selby in a special category of "social responsibility" vendors along with, for example, the sheltered workshop for the handicapped. While Selby's good performance record renders this designation partially superfluous, there remains at least a marginal tendency for this customer to be more forgiving of errors. Another company trying to replicate the Selby experience might not be perceived as especially worthy because of its inner-city location, and therefore might not enjoy this marketing advantage.

Support services. Among the support services provided to Selby by its parent corporation, the most important is a line of credit for cash needs, without collateral and for an extended period of time. It is unlikely that commercial banks would be so supportive.

Legal, accounting, purchasing and other administrative services are also provided to Selby by CDC. While Selby pays for these services through a corporate burden rate applied to its sales, the services are probably of a higher quality and more readily available than if Selby were purchasing them individually from outside sources.

Finally, managerial advice and technical assistance are provided by senior executives within CDC. The importance of this support has diminished as Selby's own management has gained experience and as the operation has be-



Control Data's hiring policy gives preference to neighborhood residents and uses economic need as one employment criterion. Since most machine operations at the Selby Bindery can be learned quickly, lack of experience or training is not a barrier to hiring.

come established, but it was crucial during the early years of the venture.

Community relations. A final element in establishing Selby as a viable operation is the cultivation by CDC of good relations between its plant and the Selby-Dale neighborhood. The fact that employees are hired from the neighborhood is essential to this relationship and is the main reason cited by plant management for the absence of vandalism or theft at the plant. The plant's "good neighbor" reputation is reinforced by other actions of symbolic importance, including attractive plant landscaping, provision of basketball courts in the parking lot for local teenagers, and participation in local civic and charitable activities by the plant manager.

Replicability

It is easy to attribute the success of the Selby venture to circumstances specific to the Control Data Corporation. Initiative for the project and sustained support have come directly from top management, especially the vice-chairman and chairman of the board. CDC is a rapidly growing, profitable company that enjoys a wide reputation for being "employee-oriented," "socially-conscious," and innovative.

These factors have certainly contributed to making the Selby Bindery a pioneer and a showpiece. Nevertheless, similar types of inner-city, part-time, low-skill plants can survive financially whether operated independently by small entrepreneurs or by major corporations that are less prosperous or more traditional than CDC.

Any extra costs of operations engendered by Selby's inner-city location and "socially disadvantaged" labor force are apparently offset by extra savings from sources such as the willingness of workers to accept relatively low wages; the efficiency of part-time shifts for tedious, fatiguing tasks; and the efficiency of low-skill, hand methods for producing certain small-batch bindery products. Entrepreneurial initiative may therefore be more important than social conscience in creating replicas of the Selby plant in other cities.

One key question in assessing the extent of possible replication is the size of the part-time inner-city labor force. The number of such workers is surprisingly large. In 1980, over 2 million potential part-time workers were residing in poverty sections of the nation's large urban areas. This figure includes 1.4 million persons already employed part-time, 200,000 unemployed persons seeking part-time work, and 500,000 persons currently out of the labor force but willing to take jobs that fit their school schedules or home responsibilities.

The most striking fact about the Selby operation is that it provides inner-city employment while simultaneously operating as a financially viable private enterprise without substantial government subsidies.

A second question in assessing possible replication is that of potential product lines. To emulate the Selby experience with part-time, low-skill workers would require identifying product lines with such characteristics as sustained demand, low capital requirements, low hiring and training costs, and rapid worker fatigue (so that a part-time shift is more efficient than an eight-hour shift). Within CDC, it has been suggested that a plant such as Selby could profitably engage in such diverse activities as repair and rebinding of textbooks, sorting of recycled products, production and repair of wooden pallets, and processing of merchandise refund coupons.

Some Conclusions

As important as what plants such as the Selby Bindery *can* do for its owners and inner-city employees is what such ventures *cannot* do. It is important, for example, not to portray these jobs as better than they really are. Jobs that are readily accessible to persons with virtually no skills and little work experience are inherently tedious; the skills that can be acquired on such jobs are also limited.

Similarly, there are bounds to the productivity which even the best employee can achieve with limited skills and basic capital equipment; hence there are severe constraints on the wages an employee can earn. The *highest-paid* production employee in the Selby plant, if he/she worked a typical five-hour shift per day for 52 weeks a year, would earn only \$6,695. This is less than the \$7,010 in annual benefits which the average Minnesota family on public assistance receives without working at all.

Clearly then, although Selby jobs pay better wages than do other jobs available to part-time workers in the Selby-Dale neighborhood, they do not by themselves provide an immediate and final exit from poverty or potential welfare dependency. The primary significance of the Selby-type job lies in its role as a conduit to other, better-paid, higher-skill industrial jobs.

This incentive of advancement opportunity contributes to the high employee productivity of the Selby plant and hence its profitability. Enterprises

seeking to emulate the Selby experience on a strict profit-seeking basis, however, would almost certainly offer fewer if any of the longer-run advancement opportunities that CDC offers. Although this aspect of the operation is least likely to be duplicated, it is the key to the Selby plant's social benefits.

Some observers have suggested that community residents and workers would be assured these longer-run benefits if industrial development were undertaken not by profit-seeking large corporations, such as Control Data, but by nonprofit community-based organizations. The merits of this argument are hard to assess, but one fact is likely to overshadow all others: inner-city, part-time, low-skill operations, even if financially able to survive, are not likely to be highly profitable enterprises. Therefore, even if the enterprise is community-owned and desires to put all free resources into better compensation or enhanced training and advancement opportunities for its workers, available resources are likely to be limited. When profits are minimal, differences in behavior between for-profit and nonprofit enterprises become largely moot.

