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THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Proposed Article for Legislative
Policy Magazine

Richard Darman has asked for comments by noon tomorrow on the above-referenced draft magazine article by Lee L. Verstandig on enterprise zone legislation. The article will appear in the first issue of Legislative Policy, a magazine funded by a conservative organization. According to Verstandig, the magazine goes to every state legislator and member of Congress. The article reviews the President's support for enterprise zone legislation, the theory of the pending Administration bill and its major provisions, and the status of the bill in Congress. Hearings on the bill have been held by the House Ways and Means Committee but no action has been taken, even though a majority of the House cosponsored the proposal.

I have reviewed the article and have no objections to it. There is no violation of the Anti-Lobbying Act, 18 U.S.C. § 1913, or the pertinent anti-lobbying appropriation rider, as those provisions have been interpreted by the Department of Justice and this office. Dissemination of Administration views to the media is clearly not prohibited by the anti-lobbying provisions, and submission of a magazine article for publication falls within this category. Circulation of the article to individuals who might lobby Congress is not being done by the Government at all, but by the magazine publisher, so the concern underlying the anti-lobbying provisions is not even implicated.

As stated in your memorandum of February 23, 1981 for the White House staff, "it is not improper for an Executive Branch employee to provide legitimate informational background and material to the public in support of an Administration policy effort." That memorandum notes that staff members may provide "letters on specific subjects written by Executive Branch officials" to outside organizations for reproduction and distribution by the organization. Certainly no more (and in fact considerably less) than that is involved in this case. The memorandum contained the caveat that "the materials must not suggest that the recipients contact Members of Congress urging support of particular

positions; also the decision to publish or distribute any such material must be left to the independent organization." The article does not urge a lobbying effort, and publication and distribution of the article is the prerogative of the magazine.

Attachment

THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING *Orig. signed by FFF*
COUNSEL TO THE PRESIDENT

SUBJECT: Proposed Article for Legislative
Policy Magazine

Counsel's Office has reviewed the above-referenced draft article by Lee Verstandig on enterprise zones, and finds no objection to it from a legal perspective. The article does not run afoul of the Anti-Lobbying Act, 18 U.S.C. § 1913, or the pertinent anti-lobbying appropriation rider. These provisions do not cover the submission of Administration views to the media, so long as the publication and distribution decisions remain those of the media organization. In addition, the article does not urge readers to contact their Congressional representatives.

On page 12, line 1, "Reagan" should be "Regan," and on line 5, "the" should be inserted between "report" and "bill."

FFF:JGR:aea 12/8/83
cc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

December 8, 1983

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WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- O - OUTGOING
- H - INTERNAL
- I - INCOMING
Date Correspondence Received (YY/MM/DD) 1 / 1

Name of Correspondent: Richard G. DARMAN

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: Proposed Article for Legislative Policy Magazine

ROUTE TO:	ACTION	DISPOSITION	
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response Code
<u>CUBOCC</u>	ORIGINATOR	<u>83/12/06</u>	<u>1 / 1</u>
<u>CWAT18</u>	<input checked="" type="checkbox"/> Referral Note:	<u>83/12/06</u>	<u>S 83/12/08</u>
	Referral Note:	<u>1 / 1</u>	<u>1 / 1</u>
	Referral Note:	<u>1 / 1</u>	<u>1 / 1</u>
	Referral Note:	<u>1 / 1</u>	<u>1 / 1</u>

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- A - Appropriate Action
- I - Info Copy Only/No Action Necessary
- C - Comment/Recommendation
- R - Direct Reply w/Copy
- D - Draft Response
- S - For Signature
- F - Furnish Fact-Sheet
to be used as Enclosure
- X - Interim Reply

DISPOSITION CODES:

- A - Answered
- C - Completed
- B - Non-Special Referral
- S - Suspended

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- Code = "A"
- Completion Date = Date of Outgoing

Comments: _____

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WHITE HOUSE STAFFING MEMORANDUM

DATE: 12/6/83 ACTION/CONCURRENCE/COMMENT DUE BY: 12/8 - 12:00 Noon

SUBJECT: PROPOSED ARTICLE FOR LEGISLATIVE POLICY MAGAZINE

	ACTION		FYI			ACTION		FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	HICKEY	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BAKER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFARLANE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McMANUS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
DARMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
DUBERSTEIN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
FELDSTEIN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	SVAHN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	VERSTANDIG	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FULLER	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	WHITTLESEY	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
GERGEN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HERRINGTON	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

May we have any comments by 12:00 Noon Thursday on the attached article. Thank you.

