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This paper is an evaluation of the potential uses of the Enterprise Zone concept as an urban policy device. The concept behind the Enterprise Zone is to use tax incentives to attract businesses to locate in economically depressed urban areas. This paper will focus on the most publicized version of this tax incentive approach - The Urban Jobs and Enterprise Zone Bill (H.R. 1104) currently awaiting action by the Ways and Means Committee of the 97th U.S. Congress. The bill proposes to establish a number of Enterprise Zones in urban areas afflicted with high unemployment and poverty, within which businesses would be eligible for a variety of tax reductions on the condition that the businesses hire the local residents.

The Enterprise Zone concept has been widely considered as a possible replacement for some of the nation's many spending programs aimed at stimulating urban redevelopment. The Enterprise Zone concept has also been much discussed as a possible remedy for the "urban crisis" which affects so many of the nation's larger cities. This paper will attempt to show that the tax incentive approach cannot be expected to solve the many problems that large cities face, and that the tax incentive approach will be most effective when used in conjunction with the other urban redevelopment programs presently available.

The social and economic problems found in older, decaying urban areas are very complex. The roots of the problems are deep, and the socioeconomic forces which aggravate the root
conditions are difficult to alter. Corrective public policy actions can be taken, but the chances of developing programs that will eliminate or significantly reduce the many urban problems are not very good. Quick, easy solutions are simply not possible. Considerable effort has been given to studying the physical and psychological factors involved in the "urban crisis", yet there is still much confusion over what should be done in response. Numerous different programs have been tried over the course of the last thirty years, and scores of billions of dollars have been spent in the process. However, the continued existence of vast stretches of urban decay in the major cities of the country casts doubt on how much net or real progress has been made in the effort to save the nation's troubled cities.

The urban policy goal of trying to save decaying cities is hard to define in precise terms. The question of exactly what needs to be saved and for whom is very debatable. Actually saving a city or part of a city is ever more difficult. The major fault of national urban policy is that programs are often burdened with vague and unrealistically broad goals without careful consideration of all of the possible consequences. Admittedly, many programs have been hastily constructed or shortchanged on resources or time to act - but given the nature of American politics no program will be perfect or be given the ideal chance to succeed. There is a lot of room for improvement in national urban policy however, and the improvement should take the form of hefty doses of precision and realism in the way in which urban programs are formulated and
implemented. The American public has neither the money nor the desire to solve the "urban crisis" once and for all. Only limited action can be taken to aid the large, older cities with their economic problems, so it is necessary to more clearly identify what exactly it is that ought to be saved and for whom. The task of urban policy makers will be to use the increasingly scarce amount of urban policy resources more effectively than has been done in the past.

National urban policy up to now has been frequently marred by confusion and waste in the way in which urban programs have been created and implemented. Resources have been squandered on redevelopment projects which never had a chance for success, and resources have also been used for projects which while looking nice do little to halt urban decline. The Enterprise Zone concept presents an opportunity to increase the effectiveness of urban policy by focusing resources on the areas themselves which are in need of redevelopment in a manner that is simple and direct. However, the current Enterprise Zone proposal, H.R. 1104, and the thinking behind it are in need of serious change and this paper offers some suggestions for how the improve the legislation, and for how to make the Enterprise Zone concept work effectively in actual practice. Tax incentives alone cannot save the large, older cities of America from all of the problems of urban decay, but tax incentives might be able to help revitalize urban areas better than the present urban programs are able to do now.
This paper was written as an undergraduate thesis as part of a Bachelor of Arts degree from the Department of Political Science at the University of Illinois in Urbana-Champaign. I wish to thank Professor Stuart Nagel of the Department of Political Science for all of the assistance and encouragement that he gave to me in writing this paper.
WHAT IS THE URBAN CRISIS, WHERE DID IT COME FROM, AND WHAT CAN BE DONE TO GET RID OF IT?

Cities are places where people come together to live and work. In order for people to live and work, cities must provide services and see to it that jobs are available. These two things, services and jobs, are highly interrelated. The wealth created by people working at their jobs must be taxed to support the services, and high quality services are a must for cities to be able to attract and retain jobs for people to work at.

In the years since World War II the country has undergone major change in the nature of its economy. As a result of this change many large, older cities have lost much of their economic strength in terms of jobs and property tax base. The costs of providing services has skyrocketed, while often the quality of the services has declined. Across the country cities are literally crumbling to the ground as their economic problems have outgrown their capacity to deal with the problems. Many cities are now heavily dependent on the federal and their state governments for sheer survival. Yet despite billions of dollars in aid, cities continue to deteriorate at an alarming pace.

Decay is a natural element in the life cycle of a city. The forces of decay are present in nature and in society. Cities are like any of man's creations, they must be properly maintained if they are to remain in good working order. Maintenance
however, is difficult to do on the scale of a large city. Due to reasons of cost and impracticality maintenance is easily neglected.

The onslaught of urban decay during the last few decades though is more than can be explained by neglect on the part of short-sighted city officials. Tremendous changes in the residential and work patterns of society have buffeted many cities at a rate too fast for them to adapt to. The urban crisis did not develop overnight, but it did hit hard and quick enough to catch cities off-guard and national urban policy unprepared.

Until roughly the end of World War II central urban locations were by and large quite valuable for most kinds of commercial activity. Big cities were good places to be for manufacturing and retailing. Rail and water transportation were very important to business firms as was a large, concentrated supply of labor also. Firms tended to focus their attention on the local market and suppliers. Transportation and communication technologies were steadily improving to offer firms more freedom of location, but the big cities grew and prospered as the country as a whole became increasingly urbanized.

The constraints imposed by the Great Depression and the Second World War postponed many of the changes in the nature of urban America that were bound to happen at sometime or another. Americans have always want to get out of the cities, and in the years since World War II Americans have been abandoning the large, older cities on a massive scale. This trend
has been especially serious in the NorthEast and MidWest. Aided by federal policies to build highways, hold down the cost of energy, and to hold down the cost and difficulty of getting home mortgages, a ring of suburbs mushroomed around the major cities. Retail firms moved out to suburban malls in order to be close to their prime customers. Manufacturers pulled up stakes also to take advantage of the open space, lower taxes, and the generally less restrictive environment. Other firms fled the northern regions completely, usually to go to the South and SouthWest where the weather is warm and the unions are weak. Over the last few decades the large, older cities of the North and elsewhere lost hundreds of thousands of jobs and untold millions in taxable property base.

Meanwhile as the cities were being sapped of their economic strength they continued to attract the unskilled and the poor. New waves of blacks, latinos, asians, and Appalachian whites poured in to place new service burdens on the cities. Increasingly powerful municipal employee unions and inflation in general have driven up the cost of providing services rapidly, while city revenues increase slowly if at all. Yet to raise taxes only speeds up the process of decay. So today, with the exception of downtown high-rise developments, the large, older cities are for the most part bad places in which to do business.

The urban crisis is a complex phenomenon involving many surface problems and several root conditions. To simplify matters, the urban crisis is basically a problem of urban areas experiencing a gradual dis-investment of resources. The once
important advantages of a central urban location in a big, established city are no longer valuable. Resources that were once used to develop the cities are being withdrawn to develop other areas where the profits are higher and the risks are lower. The high costs, both monetarily and psychologically, discourage investment in central urban areas. Those firms which have remained in the cities often have out-dated facilities, and face strong competition from elsewhere in the country and from overseas. The firms which are doing well often find their growth restricted due to the high cost of expansion. Under these circumstances, the prospects for substantial urban redevelopment are not good, despite much effort on the part of local, state and federal government to encourage redevelopment.

This trend toward dis-investment is not some great fault of American society, but rather a natural economic consequence of the free market as businesses must be expected to try to minimize their costs and obligations in any way that they can. Cities have made it harder on themselves by hesitating to tighten their fiscal belts, and by failing to take aggressive enough action on their own. This trend can be accepted as an undesirable yet inevitable result of the free market system - as the recent report of the President's Commission for a National agenda for the 1980's recommends¹. Or the resources of the nation can be organized to combat urban decline by providing funds for redevelopment, or by trying to alter the prevailing socioeconomic forces which foster urban decay.

¹. Presented to President Carter on January 16, 1981.
The decision on whether to "save" the distressed cities of the North and elsewhere is not simply a question of what is the most cost-efficient long-run solution. The costs involved are both physical and psychological. But the decision is also not simply a matter of conscience and moral principles. The country has made a strong commitment to fighting urban decay and poverty. Billions of dollars and countless amounts of mental effort have been put into saving the cities. Yet it is unclear after all these years of trying to save the cities if the cities are really all that much better off than before. The question is not whether the nation should assist its ailing cities with their many problems, but rather how to help the cities deal with urban decay most effectively.