The final grounds for being cautious about the potential contributions of accessible industrial jobs to solving inner-city social problems is that of scale. The Selby plant has successfully identified one market niche in one city where low-skill, labor-intensive, part-time production can command enough revenues to support corporate profits and "primary labor market" jobs simultaneously. But even if many such niches were exploited, the total number of jobs provided would remain small in relation to the total employment and income needs of inner-city residents. With some 10 million potential wage earners living in poverty, all market niches for Selby-type work would be exhausted before even a substantial minority of these millions had been employed.

Thus, while the Selby plant represents a positive step, it must reasonably be expected to be a modest one. Unsubsidized, private sector job provision in the inner city cannot be expected to obviate the need for public programs, including those offering subsidized public sector employment, subsidized private sector employment, job skill training, social services and public assistance. Profit-seeking private sector initiatives should be encouraged, but only as one of many approaches to the multiple needs of the inner city.

This article is adapted from an Urban Institute working paper, "Part-Time Industrial Jobs and the Inner City: The Control Data Experience."

<p>Location Decisions <i>Roger Schmerrer</i></p>	<p>LOCATION DECISIONS OF LARGE FIRMS A recent study of the location decision processes of America's largest manufacturing firms sheds new light on the dynamics of the decision-making process and also uncovers some surprises about which public policies actually make a difference to companies looking for new sitesPage 3</p>
<p>Reindustrialization <i>Amitai Etzioni</i></p>	<p>REINDUSTRIALIZATION OR QUALITY OF LIFE: AMERICA MUST CHOOSE Years of excessive consumption and insufficient investment in our economic foundations have undermined America's productive capacity. If we are to rebuild our underlying infrastructure and capital goods sectors, a decade of public and private belt tightening is required Page 8</p>
<p>Reindustrialization <i>Belden Daniels, Beth Siegel and Nancy Barbe</i></p>	<p>REINDUSTRIALIZATION: A NATIONAL POLICY FRAMEWORK Many of the current approaches to reindustrialization fail to address the real cause of the nation's economic decline: the risk aversion and short-sightedness of business, government and labor. A sound reindustrialization policy will encourage long-term planning, innovation and risk-taking in all sectors of the economyPage 10</p>
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<p>Foreign Investment <i>John Moriarty</i></p>	<p>FOREIGN DIRECT INVESTMENT: NEW HELP FOR DISTRESSED CITIES? The substantial surge in foreign investment in the United States has enormous job-creating potential. Yet most foreign investors bypass distressed cities for growing, dynamic areas. A recent shift in federal policy may help channel this investment to the areas that need it most Page 17</p>
<p>SBA's 503 Program <i>Reid Ewing</i></p>	<p>A DEVELOPMENT PROGRAM FOR THE 80s In the years of fiscal austerity that lie ahead, economic development programs are likely to come under increased scrutiny. The Small Business Administration's new 503 program—a cost-effective program that does not contribute to budget deficits—is likely to fare well in the fierce competition for federal funds Page 20</p>

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APPENDIX B

Los Angeles Times

December 7, 1980

Watts Jobs Experiment Fails to Gel

By MARTIN BARON
Times Staff Writer

When the new Administration of President Richard M. Nixon announced plans for a federally funded industrial park near Watts 11 years ago, Commerce Secretary Maurice H. Stans called it the first example of a "new approach" to urban problems.

"Its benefits are going to go outward in waves, to improve virtually every aspect of life in the surrounding community," he declared.

What ultimately happened is an object lesson in the disparity between initial promise and final result; between hope and the complex realities of an inner-city area. It took 10 years to lease all space in Watts Industrial Park. Only half the intended 2,000 jobs have been created, and efforts to ensure that those jobs are filled by blacks from the community largely have failed.

Perspective for Reagan

Although one major employer in the park, Lockheed Corp., has hired solely from the community, the success of its plant has failed to inspire other potential employers to locate facilities in South-Central Los Angeles. The reluctance of other firms is based partly on real problems with the area. Considering the Lockheed example, however, it also is based on long-held stereotyped views of South-Central Los Angeles and its residents.

The story of Watts Industrial Park may offer some important historical perspective if the new Republican Administration follows through on its campaign pledge to create low-tax industrial zones in inner cities. President-elect Ronald Reagan recently reaffirmed his commitment to so-called "enterprise zones" in a message to 4,000 mayors at a National League of Cities conference in Atlanta. Watts also offers a close look at just why large corporate employers have stayed away from such areas.

continued

It was officials of Lockheed, the Burbank-based aerospace giant, who first proposed the park idea to the developer, Economic Resources Corp., a nonprofit biracial group set up after the Watts riots in 1965. A. Carl Kotchian, then Lockheed's president, had proposed doing something for the riot-torn area. David Crowther, a public affairs staff member with Lockheed-California Co., proposed the industrial park and a Lockheed facility that would feed parts to bigger plants.

Lynwood Industrial Park

Today, the 52-acre industrial park in Lynwood, just blocks from Watts, is fully leased. But tenants, except for Lockheed, make no special commitment to hire from the surrounding community. Among its tenants, for example, is a family metal-polishing company where only six of 45 employees are black and where many Latino workers are drawn from as far away as La Puente.

As for the industrial park having benefits that would spread "outward in waves," the community is worse economically than it was a decade ago. At last count in 1977, the unemployment rate of South-Central Los Angeles—which encompasses Watts—was 20%. That was twice the city average and twice the 1970 rate. People living in poverty also doubled to 32% of the south-central area's population.

continued

WATTS: Jobs Experiment Fails to Gel

Continued

In the decade that it has been operating, the Lockheed plant has trained and employed 1,000 local residents. Employment at the plant has been 250, and today, 90% are black and 9% are Latino. Salaries average \$8.50 an hour.

There have been opportunities for advancement. Nine supervisors at the plant were once entry-level trainees. The cost control analyst was a trainee. So was the production control supervisor.

And, most important, the plant is as efficient as others in the Lockheed system. Absenteeism and tardiness are neither better nor worse; job turnover is 25% below the rate for Lockheed's total manufacturing operations.

