Where's the Power in the Empowerment Zone?

The centerpiece of the Clinton administration's urban policy - the empowerment zone program - is about to self-destruct in New York City. The New York zone, made up of parts of Harlem and the South Bronx, has been the subject of enormous hyperbole in the press and intense political wrangling within the black and Latino communities. For it to succeed in sparking an economic renaissance, the program would have to focus on encouraging private-sector job creation. Instead, current plans for the zone look like an enormous safety net for social services, not a launching pad for renewing the economic base of these low-income neighborhoods.

More than a decade ago, British geographer Peter Hall proposed to stimulate investment in England's decaying inner cities by eliminating regulations and taxes in designated "enterprise zones." Since the British government's many efforts to rejuvenate run-down urban areas had failed. Hall suggested a modest experiment with "non-planning" - the absence of government constraints on capital, immigration, and labor in a handful of zones "thrown open to all kinds of initiative, with minimal control." The enterprise zone concept was brought into the U.S. policy arena by two former New York Congressmen, Jack Kemp and Robert Garcia, long before there was any proof that such zones might be effective tools for urban economic development. The idea itself generated considerable support among conservatives, since it was based on the free-market principles of private investment, reduced regulation, and no large-scale public spending.

Opponents of the enterprise zone did not believe that waiving the minimum wage, environmental regulations, and taxes would attract jobs, even though similar techniques had worked in Hong Kong and Puerto Rico. Inner-city neighborhoods, they reasonably argued, had too many problems to make them attractive to private business, and, moreover, the residents of those communities, suffering from social problems no amount of economic development could cure, wouldn't take any jobs that might be created in their backyards and so wouldn't benefit. (See "Why Enterprise Zones Will Not Work," City Journal, Autumn 1993.) The concept, however, was kept alive by state governments, which developed their own version of enterprise zones. New York State, for example, has designated approximately 40 "economic opportunity zones" in cities, rural areas, and older suburban communities across the state. They have been given a total of only $2 million, though, and have had few results worth mentioning.

During the 1980s, liberals latched onto the enterprise zone concept. They discovered that it offered a way to channel money into impoverished urban communities, subverting the rationale for the enterprise zone by expanding, rather than reducing, government involvement. With both liberal and conservative support, the Housing and Community Development Act of 1987 included a modest enterprise zone program, but it offered no financial incentives to investors and entrepreneurs, just waivers from HUD regulations and preferential treatment for HUD funding for 100 communities. Not surprisingly, Jack Kemp, President Bush's secretary of housing and urban development, refused to designate any zones until Congress expanded the program to include financial incentives, which - until now - it never had. In response to the Los Angeles riots of 1992, there was a burst of public support for federal assistance to cities, and during the summer of 1992 proposals for enterprise zone legislation surfaced in Congress once again, among Republicans and Democrats alike. But it was not until both the White House and the Congress were in Democratic hands that the concept of the enterprise zone - albeit modified and renamed by the new Democratic administration as an empowerment zone - was brought to life as part of the Omnibus Budget Reconciliation Act of 1993.

Figure 1. Click to enlarge (340K).

Congressman Charles Rangel of Harlem, then the third-ranking Democrat on the House Ways and Means Committee, was largely responsible for inserting the empowerment zone proposal into the 1993 act, which combined tax hikes for the rich with tax credits for the working poor. Before that. President Clinton had given up on any large-scale public investment program, after failing to pass an economic stimulus package that would have channeled federal money into communities acre's the country. But Rangel pushed hard to authorize tax credits and funds for empowerment zones in the budget reconciliation act, which was subject to a single up-or-down congressional vote. Once the money was authorized, it took the joint efforts of New Jersey Senator Bill Bradley and Congressman Rangel actually to appropriate funds for the empowerment zone program in the appropriation bill for the U.S. Departments of Labor, Health and Human Services, and Education for fiscal year 1995.

Although Congress assigned responsibility for formulating the guidelines and administering the empowerment zone program to the Department of Housing and Urban Development, it appropriated the funds for the zones under Title XX of the Social Security Act, which provides block grants to the states for social services. This legislative maneuver created the built-in bias toward spending for an array of social services that marks the entire empowerment zone program, despite the best efforts of the Clinton administration staffers and HUD to design guidelines that would allow federal funds to be spent on economic development activities.

Thanks largely to Rangel, the empowerment zone has emerged as the only initiative by the Clinton administration with an explicitly urban focus. Of course, the geographic diversity within Congress made it difficult to confine empowerment zones to cities alone. The final legislation included funds for 6 urban empowerment zones, 3 rural ones, 65 urban and 35 rural enterprise communities, and aid for Indian reservations.