RESPONSE:

Richard G. Darman
Assistant to the President
1983 DEC - 6 PM 6:30

1983 DEC -6 PM 5:45

THE WHITE HOUSE
WASHINGTON

December 6, 1983

MEMORANDUM FOR RICHARD G. DARMAN

FROM: LEE L. VERSTANDIG *lee*

SUBJECT: DRAFT OF ENTERPRISE ZONE ARTICLE FOR
LEGISLATIVE POLICY MAGAZINE

At the suggestion of Dave Gergen, I am forwarding this to you. I would appreciate it if you would staff out this article which will appear in Legislative Policy magazine. I need a final draft by close of business Thursday, December 8th.

This magazine goes to every state legislator and member of Congress. It is funded by a conservative organization which is very supportive of our Enterprise Zone efforts. Thus, I would appreciate any comments you or your staff might have so that I might be certain that we are properly representing the President's position on this important piece of legislation.

The first issue of this newly formatted magazine will be coming out in January and will be mailed to its audience. Thus, the timing of this article is important as state legislators go back into session and as the Congress returns.

I certainly would appreciate any other suggestions for use of this article.

There are a couple of corrections that I am asking my staff to make and I would like to bring them to your attention:

1. You will see on pages 10-11 several examples of operating enterprise zones. I have asked my staff to provide some better examples and illustrations of private sector participation such as those in Illinois, Ohio, New Jersey, Missouri and Mississippi.

2. In addition to the quote from the President's radio address of December 3 (p. 13), we might include the reference from the President's letter of November 29 to the National League of Cities Annual Meeting in New Orleans.
3. We are looking for a quote from Neil Pierce on enterprise zones since he is highly recognized by state and local officials.

Dick, I will be on the road in Lexington and Indianapolis for the next two days. Could you please forward any comments or suggestions by the December 8th deadline to my assistant Kip Hawley who is located on the second floor of the West Wing. Kip can be reached at X7007.

December 4, 1983

DRAFT: ARTICLE FOR LEGISLATIVE POLICY ON ENTERPRISE ZONES

EZ does it. Enterprise Zones, that is.

As Ronald Reagan campaigned for the Presidency in 1980, he observed the human tragedy that has accompanied the economic disintegration of distressed inner-cities and rural areas - a disintegration hastened in some instances by the very programs designed to cure it. Black and Hispanic Americans in our cities bore the brunt of this tragedy, with few jobs and even less hope. Destitute neighborhoods like the South Bronx were strewn with the debris of broken promises and failed federal panaceas. Clearly, heavy subsidies and centralized planning would not be the answer to this crisis.

Candidate Reagan argued that the private sector, given room to operate in designated "enterprise zones", offered the best potential for creating jobs and rebuilding the local economies of some of our most impoverished areas. Under his proposal, residents and employers in these zones would receive powerful tax incentives and find relief from unnecessarily burdensome government regulations.

After his inauguration, President Reagan issued a resounding call for enterprise zone legislation. In his first State of the Union Address he said:

"This legislation will permit states and localities to apply to the federal government for designation as urban enterprise zones. A broad range of special economic incentives in the zones will help attract new business, new jobs, new opportunity to America's inner cities and rural towns. Some will say our mission is to save free enterprise. Well, I say we must free enterprise so that together we can save America."

Congressmen Jack Kemp (R - New York) and Robert Garcia (D - New York) wrote the original bill and served as its missionary fathers. Last January, after the 97th Congress had failed to act, the Administration worked closely with Kemp and Garcia to rework and reintroduce the proposal. When the President transmitted The Enterprise Zone Employment and Development Act of 1983 to Congress, he said:

"Enterprise zones are a fresh approach for promoting economic growth in the inner cities. The old approach relied on heavy government subsidies and central planning. A prime example was the Model Cities Program of the 1960's which concentrated government programs, subsidies and regulations in specific, depressed urban

areas. The enterprise zone approach would remove government barriers, freeing individuals to create, produce and earn their own wages and profits."