Says plant manager Angel Morales: "We don't want nothing because we're in Watts. We don't ask for nothing because we're in Watts."

Called on 40 Big Firms

The idea of Watts Industrial Park, however, was to have several Lockheed-sized firms, each carrying out similar training programs for the supposed "unemployables" living nearby. As part of a recruitment effort, Lockheed and industrial park officials called on about 40 major industrial companies—including General Motors, Western Electric, Singer, IBM, Ford, Chrysler, Hughes Aircraft, Rockwell, Douglas Aircraft and Rohr. New tenants would be required to hire only from the surrounding community.

"We got turned down everywhere we went," recalled Crowther, the public affairs executive who crisscrossed the country in the recruitment drive. "It isn't that they were opposed to our project or not good citizens. They were doing their own things."

In most cases, Crowther was greeted with little more than pleasantries from lower-level corporate officials.

Aerospace firms were caught in a recession, with plants already operating below capacity. Other firms, based elsewhere, had no special allegiance to Los Angeles' inner city. Still others felt their plants were close enough to the inner city and that affirmative action policies were an adequate response to the area's problems.

Plant Tours, Training

Even today, major employers in Southern California emphasize their affirmative action programs in which goals are set for minority hiring. Many big firms also note their efforts to motivate students in inner-city high schools by providing plant tours and, in some cases, hiring seniors for part-time, manual training programs during the school year.

But major corporations such as those in the aerospace field with plants in Hawthorne, Long Beach and Torrance figure their plants are close enough to South-Central Los Angeles and expect the unemployed to come to them in search of work.

By 1972, recruitment of new tenants had become so difficult that the industrial park's board had relaxed its standards for tenants. "They took anybody who would hire a minority work force from anywhere," said Crowther, who then quit the board. But he conceded: "Had they stuck by my standards, it's very possible there would still be nothing but the Lockheed plant."

What came in mostly were small employers offering the minimum wage for unskilled labor and new minority firms, a number of which have failed.

Steel Plant Refurbished

In the meantime, industrial development in the area has been practically dormant—with the exception of one plant expected to open at Tweedy Boulevard and Alameda Street, next to Watts. Family-owned Becker Eros Steel Supply Co. is refurbishing an old steel facility and may employ 50 people initially, with the possibility for expansion.

President Warren Becker says there is a simple reason for moving to the 20-acre Watts site from the firm's current 3.3-acre location further north on East 55th Street: The company needed the extra space. New construction and rehabilitation of old structures is being funded with a \$2.8-million loan from the Economic Development Administration.

Other firms, however, have studiously avoided that part of town. "A lot of employers are afraid for their own personal safety. If you drive the area during the day, you see a lot of unemployed young men and that scares the hell out of people," said Jack Karp, president of National Industrial Properties, a brokerage firm.

Prospective employers also worry about security at

their plants. Simply put, white businessmen find South-Central Los Angeles—particularly the Watts district—just plain frightening.

Lately, the South-Central area has fallen victim to one of the most painful transitions in U.S. industry. Major firms in old-line industries, which traditionally hire the unskilled and semi-skilled labor force that South-Central Los Angeles has to offer, have closed plants on the region's periphery.

Companies such as Ford, General Motors, U.S. Steel, Bethlehem Steel, Goodyear Tire and Firestone Rubber, facing slumping business, have laid off more than 14,000 workers since the summer of 1979 as a result of plant closings. At one time, those plants employed as many as 27,000 people.

Government officials hope that new industry will move in to replace the old. If that happens, the newcomers are likely to be in growth industries. They will be more technological. The demand for the South Central area's unskilled and semi-skilled labor will be less.

Hope for Freeway

Many industrial real estate brokers foresee a change developing in the South-Central area's attractiveness for new plants and offices. Their hopes rest almost exclusively on construction that is to begin within a few years on the Century Freeway that will cut through the area. The freeway is scheduled for completion in the early 1990s.

"Once they realize the freeway is going to be a reality, I think the free market is going to knock down the doors to get in there," said Robert Draine, executive vice president of Coldwell Banker and chairman of the Los Angeles County Economic Development Council.

The freeway, however, should make it easier to import labor from elsewhere rather than hiring from the inner-city unemployed. But Draine said, "All we can do in economic development is bring in the jobs. Then it's up to the educational system to make sure people in the area develop the skills to fill the jobs available."

Yet South-Central Los Angeles' problem never really has been a shortage of industry. Residents of the area have more industry in their backyard than most communities. There is little available vacant industrial land. Because many parcels are owned by profitable junkyards, big employers considering possible plants in the area would find property surprisingly expensive.

They Hire Outsiders

The real problem has been getting industry in the neighborhood to translate into substantial employment for people who live there. There is plenty of evidence that many businesses in South-Central Los Angeles do not hire people from the local community, particularly its black residents. One study showed that blacks make up only 30% of the work force in the area, although they represent at least two-thirds of the population.

(South-Central Los Angeles is typically defined as an area south of Exposition Boulevard, north of El Segundo Boulevard, east of the Harbor Freeway and west of Alameda Street.)

Some employers frankly admit that they do not hire many local blacks. At D & V Plating, located in the Watts Industrial Park, only six of 45 employees are black. There are 22 Latinos. "It's exceptionally difficult to find people with any desire to work in this neighborhood," plant manager Henri Kemp said.

Kemp figures that the firm will hire 65 people over the next six months, but the first 10 to 15 who are hired probably will not be black. "I will probably go with Mexican-Americans because I know I don't have to worry about the fact the guy's going to be here."

'Pragmatic, Realistic'

"I try personally very hard not to discriminate," Kemp added. "I try awfully hard not to allow this to happen, but it's a pragmatic and realistic attitude."

Starting wages for unskilled labor at the firm are \$3.50 an hour, barely above the minimum.

