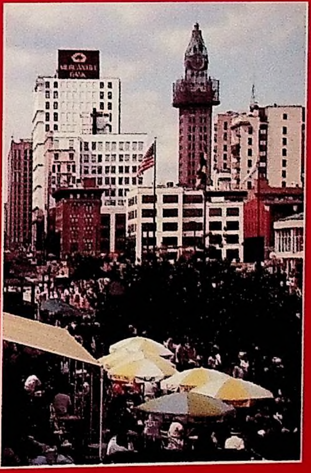
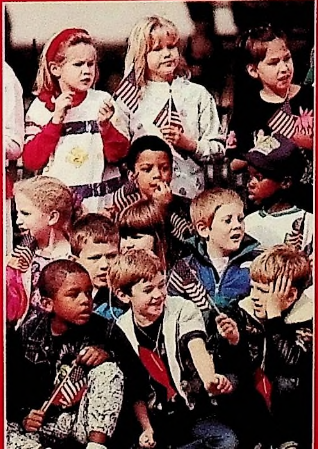
Empowerment: A New Covenant With America's Communities



President Clinton's National Urban Policy Report



THE WHITE HOUSE

WASHINGTON

August 3, 1995

TO THE CONGRESS OF THE UNITED STATES:

I transmit herewith my Administration's National Urban Policy Report, "Empowerment: A New Covenant With America's Communities," as required by 42 U.S.C. 4503(a). The Report provides a framework for empowering America's disadvantaged citizens and poor communities to build a brighter future for themselves, for their families and neighbors, and for America. The Report is organized around four principles:

First, it links families to work. It brings tax, education and training, housing, welfare, public safety, transportation, and capital access policies together to help families make the transition to self-sufficiency and independence. This linkage is critical to the transformation of our communities.

Second, it leverages private investment in our urban communities. It works with the market and the private sector to build upon the natural assets and competitive advantages of urban communities.

Third, it is locally driven. The days of made in Washington solutions, dictated by a distant Government, are gone. Instead, solutions must be locally crafted, and implemented by entrepreneurial public entities, private actors, and a growing network of community-based firms and organizations.

Fourth, it relies on traditional values -- hard work, family, responsibility. The problems of so many inner-city neighborhoods -- family break-up, teen pregnancy, abandonment, crime, drug use -- will be solved only if individuals, families, and communities determine to help themselves.

These principles reflect an emerging consensus in the decades-long debate over urban policy. These principles are neither Democratic nor Republican: they are American. They will enable local communities, individuals and families, businesses, churches, community-based organizations, and civic groups to join together to seize the opportunities and to solve the problems in their own lives. They will put the private sector back to work for all families in all communities. I therefore invite the Congress to work with us on a bipartisan basis to implement an empowerment agenda for America's communities and families.

In a sense, poor communities represent an untapped economic opportunity for our whole country. While we work together to open foreign markets abroad to American-made goods and services, we also need to work together to open the economic frontiers of poor communities here at home. By enabling people and communities in genuine need to take greater responsibility for working harder and smarter together, we can unleash the greatest underused source of growth and renewal in each of the local regions that make up our national economy and civic life. This will be good for cities and suburbs, towns and villages, and rural and urban America. This will be good for families. This will be good for the country.

We have undertaken initiatives that seek to achieve these goals. Some seek to empower local communities to help themselves, including Empowerment Zones, Community Development banks, the Community Opportunity Fund, community policing, and enabling local schools and communities to best meet world-class standards. And some seek to empower individuals and families to help themselves, including our expansion of the earned-income tax cut for low- and moderate-income working families, and our proposals for injecting choice and competition into public and assisted housing and for a new G.I. Bill for America's Workers.

I am determined to end Federal budget deficits, and my balanced budget proposal shows that we can balance the budget without abandoning the investments that are vital to the security and prosperity of the country, now and in the future. I am confident that, working together, we can build common ground on an empowerment agenda while putting our fiscal house in order. I will do everything in my power to make sure this happens.