The federal government became seriously involved in urban economic redevelopment as part of its efforts to stimulate the national economy during the Great Depression. After the Second World War its actions began to have increasingly important impacts on cities. The Housing Act of 1949 and the Urban Renewal program have both had tremendous effects on many urban areas. Since then there have been a vast number of federal programs aimed at stimulating urban redevelopment. Billions of dollars in grants, loans, and loan guarantees along with a variety of other forms of assistance have been extended to cities, and much redevelopment has taken place as a result. But the results have generally been mixed as far as "success" in terms of increasing the net number of jobs or stabilizing the urban economy. Much of the redevelopment that has been accomplished is
of a white collar/professional or cultural nature which does not directly benefit the many urban poor and unemployed in the way of providing accessible jobs or greatly increasing the local tax base. Cities have had some success in revitalizing their downtown sections, but on the whole they have had an exceedingly difficult time in attracting businesses back into the high unemployment areas. Mass transit and highway spending have also largely favored the downtown sections. In most cities it is fairly easy for commuters to get into the city, but it is usually much more troublesome for city residents to get out to suburban jobs.

In light of the limited success of federal initiatives, the cities and their state governments have been experimenting with their own approaches toward stimulating urban redevelopment. St. Louis has been allowed by Missouri law\(^2\) to use property tax abatements as a redevelopment tool since 1945. Other cities have followed suit. States and cities have also been using their power to issue bonds to be able to offer businesses an attractive source of low-cost financing. The use of bonds based on future tax revenues has spread across the country. Many other new ideas to stimulate urban redevelopment are being tested as well.

However, until recently most of these efforts have been focused on attracting large firms and the competition has been fierce simply because there are not enough large employers such as automobile assembly plants to go around. This competition between states and between cities can easily get out

2. This law is known as Chapter 353.
of control to the point that unwise concessions are made to firms, or valuable regulations in areas such as pollution control or worker health and safety are weakened.

Regardless of what is done or who is doing it, small businesses in central urban areas have always been the big losers. Despite their potential for growth and the fact that they provide most of the jobs in their areas, small businesses have been ignored by most programs and victimized by many others. Hundreds of thousands of small operations have disappeared in the cities as their needs have been neglected or they have been displaced to make way for more impressive projects. The programs that are designed to aid small business are usually clumsy attempts, bogged down in paperwork and delay.

The history of government spending programs to encourage urban redevelopment is one of programs being launched with exceedingly high expectations and actually achieving only moderately positive results. Every program that comes along is promoted as a new solution to the urban crisis. The cities go along with this because they have little other choice; the cities will take any kind of help that they can get. But after thirty years of panaceas which have fizzled out, it is definitely time to re-evaluate national urban policy and clarify the goals.

Cities always have and will continue to decay no matter what is done to try to stop urban decay. Furthermore, not all

3. An example of this is the extreme steps to which Detroit has gone to convince the big automakers to stay put. See David Moberg- "Detroit, I Do Mind Moving" in In These Times, February 4, 1981. Pages 11-14. or Neal Pierce- "Industrial Blackmail In The Cities" in Public Administration Times, December 1, 1980.
decay is worth stopping even if the resources were available. Decay is a serious problem only when it denies the people of the cities the opportunity to find decent jobs and make a worthwhile life for themselves.

Lack of economic opportunities, not slum conditions, is what the urban crisis is really all about. Big cities have never been great places for a poor person to be in, but at least in the past there were enough entry level jobs for the unskilled to work their way up into the mainstream of American life. Today after several decades of disinvestment, the large, older cities have less of the economic ladders needed for people to escape slum conditions. Yet new groups continue to migrate to the big cities in search of the chance to make a better life for themselves.

The problem of urban poverty can never really be solved due to this constant influx of unskilled groups of people. Just as one group works its way out of poverty another group moves in to take its place. Cities can be viewed as funnels in this respect, with the number of entry level jobs equaling the width of the spout hole. The more jobs that exist, the smoother will be the flow of people. The end result of the urban crisis, along with the increasing amount of automation, has been to reduce the size of the escape opening and thus slow down the flow.

The big cities are in trouble because they do not have the resources to deal with this backlog of people. Much more is expected of the cities than in the past in terms of providing services to people. Conditions in the big cities have improved
over time, but the expectations of the nation have grown at a much greater rate. This is the country that can put men on the moon, yet we cannot get rid of those nasty slums. So if the cities cannot do it on their own we will give them the tools in the form of urban spending programs. And more urban spending programs. And more programs. And this has been the urban policy of this country for the last thirty years.

The big cities have been given a lot of help in dealing with urban poverty. Food Stamps, Medicaid, and AFDC have all made life a little easier than it might ordinarily be otherwise. But these programs do very little to counteract the ongoing dis-investment. The redevelopment and job training programs that have been tried are very expensive and not very successful. So many billions of dollars later we are still wondering what can be done to solve the urban crisis.

One lesson that ought to have been learned by now is that it is completely unrealistic to expect public policy efforts to bring the urban crisis to an end. Regardless of how much money is spent, the big cities will always have problems of one sort or another. The magnitude of these problems depends on which way the socioeconomic forces of the private sector are flowing. Ever since World War II the large, older cities have had the odds stacked against them. National urban policy cannot be expected to alter these odds back in favor of the big cities, but it might be able to reduce those odds enough to give the cities a little bit more breathing room. The urban crisis may never be solved, but it may be possible to manage it more effectively so to ease the burden on the cities and the whole country as well.
National urban policy thus needs to be re-evaluated so that more realistic goals can be set in consideration of the current socioeconomic trends and political situation. The ultimate goal should be to help the large, older cities regain some degree of self-sufficiency by rebuilding their economic strength. The crucial element in this strategy is to aid the cities in their efforts to attract businesses back into the central urban areas that have been left behind. Jobs will help the cities get back on the road to self-sufficiency by providing income to people who are now dependent on public welfare programs, and also by supporting the total local economy as well.

Creating jobs and holding on to them is no easy task for a large, older city. Employers in central urban areas face higher crime, higher taxes, stronger unions, and an overall more decrepit and restrictive environment than can be found almost anywhere else. The experience of firms which have moved back into high unemployment areas is one of higher costs and lower productivity on account of the above-average absenteeism, turnover, and lack of skills of the labor force. Development grants, social pressure, and appeals to one's sense of duty to society can all be used to persuade firms to relocate and stay in the big cities. But all too often much more is needed. Firms also need long-term incentives that will outweigh the many disadvantages of a central urban location.

Long-term incentives is the whole idea behind the Enterprise Zone concept. Tax incentives can be used to induce firms
to accept the greater costs and headaches that come with a central urban location. Tax considerations are very important in the location decisions of businesses, so the Enterprise Zone approach may be able to secure a higher ratio of private to public investment than the 4 or 5 to 1 ratios achieved by most development grants. This concept of using incentives rather than direct public spending to stimulate urban redevelopment may become a major new direction in national urban policy.

However, the Enterpris Zone approach as embodied in the current Congressional proposal, H.R. 1104, cannot be expected to work miracles. The costs and headaches of a central urban location for doing business are very great indeed. The tax incentives proposed in H.R. 1104 may not be sufficient or possibly even relevant to stimulate the kind of labor-intensive development that is needed in high unemployment areas. Other forms of public assistance are likely to be needed as well. If the incentives are found to be sufficient and relevant, there is still the problem of implementing the incentives effectively. It will not be easy to decide which areas should receive an Enterprise Zone. Furthermore, the zones must be created and administered carefully so that they do not wind up causing more trouble than they get rid of. All in all, there are many potential problems with the Enterprise Zone which ought to worked out before the large, older cities start battling it out with each other to see which of the cities can get the most Enterprize Zones.
THE ENTERPRISE ZONE CONCEPT: WHAT IS IT, WHERE DID IT COME FROM, AND WHAT IS IT SUPPOSED TO DO?

The Enterprise Zone proposal was first introduced in the Congress in the late spring of 1980 near the end of the Presidential primary campaign. It was adopted as part of the Republican Party platform, and attracted much attention in the months leading up to and following the victory of Ronald Reagan. The bill was re-introduced at the beginning of the current session of Congress, and it is likely to discussed soon after the present concerns with tax cuts and the federal budget are settled.

If enacted, H.R. 1104 would create substantial federal income tax savings for businesses that are located in economically distressed urban areas. Firms in such areas would be eligible to have their corporate income tax rates reduced, their capital gains tax rates reduced, and their social security payroll tax rates reduced. In addition, firms would be eligible for increased depreciation and net loss carryover allowances, and also be allowed to use more advantageous accounting procedures. In order to receive these benefits, firms would have to hire at least 50 percent of their employees from within the area of the Enterprise Zones. These tax incentives would last for at least ten years, and probably permanently as the bill does not specify how the Enterprise Zones would be renewed or discontinued.

4. The reduced social security taxes would not affect the individual's future benefits as their accounts would be credited with contributions out of general federal revenues.
The Enterprise Zones would be created upon approval by the Department of Commerce of applications made by cities, urban areas, or Indian reservations. To receive the Enterprise Zone status an area would have to be contiguous, contain at least 1,000 people, and have both high unemployment (twice the national average) and poverty (30% or more of the families being below the official poverty line) rates. An area would also be eligible if it had either excessively high unemployment (three times the national average) or poverty (50% or more) rates. All commercial enterprises within the zone area would be eligible for the tax reductions provided that they meet the hiring requirement. Furthermore, Enterprise Zones would be given priority for becoming Foreign Trade Zones, a status which offers even more tax-related benefits.

The cities or other sponsors of the zones would be required to share in the cost of the program by reducing their property tax rates on property in the zones by at least 20 percent within a four year period following the designation of an area as an Enterprise Zone. The areas would be allowed to retain the Enterprise Zone status as long as they continued to meet the above criteria.