The perception that South-Central Los Angeles is inhabited by people with little desire to work and little ability to perform is common among much of the white business community. Indeed, a number of the unemployed are neither blessed with job skills nor imbued with a work ethic. But the Lockheed experience is evidence that, offered something better than minimum wages and something more than dead-end work, the area's jobless will actively pursue employment.

Longstanding employers in the South-Central who pay union-scale wages invariably report no real problem with work attitudes or attendance. These firms generally are not creating many new jobs.

Some leaders in the South-Central community get another answer to the black employment problem: establishment of more minority businesses. Black businessmen, the theory goes, can be counted on to hire blacks.

The theory was much in vogue after the Watts riot and private industry and government moved here.

continued

WATTS: Industry Park Falls Short of Dream

Continued

to help set up new firms.

Not only were the new firms unable to amass large work forces, but they typically paid lower wages and offered less opportunity for advancement. Moreover, minority businesses set up after the riots have left a dispiriting legacy of failure.

Among the businesses to fail was Watts Manufacturing Corp., perhaps the most publicized black enterprise after the riots. The maker of textile and metal products was an early model for President Nixon's "black capitalism" program. Funded by a sponsoring white company, Aerojet-General Corp., it was staffed entirely by black management.

After a few early years of prosperity, it began recording a stream of steady losses. Within 2½ years in the early 1970s, it lost \$1.5 million on \$3.3 million in government contracts. After it was sold to Chase Manhattan Capital Corp., the old management was ousted and a new team of black executives was installed.

Bank-Refused Financing

Chase pumped \$5 million into the firm. But the coup *de grace* for Watts Manufacturing came when the firm's new president and Chase could not agree on a diversification move. Chase felt that a link-up with a fledgling Houston engineering firm to manufacture sub-assemblies for offshore drilling platforms would be too risky. The president of Chase Manhattan Capital quit the Watts board, and the bank refused to finance the new venture. After failing to obtain financing elsewhere, Watts Manufacturing filed for voluntary bankruptcy in 1976.

Watts Manufacturing fell into the trap of many firms, businessmen contend: dependence on government contracts. "They are useful tools in encouraging formation and development of minority businesses," said Louis Zircher, the former president of Chase Manhattan Capital who quit Watts' board. "But they tend to become a source of over-reliance. At some point in time, basic skills of American corporate business have to be brought to bear."

Many of the business loans made in South-Central Los Angeles were for small retail outfits, many of them mom-and-pop liquor stores. Many large retail firms have abandoned the area. Boarded-up supermarkets have become community landmarks.

The city government's economic development efforts have recently centered on bringing large commercial enterprises back into the area in an attempt to provide goods, jobs and the appearance of renewal.

Project on Sears Site

Getting major chains into the area has been an exacting struggle. When Sears, Roebuck & Co. closed its store at Vermont and Slauson in 1976, the city began working to promote a shopping-entertainment center. Only now, four years later, is land being cleared for a center featuring a Boys Market grocery store, a Zody's department store, a Sav-On drugstore and a McDonald's fast-food restaurant. But the \$8.8-million project would never have been possible without \$5 million in public assistance and a \$1 million gift of the land by Sears.

Commercial developers dismiss projects in South-Central Los Angeles as impossible tasks. Without lining up a major supermarket, developers cannot get financing. And the major chains clearly are not anxious to put new stores in the area. Construction of future shopping centers without substantial public financing remains highly unlikely.

Among the supermarkets' complaints: unsteady business, with lots of customers when welfare checks arrive in the first and third weeks of the month and almost no customers on the second and fourth weeks; more bad checks; more shoplifting; more phony accidents and claims for damages; more shopping cart losses; crime against employees; vandalism to buildings and automobiles, and lower productivity because of the time it takes to process food stamps.

The Ralph's chain says it loses money on nine out of 10 inner-city markets, but keeps them open out of a "strong commitment to serve the entire city."

Opportunities Elsewhere

Other chains have little interest in the area. "We have better opportunities for building successful operations in other areas," said Vons President Kenneth Olsen.

Some chain executives are particularly blunt off the record. "We can't get Caucasian people to go in there and work. Cars are torn apart. Batteries are stolen. Purses are snatched. White people just won't go in there," one president said. "We're losing in every black store we have."

Many business and community leaders in the area regard such shopping centers as meager contributions to the South-Central area's economy, anyway. There is a feeling that more money is taken out of the community through sales than is put back through wages.

Meantime, South-Central Los Angeles' economic troubles are compounded by other factors. Gang boundaries discourage some youngsters from taking a bus to jobs in other parts of town. For many, welfare payments have removed the incentive to work for minimum wages. Street life offers a competitive, though underground, economy. Various types of "hustling"—a catch-all phrase for dealing drugs, pimping, preying on the weak, or stealing—are often better understood and at least as well-paying as mainstream jobs for unskilled labor.

"If I can't find a job that pays at least \$1,100 a month, I may as well keep doing what I'm doing," said one muscular 29-year-old black man who says he "hustles" for a living. With two kids and a wife on welfare, he says he has not looked seriously for work in two years.

TESTIMONY OF JIM HARRINGTON, VICE PRESIDENT, CITY VENTURE CORPORATION

BEFORE THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
2167 Rayburn House Office Building
Washington, D.C.

March 11, 1981

Thank you, Chairman Oberstar, Subcommittee members, ladies and gentlemen

It is indeed a privilege to present testimony and to participate today. I will briefly describe City Venture Corporation, its mission and role in urban revitalization and will outline the most important EDA relationship to City Venture and one of its stockholder projects.

CITY VENTURE is a for-profit consortium formed two and one-half years ago to plan and manage innovative, comprehensive and, most importantly, holistic programs for the revitalization of decaying sectors of urban areas. In going about this task, we are careful to avoid the piecemeal and fragmented efforts which have unfortunately characterized past efforts led by the public sector.