William J. Clinton

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

July 26, 1995

The President
The White House
Washington, DC 20500

Dear Mr. President:

I have the honor of transmitting to you the first *National Urban Policy Report* of the Clinton Administration, pursuant to the requirements of the Housing and Urban Development Act of 1970, as amended.

Cities have long played a central role in the economic, social, and cultural life of our nation. They provide opportunities for young people entering the labor market and the larger society for the first time, for lawful immigrants from other countries, and for people moving from one part of the country to another. Cities are the great democratizers of American society, where people of different cultures and languages meet, mix, and work together.

Today, however, many of America's cities are in trouble. Poor families and poor inner-city neighborhoods have become disconnected from the opportunities and prosperity of their metropolitan regions, the nation, and the emerging global economy. Our challenge is to embrace change by offering people and communities the opportunities they need to benefit from new sources of prosperity.

This report presents an approach to the problems and opportunities of our nation's cities dramatically different from that taken by any previous Administration, Democratic or Republican. It describes your Administration's policies to return work and responsibility to America's distressed urban communities.

Unlike some extreme and punitive proposals being advanced today, these policies recognize the barriers that stand in the way of work and self-sufficiency for many poor Americans, and take affirmative steps to eliminate them. And unlike top-down, "big government" solutions of the past, the Clinton Administration agenda recognizes that real solutions are built from the bottom-up through private sector investment and community partnerships.

The Clinton Administration's Community Empowerment Agenda charts a new course beyond the old way of big government and the new rage of no government. This new covenant with America's communities is grounded in four principles:

- First, it ***links families to work.*** It brings together tax, welfare, education, job training, transportation, and housing policies that help families make the difficult transition to self-sufficiency and independence.

- Second, it ***leverages private investment*** in our cities. It works with the market and private businesses to build upon the natural assets and competitive advantages of our urban communities.

- Third, it is ***locally driven.*** The days of "Made in Washington" solutions dictated by distant bureaucrats are gone. The National Urban Policy promotes solutions that are locally crafted and implemented by entrepreneurial public entities, private actors and the growing network of community based corporations and organizations.

- Finally, it ***affirms traditional values*** such as hard work, family, and self-reliance. It recognizes that the problems of so many inner-city neighborhoods--family dissolution, crime, drug abuse, and teen pregnancy--are not subject to government solutions alone, but call upon both individuals and the communities of which they are a part to set and sustain high standards of behavior and mutual responsibility.

The polarization of urban communities--isolating the poor from the well-off, the unemployed from those who work, and minorities from whites--frays the fabric of our civic culture, and acts as a drag on the national economy. If we fail to address the problems of our cities, connecting residents of distressed neighborhoods with the jobs and opportunities of their metropolitan economy, we will not be able to compete and win in the global economy. Your Administration's National Urban Policy is about building communities that work for people and for America.

Respectfully,

Henry Cisneros

Henry G. Cisneros

Empowerment: A New Covenant With America's Communities

President Clinton's National Urban Policy Report

July 1995

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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I believe in a government that promotes opportunity and demands responsibility, that deals with middle-class economics and mainstream values; a government that is different radically from the one we have known here over the last 30 to 40 years, but that still understands it has a role to play in order for us to build strong communities that are the bedrock of this Nation.
—President Bill Clinton
March 13, 1995

Chapter 1

The Community Empowerment Agenda—

A New Framework for National Urban Policy

As we approach the 21st century, rapid change has uprooted long-established patterns of economic production and social life. Global competition and technological innovation are restructuring the U.S. economy; these profound changes bring new opportunities, but awaken anxieties as well. Some sectors of society have been left behind; many others feel a diminished sense of security. Pressures on families and communities magnify fears for the future of our young people and our nation. Our challenge is to embrace change by offering people and communities the opportunities they need to benefit from new sources of prosperity. Nowhere is this challenge more urgent than in America's cities.