The idea of using tax incentives to stimulate investment or employment in economically distressed areas is not completely new. In 1967 Robert Kennedy and others introduced a bill in the Congress (S. 2088) which would have created tax incentives for employers to hire the urban unemployed. Firms would have been granted certificates allowing the tax savings upon preceding
proof that they had hired the hard-core unemployed. Tax incentives for hiring the unemployed poor have been part of the Comprehensive Employment Training (CETA) and Work Incentive (WIN) programs for several years.

What is new about the Enterprise Zone concept is the idea of using tax incentives to create jobs and stimulate redevelopment simultaneously by making the central urban locations themselves more valuable for businesses. Most of the recent ideas for new urban redevelopment initiatives continue to be in the form of grants or loans. The Carter administration pushed strongly for the creation of an Urban Re­development Bank. However, in the last year or so the idea of using tax incentives has really caught on. In addition to H.R. 1104, there are two other tax incentive proposals presently before the Congress: the Job Expansion and Urban Development Tax bill (H.R. 390), and the Economic Recovery and Job Creation bill (H.R. 3).

In Great Britain, the Enterprise Zone concept is presently being tested at sites in England, Wales, Scotland, and Northern Ireland. The British version not only reduces taxes, but it also eases some land-use regulations as incentives to stimulate investment in small industrial parks within economically depressed urban areas. The Enterprise Zone program in Great Britain is part of the Conservative government's overall revitalization plan for the country.

The American version of the Enterprise Zone concept is likely to applied very broadly if at all. The big cities have lost much of the political clout that they once held in the
Congress, so it is very probable that everyone will want and likely receive a piece of the Enterprise Zone action. While the problems of the urban crisis extend down to cities of relatively small size, there have been suggestions that rural areas be eligible for the tax incentives also. The Enterprise Zone bill as it stands would not stop rural areas from applying for the tax incentives. The Kennedy bill was specifically amended to include rural areas shortly after it was introduced. Broad support already exists for the Enterprise Zone bill so it is quite possible that the incentive approach will become a major, if not the major, urban policy initiative of the 1980's.

GIVING A GOOD IDEA THE CHANCE IT DESERVES

The Enterprise Zone concept has a lot of potential for becoming an effective urban policy device. But there is a danger that it will be abused as other good ideas have been abused, and be promoted as a cure-all for the ills of urban America. Such a turn of events would be a severe distortion of the potential of the incentive approach. The unrelenting dis-investment constituting the urban crisis is a physical and a psychological phenomenon. Economic conditions in most big cities are bad, but they are even worse in the minds of businessmen. Tax incentives, no matter how substantial, are not going to persuade firms to come swarming into the most blighted urban areas like bees after honey. Sites must be assembled, cleared and improved. The construction, rehabilitation, and the operation of facilities must be financed. Facilities must be insured and
made secure. A labor force must be recruited and trained. All of these variables and still more are important factors in the process of urban redevelopment. The Enterprise Zone bill and its backers promise more than the incentive approach alone can deliver. The legislation itself needs improvement in several respects, and the implementation of the zones needs to be carefully planned out.

The large, older cities have many problems which they must deal with under an increasingly weighty set of restrictions - both legal and political. In this situation, efforts by the federal government to aid the cities should allow the cities a fair amount of flexibility if at all possible. Federal programs are frequently too cumbersome for local officials to make effective use of. The Enterprise Zone notion becomes very attractive then due to its simplicity of operation. Once the zones are created the federal government could pull back and let the cities and the workings of the private market take care of the rest. This simplicity is deceiving however, in that it would not be easy to create or administer the zones.

Cities can be viewed as conglomerations of pieces or neighborhoods. Each piece is really a community itself with its own characteristics within the larger community of the total city and the metropolitan area. The features of these pieces will vary across the urban landscape of the cities. All cities have pieces which are good places in which to live and work, and pieces which are bad places. National urban policy is in essence an attempt to turn the bad pieces back into good
pieces. Some pieces can be revitalized with relatively little effort. Changing social attitudes and the advantages of urban life are convincing many people to move back into the big cities on their own accord. Other pieces require substantial investment of public time and money. Only a limited number of the bad pieces can be helped at any one time as, even including federal and state aid, the amount of resources available for redevelopment is restricted, and much of the resources must be invested into the good pieces to keep them good. Actions in one spot do affect the rest of the city, but in most cases pieces can be revitalized only one at a time.

The available redevelopment resources should be used in the way that will maximize the benefits and minimize the costs to the particular area and the rest of the city. Some programs such as Urban Renewal can easily create as many problems as are rectified. Efforts have to be focused so that they can achieve the best results and cause the least damage in the process. The Enterprise Zone proposal is aimed at revitalizing the worst of the bad pieces. It has to recognized that some of these pieces can be helped and others cannot. The tax incentives should not be used indiscriminately. Like seeds, these incentives need to planted in places where there is a reasonable chance for them to grow. And once they are planted, they will require careful cultivation in order to blossom. Trying to revitalize the most blighted urban areas is a noble aim, but good intentions is no gaurantee of success.

5. This pattern of private re-investment, mostly in housing, is known as gentrification. For a discussion of this see the June 1980 issue of Urban Affairs Quarterly.
After three decades of effort on the part of the federal government to aid the cities, national urban policy is being subject to increasing criticism over the frequent abuse and general lack of success. Positive results are important not only for the actual physical economic benefits, but also for the psychological impact. The large, older cities need help, but they also need hope as well. Hope for the future is presently in short supply as the hope stirred during the War on Poverty years was lost somewhere throughout the 1970's.

The Enterprise Zone concept could go a long way toward encouraging urban revitalization and restoring hope for the future if it is used properly. Its applications should be well planned out and limited in number at first. Like any new idea it has to be used carefully because the end results are hard to predict. It should be tested, as the British are doing, to work out the inevitable snags and complications before it is tossed out to survive in the jungle of urban economics and politics. Only after the pitfalls have been recognized and corrected, and a successful reputation established, should the Enterprise Zone concept be forced to shoulder the heavy burden of expectations placed on urban programs in this country. Going ahead with the Enterprise Zones with full force prematurely could turn out to be as big an disaster as was the decision to jump head first into building high-rise public housing projects. The tax incentives of the Enterprise Zone will need to be used wisely and in conjunction with the other urban redevelopment programs, and even then the urban crisis will not be eliminated. But the incentive approach may turn out to be a better way to turn bad pieces of the nation's cities back into good ones.
As it stands presently, H.R. 1104 is vague in some respects and deficient in others. Many obstacles stand in the way of successfully creating and the Enterprise Zones, and these points should be addressed by the legislation.

The current proposal will not encourage the entire range of economic activity that is needed in economically depressed urban areas, nor does it target the incentives that it does contain tightly enough. It forces the cities to share in the cost of the program in a manner that will be very difficult for most cities to comply with. The proposal does not have any safeguards against the kind of massive dislocation/displacement of people and small businesses that can result from urban redevelopment projects. The Enterprise Zone proposal should encourage all forms of commercial activity to relocate and remain in central urban areas, but it should do so in a way that will not unduly burden or restrict the people of the areas or the city governments. Overall, H.R. 1104 will require some major changes in order to meet this goal. Like all new ideas, the Enterprise Zone proposal needs a little work, and the remainder of this paper is devoted to discussing the possible improvements that can be made.

(1) **Splitting the zones into separate commercial and residential sections:**

In tying the tax incentives to the location of firms and the land itself, the Enterprise Zone proposal could result in
the type of widespread dislocation/displacement that charac-
terized the Urban Renewal program. By making the land itself,
not the people who live on it, more valuable it is easy to
imagine that if the tax incentives work as effectively as is
hoped they will, the unemployed poor could be displaced to
make way for the new factories that they are supposed to work
in. Taken to the extreme, unless the zones are made very large
in size by the time the factories are ready to open there might
not be enough able-bodied people left living in the zones to
meet the 50 percent hiring requirement. Many small businesses
would be forced out in the process, so the area would lose jobs
before it would gain in jobs.

Massive displacement can be avoided by designating separate
commercial sections where the tax incentives would apply, within
larger residential areas from which the labor force would be
drawn. Almost every major city has a system of commercial and
residential zoning, so the Enterprise Zone legislation should
be modified to require the local governments in their applica-
tions for zones to demonstrate how the zones would incorporate
the local zoning plans. Using the tax incentives to encourage
industrial parks or retail and service malls would probably be
the most effective use. Isolated establishments such as corner
gas stations or convience stores could still be made eligible
for the tax incentives without very much difficulty.

Splitting the Enterprise Zones into commercial and resi-
dential sections would reduce the chances of widespread dis-
placement. Yet it is hard to imagine that the problem of dis-
placement can be eliminated altogether. Some people and small
businesses will inevitably be forced out in the course of any redevelopment. Relocation assistance is available in limited amounts from the federal, state and local governments already, but it may be worthwhile to consider additional relocation assistance as the Enterprise Zone concept is debated in the Congress. The Kennedy bill provided for small payments to displaced persons and firms.