The creation of jobs is City Venture's number one priority -- jobs for the unemployed and underemployed, with a related top priority of education and training. Jobs are made accessible to those who need them, and work forces are stabilized and become profitable, through comprehensive programs of education, training and counseling. In a typical City Venture project area, a minimum of 2,000 new jobs are targeted. The

primary strategy for this job creation is the start-up and growth of new and small businesses. Of course, we augment this strategy with programs to assist local established businesses to remain and grow in the inner city and to attract additional businesses from the outside.

Our basic belief is that the private sector must take the lead in initiating and managing urban revitalization, and that it do so with the full cooperation of the residents, the businesses and the governments of the communities in which we work. We are convinced that, in the long run, City Venture is a solid business venture that will earn reasonable profits and will spawn other like activities.

In contracting with City Venture, a client city agrees to target its resources to a specific project area that averages 200 acres, in size and a specific impact area that includes 40,000-60,000 residents. It is the residents of the impact area who benefit most directly from the jobs and the resulting economic well being they represent.

City Venture recognizes that certain ingredients must exist for any revitalization project to succeed. In this regard, we require top level dedication and commitment from local political, business and community groups. It is City Venture's goal in any city in which it works to bring about basic neighborhood changes -- changes that in time, will make the neighborhood economically and culturally self-sustaining, thereby reducing dramatically the requirement for outside assistance.

Our for-profit consortium is currently composed of 14 stockholders of which 12 are for-profit corporations and two are national and inter-

national church organizations. Control Data is one stockholder.

City Venture Corporation's formation grew out of successful and profitable experiences of our stockholders, principally Control Data, in the inner city. In 1968, Control Data began establishing plants in the inner city, bringing jobs to where they were needed most. These plants have become profitable -- and more successful than their counterparts in rural and suburban areas. Of course, these facilities didn't become successful overnight. Many of the programs of job training, counseling and employee stabilization which Control Data today markets were the result of the immediate needs of these facilities. The innovative technologies developed by Control Data, including PLATO computer-based education, energy efficient facilities and urban food growing and processing, as well as technology from other stockholders, provide much of the basis for City Venture revitalization projects.

Small business is at the heart of City Venture's job creation program. Again, programs pioneered by Control Data form the basis for these efforts. These include the Business and Technology Centers, facilities which provide services to small businesses, including manufacturing, laboratory and office space on very flexible terms, centrally shared model rooms, accounting, purchasing and legal services, and a complete range of computer services and computer-based management education programs.

City Venture began its first project in 1979 and has projects in Toledo, Philadelphia, Baltimore, St. Paul and Miami. We are ready to begin projects in Charleston, South Carolina and Benton Harbor, Michigan. Recently, the British Government contracted with City Venture to advise

on the revitalization of the Docklands Enterprise Zone in London.

In each of the cities where it has initiated its concepts, City Venture is taking an innovative, holistic, implementation-oriented approach. Initial results are encouraging. But the best estimates are that it will take at least five years to make a substantial and lasting impact on a given neighborhood.

City Venture's programs are designed to encourage investments that will produce profit for the private sector, tax increment for government, pride through jobs for the neighborhood, and most importantly, real opportunities for people to help themselves.

Real progress to date gives evidence that the goal for self sufficiency is not a theoretical one -- but one that is possible, practical and already happening.

A similar organization, Rural Venture, was created to plan and manage holistic programs for human and economic development in small towns and rural areas. As with City Venture, the core of Rural Venture's approach is job creation, primarily through small-scale agriculture, small-scale food processing and other types of small enterprise, all supported by appropriate education and training. Rural Venture's current projects are in the states of Minnesota, Virginia, Alaska and the New England region.

City Venture believes that the following conditions -- some of a general nature, some specific -- are necessary if the private sector is to

invest and create jobs in the inner city:

- o The availability of seed capital to support the start-up of new business.
- o Tax incentives.
- o The expectation of business success.
- o Available facilities.
- o The expectation of investment success.
- o Local commitments.
- o The availability of appropriate public incentives.

While each of the above conditions are important and warrant more time to discuss, today I'd like to move to the end of that list and and discuss public incentives, since that is why we are here.

While we are committed to the revitalization of urban areas through job creation, it is essential that there be adequate public funds to levera private sector dollars. We strongly believe, as do our investors, that any program of federal aid should be guided by the degree to which that money leverages development and job creation in targeted areas as oppos to unspecified programs where funds are available for a wide variety of purposes.

Since the addendum to this presentation will give a more detailed project status, I would like to briefly note the job creation and fund- ing participation highlights of each project.

In Toledo, where City Venture is furthest along, and our goal is the creation of 2000 jobs over a five year period, we have used a combination of funding sources to develop the 23 acre job development area within the Warren-Sherman neighborhood. Preparation of the physical infrastructure is jointly financed by two government funding programs: the EDA and UDAG. Their total commitment is \$7.5 million. This in turn led to the commitment of investments by Control Data's Business and Technology Center, Libbey-Owens, Ford, Inc., and Owens Illinois. Financing of the industrial, commercial and residential developments has resulted in a leveraging ratio which is growing from three private dollars for every public dollar granted. And of course, the future of economic development in Warren-Sherman will continue to grow.

In the Baltimore Park Heights Community, City Venture and Baltimore City will create 2500 new jobs, again using a strategy of public and private investments. It has been our experience that when we commit to the development of a job creation project, such as the one we will help develop in Park Heights, there is a strong need for additional public incentives to solidify the investment of private money. In Baltimore, the City is counting on approximately \$2.7 million over a two year period from the EDA to make improvements on the physical infrastructure. The City has already received a \$1,000,000 loan from the Maryland Industrial Land Office for land assembly.