Cities have long played a central role in the economic, social, and cultural life of the nation. American metropolises are the engines of the national economy. They provide opportunities for young people entering the labor market and the larger society for the first time, for lawful immigrants from other countries, and for people moving from one part of the country to another. Cities are the great democratizers of American society, where people of different cultures and languages meet, mix, and work together. America's great cities harbor and nurture this nation's innovative genius. Science and technology, art and fashion, entertainment, banking and finance, research and higher education—these activities all flourish in the creative ferment that characterizes metropolitan centers. American cities generate much of the world's best research in science and medicine. They create and export American culture worldwide.

The integration of the global marketplace has produced a fundamental shift in the way we think about urban economies. Our national economy is increasingly a system of metropolitan-centered regional economies that transcend municipal boundaries (and even state lines).[1] In today's global economy, competition is no longer among localities but among metropolitan regions around the world. Although cities and their suburbs may regard each other as rivals in a zero-sum struggle to capture economic growth, they are also partners in interregional competition to sell goods and services in national and global markets. Recent evidence strongly indicates that the overall economic

[1] Neal R. Peirce, with Curtis W. Johnson and John Stuart Hall, *Citistates: How Urban America Can Prosper in a Competitive World*, Washington, D.C., Seven Locks Press, 1993; William R. Barnes, Larry C. Ledebur, Toward a New Political Economy of Metropolitan Regions, *Environment and Planning: Government and Policy* 9 (1991) p. 127.

performance of metropolitan regions is linked to the performance of their central cities: cities and their suburbs tend to rise—or fall—together.[1]

For many years, America's cities have been in trouble. Poor families and poor inner-city neighborhoods have become disconnected from the opportunities and prosperity of their metropolitan regions, the nation, and the emerging global economy. A vicious cycle of poverty concentration, social despair, continued outmigration, and fiscal distress in central cities undermines the ability of metropolitan regions to compete in the global economy, threatening the long-term prosperity of the nation. Moreover, the polarization of urban communities—isolating the poor from the well-off, the unemployed from those who work, and minorities from whites—frays the fabric of our nation's civic culture. If these problems continue to go unaddressed, America's future could be severely compromised, both economically and socially. Simply put, if we do not address the problems of our inner cities, we will not be able to compete and win in the global economy.

These problems are by no means insurmountable. The United States is a strong and wealthy nation, and its metropolitan regions are vibrant and resourceful. Working together, we have the capacity to end the isolation of the poor and to address the decline of central cities. President Clinton's Community Empowerment Agenda addresses the challenges facing America's cities today with policies that return work and responsibility to America's distressed urban communities. The goal of the Administration's National Urban Policy is to create sustained national economic growth with low inflation, while ensuring that residents of distressed inner-city communities share in the opportunities that growth creates.

Sustained economic growth with low inflation is the foundation for an effective national urban policy. Without such growth, the private sector cannot produce a sufficient supply of good jobs to maintain a strong middle class. And when the economy is strong, lower-skilled workers experience expanded opportunities, and employers throughout a metropolitan region are more likely to hire less experienced members of the labor force and invest more heavily in workforce development. However, the experience of the 1980s demonstrates that a growing economy does not automatically raise all incomes. Without targeted public investment, even a booming national economy will leave too many distressed communities untouched and too many Americans mired in poverty and disillusionment, exacting a severe toll on regional economic productivity. Failure to effectively address these problems impairs our ability to compete effectively in the global economy of the future. This is why national urban policy must bridge the divide between poor people living in distressed communities and the economic opportunities in the larger metropolitan marketplace.

[1] Larry C. Ledebur and William R. Barnes, *All in It Together—Cities, Suburbs, and Local Economic Regions*, Washington, D.C.: National League of Cities, February 1993, pp. 4–8; Richard Voith, "City and Suburban Growth: Substitutes or Complements?" *Federal Reserve Bank of Philadelphia Business Review* (September/October 1992) pp. 21–33.