The Senate passed the measure in June but the House, until recently, had barely stirred. Despite cosponsorship of the bill by a growing majority of House members, the Democratic leadership of the Ways and Means Committee did not allow hearings until November 17, 1983 - one day before adjournment.

The President's economic program, in the meantime, has generated a robust recovery. The index of 12 Leading Economic Indicators increased 0.8% in October, the 14th consecutive monthly advance. Since last December, the recovery has spurred the creation of over 3.6 million jobs, bringing the unemployment rate down from 10.8% to 8.4%. Inflation has dropped to 2.9% over the 12 months ending in October 1983, lower than it has been since the late 1960's. While this is great news for the economy as a whole, many distressed areas of our towns and cities still experience economic stagnation. They need practical remedies - designed at the local level, but enhanced by federal tax and regulatory relief - so that they, too, can share the fruits of this recovery.

The President's enterprise zone proposal would allow states and localities to design their own stimuli for economic

development in their target areas. Local, state and federal enterprise zone incentives will together encourage the private sector to restore the economic vitality of our impoverished urban and rural areas.

As HUD Secretary Samuel R. Pierce Jr., told the House Ways and Means Committee:

"In my view, enterprise zones incorporate a unique, innovative approach to the twin scourges of hard core unemployment and blight. Enterprise zones seek to reverse the outmigration of human and physical capital from distressed areas. I'm confident that, in the long run, enterprise zones can stimulate a gradual restoration of local tax bases, so that once highly depressed areas can again enjoy healthy, self-sustaining economic growth."

The bill is designed to restore a free market environment in these areas by providing powerful tax incentives for job creation and capital investment, by removing unnecessary regulatory burdens, and by encouraging and rewarding the participation of local governments and private neighborhood organizations. But this time the federal government will not simply pump out a "cookie cutter" scheme of restrictive uniformity.

Too often, traditional federal urban programs have forced local officials to shoehorn their ideas into a restrictive grant application conceived, designed, and controlled in Washington. The Enterprise Zone proposal, by contrast, would allow these officials to do precisely what they are most qualified to do: to analyze their local problems and to design their own creative responses. The federal enterprise zone incentives would then enhance these efforts with powerful tax and regulatory relief. The President, in essence, is proposing a state and local program with a helpful boost from Washington.

Under the bill, high levels of poverty, unemployment, and other indicators of distress determine minimum eligibility for enterprise zone designation. This is not, however, another entitlement program; not every applicant meeting the minimum criteria would become an enterprise zone. Rather, local and state governments would submit joint nominations for designation by the Secretary of Housing and Urban Development on a competitive basis. The bill authorizes the Secretary to designate a maximum of 75 zones over the first three years of the program. This limitation will encourage creativity and innovation, and will foster a true commitment by the nominating state and local governments.

The core of the nomination process is the state and local "Course of Action" outlining the steps these governments

will take to improve the climate for job creation and community development within their zones. The Course of Action might include local tax abatement and regulatory streamlining, improvements in police protection and infrastructure, or commitments from private businesses or community groups to support economic development in the zone. The choice of weapons is left to the nominating governments. Here are some possibilities:

- o In the area of tax relief, state and local governments could provide reductions or abatements of state and local income taxes, property taxes, sales taxes, and other taxes which vary among the jurisdictions.
- o State and local deregulation could be provided in such areas as zoning, occupational licensure laws, price controls, permit requirements, central planning regulations and building codes.
- o State and local governments may also provide funding for projects that contribute to economic development in a zone, such as job-training or infrastructure efforts. They might target Community Development Block Grants (CDBGs), Urban Development Action Grants (UDAGs), or Revenue Sharing funds for these efforts.

- o To encourage local community involvement, state and local officials could encourage the creation of "Neighborhood Enterprise Associations" by zone residents to share in the economic success of the zones, particularly through mechanisms for equity participation in zone businesses by zone residents. The states and localities could also support other volunteer, self-help efforts in the zone areas.

Upon designation, federal tax incentives and other advantages would accrue to residents and employers in the zone. Here are the major features of the tax package for employers:

- o The elimination of capital gains taxes on investment within the zone.
- o A powerful 50% income tax credit for wages paid to each disadvantaged employee hired. The credit remains at 50% for the first three years and is phased out over the next four. Because the credit has no cap, the employer is encouraged to train and promote disadvantaged employees to higher paying jobs within the organization.
- o A investment tax credit for capital investment in the zone. For personal property, such as

machinery or equipment, this credit would be 3 or 5 percent. For the construction or rehabilitation of commercial, industry or rental structures within a zone, the credit would be 10 percent.