In addition, Control Data Corporation and other investors will establish a \$6 million Business and Technology Center facility and its subsidiary, Commercial Credit Company has established a bindery and packaging operation. The bindery-packaging plant, modeled after Control Data's highly successful Selby Plant in St. Paul is expected to create 200 new

jobs. We think that the Baltimore experience of cooperation, between federal, state and local governments working in tandem with the private sector is the key to success.

Our goal in Philadelphia is the creation of 2500 jobs. While we are at a fairly early stage in that process, EDA has contributed \$200,000 to the state government which was passed on to the City to facilitate our Strategy and Management Plan development. On the basis of a commitment of intergovernmental cooperation, a holistic approach and the high probability of incentives to bridge the inequities between the suburb and inner city, Control Data has made a commitment to build a Business and Technology Center in the West Parkside community. In addition, Atlantic Richfield Company has committed to support the creation of a Laboratory Supply Company.

The St. Paul Energy Park is another example of how public incentives have helped our projects become operational. With targeted money scheduled in three phases, the EDA has committed \$5 million for physical infrastructure improvement in the Energy Park. In this unique project, designed to create 6000 new jobs, there are additional public monies committed, including \$12 million from the Urban Development Action Grant Program. And, as in our other locations, there is significant private sector funds also committed. \$60 million has been pledged for housing development and \$18 million has been committed by Control Data for the energy focused Business and Technology Center.

As you can imagine, by Control Data's commitment and support to City Venture, we are a pretty unique group. But it bears mentioning also that Control Data has helped cities outside of City Venture projects

with job creation and the required industrial development by leveraging resources against public incentives. For example in San Antonio, Control Data is developing a manufacturing facility to provide 600 new jobs based upon a UDAG commitment of \$18.8 million to the area. Control Data in turn is providing employment and training through its Fair Break program and will be instrumental in the planned establishment of a Business and Technology Center.

In Bemidji, Minnesota, the City received EDA funds to help with the physical infrastructure and utility lines in support of the establishment of a Control Data facility there, providing over 400 new jobs. So it's apparent that where there is a need for more jobs and there are public incentives available, it is possible to attract private business where previously there was virtually no hope of success.

The key to all of our existing projects is the cooperative arrangements between public and private sectors without which we could not succeed. It is a difficult task to convince private sector investors that we can bring all of the necessary ingredients into an urban area for revitalization, but what makes it feasible at all is the recognition from the public sector that incentives have to be provided to make these investments ultimately as profitable as any other business effort.

Business decision makers need to expect that an investment will be successful, particularly in targeted areas. While public policy calls for rehabilitation of the inner city, cost of such rehabilitation are substantially greater than suburban counterparts. Businesses are not seeking government subsidies to increase their profit margins, but rather need financial incentives that will make urban locations less of

an extraordinary financial risk than they now are. To ensure that this investment will be long lasting, we believe strongly that any program of federal assistance, whether financial support or tax incentives, must include a requirement for comprehensive, holistic management of the affected area as a condition for participation in government funding programs. Such an approach is critical to City Venture's operations and we believe, to any urban revitalization effort. Besides the many benefits that result from this type of comprehensive planning, such a holistic process will help convince potential investors that a safe and secure environment for the business and its employees will exist in that area.

In conclusion, Mr. Chairman, I greatly appreciate the opportunity to appear before your subcommittee today and to participate in this panel discussion. Given the efforts of City Venture the past two years in urban revitalization efforts, we stand ready to be of assistance to your Subcommittee in your continuing efforts to ensure that the urban areas of our country are revitalized and that job opportunities are created.

City Venture Corporation was formed in August 1978, with its first stockholders meeting held in December of the same year. The company's first two contracts were received in May and June of 1979 and the first U.S. government funding for project activity implementation was awarded to one of those projects in December of 1979.

Today, two and one-half years later, the Corporation has had project contracts in six United States cities. Each one is different, with its own special issues, needs, and priorities; each is also in a different stage of development or implementation.

Warren-Sherman
Toledo, Ohio

City Venture's first client city was Toledo, Ohio. The project is in the Warren-Sherman neighborhood, located just west of downtown Toledo. The neighborhood occupies approximately 300 acres and is home to 3,500 people in 1,200 households. Of the total population, 90% is black, 40% has no high school education, and in 1979, an estimated 32% of the neighborhood's heads of households were unemployed, compared with 12% for the City.

City Venture's goal in Warren-Sherman is the creation of 2,000 new jobs over a five-year implementation period. These jobs are entry-level positions, for which residents will be trained and which offer opportunities for advancement. The jobs created are targeted to Warren-Sherman residents. Other project objectives were also specified in the areas of workforce mobilization and stabilization and community revitalization.

The strategy development phase of the project was completed in the spring of 1980, with the implementation phase commencing thereafter.

Toward the fulfillment of the job creation goal, 23 acres have been identified for the development of a neighborhood industrial park, to provide 570,000 square feet of industrial space. Groundbreaking for the park is scheduled for Spring, 1981. Fully developed, the first phase of the industrial park is expected to provide a total of 1,300 jobs.

Preparation of the park's physical infrastructure is jointly financed by two government funding programs: the Economic Development Administration and the Urban Development Action Grant Program. United States government commitments of \$7.5 million have been received. Private sector commitments for the industrial park are led by Control Data's Business and Technology Center; other commitments have been made by Libbey-Owens-Ford, Inc. and Owens Illinois.

The Business and Technology Center (BTC), constructed by Control Data Corporation, is one anchor for the industrial park. As previously described, the BTC is an incubator for the creation and development of new, small businesses. Marketing of the BTC began in October of 1980. The Center will open in the summer of 1981 and when completed, will have created an additional 440 jobs. An Annex to the BTC, with 15,000 square feet available for industrial rental, opened in December of 1980.

Another project in Warren-Sherman is the creation of a neighborhood-based property maintenance and management company. The total projected employment of the company is 12 full-time positions.