President Clinton's National Urban Policy—Guiding Principles

The Community Empowerment Agenda is grounded on four basic principles. First, it ***links families to work.*** The National Urban Policy brings together tax, welfare, education, job training, transportation, and housing initiatives that help families make the difficult transition to self-sufficiency and independence:

- Rewards work, individual initiative, and family responsibility by reforming welfare, housing, and other policies that inadvertently punish the poor for doing the right thing for themselves and their families —this is *the employment connection.*
- Invests in education, training, workforce development, and life-long learning so that Americans are job-ready and able to compete in the increasingly sophisticated global marketplace—this is *the human capital connection.*
- Expands the residential and employment options of inner-city families in their metropolitan areas—this is *the access connection.*

Second, the Community Empowerment Agenda ***leverages private investment*** in our cities. It works with the market and private businesses to build upon the natural assets and competitive advantages of urban communities:

- Ensures the availability of private capital to central city neighborhoods, where it is desperately needed to fuel business creation and job growth—this is *the financial capital connection.*
- Rewards saving and investment in homeownership, which creates wealth and helps revitalize residential neighborhoods—this is *the homeownership connection.*
- Combats violent crime and drug dealing, which undermine the economic vitality of urban neighborhoods and destroy opportunities for urban youth—this is *the anticrime connection.*

Third, President Clinton's National Urban Policy is ***locally driven.*** The Community Empowerment Agenda promotes solutions that are locally crafted and implemented by entrepreneurial public entities, private actors, and the growing network of community-based corporations and organizations:

- Empowers residents of distressed neighborhoods to develop and implement bottom-up solutions to local problems—this is *the community connection.*
- Creates partnerships with local governments that encourage comprehensive solutions to local problems, and that reward results rather than process—this is *the accountability connection.*

Finally, the Community Empowerment Agenda affirms ***traditional values*** such as hard work, family, and self-reliance. President Clinton recognizes that the problems of so many inner-city neighborhoods—family dissolution, crime, drug abuse, teenage pregnancy—are not subject to government solutions alone, but call upon individuals and the communities of which they are a part to set and sustain high standards of behavior and mutual responsibility:

- Recalls those who have been mired in dependency and despair to the traditional values of self-motivation, personal responsibility, and self-sufficiency—this is *the responsibility connection.*
- Encourages coalitions of common interest that cut through barriers of race, income, and artificial jurisdictional boundaries—this is *the metropolitan connection.*

Above all, the President's national urban policy will strengthen the connection between aspiration and possibilities, because we cannot sustain progress without a rebirth of hope.

The Clinton Urban Policy in Historical Perspective

In rebuilding these essential connections, the President's Community Empowerment Agenda differs from previous generations of urban policy, both Democratic and Republican. First, the Clinton Administration recognizes that the most pressing problems facing older cities and suburbs are not the result of periodic recessions or the rhythms of the business cycle. Thus, they cannot be addressed merely through countercyclical grant-in-aid programs. The global economic transformations taking place today are fundamental and long-lasting. Effective urban policy must respond in kind, rebuilding the long-term competitiveness of cities and metropolitan regions through strategic investments in both human and physical capital.

In addition, the Clinton Administration's urban policy rejects the false choice between empowering poor people and revitalizing distressed places. Both types of assistance play critical roles in connecting poor people to jobs and opportunity. People-oriented policies, such as expanding the Earned Income Tax Credit or increasing the minimum wage, will enhance the incomes of low-wage workers wherever they live, but will also yield important place-based benefits because of the spatial concentration of beneficiaries in distressed communities. Similarly, efforts to connect inner-city residents to jobs in the regional economy will increase family incomes and stimulate demand for local goods and services, thereby catalyzing retail development in the urban core. In other words, place-based strategies complement people-oriented initiatives; targeted business and housing development in inner-city neighborhoods, for example, will be more effective if individual residents are educated and trained to take full advantage of these new opportunities.