Each empowerment zone would get $100 million over two years, and each enterprise community would get a grant of $2.95 million to promote economic self-sufficiency through adult education and training, welfare-to-work transition programs, workplace day care, and job placement. Businesses in the zones would get a 20 percent tax credit for the first $15,000 of wages and training expenses paid to employees who live or perform most of their work in the zones. In addition, small businesses in the zones are allowed to deduct an additional $20,000 per year for depreciable equipment, beyond the $17,500 already permitted. Although the empowerment zone program provided incentives for private investment, it also gave the Clinton administration a new framework for social service spending, not just on job training or welfare-to-work programs but also, under Title XX of the Social Security Act, on emergency and transitional homeless shelters or drug-and alcohol-abuse programs in big cities.

After a national competition that attracted hundreds of applicants. New York was awarded an empowerment zone by President Clinton in December 1994, an outcome that many felt was preordained given Congressman Rangel's strategic role in pushing the empowerment zone into law. The other cities to be awarded zones were Atlanta, Baltimore, Chicago, Detroit, and Philadelphia. Although Cleveland and Los Angeles did not get empowerment zones, HUD - in a rare display of bureaucratic creativity - invented a consolation prize for those cities, the "supplemental empowerment zone," consisting of block grants without the tax credits.

The federal empowerment zone legislation stipulated that zones in cities with a population in excess of 500,000 could not have more than 200,000 people or exceed 20 square miles. Consequently, for New York City - with more than 7.5 million people - around 2.5 percent of the city's total population could benefit from an empowerment zone. Naturally, the determination of the zone's boundaries became a highly politicized matter, since inclusion in the zone would make it possible to obtain not just federal but also state and local funds, as well as tax incentives to attract private investment.

Soon after the 1993 election, outgoing Mayor David Dinkins designated Harlem the city's empowerment zone. After Rudy Giuliani took office in January 1994, leaders from the South Bronx and Williamsburg, Brooklyn, sought to have their communities included in the zone too - a reasonable idea, since these neighborhoods already have some industrial activity to build on, as Harlem does not. In the spring of 1994, Giuliani, eager to keep the Yankees in the Bronx, modified the zone to include parts of the borough, thus making it possible for New York City and New York State to treat any public investment in Yankee Stadium or the surrounding neighborhood as a contribution to the empowerment zone's matching requirements. Apart from the Yankee Stadium area, the Bronx portion included extensive amounts of industrial land at the Hunt's Point market. Port Morris, and the Harlem Rail Yards.

Who would have control over the boundaries of the zone and the formulation of the activities that would go on within them? Needless to say, this was a hotly contentious question. Two local development corporations came forward with proposals. First was the Harlem Urban Development Corporation (HLJDC), with which Rangel has long been associated. Established in 1968 after the assassination of Martin Luther King, HUDC, a subsidiary of the New York State Urban Development Corporation, had no proven track record in economic development but was the politically obvious choice to control the first major federal program designated for Harlem in almost 25 years. To prepare Harlem's empowerment zone proposal, HUDC hired faculty from Columbia University and CUNY as consultants, with funds furnished by the Ford Foundation and the State of New York.

At the same time, the Bronx Overall Economic Development Corporation (BOEDC), a nonprofit local economic development corporation that had been actively involved in efforts to stimulate private and public investment in the Bronx, formulated its own separate proposal, operating on a shoestring. The Bronx proposal was subsequently incorporated into a single document submitted by New York City and State to HUD, but Congressman Rangel was able to keep the Bronx portion of the zone to a mere 33,592 Bronx residents, or 16.8 percent of the total empowerment zone population. Moreover, two Bronx redevelopment proposals, Melrose Commons and Bronx Center, were omitted from the Bronx portion of the zone, despite the fact that they had emerged from two years of community planning efforts.

Drawing the boundaries for the Harlem portion of the zone was so disputed among various groups of Harlem residents that the final determination was not made until just before the proposal was submitted to the federal government. As a result, the text of the proposal does not clearly identify the actual boundaries of the zone itself. The zone starts at the north in Washington Heights, in order to include the Columbia-Presbyterian Medical Center located at Broadway and 168th Street, where a state-subsidized biotech incubator already being built on the site of the Audubon Ballroom will now be eligible for empowerment zone funds. The zone runs down a narrow sliver of land along the Hudson River to central Harlem, where it widens and then runs across 125th Street to East Harlem, taking in both black and Hispanic low-income residential areas, as well as the Latino marketplace (La Marqueta) and the abandoned Washburn Wire

Factory building on the East River.

Federal guidelines required extensive community involvement in developing a city's empowerment zone proposal, and the Harlem Urban Development Corporation assembled an array of task forces to identify local needs and priorities. Efforts to involve the private sector in committing resources to the zone proposal were not successful, since HUDC focused on persuading the private sector to contribute money to their projects rather than actually to create jobs in Harlem. HUDC did succeed in getting both Mount Sinai and Columbia-Presbyterian, two world-class medical centers located in Harlem and Washington Heights respectively, to participate in developing plans for the zone. Both non-profit institutions are major sources of jobs as well as essential health-care providers to the population in upper Manhattan. But it's difficult to imagine a significant gain in health-care jobs, given the anticipated cuts in Medicaid and private-sector measures to control health costs.