Also recently located in the Warren-Sherman neighborhood is the Brown Packaging and Bindery Company, which at full-scale production will employ 80 people part-time. The company was incorporated in December of 1980. City Venture staff worked with the company to secure a seed capital loan for start-up. City Venture also assisted the company in acquiring the lease for a building for the company's operations. One-half of the total 80 jobs in the packaging and bindery company will be targeted to neighborhood residents whose special needs require a part-time job. The other half will be open to Fair Break clients, to become the work experience component of the Fair Break program.

Additional federal funds are being used in the project area, together with funding provided by the Toledo Trust and other local banks, to develop a neighborhood shopping center. Chosen by the neighborhood residents as a priority project for job creation, groundbreaking for the 4.5 acre shopping center will occur in spring of 1981. The center will create 100 jobs and will offer 50,000 square feet of commercial space for 12 commercial activities, concentrating on grocery, hardware, and drug stores.

The Toledo Trust Bank also recently announced plans for the construction of a Branch Bank and Professional Office building in the Warren-Sherman neighborhood. The building will provide 12,500 square feet of business space and will be located directly across the street from the shopping center.

Two job-related programs are being implemented in the project in an effort to target the jobs created in the neighborhood to Warren-Sherman residents. The Warren-Sherman Fair Break Center opened last September. As already described, it is a job preparation and training program. The Center offers work experience (40 part-time jobs at the packaging and bindery company) and plans to serve 160 clients annually. Through January 1981, 38 clients had been enrolled in the program.

A job matching system has also been established in the project area, with the purpose of placing residents in neighborhood jobs. During 1980, the system was manually operated. By the end of January, 1981, use had expanded from 120 to 215 clients.

In the area of community revitalization, one early implementation project in the Warren-Sherman area was a solar demonstration house — the rehabilitation and retrofitting of a six-unit abandoned building located in the neighborhood. Financed by both City Venture and federal funds available to the City, the building was rehabilitated by a local minority contractor and equipped with a complete active solar heating and cooling system. Residents were hired and trained to work on the rehabilitation.

Today, housing units in the "solar house", as it is called, are being rented to neighborhood residents, some of whom were displaced by the industrial park development. In addition, the house remains a visual example within the neighborhood of energy conservation and efficiency in living.

Other housing-related projects include a \$1.2 million interest subsidy program, which uses both federal and local private funds, for home purchase and rehabilitation; moderate rehabilitation of 50 units of rental housing; and rehabilitation of scattered public housing (to

date including five buildings and 22 units). Future plans include construction of 300 factory built housing units, and two house moves from the industrial park area to vacant property adjacent to the solar house, with subsequent rehabilitation of the housing.

Human services programs have also been developed. In the spring of 1981, a health care center will be established in the neighborhood, in conjunction with a local hospital. The health center will be located in a community service center and will focus on delivery of primary health care services to mothers and small children.

Because arson has been a particular problem in the neighborhood, a community anti-arson conference is being organized, with related programs to be subsequently initiated using local resources. Responding to the day care needs of the Warren-Sherman residents, a neighborhood elementary school, recently closed by the school board, is undergoing reuse as a Head Start Day Care facility, to be operated by the local Economic Opportunity Planning Agency.

Financing of the industrial, commercial, and residential developments has involved a combination of public and private funds, with a leveraging ratio of private to public contributions of approximately 3.0. It is anticipated that the job creation projects that have occurred to date will be the catalyst for further private investment in the Warren-Sherman neighborhood.

West Parkside Philadelphia, Pennsylvania

City Venture is just completing the strategy development phase of a project in Philadelphia. The neighborhood, West Parkside, occupies a little more than 230 acres and is located approximately 2-1/2 miles northwest of downtown Philadelphia. Over 90% of the neighborhood population is minority, compared to one-third of the City's population. In 1976, estimates of neighborhood unemployment were as high as 15%, compared with 11% for the City, and in 1979, 28% of the residents relied on some form of public assistance.

The project is supported by a strong commitment for public-private cooperation. The parties involved include the City of Philadelphia, the business community -- represented by the Greater Philadelphia Partnership and the Chamber of Commerce, the targeted project neighborhoods -- represented by the West Parkside Association, and City Venture Corporation. The Greater Philadelphia partnership and the Chamber of Commerce have committed to jointly establish 250 new jobs in West Parkside, and the Mayor has declared job creation through inner-city small business development a number one priority. City Venture's goal in West Parkside is to create up to 2,500 jobs.

Industrial development plans for Phase I of the project include the construction of a Business and Technology Center (to which Control Data is already committed) and attraction of new industrial development, together to create more than 1,300 new jobs. Low cost manufacturing space will be developed in existing buildings to create another 400 new jobs. A later phase of industrial development will involve the development of property currently owned by a railroad company, with an anticipated job creation of at least 1,000 new positions.

Marketing of the presently available and phase II industrial parcels has already begun with personal calls to major corporations in greater Philadelphia. Prospects for early commitments include a neighborhood firm which is planning to expand, the relocation and expansion of a small plumbing supply company, and a new laboratory supply company, all locating in West Parkside.

In the area of human resources, the Philadelphia Office of Employment and Training recently received authorization from the U.S. Department of Labor to begin a Fair Break program in mid January, 1981. The program is expected to serve 104 clients in the first eight months of operation.

In addition, the U.S. Department of Labor has committed \$1 million funding for an independent living program in Philadelphia. The Transitional Assistance Program (previously described) will provide education, training and placement in unsubsidized jobs so that physically and mentally handicapped persons may gain access to private sector jobs. City Venture will work with local service delivers to jointly implement the program. It is anticipated that the program will become operational in the spring of 1981.

Park Heights Baltimore, Maryland

City Venture's project in Baltimore, Maryland is supported by another public-private partnership, involving the City of Baltimore, the Baltimore Economic Development Corporation, the Park Heights Development Corporation, and City Venture.