In emphasizing the importance of bringing new life to our inner cities, the Clinton Administration's urban policy embraces a geography broader than any of its predecessors. This is critical for three reasons. First, the costs of inner-city problems are borne by taxpayers everywhere. According to one estimate, for example, "the damage to large urban economies from crime alone is $50 billion annually; special federal expenditures for inner cities adds another $75 billion."[1] Second, many suburban communities are experiencing problems similar to those of central cities, with even fewer resources to assist their increasingly dependent populations. Thus, federal policies aimed at combating distress must not be limited to central cities. Third, many suburban employment centers will continue to grow as important sources of jobs in the metropolitan region—for central city as well as suburban residents. Because

[1] Committee for Economic Development, *Rebuilding Inner-City Communities: A New Approach to the Nation's Urban Crisis*, New York, 1995, p. 3.

metropolitan regions represent the new geography of opportunity for tens of millions of Americans, national urban policies must encourage metropolitan-wide approaches to economic development.

Those who live and work in a community must assume ultimate responsibility for its renewal. Over the last two decades, the primary source of innovation and renewal for inner-city neighborhoods has been the residents themselves. In distressed communities across America, neighborhood-based institutions such as community development corporations and churches are in the vanguard, leading the way in attracting the capital and investment needed to create jobs, build and rehabilitate housing, and connect residents of distressed communities with the surrounding regional economy.

Unlike past efforts, this Administration's national urban policy is designed to foster locally initiated, bottom-up strategies that connect the public, business, and neighborhood sectors in community-building partnerships for change. Government can help by removing impediments to economic and business development and increasing vital public investment. It can also help by redesigning its programs in ways that transfer decisionmaking down to the grassroots level and enable local citizens to hold leaders accountable for the results of federal investment.

President Clinton and Vice President Gore know that the success of national urban policy will depend upon the capacity of governments at every level to become more responsive and innovative partners. The Vice President's National Performance Review is well on its way to making the federal government work better and cost less. The proposed reinvention of the Departments of Housing and Urban Development, Labor, and Transportation will dramatically enhance the federal government's ability to assist communities in their efforts to rebuild and revitalize. The President's Community Empowerment Board, chaired by the Vice President, is supporting comprehensive revitalization in 105 distressed communities, designated as Empowerment Zone and Enterprise Communities, by eliminating unnecessary regulatory barriers to local community-building initiatives and providing coordinated, one-stop access to federal resources. The Clinton Administration has also cleared the way for vigorous local action by working with Congress to enact legislation that will significantly reduce the financial burden of unfunded mandates on city and state governments.

To forge effective partnerships for change, state and local governments as well must become more flexible and efficient, pursuing strategies that facilitate, rather than inhibit, private-sector economic development and community-based revitalization. To respond to the new economic realities, municipal governments must engage mainstream supporting institutions, encouraging and enabling the private sector to invest in the community. Central city governments will also need the cooperation of surrounding jurisdictions and federal and state governments. And community revitalization strategies will not be truly effective unless the people they seek to benefit are fully engaged in their design and implementation.

Toward Thriving Communities in a Global Economy

The Clinton Administration has charted a new direction for federal urban policy. Unlike some extreme and punitive proposals being advanced today, Clinton Administration policies recognize the barriers that stand in the way of work and self-sufficiency for many poor Americans, and take affirmative steps to eliminate them. Unlike top-down, "big-government solutions of the past," the Clinton Community Empowerment Agenda recognizes that real solutions are built from the bottom-up through private sector investment and community partnerships.

The President's National Economic Plan (the 5-year budget for the federal government enacted in August of 1993) and his bold plan to balance the budget over the next 10 years—without sacrificing investments in our children, our families, or our future—have put the nation on a responsible path of deficit reduction. By reducing the deficit, investing in new technology, providing incentives to create an excellent educational and training system, and opening the world to U.S. products, the Administration has established a firm foundation of robust growth and expanding employment.

The President's Community Empowerment Agenda builds upon this foundation by replacing failed policies toward cities with policies that strengthen communities by reestablishing linkages between people and opportunities. Given today's budget realities, some of these initiatives are currently being implemented on a relatively small scale. Nevertheless, they represent critical first steps. Others open new opportunities for all persons in need. And when government is effective in lifting barriers and eliminating disincentives, the creative and productive energies of individual Americans and private and nonprofit organizations can be unleashed at very little cost. Thus, over the long term, the Clinton Administration's Community Empowerment Agenda will promote work and restore self-sufficiency among poor families, bring new life and vitality to distressed inner-city neighborhoods, exploit the competitive advantages of central cities, and maximize the economic and social potential of our great metropolitan regions.