(2) Commercial activity to be eligible for the tax incentives, and responsibility for enforcing or policing the incentives:

Any firm or establishment, no matter how small or large, ought to be able to take advantage of the tax incentives. The incentives contained in H.R. 1104 favor manufacturing concerns over other activity, but most blighted urban areas can use any and every type of economic development.

However, for the sake of practicality it might be useful to set some limit on the minimum number of employees an enterprise should have in order to be eligible for the tax benefits. An across the board limit would be the easiest to enforce, but it might be more appropriate to set different limits depending upon the particular tax incentive or commercial activity involved.

The enforcement or policing of the tax incentives should require as little paperwork as possible so not to discourage employers from using them. Accordingly, as the incentives take the form of tax reductions, the enforcement would be best left in the hands of the Internal Revenue Service. The Enterprise Zone legislation should direct the IRS to develop guidelines
for how businesses should claim the tax savings on their income tax returns. Some of the tax incentives could be too complicated for small firms to use effectively. The IRS should be directed to advise cities and businesses on how to make the best use of the tax incentives.

(3) **Commercial activity to be encouraged with the tax incentives**:

The tax incentives contained in H.R. 1104 tend to favor new construction and capital-intensive operations. Large factories do improve an area's job and tax base situations tremendously, but the success of the Enterprise Zones should not be dependent upon attracting huge factories such as auto plants or steel mills. There are simply not enough huge factories to go around, and the competition for them is stiff. The service demands of such giants are enormous and the land that they require forces many blocks to be bulldozed to make way.

The tax incentives of the Enterprise Zone proposal should expanded to encourage the rehabilitation of existing facilities, and the whole range of economic activity possible in urban areas. Retail and service operations can be an important source of jobs, so additional incentives should be offered so that the different types of commercial activity each have a chance to grow within the Enterprise Zones.

Fincancing is just as important as taxes to firms and especially so for small businesses. An additional incentive of allowing firms to deduct part of their finance costs as homeowners can deduct the interest on their mortgages would provide a stimulus for urban redevelopment. The list of possible
incentives is almost endless. Another example would be to remove the federal excise tax on gasoline within the Enterprise Zones. This move would have little effect on federal revenues or the overall consumption of gasoline, but it would encourage traffic through the zone areas and thus tend to support local merchants.

(4) The size and designation of Enterprise Zones:

A minimum size for Enterprise Zones is specified in H.R. 1104, but the bill does not set an upper size limit. A fixed upper size limit is essential to prevent huge sections or entire cities from achieving Enterprise Zone status. Use of the tax incentives should be limited to only the most desolate areas so to target the incentives properly the scope the Enterprise zones should be kept narrow. Any upper size limit would be arbitrary, but some limit is needed to prevent abuse.

Furthermore the legislation should stipulate some criteria for economic distress in order to guarantee that the Enterprise zone status will be limited to those areas which are in the most need of it. Evaluating the financial status of individual firms in the areas would be cumbersome, but some guidelines are necessary other than the 50 percent hiring requirement to prevent too many well-to-do firms from cashing in on the tax savings.

The Job Expansion and Urban Redevelopment Tax proposal, H.R. 390, utilizes a point system for determining the eligibility of an area for assistance. Areas receive points based
upon how bad their poverty, unemployment, and per capita income statistics are. The list of criteria could easily be expanded to include other indicators of economic distress such as the cost of insurance or the percentage of tax-delinquent properties. This kind of a point system would be very useful in deciding which areas should receive the Enterprise Zones first.

The idea behind the Enterprise Zones is to "greenline" areas with the tax incentives to make the areas more suitable for investment. An oft-mentioned problem with this practice of "greenlining" is that it might not encourage new investment as much as it would encourage the movement of firms from the surrounding areas into the Enterprise Zones to take advantage of the tax savings. The Enterprise Zones then could prosper, but at the expense of the surrounding areas - thus creating a need to expand the zones, and yet only encourage more movement. The Kennedy bill had a provision restricting its tax incentives to new or expanded operations exclusively. This restriction would be very difficult to enforce fairly however. Large factories are easy to keep track of, but small businesses come and go and change names all the time. It is difficult to predict how much of a problem this side effect of "greenlining" might turn out to be, or what if anything could be done to prevent it. Regardless, this problem ought to be discussed as the Enterprise Zone legislation is debated in the Congress.

(5) The duration of the tax incentives:
In order to effectively stimulate investment the tax incentives should be long-lasting, but they need not be permanent in all cases. Large factories may require permanent tax subsidies to persuade them to remain in central urban areas, but it may be possible to "wear" smaller enterprises of the tax subsidies should the areas become successful. Accordingly, the Enterprise Zone legislation should specifically require that after the initial ten year period the Enterprise Zone areas should be reviewed on a regular basis to determine if they still merit the special status. The incentives could be phased out gradually to avoid severely disrupting the economic progress that the areas might have made. Individual firms could allowe to apply to make continued full use of the incentives on some basis of demonstrated hardship.

(6) The 50 percent hiring requirement:

The requirement that a firm has to hire at least 50 percent of its employees from within the Enterprise Zone area to be eligible for the tax savings could be difficult for businesses to comply with. The local labor force may not be adequate for a firm's needs, and training can be very expensive. Employee turnover could ruin firms' best efforts to maintain the 50 percent figure. Firms would also face the possibility of law suits from qualified persons from outside the local area turned down for employment on account of the 50 percent quota. These kinds of restrictions on the flexibility of firms to hire whomever they want could discourage firms from locating in the Enterprise Zones.
The 50 percent hiring requirement could also result in housing shortages in the Enterprise Zone areas. People would want to move into the areas to increase their chances of being hired. Adequate, low-cost housing is hard to find already in most central urban areas so any influx of people into one specific area would cause problems.

The intent behind the 50 percent quota is a good one. The Enterprise Zone firms should hire the local residents to give them an opportunity for economic advancement, and relieve the service burden on the cities. But to realize this intent in practice would be difficult. This is one part of the Enterprise Zone legislation which needs to be improved, yet for which there is no clear answer for how the proposal should be changed.

Firms should be allowed some flexibility in meeting the requirement. A firm that is trying its best to hire the local residents should not be penalized and denied the tax savings if it can hire only 45 percent of its workers from the area. The 50 percent figure is a good goal in that it does not encourage the sort of white collar/professional development that does not really benefit the residents of hard-core poverty areas. The 50 percent figure may hinder development however, by scaring firms away from the Enterprise Zones. Granting firms tax credits for hiring the local unemployed is a possible alternative means to encourage businesses to hire Enterprise Zone residents. Tax credits would increase the value of the local labor supply without being as restrictive on firms hiring decisions.
(7) The requirement for local governments to reduce property taxes in the Enterprise Zone areas:

The current proposal would force local government to reduce the effective property tax rate by 20 percent within the designated zone area in order to participate in the Enterprise Zone program. Local governments already share in the cost of redevelopment as it is often necessary for the local governments to assist in the assembly, clearance, and improvement of sites, as well as aid in the financing of development before private developers will commit themselves to redevelopment projects. To attract and retain business, cities, especially the large, older ones, usually have to undertake massive capital improvements in the basic urban infrastructure and increase the quality of services provided. The history of urban renewal demonstrates that redevelopment is very costly to cities in terms of what they must put out in order to make projects succeed. Redevelopment is even more costly as far as tax revenues in that revenue is lost in the short run as land is cleared, and often in the long run as well if redevelopment is sluggish.

Forcing the cities to reduce their effective property tax rates by 20 percent would seriously increase the cost of redevelopment to the cities, possibly to the point where cities might be convinced to pass on the Enterprise Zones. Relatively few cities have been granted the authority by their state governments to offer such tax differentials to private firms. Those cities which do have the authority are increasingly finding

themselves subject to a form of extortion as the big firms and developments which are most sensitive to the property tax demand larger and larger tax concessions. Cutting property taxes is not the same as cutting other taxes like that of the federal government on income. The property tax is not very elastic, so it is quite a while before any reductions in the tax pay off in increased revenues - assuming that the desired redevelopment does take place. Meanwhile cities are frequently forced to raise the already high taxes elsewhere.

A 20 percent across the board reduction in property tax rates would hit some cities harder than others. Cities vary in how much they rely on the property tax as there are income, sales, and excise taxes, user charges, and all kinds of miscellaneous fees available for use as well. Most cities have several taxing authorities using the property tax, so if it is the total effective property tax rate that must be reduced, it would be very difficult politically to get the cooperation necessary to reduce the total rate by 20 percent. The general purpose government might well be forced to shoulder a disproportionate share of the tax reduction burden in order to get the Enterprise Zones started. The legislation is not clear on this point.

If the zones are started out as a small scale demonstration program, the tax reduction would not be much of a problem for cities. On the other hand, if the zones wind up covering large areas the bother of reducing taxes could be enough to persuade cities to pass on the Enterprise Zones. The legislation is vague again on whether cities would have to reduce taxes only
for commercial enterprises, or for residential properties as well. Reducing the property taxes of slum landlords will not stimulate business growth. But it will cost the cities needed revenue.

