

HENRY GEORGE SCHOOL  
OF SOCIAL SCIENCE  
NORTHERN CALIFORNIA  
3410 19th Street  
San Francisco  
California 94110

# Enterprise Zones

*"We promise no  
miracles, but we  
do believe a change  
for the better  
is possible."*

RONALD REAGAN

## By E. Robert Scrofani

E. Robert Scrofani, author and civic leader  
is Executive Director of the Henry George  
School of Social Science in San Francisco

For Additional Information:  
HENRY GEORGE SCHOOL  
OF SOCIAL SCIENCE  
3410 19th Street  
San Francisco, California 94110

NON-PROFIT  
ORGANIZATION  
U.S. POSTAGE  
PAID  
SAN FRANCISCO, CA  
PERMIT NO. 5510

2756

## Enterprise Zones

Finally after months of talk, and various legislative proposals, President Reagan has sent to Congress his proposals for Enterprise Zones. A zone would grant private employers tax and regulatory relief for creating jobs and making investments in depressed inner city and rural areas.

President Reagan wishes to test the premise that free enterprise and the profit motive - "two of the most dynamic and constructive forces known to man" - can promote the economic growth of the inner cities.

The concept stems from an English idea brought to American awareness by Dr. Stuart Butler of the Heritage Foundation. "What the zones seek to do," says Dr. Butler, is to "set up an entrepreneurial climate in the neighborhoods."

Some of the impetus for the new concept comes from a prestigious MIT study that shows that two thirds of all the new jobs created are the result of small businesses employing 20 or fewer persons.

*"The productive private sector is the only institution in society capable of permitting the poor to escape their poverty."* ROBERT GARCIA (D-NY)

To illustrate what it means to create a community in which the new zones might be successful, Congressman Garcia who represents the South Bronx and was himself the author of zone bills says: Based on my experience growing up in the South Bronx, it seems to me a community consists of three things: jobs for the people who live there; housing for those who wish to live there, and businesses for shopping and work.

"This is how I remember the South Bronx of my youth, where my aunt worked at a local factory, spent her money at a local store, and lived no more than a few blocks from either. Not only was this a convenient arrangement but repeated many times over by other residents, it created a community and assured the constant recycling of our dollars in the neighborhood."

## Tapping Unused Riches

*Every place in the U.S. where there is a South Bronx, we have more unused riches than all the Arab oil companies put together. Our riches are in our people who wish to work.*

JOHN MARIOTTA, South Bronx Entrepreneur

## South Bronx Achievers

The story of the Welbilt Electronic Die Company is an inspiring one for all of us. In a sea of residential and commercial deterioration, two men, John Mariotta and Fred Neuberger have set up Welbilt which does \$12 million sales annually. More remarkable is the fact that all of the employees are ghetto youths and hard core unemployed who learn a trade and discovered the work ethic. Mariotta has one conviction: Most people abhor idleness. He trains, promotes and through a bonus system, shares his profits with his workers. As a result his plant is free of pilferage and vandalism.

The government through its Enterprise Zone concepts seeks to repeat this story countless times. It now rejects the concept which destroyed thousands of small businesses under the guise of urban renewal.

*"We must foster small businesses within the zones. The purpose of the Enterprise Zones is to rebuild the social and economic roots of the depressed urban communities, not to create glorified industrial parks on the edge of cities."* DR. STUART BUTLER

*This monograph may be reproduced  
with proper credit to the  
Henry George School of Northern California*

# Tax Incentives

The major tools to be used by the government to foster regeneration and growth within the 25 new zones to be created this year are tax incentives.

Taxes may be used to encourage or discourage human activity. When some countries taxed windows and chimneys, there were fewer built. When New York, in the 1930's, untaxed buildings more of them were built.

## President Reagan has Proposed:

- 1) a tax credit for capital investments in personal property.
- 2) a 10% credit for new construction or rehabilitation.
- 3) a 10% tax credit to employers for wages paid in excess of wage levels 1 year prior to the zone setup.
- 4) a 5% tax credit up to \$450 per worker for wages earned by those employed within the zone.
- 5) investment tax credit for construction and new machinery and equipment.
- 6) income tax credit for 50% of wages paid to economically disadvantaged workers.
- 7) relaxation or abolition of some federal regulations to facilitate growth (civil rights, health & safety excepted).