- o A 10 percent income tax credit for any increase in an employer's payroll, after zone designation, paid to qualified zone employees.

- o An expanded operating loss carryover and unused tax credit carryover for the life of the zone or 15 years, whichever is longer.

- o The designation of suitable enterprise zone areas as foreign trade zones, providing relief from tariffs and import duties.

Beyond offering these tax benefits to entrepreneurs who create new jobs, the bill recognizes that millions of poor Americans face a poverty trap that impedes their drive for self-improvement. Welfare recipients suffer an enormous marginal tax rate as they climb from the welfare rolls to the tax rolls. To encourage the poor in their efforts to hold taxpaying jobs, the bill offers a 5% employee tax credit for the first \$10,500 of wages earned in the zone.

This bill also insures that, despite any possible changes elsewhere, small issue industrial development bonds (IDBs) will continue to be available for zone projects, and that accelerated cost recovery for IDB-financed property will be permitted.

Aside from encouraging local regulatory relief in the competitive Course of Action, the bill would facilitate federal regulatory relief by giving federal bodies the discretion to relax or eliminate their nonstatutory regulatory requirements within enterprise zones. But they would do so only upon the request of the state and local governments involved. This process could lead, for example, to modifications of federal paperwork requirements, banking regulations, Securities and Exchange Commission procedures, energy performance standards, or HUD minimum property standards. In no event, however, would the minimum wage or statutory health and safety standards (such as OSHA requirements) be disturbed.

The Administration bill is flexible rather than prescriptive. It will nurture the diversity of local responses to local distress while unleashing the creative energy of small entrepreneurs and the support of major businesses. As the above examples show, local Courses of Action and requests for regulatory relief can be as unique and innovative as the fertile minds of the public officials,

planners, and neighborhood residents who conceive them at the locus of the distress.

This respect for diversity will allow each locality to play its strongest hand. The 20 states that have enacted their own enterprise zone legislation are already showing how the local application of zone incentives can tap the unique assets of each locality. Here are four examples:

- o Topeka, Kansas has employed state enterprise zone incentives to encourage a \$60 million expansion of a Goodyear truck tire plant, creating at least 350 new permanent jobs.

- o New Britain, Connecticut placed less emphasis on heavy industry, choosing instead to use Connecticut enterprise zone incentives to generate some impressive new commercial development in its central business district.

- o Officials in New Haven, Connecticut located their zone adjacent to Yale University, in a neighborhood battered by the flight of a major factory from the city. With strong support from local corporations and labor unions, they seized upon the zone's proximity to Yale by establishing a private sector "Science Park" for the incubation

of small new research and development firms on the grounds of the abandoned factory. The zone has also attracted an IBM computer education facility which will train the unemployed factory workers in the zone for the high technology jobs offered by the new firms.

- o City planners in Tampa, Florida recognized the potential for the development of tourism in Ybor City, Tampa's historic Cuban cigar making district. Private investors in Ybor City have used Florida's enterprise zone incentives to open several new restaurants and a winery. These activities alone have created over 300 jobs, and other investors are now preparing for the rehabilitation of a theatre, an historic hotel, and a grand ballroom.

When the Ways and Means Committee finally gave the bill a hearing, the Administration made a strong showing of its support for enterprise zones. An impressive panel of three Cabinet officers - the Secretaries of Housing and Urban Development, Treasury, and Commerce - opened the hearing with forceful testimony on behalf of the bill.

Secretary Pierce patiently guided the Committee through the significant incentives offered by the bill. Treasury

Secretary Donald Reagan commented that these incentives "should create and expand economic opportunities within the zones, leading to an expansion of economic activity and the creation of jobs within these areas." Secretary Baldrige urged the Committee to report bill without delay:

"One of the merits of the enterprise zone proposal is that it will allow us to conduct new experiments in economic development to see what works. Given the enormity of the problems confronting some of our towns and cities it is time to get the experiment underway."