Park Heights is City Venture's largest project area with 1,300 acres and a population of over 44,000. It is located just northwest of downtown Baltimore. The neighborhood is over 80% black and 40% unemployed, compared with only 5% unemployed in Baltimore.

The strategy development phase of the project was recently completed, with the project's implementation phase to begin subsequently. The project goal for Park Heights is to create 2,500 jobs over the five year implementation period.

At the southern end of the Park Heights neighborhood is an area of 47 acres previously identified by the neighborhood for future industrial development. Park Circle, as it is named, will be the focus of the project's job creation efforts. Of the total 47 acres, 40.3 will be available for development in 1981/82. Limited marketing to date has produced three minority business prospects and a possible developer for a multi-story industrial building.

As in other City Venture projects, an anchor in the industrial park will be a Business and Technology Center. A new facility, it is expected to create a minimum of 350 jobs. Another tenant in Park Circle will be a bindery and packaging plant, which will be established by Commercial Credit Company and will create a minimum of 200 jobs. Groundbreaking for the BTC is scheduled for summer of 1981; the bindery and packaging plant will become operational during the first quarter of 1981.

The Park Heights Development Corporation is a local neighborhood organization which is taking a direct role in the development of Park Circle. They will lease an unused building from the City for \$1/year and renovate it with a federally funded grant (an application is currently pending). A quarter of the renovated space will be designed for office use with the remainder allocated to manufacturing use. The renovated space is expected to create 130 positions.

Total job creation in Park Circle is anticipated to be 1,750 jobs. The remaining 750 jobs to be created in Park Heights will occur outside Park Circle, primarily in the Northwest Industrial Corridor. The Corridor is an area of concentrated industrial activity, located along the western boundary of the neighborhood, and currently in various stages of deterioration. City Venture staff will assist the Park Heights Development Corporation and the Baltimore Economic Development Corporation in their efforts to upgrade this area and to create additional jobs within it.

In the area of human resources, the development plan calls for the establishment of a resident employment center based in Park Heights. The Center will offer job matching services for residents and employers, as well as job preparatory training or specialized

training. Proposed implementation projects also include coordinating a neighborhood-based security program, involving the participation of local police, shopowners, and residents.

Energy Park
St. Paul, Minnesota

City Venture's role in Energy Park is not typical of that in its other project cities. The Energy Park project is the creation of an energy efficient and energy conserving working and living environment. Occupying 245 acres in the inner-city, the project includes industrial (120 acres), residential (950 units), and commercial (100,000 square feet) development on a virtually undeveloped site. All construction and building design will incorporate the latest in energy efficient and conserving technologies. Two-thirds of the industries locating in the Park will be energy-related. The project goal is to create 6,000 jobs.

The Energy Park project came about as the result of a public-private negotiated investment strategy process, involving all levels of government, representatives of the private sector, and representatives of the public at-large. The Energy Park project is currently managed by a public-private association, including:

- the St. Paul Port Authority, who will market the park's industrial parcels
- Honeywell, Inc., who has been instrumental in designing the central energy system;
- Wilder Foundation, who will complete the residential development;
- Control Data Corporation, who is committed to constructing an Energy Technology Center on site (a modified Business and Technology Center, oriented toward the creation and development of energy-related businesses); and
- the City of St. Paul.

This group, together with City Venture Corporation, comprises the Management Team.

City Venture's role in development has been to provide a holistic focus, to facilitate Management Team activities, and to write the development plan for Energy Park, documenting the Management Team's consensus on programs and plans necessary for the Park's successful development. With a goal of targeting Energy Park's jobs to St. Paul's unemployed and hard-to-employ, City Venture was also employed to design the human resource programs.

As a part of plan development, City Venture assisted the City and the City's Manpower Office in obtaining a \$1.5 million grant from a local foundation for job training. The grant is to cover a four-year demonstration job training program, targeted to Energy Park, and will effectively link the new employers with St. Paul residents who need jobs.

To date, the Port Authority has issued \$6 million in bonds for housing development and for development of a speculative industrial building in Energy Park. Specific sites have been defined for the first 250 units of housing.

City Venture's future role in Energy Park will be to undertake the implementation of a small business recruitment and development program, as well as operating the job training program for Energy Park. The former would focus on marketing the Park to small or new energy-related businesses and would create an innovations network for assisting developing businesses. The network would provide small business persons access to organizations or

individuals which offer services or have special expertise in the areas of new technologies, financing, management assistance, education and training, marketing, labor supply, and special access to facilities and services.

Liberty City
Miami, Florida

In the fall of 1980, City Venture contracted with two Chambers of Commerce in Miami, Florida, to help them evaluate the commitments which they might make to the Liberty City neighborhood of Miami. Liberty City, predominantly a Black neighborhood, was the scene of civil disturbances in the summer of 1980. Following on this contract, City Venture expects to be engaged to undertake a full strategy effort in Miami, starting in the spring of 1981. As part of its initial effort, City Venture identified private sector commitments exceeding \$10 million. These commitments were well-received by the business communities, the neighborhood, and government representatives.

New Business Development

In addition to the contracts which City Venture already has underway around the country, two additional cities are expected to be under contract in the first quarter of 1981. Charleston, South Carolina, a town of 70,000 people, with a metropolitan population of 350,000 is contracting with City Venture to undertake a full strategy for a small neighborhood (population 6,000) adjacent to its port facility. A key part of the strategy will be the rehabilitation of an old tobacco factory building, to become a Business and Technology Center.

A similar contract will also begin in early 1981 with the City of Benton Harbor, Michigan, (population 15,000). This will be the first project which City Venture has undertaken in a very small city, and as a result, the entire city is targeted for the job creation and revitalization effort.

In addition to these two anticipated contracts, City Venture is actively talking to a variety of other cities around the country.