The Harlem portion of the plan is a remarkable mix of programs to serve local needs for day care, education, social services, and health care, combined with a few large-scale physical development projects, like a new CUNY community college at the Washburn Wire Factory, that will not create private-sector jobs or attract private investment. For example, the proposal envisions a computerized drug referral system, security improvements in public housing, child-care program upgrades, "family preservation, development, and intergenerational programs," a community health center, and a cadre of community empowerment zone organizers to assist residents in gaining access to empowerment zone - and other government - programs. The proposal also envisions a "Medicaid Entitlement Zone" that seeks to make every resident of the zone eligible for Medicaid. The proposal earmarks 23 percent of the federal empowerment zone funds for children and youth programs, 12 percent for health and substance-abuse programs, 6 percent for other social services, and 17 percent for local administration of the program - 58 percent of the total.

The biggest capital project explicitly designed to spark private economic development isn't likely to succeed in doing so. Long a pet project of Congressman Rangel's, it is the Harlem International Trade Center, a high-rise building designed to house the trade offices of Third World countries. The problem with this plan is that most nations prefer to locate their trade offices near the city's banking, finance, and business center, and Third World nations are no exception. Nevertheless, New York State has already allocated $48 million in funds from the Port Authority's Regional Development Fund for the project, money that now sits in an escrow account whose interest supplies some of the operating funds for the Harlem Urban Development Corporation.

In a less ambitious but eminently sensible effort, by contrast, the Abyssinian Baptist Church, Harlem's most successful development agency, is slated to administer a revolving capital loan fund for small businesses. New York City intends to put $31 million into the capital fund, which can then be used to leverage approximately $300 million in Small Business Administration loans.

Unlike Harlem's plan, the Bronx proposal paid more attention to economic revitalization than social services, but the plan has had very little of the empowerment zone resources allocated to it. The proposal builds upon economic development initiatives already under way, such as a plan to establish the Bronx Community Paper Company, a joint venture between a private company and Banana Kelly, a local nonprofit corporation, that would create 150 to 250 jobs.

SOBRO, the South Bronx Development Corporation, intends to develop the Harlem River Yards - large tracts of industrial land - by taking advantage of their access to the interstate highway system and rail lines and their proximity to the 4.8 million people who live in Queens, Manhattan, and the Bronx. Tax incentives and infrastructure improvements could well encourage warehousing and distribution, "big-box" discount stores, and even manufacturing ventures in the South Bronx portion of the zone.

Ten years from now, when the empowerment zone program is history, it will be considered either just another flawed federal program that supported social service programs or the catalyst for the revitalization of Harlem and the South Bronx. Decisions made now will determine whether New York's empowerment zone fulfills the original purposes of the enterprise zone or is subverted by traditional poverty politics.

Almost no one in the press or in public office has been willing to question the logic of New York's empowerment zone plan. It went unchallenged when Vice President Al Core and other Democratic politicians gathered with empowerment zone leaders from around the country at a Columbia University conference in March. The conference resembled a pep rally for Rangel and the empowerment zone. Little wonder: many of those in attendance were from nonprofit organizations that stand to benefit handsomely from the infusion of federal funds.

However, unless the empowerment zone is treated as more than just old-fashioned political pork, it is not likely to do more than bring a burst of federal dollars into two low-income communities and perpetuate their dependence on a shrinking public sector. For New York's empowerment zone to serve economic development objectives, investments are needed to reduce - not reinforce - the area's reliance on public programs. The investments should encourage small businesses, retail activity, and wealth-creating activities like the reuse of vacant land within Harlem and the South Bronx. They should capitalize on Harlem's incalculable geographic advantages of close proximity, and strong highway and mass transit links, to midtown Manhattan, with all its economic might. For the Harlem Urban Development Corporation, community economic development is just another term for strengthening the local social welfare infrastructure. But when the federal funds expire, there will be no long-term improvement in the community's capacity to generate jobs or attract private investment. Worse, if no new jobs are created in Harlem, the tax credits - a valuable federal incentive - cannot be used. Without tax credits, the lasting benefit to the city of the empowerment zone is seriously diminished.

Some argue that the empowerment zone as defined by the Clinton administration is just another anti-poverty program that will do little to change the downward trajectory of impoverished inner-city communities. Others believe that the logic underlying the enterprise zone is flawed: fewer regulations and lower taxes are not enough to overcome the crime, low work skills, and lack of capital in low-income urban communities. Whatever the case, there is still no reason not to make the best use of the potential tax credits and federal dollars that New York City will receive through the empowerment zone program, by emphasizing job creation by the private rather than the nonprofit sector. Unless steps are taken soon to revise the New York City empowerment zone plan, the Clinton Administration's principal initiative in New York City won't make a nickel's worth of lasting difference.

Originally published in *City Journal, Spring 1995*.
The Manhattan Institute, New York, 1995