The Cabinet officers were followed by an outstanding array of state and local officials, scholars, and private business people - virtually all of whom called for immediate passage of the Administration bill. These witnesses did not have to speak in theoretical terms, for they had seen the actual success of the new enterprise zone programs in the states. For example, a businessman from Kentucky said that without his state's enterprise zone incentives he would not have been able to open his new lumber processing facility. He told the Committee that 70% of his workers had formerly received some form of federal relief - welfare, food stamps, and the like - but now were proudly holding taxpaying jobs.

The state success stories are impressive, but it is clear that federal legislation is needed to sustain the progress made by the states. Dr. Stuart Butler, one of the enterprise zone pioneers who introduced the British model, with significant improvements, to the United States, has praised the state programs but points out that they can provide only limited incentives, since the largest tax and regulatory burdens are imposed by Washington. He told the Committee that "the experience of the states" shows that enterprise zones "would work far better with federal incentives."

Congress adjourned without action, but President Reagan and a large number of state and local officials have kept the heat on. On November 30, at its Annual Congress of Cities, the National League of Cities unanimously adopted a resolution endorsing the Administration's enterprise zone bill. Speaking on behalf of the approximately 15,000 mayors it represents, the League strongly urged the House leadership and the Chairman of the Ways and Means Committee to act favorably upon the bill without further delay.

On December 3, President Reagan spoke directly to the American people, devoting a portion of his Weekly Radio Address to his enterprise zone proposal. The President stressed his desire for immediate action:

"Our enterprise zones proposal would stimulate new businesses, bringing jobs and hope to some of the most destitute areas of the country. The Senate has adopted this proposal. But after two years of delay, the House Democratic leadership only recently agreed to hold its first hearing on the legislation. This is a jobs bill America needs. And come January, we expect action."

During the two years of congressional debate, the idea of the enterprise zone has indeed come of age in the states. Twenty states have now enacted their own enterprise zone legislation. The Sabre Foundation, a Washington policy analysis group, recently completed a systematic assessment of 9 states with operating enterprise zone programs. The study reports that these new programs have already created or saved over 20,000 jobs and have generated private sector investment of almost one half billion dollars in these distressed areas.

Many of the 20 states that have adopted enterprise zone legislation already enjoy the benefits of the program, not only for the development of their impoverished urban and rural areas, but also for the general economic well-being of their state economies. A recent analysis by the Louisiana Department of (Blank), for instance, found that the \$(Blank) in tax relief allocated to the state enterprise zone program

was offset by \$(blank) in new payroll tax revenues alone. This revenue recovery of \$1.50 for every \$1.00 of tax relief does not even include the fiscal impact of new workers leaving public assistance or unemployment compensation rolls, the potential reduction of crime in the zones, and the immeasurable alleviation of other social ills that plague our most destitute areas.

These states - and other states that may join them in the coming year - may well gain another advantage from their wise adoption of state enterprise zone programs: upon the enactment of federal legislation, they could be in the best posture to prepare strong Courses of Action and thereby to achieve early enterprise zone designation for their own distressed areas.

A national, bipartisan consensus for the Administration's bill has emerged among small businesses, labor organizations, and public officials. 245 members of the House - including 95 Democrats - have actually cosponsored the measure. This is well over a majority of that chamber. Now that a majority of the Ways and Means Committee has also signed onto the bill, we can anticipate some positive movement early this year.

Syndicated columnist Carl T. Rowan, often critical of this Administration's domestic programs, has taken a favorable stance toward our experimental proposal:

"Enterprise zones will not provide jobs for all those who are desperate for work opportunities. But it will make jobs available to many and thus give hope to almost all. And hope may be the most precious item at this time."

Above all, the program is experimental; we do not contend that enterprise zones will provide a quick fix for urban and rural blight. As the President noted in a March 1982 luncheon with Black clergymen, "We want to make it profitable for business to provide opportunity to some of this country's most deprived citizens. If this experiment works, it can provide a blueprint for future projects all across America."

Enterprise zones are not designed to replace federal aid for local economic development; the President's commitment to Revenue Sharing, UDAGs, CDBGs, and other key urban and small city programs remains firm. Enterprise zones will forge a new partnership among federal, state, and local officials, and the private businesses they seek to encourage. And we in the White House Intergovernmental Affairs Office will continue our tireless effort to make the the program both a reality and a success...and maybe make it look EZ.