Removing all these taxes and more would be good for communities, as long as we collect all the economic rent on land, and not let it enrich the landlords.

# The Great Dilemma

This is the great dilemma which faces those who have high hopes about the potential bounty of the zones. Will the landlords reap all or most of the benefits of private and public investment in the zones? A report on the English experiment says: "In most zones people most likely to make profit out of the schemes are landowners."

The British experience, Dr. Butler says provides Americans with a useful example of how NOT to establish such zones in the United States.

The British model called for a reduction or abolition of property taxes. But since the area was blighted this meant, in effect, that land taxes were largely excused. As a result landholders benefitted from all the improvements made by citizens or by community action.

## Pittsburgh Model

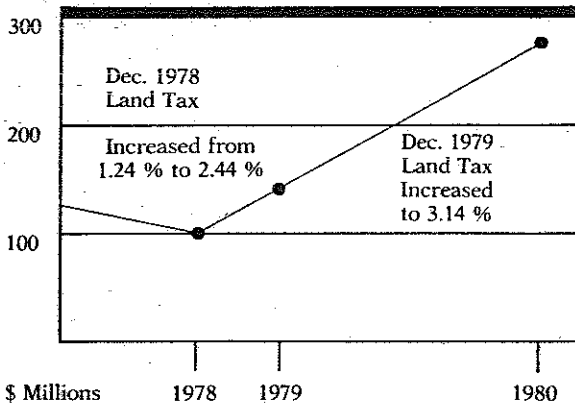
Proposals by the Reagan administration to create free enterprise zones also contain this serious flaw. If the tax abatements is on both land and buildings, as they propose, the land owners in such areas recoup for themselves the public and private investment through higher rents, to the detriment of society at large.

In England, entrepreneurs wanting to set up shop in Britain's new enterprise zones have been shocked to discover that the fiscal advantage of not having to pay property tax is wiped out by higher rents.

A more effective abatement plan is involved in the American experiment in Pittsburgh and other Pennsylvanian cities. Here a higher rate is placed on land than improvements and in areas, where needed, a tax abatement on the improvement portion of the tax is applied.

Since 1980, when Pittsburgh's tax on land values were raised, new building permits and rehabilitations permits have been issued in record breaking numbers, despite the depressed market.

PITTSBURGH: Building Permits



## Leasing Land in Zones

The Washington based SABRE Foundation has proposed a fund to aid self-help initiatives. The fund would be created by leasing land in the zone. Land in the zone would be owned by the community i.e. residents. Increases in values created by the energy of the people and the increase in population would enhance the entire community.

The SABRE report suggests that pursuing such an approach would reduce the vulnerability of the residents to displacement as zone conditions improve.

Seven states already have enacted zone legislation. The states on an unprecedented scale will be required to address the problems of the most distressed of its cities.

By harnessing the profit motive and judicious use of tax incentives, including a tax on land values, Enterprise Zones, while still a risky experiment, are still worth trying.

# Taxing Land in Zones

"A local government or even a large private landholder could create its own enterprise zones by simply taxing land and not buildings or incomes and avoid the problem of federal favoritism. The zones approach locally instituted would serve localities and states well.

DAN SULLIVAN Incentive Tax League, Penn.

## Resolution

In order to encourage local economic revitalization the administration should encourage local governments to experiment with "Enterprise Zones" where the accumulated burden of governmental requirements and taxation is drastically reduced to encourage new entrepreneurial job-creating activities. Within such zones, land value taxation would replace customary land-and-buildings taxation; all subsidies to business would be eliminated, and taxation would be stabilized for a fixed period of time. In addition, barriers posed by excessive regulation would be sharply reduced and necessary regulation "fast-tracked" to minimize red tape and delays.

The basic reason behind the establishment of Enterprise Zones makes wonderful sense, but why should the principles be restricted to the South Bronx? If we agree that regulations and taxes strangle business, why should we ease the pressure only in a few favored (areas).

INQUIRY (Libertarian Voice)