The entire provision of H.R. 1104 requiring the reduction in local property taxes lacks definition. It is not apparent whether the provision is designed mainly as an additional incentive, or as a means to force the host cities to share in the cost of the zones. The more incentives that are packed into the Enterprise Zones, the more attractive they will be to business. Yet the success of the zones would depend heavily upon the full cooperation of the host cities, so the less that the cities have to do to get the Enterprise Zones, the more enthusiastic the cities will be about the zones. Enthusiasm on the part of the city governments is important in that the areas suitable for Enterprise Zones often do not receive their fair share of municipal attention. In most cities slum areas are considered to be eyesores, and removal not improvement is viewed as the best solution.

The property tax rate, or "bite", is a major factor influencing the location of businesses. Thus the Enterprise Zones should be able to offer some form of property tax relief. Local property taxes are already tax deductible for federal purposes. This deduction could be made into a tax credit. A tax credit would offer some property tax relief without affecting city coffers. It would increase the cost of the Enterprise Zones to the federal government, but it would allow the cities to be more enthusiastic about the zones. The full support of the host
cities will be needed to make the Enterprise Zones effective.

If a tax credit is created, the Enterprise Zone legislation should require that property tax rates be held constant within the zones to prevent abuse of the tax credit. Cities could still be encouraged to lower the tax rate on their own discretion.

(8) Additional barriers to implementation of the Enterprise Zones:

The design of the Enterprise Zone legislation can be improved to rectify the problems mentioned up to now. However, there are further difficulties in the local environment which could block the effective implementation of the Enterprise Zones. Actions by persons or institutions on the local level can make redevelopment troublesome to achieve, in spite of the favorable tax incentives. The two most disruptive practices at the local level are land speculation and "redlining" on the part of insurance and financial institutions.

The potential for real estate speculation within the Enterprise Zones once the boundaries become known is very high. It is readily conceivable how land speculators will rush in and buy up the land in the hope of reselling it to legitimate businesses at vastly inflated prices. Speculation such as this is fairly common in urban redevelopment projects. Cities can circumvent this problem using their power of eminent domain, but it is usually worth the effort only for large firms or unit developments such as shopping malls. For small and especially isolated businesses, it is easy to imagine how they could be forced out or excluded from entering on account of the inflated land prices due to speculation. Most small businesses operate
on a marginal basis, so they are very vulnerable to sudden rises in land costs or rents.

To discourage real estate speculation within the Enterprise Zones the legislation could include some form of penalty tax on speculation. Using pre-zone years as a base for property values, excessive profits from the sale of land could be taxed away. Local government is best suited to deal with the problem of inflated rents through the use of rent controls. Rent controls can have negative side effects in the way of discouraging maintenance, rehabilitation, and new construction; but as the Enterprise Zone bill is discussed in the Congress there should be some consideration of possibly encouraging local governments to pass rent controls for the zone areas.

The problem of "redlining", or the denial of insurance or financing on account of a high risk location is known to be a serious obstacle to urban revitalization. The largest of firms often have the internal resources to finance or insure their own developments. For the typical central urban, small firm however, the denial of loans or coverage or burden of being charged excessively high rates can bring disaster. Many struggling or so-called "gray" areas have undergone serious deterioration after having been redlined. Thus it is critical to the overall success of the Enterprise Zones that financing and insurance be readily available at reasonable rates.

At the federal level some legislation already exists to deal with redlining on the part of financial institutions. The Community Reinvestment Act and the Home Mortgage Disclosure Act are both designed to make financial institutions more accountable
to their local communities. The laws are applicable more to home mortgages, but the laws could be amended to apply to commercial loans also. For the laws to be effective however, more vigorous enforcement is needed than has been done so far.

The cities and states have been very slow in passing anti-redlining statutes on their own. Requirements could be added to housing and community development funds and the whole range of federal urban redevelopment assistance to encourage state and local governments to pass their own anti-redlining laws.

Regulation of insurance practices is primarily a state function, but in the aftermath of the riots of the 1960's, the federal government did step in with the FAIR (Fair Access to Insurance) program to provide coverage at reasonable rates to high risk areas. Each state must have a FAIR plan under which the insurance companies of the state must contribute to a common fund which provides insurance to areas or individuals otherwise discriminated against. The FAIR program is in need of reform as it presently offers limited coverage, and the persons or businesses served often find themselves "blacklisted" from obtaining additional coverage on their own.

The problem of redlining on the part of insurance companies is exceedingly difficult to correct. The federal government does have a tremendous amount of influence in addition to statutory coercion which can be used to encourage states and municipalities to try new methods to control the problem of redlining. The federal government can also encourage private action through the Legal Assistance program and other means. Local community pressure can be very effective at forcing insurance companies
to be more responsive to community needs. One example is the recent pledge by the Aetna Insurance Corporation to become more active in efforts to revitalize decaying sections of Philadelphia after having been pressured to do so by community groups from Philadelphia.  

The problem of redlining on the part of financial and insurance institutions poses a significant threat to the success of the Enterprise Zone approach for stimulating urban small businesses. Government-run loan and insurance programs are a possible response, but the existing programs for loan and insurance are costly and not very effective due to delays and red tape. If the Enterprise Zone program is started out on a small scale, the problem of redlining could be dealt with by a general awareness of the problem and a commitment on the part of all governments to penalize those institutions guilty of the practice in ways already possible, such as awarding government contracts only to those institutions which do not engage in the practice. But if the Enterprise Zone program becomes a major urban policy, redlining might become a serious obstacle.

(9) Applications for the Enterprise Zones:

The use of the Enterprise Zones should be carefully planned out before the zones are set up. Cities should have a good idea of the type of redevelopment that they want in the zones, and the cities should have a comprehensive redevelopment strategy for how to ensure that the desired results actually come about.

The tax incentives must be used wisely in order to be effective. The incentives should be used as part of a comprehensive redevelopment plan. Financing, insurance, adequate sites, city services, and labor force training all need to be considered. Each of these factors along with the many other factors involved in the revitalization process can have substantial influence over the success or failure of projects.

Therefore, the applications by municipalities for Enterprise Zones should indicate not only if an area meets the criteria for being economically depressed, but the applications should also contain some form of development plan for the area as well. The plans need not be as specific as the plans that were required for the Urban Renewal program, yet they should be of sufficient detail to demonstrate that the cities have seriously considered how to make the most effective use of the tax incentives. Enterprise Zones should not be given out to cities which are not going to put in the effort needed to make the zones work.

If the Enterprise Zone legislation is modified to require local governments to submit development plans, then the legislation should also guarantee that the residents of the proposed zones be able to have some input during the formulation of the development plans. The residents of the proposed zones, no matter how poor they are, may not want to become neighbors of a huge steel mill or a nuclear waste reprocessing plant.

Formal citizen participation procedures can often overburden local officials with red tape and delay. Requiring local officials to survey the needs and desires of the local residents
before the plans are completed is a possible compromise. Plans could also be circulated for comment before being sent on to the federal government for approval. In these or some other way, the Enterprise Zone legislation should try to encourage citizen participation as a method for seeing to it that the tax incentives are used to serve the wants of the zone residents as well as those of the city at large.

Local groups or individuals should be able to participate in the revitalization of their areas beyond the planning stage. Administrative abuses and ineptitudes can foul up the best of plans. Legal action can be taken to force administrative responsiveness, but taking bureaucrats to court is slow and costly. As the Enterprise Zone idea is deliberated in the Congress, it would be worthwhile to reflect on how local residents can be given the power to see to it that the tax incentives are used beneficially.

H.R. 1104 would vest the authority for approving and overseeing the operation of the Enterprise Zones in the hands of the Department of Commerce. The department contains the Economic Development Administration and the Small Business Administration, both of which are important agencies in urban policy. The department has close ties with the national business community and with key industry leaders. However, the Department of Housing and Urban Development may be the more appropriate agency for the Enterprise Zones.

The tax incentives of the Enterprise Zones will be most effective in stimulating urban revitalization when they are
used in conjunction with the many other urban redevelopment programs. The Department of Housing and Urban Development contains many more of the grant, loan, and technical assistance programs used in the course of redevelopment projects than does the Department of Commerce. Giving the authority over the Enterprise zones to HUD would allow the zones to become better integrated with the overall community development strategies of cities. Competition between agencies such as HUD, Commerce, or Health and Human Services may be a good idea in theory. But in practice, the fragmentation of urban programs between agencies on such a large, national scale results in a horrendous amount of confusion, waste, and abuse. HUD is no more of an efficient agency than is Commerce, and maybe even less so, but due to its involvement in all aspects of the urban redevelopment process, HUD would probably be the better choice of the two.

The nation's urban policy is in great need of reorganization and consolidation as there are already far too many programs and agencies for local governments to keep track of. The typical city has to deal with federal branch offices across the country as well as Washington D.C., and send ten copies of any application or request. If the Enterprise Zone proposal is passed and made into an urban program, it ought to be done in a way that will contribute to consolidation and not confusion.

IMPLEMENTING THE ENTERPRISE ZONES WILL NOT BE AS EASY AS IT LOOKS

As it presently stands, the Enterprise Zone legislation is incomplete in several respects. It can be improved, and no doubt
it will be as it is discussed in the Congress. It is important that the Enterprise Zones be well designed to eliminate problems before they happen. As the Congress has a tendency to create programs in a BIG way, usually without careful contemplation of all the possible consequences, there is no guarantee that the zones will be used wisely. If the Enterprise Zones are well crafted, they might be able to perform some of the miracles that are probably going to be expected of them. If the incentive approach is to be given a reasonable chance to succeed, it is the Congress that must give it that chance.