America cannot afford to turn its back on its cities. The Clinton Administration's first national urban policy report marks an important contribution to the momentous debate over the extent of our national commitment to the future of cities and over the role of the federal government in restoring opportunity and hope to the most vulnerable among us. This report describes impediments to the social and economic revitalization of distressed communities and barriers that separate inner-city residents from opportunity, and it presents the Clinton Administration's Community Empowerment Agenda for addressing these problems through strategic investments in the future of people and places. A national urban policy that builds bridges between people and jobs and lifts barriers to opportunity and upward mobility will empower Americans to assume responsibility for transforming today's distressed communities into tomorrow's thriving neighborhoods, cities, and regions. The Community Empowerment Agenda charts a new course beyond the old way of big government and the new rage of no government.

Chapter 2

Metropolitan America in the 1990s

If you don't have work in neighborhoods and in communities, it is hard for people to organize their lives. It is hard for parents to feel self-esteem . . . It is hard for the child to look out and imagine that by working hard things will work out all right . . . And I believe that in order to deal with this, we're going to have to all work together in a whole new national contract.

—President Bill Clinton
November 13, 1993

The United States is an urban nation. Today, 8 out of 10 Americans live in 1 of 330 metropolitan areas, and more than half live in the 39 metropolitan areas with populations of 1 million or more.[1] Between 1950 and 1990, the U.S. metropolitan population grew by 103.4 million, more than doubling to reach a total of 192.7 million. Over the same period, the country's nonmetropolitan population actually declined (by about 6 million).

Metropolitan areas are the building blocks of the national economy. They account for 83 percent of national income and virtually all employment in the advanced technical and service sectors of the future. We used to think of our country as relatively homogeneous, with all of its regions rising or falling together with the national economic tide. But today it may make more sense to think of America's economy as a "common market" of metropolitan economies.[2] These metropolitan regions, though strongly interdependent, compete with one another and with urban centers throughout the world. Today, Detroit's real competition is not its suburbs, but the metropolitan regions of Baden-Wurtemburg in Germany and Kyushu in Japan.[3]

The cities at the core of America's urban regions have long been the primary source of the nation's wealth and progress. They are:

- Headquarters for the factories and offices that form the foundation of our economy;
- Centers of banking and commerce that generate investment for the future;
- Magnets for the expertise and creative talent upon which future economic and cultural achievements depend; and
- Home to institutions of education and research that support innovation and advancement.

Some people have speculated that the rise of global technology and information networks might erode many of downtown's traditional economic functions, with computers and other forms of interactive communication reducing

[1] The Nation's five largest metropolitan regions—New York, Los Angeles, Chicago, San Francisco, and Philadelphia—are home to one-fifth of the total U.S. population. Henry R. Richmond, "Rationale and Program Design," National Land Use Policy Institute, June 1994 p. 3.

[2] William R. Barnes and Larry C. Ledebur, *Local Economies: The U.S. Common Market of Local Economic Regions*, Washington, D.C.: National League of Cities, August 1994.

[3] Henry G. Cisneros, *Regionalism: The New Geography of Opportunity*, Washington, D.C.: U.S. Department of Housing and Urban Development, March 1995.

the need for face-to-face contact in centralized office districts. Increasingly, however, experts recognize that the concentration of expertise and economic interchange that occurs in urban centers is critical to the knowledge-intensive industries of the future. The ability of the U.S. to prosper in today's highly competitive global economy will depend upon the economic performance of its metropolitan regions and upon the health and vitality of the cities at their core.[1]

