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ENTERPRISE ZONES--OR OUTLAW ZONES? by Phil Shapira

In his State of the Union address in January, President Reagan outlined his plan to revitalize businesses and jobs in the nation's depressed urban areas. New legislation will be sponsored allowing states and cities to apply to the federal government to designate deteriorated areas as urban enterprise zones. Through this legislation, the administration is expected to propose (a) cuts in corporate taxation by increasing investment tax credits for enterprise zone businesses; (b) elimination of capital gains taxes for property sold within the zones; (c) a 10% tax credit to employers applied to wages paid in the zone (workers would get a 5% tax credit on their wages); and (d) a further tax credit on wages paid to disadvantaged (CETA-eligible) workers, equaling 50% of annual wages for three years and declining ten percentage points per year in following years.

The special tax reductions for enterprise zone businesses will be on top of the national cuts in corporate taxation already made by President Reagan. In addition, state and local governments will be asked to reduce zoning regulations and property taxes. There have also been suggestions about cutting minimum wages for youth within the zones and relaxing health and safety standards.

The administration says it will designate up to 25 new enterprise zones each year. In the Bay Area, an enterprise zone for Oakland's Coliseum area is under discussion while San Jose is also believed to be developing a proposal. Additionally, efforts have been made in several states to enact state enterprise zone legislation. The cost of just the federal tax proposals (in lost revenues) is estimated at \$245 million to \$332 million for 25 zones for the first year, or \$9.8 million to \$13.3 million a year for each zone. Local governments also stand to lose property tax revenues, while workers will lose wages (if minimum wage levels are reduced) and pay the direct and indirect costs of reduced health and safety.

The Impact on Jobs and Business. The key question, of course, is whether enterprise zones will create new jobs to outweigh the costs. The enterprise zone concept assumes that inner city economic decay has been caused by regulation, over-taxation, zoning, minimum-wage restrictions, and, in general, too much government intervention. Enterprise zone advocates believe that if business in the inner cities can be freed from intervention, then new jobs will flourish, particularly in small businesses. "We must free enterprise," President Reagan emphasized in presenting his enterprise zone plan, "so that together we can save America."

However, there is not much evidence supporting the hopes for enterprise zones. The enterprise zone approach ignores the deeper structural factors underlying inner city decline--for instance, the decay of the traditional manufacturing industries around which the older cities were built, or the role of large corporations in rationalizing production and relocating it in new regions of the U.S. and overseas (in part, to escape labor organization). Inner city areas have lost manufacturing jobs for these reasons, and not simply because of taxes or the occasional health and safety inspection.

Additionally, many studies have shown that business taxes and regulation are not major factors in business location decisions. One recent study in the East Bay area found that business cycles, recessions, the role of larger corporations, and the difficulties of obtaining capital were much more important problems for small

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businesses than taxation or regulations. President Reagan could do far more for the inner cities by reversing his recessionary fiscal policies and tackling high interest rates, than by extra reductions in corporate taxation.

The hope placed by zone advocates on small business is also questionable. Most of the new jobs in small businesses are due to structural shifts in the economy--away from manufacturing (which tends to have larger firms) and towards the service sector (where smaller firms predominate). The new jobs in small service-sector businesses are usually low-paid, unstable, unskilled, and without career ladders (e.g., restaurants). Small firms in the manufacturing sector also tend to offer poor working conditions (the "sweatshops" of the garment trade exemplify this).

If wage and benefit costs are reduced, through tax credits and a zone "sub-minimum" youth wage, small marginal firms may move in. But this will do little more than substitute cheaper adult and youth workers within the zones for workers outside. Large employers offering good jobs are unlikely to be attracted by the zones. Tax breaks will not sway larger firms to the inner cities. Instead, the Reagan cuts in infrastructure, transportation, and training programs will make these areas even less desirable for major employers. Furthermore, large firms (as well as financiers) usually take a long-term view of their capital investments and would be wary of the uncertainty inherent within an enterprise zone.

If enterprise zones do anything, they are likely to encourage marginal small firms which will reproduce poor living and working conditions in inner areas. Few really new jobs will be created, although there could well be a redistribution of jobs into the zones from outside areas. Property speculators and landlords, however, may make money--they will be able to increase rents and property values (reflecting the lower taxes which businesses will be paying). Removing capital gains taxes on property sales will encourage this.

Watch Out Workers and Communities. With several states and some cities attempting to set up their own enterprise zones, together with the likelihood that eligibility for the Reagan plan will broaden as it makes its way through Congress, enterprise zones could have wide repercussions throughout the U.S. A proliferation of enterprise zones around the country would spearhead a general program of deregulation. The United States would be officially divided into two nations, one with legal standards protecting workers' money and social wages, the other with far less protection--quasi-third world "outlaw zones." As the zones developed, pressure would increase on workers outside to reduce their wages and living standards to those inside. Competition would also increase between communities as they were forced to outbid each other to make themselves "attractive" to business.

Enterprise zones, together with massive program cuts, are central features of the administration's "urban policy." Both the cuts and the zones are bound to hurt workers and urban communities. The AFL-CIO Executive Council has expressed opposition to enterprise zones. However, with the continuing problem of black youth unemployment, many minority leaders have felt compelled to accept enterprise zones. Yet, most of these minority leaders ultimately agree that the enterprise zone strategy is inadequate. The basis thus exists for developing an alternative economic development program of integrated industrial, regional, social and economic policies which can create good jobs and help the inner cities through upgrading, rather than degrading. The key task is for labor to work with inner city communities to formulate and fight for these more positive alternatives.

- Phil Shapira

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