Unfortunately, good will and a good program do not automatically make for good results. Good results depend on effective implementation, and it is the cities which in the end will make or break the Enterprise Zones. The tax incentives alone cannot reduce the problems of crime, unskilled labor, and the other factors, which in combination are what make the large, older cities and central urban locations in general bad places to do business. A vast number of federal, state, and local programs are already available, and a wide variety of new policy initiatives are also possible. The task of the municipalities will be to use the Enterprise Zones, the existing programs, and the possible new initiatives together in the manner that will most effectively bring about urban revitalization. Each city and each redevelopment project are unique in their characteristics, but every local government will inevitably have to engage in the basic activities of Planning, Coordinating, and Exploring New Possibilities while using the Enterprise Zones.
(1) Planning:

The number of Enterprise Zones will be limited, so cities will have to use their zoning laws, building codes, and whatever other planning tools they have available in order to obtain the maximum benefits from the zones. The Enterprise Zones will also be of limited size, especially if the zones are split into commercial and residential sections, so the cities will want to try to pack in as much development as possible. Cities may want to follow the British example and use the tax incentives to subsidize industrial parks or retail and service malls. It might be worthwhile to try to rehabilitate existing multi-story structures as a way to save land and money. Clustered developments would be easier to service, and offer firms a more secure and attractive environment. Cities will want to think about building parking garages instead of sprawling parking lots, or improving mass transit services in the area. The tax incentives can be used in a variety of ways, so cities will have to decide which use will be the most beneficial.

Most of the discussion of the Enterprise Zones has focused on their potential to stimulate new development. It is just as important for cities to be concerned with retaining the jobs that already exist. Small operations especially must not be neglected. Any new development should not wipe out more jobs than it creates. To effectively attract and retain business, cities must demonstrate that they are sensitive to the present and future needs of the firms.

(2) Coordinating:
The tax incentives of the Enterprise Zones will be most effective when used in association with the other forms of public redevelopment assistance available. The Enterprise Zones can serve as a focus, but the main responsibility for coordinating the total package of assistance rests with the local government.

To abet the local governments in the task of coordination, the Enterprise Zone areas could be given priority in the distribution of the vast array of federal urban benefits. Enabling the cities to build comprehensive assistance packages would allow the cities to offer better deals to convince businesses to locate within the zones. The concept of comprehensive assistance packages was tried during the Model Cities era, but in that case the packages were more or less forced upon the cities. A major advantage of the incentive approach is the flexibility that it gives local government. The local governments are in the best position to know what kind of deals to offer to firms, so they should be given the flexibility to put together their own assistance packages. Within reason and budgetary limits the federal government should let the cities manipulate the supply of federal urban resources to their own advantage. The federal government is already viewed as a public supermarket of programs, so it might as well treat the local governments as consumers rather than as disciples.

Granting the local governments more discretion may tend to encourage more waste or abuse, but if the federal agencies are careful with their programs major excesses can be avoided. Waste and abuse is often encouraged by the federal government
in that municipalities face little penalty if federal money is squandered. Cities are usually given new chances regardless of their track record with federal programs. Cities face all kinds of penalties for failing to meet equal opportunity in employment requirements, but they are only slapped on the wrist if the whole program does not turn out as expected. If the track records of municipalities in implementing federal programs effectively was used in distributing future benefits, those wayward local governments would have a powerful reason to clean up their acts. Individual congressmen would be upset if their city was penalized, but in the long run the efficiency and effectiveness of government in general would improve.

An example of an area which is in sore need of coordination is manpower training. The lack of skilled labor in central urban regions is a serious obstacle to revitalization; made even more serious by the 50 percent hiring requirement of the Enterprise Zones. Manpower training and other employment programs will be sorely needed to make the labor force of the zone areas more attractive to employers. The labor force will have to made sufficiently valuable in terms of employment subsidies and training programs to outweigh its relatively low level of productivity. The proposed tax incentives heavily favor the use of capital, so corresponding efforts will be necessary to encourage the use of local labor. The CETA program, the OIC program, summer jobs for youth, and high school vocational education are all important, and the local government will have to coordinate all these manpower efforts to make the Enterprise Zones work.
Exploring New Possibilities:

The tax incentives of the Enterprise Zones will add to the supply of resources that the financially-strapped cities can use for urban redevelopment. The supply of resources available at present is fairly large, yet it never hurts to explore the possibilities for new urban redevelopment tools.

Cities can always make more effective use of their resources by trying new combinations, and by using their resources more aggressively. Cities are frequently restricted by either local politics or their state governments in the range of practices which can be used to solicit or coerce private cooperation. But cities should try to seek out new methods to achieve their revitalization objectives whenever possible. The existing methods do not always work very well.

Cities have much power in the form of their economic assets. Service contracts, insurance contracts, payroll, trust, and pension funds, bonds, municipal purchases, and the many other assets of cities can be used to obtain private sector cooperation, forcefully if necessary. Cities can use their assets to encourage investment within their own boundaries. Cities do not have to sit quietly while banks use city funds to invest in suburban developments. Pressure can be exerted to make sure that city funds are invested back into the central areas where the investment is most dearly needed. Individual cities will vary in their ability or political desire to use this kind of leverage, but the possibilities should not be ignored.

The even more prolific assets of the state and federal governments can be used in the same fashion. States have a
strong interest in keeping businesses within the state, even if it requires helping the scorned central cities. The purchasing power of the federal government is tremendous, and it can easily be used to shape the behavior of firms. Businesses might become very willing to locate in central urban areas if valuable defense or other contracts were used as bait.

Cities should also explore the possibilities for using their resources to compensate for deficiencies of private sector institutions. Non-profit municipal insurance or finance corporations can be formed to provide for areas which were previously inadequately served. Municipal development corporations can be used to bypass troublesome realtors or contractors and directly serve the needs of city business. Development bonds can be used to underwrite entire industrial parks or shopping malls rather than individual firms. Spreading the risk will help to hold down interest costs. Cities can find many new ways to serve their business communities and provide jobs for their poor at the same time. Self-help is usually the most reliable.

Expanding their own supply of resources is very important for cities. Constitutionally, they lack the power to tax the resources of their more affluent suburbs; and the prospects for more regional governments like that of Miami and Dade County, Florida are not good. Politically, the large, older cities are losing much of the clout that they possessed during the 1960's and early 1970's due to tight budgets and population shifts. The Enterprise Zone idea is likely to be the only new significant help from above for a while, so they will have to get the most out of it that they can.
CONCLUSION: DO IT, BUT DO IT RIGHT

The Enterprise Zone proposal is a chance to inject some new blood into national urban policy, which in the last few years has seemed to be stagnating. Things are accomplished, and progress is made, but at a very slow and costly pace. New blood is certainly needed, and much has been learned from the mistakes of the past. The question is will the Enterprise Zones look as good in the actual operating rooms of distressed urban areas as they do on paper? Can the mistakes be avoided?

The decline or disinvestment being experienced by many of the nation's large, older cities can be traced to changes in the broad socioeconomic forces of the country and particular public policy choices. The economic conditions of many cities have deteriorated to the point that they are heavily dependent on federal and state aid to carry on normal operations. This dependence can be reduced by assisting the cities to rebuild their economic strength.

Over the last thirty or so years, the federal government, and to a lesser extent the state governments as well, have tried to bolster the economic strength of the cities, spending billions of dollars in the process, and yet have met with only modest success. Tighter budgets prohibit much more in the way of spending, so a more effective form of assistance is needed.

In this era of restraint, the efforts that are made to aid the cities must be more pragmatic. Urban policy resources should be applied more comprehensively toward selective projects in order to boost the chances of success. The repeated failure of
the several panaceas for the "urban crisis" should have properly soured policy makers on spreading resources thinly.

The Enterprise Zone concept offers a chance to focus urban redevelopment resources, and hopefully increase their effectiveness. The tax incentive approach may turn out to be a very potent means of encouraging urban revitalization. However, the current proposal as it presently exists is deficient in several respects, and these deficiencies could undermine the stated intent of the Enterprise Zones - to provide jobs for poverty stricken urban areas. The legislation can be improved in ways this paper has suggested. With careful design and planning, the Enterprise Zones could achieve the kind of results that would make all the effort really seem worthwhile.

Implementation of the tax incentives is the crucial step. As was mentioned before, tax incentives like those of the Enterprise Zones can be compared to seeds. They must be carefully attended to for them to grow correctly. Most of the responsibility for implementing the incentives will rest upon the local governments. The federal government can make it it easier for cities, and should encourage them to plan, coordinate, and explore new possibilities.

The federal government is and will continue to be deeply involved in urban redevelopment, especially with the large, older cities of the North. The Enterprise Zone proposal should be seen as a chance for the federal government to provide more competent assistance. It should not be seen as a relatively inexpensive way for the federal government to start pulling out of its commitment to the cities.
New ideas should be tested out before they are judged as good or bad. The Enterprise Zone concept has already become a good idea, even though in the one place that it is being tested, Great Britain, no conclusions can be drawn yet as the tests are just getting under way. Thus in America the Enterprise Zones should be used sparingly, on an experimental basis to start. No one expects the Enterprise Zones to turn out to be monsters, but neither were the many government programs that have turned out to be monsters, such as high-rise public housing. It does not hurt to play it safe.

Unfortunately, it is very possible that the tax incentive approach will be used on a broad basis right from the start. It is very conceivable that during the course of deliberation in the Congress even rural areas will be made eligible for Enterprise Zones. Too big of a bandwagon might bring the whole idea down. Or if the immense expectations are dashed, the prospects for incentive approaches in other policy areas could be damaged. Again, there's no harm in starting off gradually. But there is too much politics in urban policy to count on much of anything.

The Enterprise Zone approach of using tax incentives to stimulate urban redevelopment does seem to be a good idea. The sad shape of many of the nation's cities is a good reason for trying the idea out. It may not work as expected, but there really is only one way to find out.
GENERAL SOURCES ON URBAN REVITALIZATION


James Boykin (1973): Industrial Potential of the Central City. The Urban Land Institute, Washington, D.C.


**SOURCES SPECIFICALLY ON THE ENTERPRISE ZONE CONCEPT**


March 27, 1980. Page 20-F.
April 28, 1980. Page 19-C.
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June 19, 1980. Page 4-E.
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July 30, 1980. Page 1-A.
August 11, 1980. Page 2-D.

H. R. 1104

To amend the Internal Revenue Code of 1954 to provide certain tax incentives for individuals and businesses in depressed areas.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 22, 1981

Mr. HINSON introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1954 to provide certain tax incentives for individuals and businesses in depressed areas.

1 Be it enacted by the Senate and House of Representa-
2 tives of the United States of America in Congress assembled,
3 SECTION 1. SHORT TITLE; AMENDMENT OF 1954 CODE.
4 (a) SHORT TITLE.—This Act may be cited as the
5 “Urban Jobs and Enterprise Zone Act of 1981”.
6 (b) AMENDMENT OF 1954 CODE.—Except as otherwise
7 expressly provided, whenever in this Act an amendment or
8 repeal is expressed in terms of an amendment to, or repeal of,
a section or other provision, the reference shall be considered
to be made to a section or other provision of the Internal
Revenue Code of 1954.

TITLE I—DESIGNATION OF PRI-
VATE JOBS AND ENTERPRISE
ZONES

SEC. 101. DESIGNATION OF ZONES.

(a) GENERAL RULE.—Chapter 80 (relating to general
rules) is amended by adding at the end thereof the following
new subchapter:

"Subchapter C—Designation of Private Jobs and
Enterprise Zones

"SEC. 7371. DESIGNATION.

"(a) GENERAL RULE.—For purposes of this title, the
term 'private jobs and enterprise zone' means any area in the
United States which is designated by one or more local gov-
ernments for purposes of this section if—

"(1) the Secretary of Commerce approves such
designation, and

"(2) the government (or governments) making
such designation provide assurances satisfactory to the
Secretary of Commerce that the real property tax re-
duction described in subsection (d) will be made with
respect to real property located in such area.
The Secretary of Commerce may not approve any designation under paragraph (1) unless an application therefor is submitted in such manner and in such form, and contains such information, as the Secretary of Commerce shall by regulations prescribe. A designation under this subsection may be made by a State government on behalf of one or more local governments with the consent of such local government or governments.

"(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—"

"(1) IN GENERAL.—Any designation of an area as a private jobs and enterprise zone shall apply—"

"(A) for purposes of subtitle A, to all taxable years ending during the first 10 calendar years beginning after the date on which the Secretary of Commerce approves such designation, and

"(B) for purposes of chapter 21, to all calendar months during such taxable years,

unless the Secretary of Commerce revokes such designation under paragraph (2).

"(2) REVOCATION OF DESIGNATION.—The Secretary of Commerce may revoke any designation of an area if the Secretary of Commerce determines that the government (or governments) which designated such area are not substantially complying with the real
property tax reduction described in subsection (d). Any such revocation shall take effect under rules similar to the rules of paragraph (1).

"(c) AREA REQUIREMENTS.—

"(1) IN GENERAL.—The Secretary of Commerce may approve the designation of any area under subsection (a) only if—

"(A) the area is within the jurisdiction of the government (or governments) designating such area,

"(B) the boundary of the area is continuous,

"(C) the area—

"(i) has a population of at least 4,000, or

"(ii) is an Indian reservation (as determined by the Secretary of the Interior), and

"(D) the area meets the requirements of paragraph (2).

"(2) UNEMPLOYMENT AND POVERTY REQUIREMENTS.—For purposes of paragraph (1), an area meets the requirements of this paragraph if such area meets the requirements of 1 or more of the following subparagraphs:

"(A) An area meets the requirements of this subparagraph if—
"(i) the average rate of unemployment in such area for the most recent 24-month period for which data are available was at least twice the average national rate of unemployment for such 24-month period, and

"(ii) 30 percent or more of the families living in such area were below the poverty level.

"(B) An area meets the requirements of this subparagraph if the average rate of unemployment in such area for the most recent 24-month period for which data are available was at least 3 times the average national rate of unemployment for such 24-month period.

"(C) An area meets the requirements of this subparagraph if 50 percent or more of the families living in such area are below the poverty level.

"(3) POVERTY LEVEL.—For purposes of this subsection, the term 'poverty level' means 85 percent of the average lower living standard income level determined annually by the Secretary of Labor and published by the Bureau of Labor Statistics.

"(4) DETERMINATIONS MADE BY SECRETARY OF COMMERCE.—Determinations under this subsection shall be made by the Secretary of Commerce on the
basis of data submitted by the government (or governments) designating the area if the Secretary determines that such data is reasonably accurate.

"(d) REQUIRED REAL PROPERTY TAX REDUCTION.—

"(1) IN GENERAL.—The real property tax reduction described in this subsection is a permanent reduction applicable to property in the private jobs and enterprise zone of not less than 20 percent in the effective real property tax rate (determined as of the submission of the application under subsection (a)). Any such reduction shall be made not less rapidly than ratably over the first 4 real property tax years beginning after the date on which the Secretary of Commerce approves the designation under subsection (a).

"(2) EFFECTIVE TAX RATE.—For purposes of paragraph (1), the effective real property tax rate is the rate of the real property tax multiplied by the percentage of assessed value which is subject to such rate."

(b) The table of subchapters for chapter 80 is amended by adding at the end thereof the following new item:

"SUBCHAPTER C. Designation of private jobs and enterprise zones."

(c) PROPERTY TAX REDUCTION TO BE DISREGARDED FOR TAX APPEAL PURPOSES.—For the purpose of determining the eligibility of a State or local government for sub-
sistance or benefits under any law of the United States, and
for the purpose of determining the amount or extent of any
such assistance or benefits, any reduction in real property
taxes made for purpose of obtaining or maintaining the desig-
nation of a private jobs and enterprise zone under section
7671 of the Internal Revenue Code of 1954 shall be
disregarded.

SEC. 102. SENSE OF CONGRESS WITH RESPECT TO DESIGNA-
TIONS OF FOREIGN TRADE ZONES.

It is the sense of the Congress that in the case of any
application for designation of an area in an Urban Jobs and
Enterprise Zone as a foreign-trade zone—

(1) the Foreign-Trade Zone Board should expedite
the application process as much as possible;

(2) in evaluating such application, the Board
should take into account not only current economic de-
velopment within the Urban Jobs and Enterprise Zone
but also future development to be expected from the
incentives offered by this Act; and

(3) the Board should provide technical assistance
to the applicants.
TITLE II—TAX INCENTIVES
Subtitle A—Social Security Tax Reduction

SEC. 301. REDUCTION IN SOCIAL SECURITY PAYROLL TAXES.

(a) GENERAL RULE.—Subchapter C of chapter 21 (relating to social security payroll taxes) is amended by redesignating section 3126 as section 3127 and by inserting after section 3125 the following new section:

"SEC. 3126. REDUCTION IN EMPLOYEE AND EMPLOYER TAXES FOR EMPLOYEES IN PRIVATE JOBS AND ENTERPRISE ZONES.

"(a) In General.—If an employee is an eligible employee for any payroll period, each rate of tax specified in section 3101 or 3111 shall, for wages paid for such payroll period, be reduced by—

"(1) 90 percent if such employee has not attained the age of 21 before the close of such payroll period,

or

"(2) 50 percent if such employee has attained the age of 21 before the close of such payroll period.

"(b) ELIGIBLE EMPLOYEE.—For purposes of subsection (a), an employee is an eligible employee for any payroll period if at least 50 percent of the services performed by such employee during such period for the employer are performed within one or more private jobs and enterprise zones."
(b) Clerical Amendment.—The table of sections for subchapter C of chapter 21 is amended by striking out the item relating to section 3126 and inserting in lieu thereof the following:

"Sec. 3126. Reduction in employee and employer taxes for employees in private jobs and enterprise zones."
"Sec. 3127. Short title."

5 SEC. 292. REDUCTION IN SOCIAL SECURITY TAX NOT TO AFFECT BENEFITS.

The reduction in rates of tax under section 3101 or 3111 of the Internal Revenue Code of 1954 because of the application of section 3126 of such Code shall not affect the eligibility of any individual for benefits under the Social Security Act nor the amount or extent of such benefits.

12 SEC. 293. REDUCTION OF SOCIAL SECURITY TAX COLLECTIONS TO BE MADE UP FROM GENERAL REVENUES.

There is hereby appropriated to the trust funds established under sections 201 and 1817 of the Social Security Act amounts equivalent to the amounts by which the amount of taxes received under sections 3101 and 3111 of the Internal Revenue Code of 1954 are reduced by the application of section 3126 of such Code. The Secretary of the Treasury shall transfer amounts appropriated under this section to the appropriate trust funds in the appropriate amounts. The Secretary shall make such transfers on a quarterly basis and on the basis of estimates made by him of such amounts, with
appropriate adjustment for inadequate or excessive previous transfers due to errors of estimate.

Subtitle B—Reduction in Capital Gain Tax Rates

Sec. 211. Corporations.

(a) General Rule.—Subsection (a) of section 1201 (relating to alternative tax for corporations) is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof:

"(1) a tax computed on the taxable income reduced by the amount of the net capital gain, at the rates and in the manner as if this subsection had not been enacted,

"(2) a tax of 15 percent of the lesser of—

"(A) the net capital gain, or

"(B) the net capital gain determined by only taking into account sales or exchanges of qualified property, plus

"(3) a tax of 28 percent of the excess (if any) of—

"(A) the net capital gain for the taxable year, over

"(B) the amount of the net capital gain taken into account under paragraph (2)."

(b) Definition of Qualified Property.—Section 1201 is amended by redesignating subsection (d) as subsec-
tion (e) and by inserting after subsection (c) the following new
subsection:

"(d) DEFINITION OF QUALIFIED PROPERTY.—For pur-
poses of this section—

"(1) IN GENERAL.—The term 'qualified property' 
means—

"(A) any tangible personal property which
was used predominantly by the taxpayer in a pri-
ivate jobs and enterprise zone in the active con-
duct of a trade or business,

"(B) any real property located in such a zone
which—

"(i) was used predominantly by the tax-
payer in the active conduct of a trade or
business, or

"(ii) is sold or exchanged by an individ-
ual whose principal residence (as of the date
of the sale or exchange) is in such zone, and

"(C) any interest in a corporation, partner-
ship, or other entity if, for the most recent taxable
year of such entity ending before the date of the
sale or exchange, such entity was a qualified
business.

"(2) QUALIFIED BUSINESS.—A person shall be
treated as a qualified business for any taxable year if—
“(A) such person is actively engaged in the conduct of a trade or business during such taxable year,

“(B) at least 50 percent of the employees of such person during such taxable year are qualified employees, and

“(C) in the absence of extenuating circumstances (as shown to the satisfaction of the Secretary), at least 50 percent of the average daily number of qualified employees of such person, for each taxable year after the first taxable year in which the person is actively engaged in the conduct of a trade or business in the private jobs and enterprise zone, are residents of a private jobs and enterprise zone.

“(3) **Qualified Employees.**—An employee shall be treated as a qualified employee for any taxable year if substantially all the service performed by such employee for the employer during such taxable year are—

“(A) performed in 1 or more private jobs and enterprise zones, and

“(B) performed in a trade or business of the employer.
“(4) Property remains qualified after zone designation ceases to apply.—

“(A) In general.—The treatment of property as qualified property under paragraph (1) shall not terminate when the designation of the private jobs and enterprise zone in which the property is located or used ceases to apply.

“(B) Exceptions.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone.”.

SEC. 212. TAXPAYERS OTHER THAN CORPORATIONS.

Subsection (a) of section 1302 (relating to deduction for capital gains) is amended to read as follows:

“(a) Deduction Allowed.—

“(1) In general.—If for any taxable year a taxpayer other than a corporation has a net capital gain, there shall be allowed as a deduction from gross income an amount equal to the sum of—

“(A) 80 percent of the lesser of—

“(i) the net capital gain, or

“(ii) the net capital gain determined by only taking into account sales or exchanges of qualified property (as defined in section 1201(d)), plus
"(B) 60 percent of the excess (if any) of—

"(i) the net capital gain, over

"(ii) the amount of the net capital gain taken into account under subparagraph (A).

"(2) Property remains qualified after zone designation ceases to apply.—

"(A) In general.—The treatment of property as qualified property under paragraph (1) shall not terminate when the designation of the private jobs and enterprise zone in which the property is located or used ceases to apply.

"(B) Exceptions.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone.”.

SEC. 213. MINIMUM TAX.

Paragraph (E) of section 57(a) (relating to tax preference for capital gains) is amended by adding at the end thereof the following new subparagraph:

"(E) Sales of certain property not taken into account.—For purposes of this paragraph, sales or exchanges of qualified property (as defined in section 1201(d)) shall not be taken into account.”.
Subtitle C—Corporate Rate Reduction

SEC. 211. RATE REDUCTION.

Section 11 (relating to tax imposed on corporations) is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

"(c) REDUCTION IN RATE OF TAX FOR CORPORATIONS WHICH ARE QUALIFIED BUSINESSES.—If any corporation is a qualified business (as defined in section 1201(d)(2)) for any taxable year, the amount of the tax imposed by subsection (a) on the taxable income of such corporation shall (in lieu of the amount determined under subsection (b)) be the sum of—

"(1) 14 percent of so much of the taxable income as does not exceed $25,000,

"(2) 17 percent of so much of the taxable income as exceeds $25,000 but does not exceed $50,000,

"(3) 25 percent of so much of the taxable income as exceeds $50,000 but does not exceed $75,000,

"(4) 34 percent of so much of the taxable income as exceeds $75,000 but does not exceed $100,000, plus

"(5) 39 percent of so much of the taxable income as exceeds $100,000.".
Subtitle D—Other Incentives

SEC. 231. ACCELERATED DEPRECIATION.

(a) THREE-YEAR, STRAIGHT LINE METHOD.—Section 167 (relating to depreciation) is amended by redesignating subsection (r) as subsection (s) and by inserting after subsection (q) the following new subsection:

“(r) RAPID DEPRECIATION FOR CERTAIN SMALL BUSINESSES.—

“(1) IN GENERAL.—In the case of any taxpayer who is a qualified business (within the meaning of section 1301(d)(2)) for any taxable year, the taxpayer may elect to compute the depreciation deduction under this section with respect to any property placed in service during such taxable year in a private jobs and enterprise zone by using the straight line method with a useful life of 3 years.

“(2) LIMITATION.—The aggregate bases of property placed in service during any taxable year to which an election under paragraph (1) applies shall not exceed $500,000.”.

(b) FULL INVESTMENT CREDIT ALLOWED.—Subsection (c) of section 46 (relating to qualified investment) is amended by adding at the end thereof the following new paragraph:
"(7) SPECIAL RULE FOR PRIVATE JOBS AND ENTERPRISE ZONE PROPERTY.—Notwithstanding the second sentence of paragraph (2), the useful life, for purposes of this subpart, of any property with respect to which an election is made under section 167(c) shall be determined without regard to that election.".

SEC. 233. OPTIONAL CASH METHOD OF ACCOUNTING FOR CERTAIN SMALL BUSINESSES.

(a) GENERAL RULE.—Section 446 (relating to general rule for methods of accounting) is amended by adding at the end thereof the following new subsection:

"(f) OPTIONAL CASH METHOD.—

(1) IN GENERAL.—Any taxpayer who is a qualified business (as defined in section 1201(d)(2)) for any taxable year may elect to compute taxable income—

(A) under the cash receipts and disbursements method of accounting, and

(B) without any requirement to use inventories under section 471.

(2) GROSS RECEIPTS LIMITATION.—Paragraph (1) shall not apply for any taxable year with respect to any taxpayer if for any prior taxable year the gross receipts of such taxpayer exceeded $1,500,000.

(3) ELECTION.—An election under paragraph (1) may be made by any taxpayer without the consent of
the Secretary for the taxpayer's first taxable year for
which the taxpayer is a qualified business.".

SEC. 223. EXTENSION OF NET OPERATING LOSS CARRYOVERS.

(a) GENERAL RULE.—Paragraph (1) of section 172(b)
(relation to net operating loss carrybacks and carryovers) is
amended by adding at the end thereof the following new sub-
paragraph:

"(J) In the case of any taxpayer which is a
qualified business (as defined in section 1201(d)(2))
for any taxable year, any net operating loss for
such taxable year shall be a net operating loss
carryover to each of the 10 taxable years follow-
ing the taxable year of such loss."

(b) TECHNICAL AMENDMENT.—Subparagraph (B) of
section 172(b) is amended by striking out "and (F)" and in-
serting in lieu thereof "(F), and (J)".

TITLE III—EFFECTIVE DATE

SEC. 201. EFFECTIVE DATES.

The amendments made by this Act—

(1) insofar as they relate to subtitle A of the In-
ternal Revenue Code of 1954, shall apply to taxable
years beginning after December 31, 1982.

(2) insofar as they relate to chapter 21 of such
Code, shall apply to wages paid after December 31,
1982, and
(8) insofar as they relate to subtitle F of such Code, shall apply from January 1, 1983, through December 31, 1990.