Evolution of Metropolitan Regions

Suburbanization, first of homes and then of jobs, has continuously expanded and transformed America's urban areas. Throughout the post-World War II era, urban settlement has exploded beyond the boundaries of central cities to form metropolitan regions. Just after World War II, central city jurisdictions contained most of the nation's urban population and three-quarters of urban jobs. Today, just over half of all metropolitan jobs and almost 60 percent of metropolitan residents are located outside of central cities.[2]

Residential suburbanization has been going on for a long time. Families seeking larger, more private homes with better schools, safer streets, and more amenities have left established neighborhoods in successive waves to create new communities further and further from the urban core. Three-quarters of metropolitan population growth between 1950 and 1990 occurred in the suburbs. In fact, central city populations have actually declined somewhat in the Northeast and have grown much less rapidly than suburban populations in all other regions of the country.

Beginning in the 1950s, jobs began to follow people to the suburbs in significant numbers. As improved highways and trucking freed them from the need to be close to rail heads and ports, manufacturers were drawn to the suburbs, where they could build sprawling single-story industrial plants. Central cities lost their competitive advantage as the location for new factories. More recently, many business services firms have also moved "back office" functions such as accounting and data processing to the suburbs to take advantage of lower costs and abundant labor, as middle-class suburban women increasingly joined the labor force.[3] By 1990, 57 percent of the nation's office space was located outside central cities, compared to only 25 percent in 1970.[4] And finally, retailers and consumer service firms have migrated to the suburbs, seeking proximity to middle-class suburban customers. Between 1970 and 1990, for example, over 25,000 suburban shopping centers were constructed.[5]

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[1] Larry C. Ledebur and William R. Barnes, *All in It Together—Cities, Suburbs and Local Economic Regions*, Washington, D.C.: National League of Cities, February 1993.

[2] In 1950, 57 percent of metropolitan area residents and 70 percent of metropolitan area jobs were located in central cities. In 1990, 37 percent of metropolitan residents and 45 percent of metropolitan jobs were located in central cities. Peter Mieszkowski and Edwin S. Mills, "The Causes of Metropolitan Suburbanization," in *Journal of Economic Perspectives* (1993): 135-148.

[3] In 1980, 51.5 percent of women living in the suburbs worked and by 1990, the share had increased to 59.1 percent according to decennial Census data.

[4] Richmond p. 4.

[5] Richmond p. 4.

The march to the suburbs continues today. In 1990 the suburbs constituted nearly 60 percent of the U.S. metropolitan population. Between 1980 and 1990, the rate of population growth in the suburbs more than doubled the central city pace. And between 1977 and 1987, two-thirds of net employment growth in America's 60 largest metropolitan areas was located in the suburbs.[1] Over the same period, the suburbs captured 120 percent of the net job growth in manufacturing, while central cities suffered absolute losses in manufacturing employment.[2] Although the manufacturing sector currently appears to be rebounding as a contributor to the national economy, it is not growing as a share of national employment. The trend in American manufacturing today is toward smaller scale, customized, flexible production in which design, marketing, and management are much more important than in the past. As a result, fewer low-skill workers are needed per unit of production.[3] Manufacturing will no longer provide an abundant supply of low-skill, high-wage jobs in central cities, or anywhere in America.

One consequence of suburbanization is that today's economies typically cover huge metropolitan regions. For example, in the 1950s, 80 percent of the San Antonio metropolitan population lived within the 70-square-mile area of the city; today the urbanized area covers a 3-county region of 438 square miles.[4] The urbanized land area of Minneapolis-St. Paul has expanded 25 percent for every 10 percent increase in population.[5] And in Chicago, land used for housing increased 46 percent and land used for commercial development grew by 74 percent between 1970 and 1990, even though the metropolitan population only grew by 4 percent.[6] These metropolitan regions are home to interrelated clusters of economic activity, among which the original central city usually remains the largest and most important.[7] But the fastest growing clusters are often the new "edge cities" at the fringes of the larger metropolises.[8] Suburban jurisdictions are no longer the homogeneous "bedroom communities" of the 1950s, and their residents are more likely to commute to work in another suburb than in the central city.[9]

Despite the national trend toward the decentralization of both people and jobs, the impacts of industrial restructuring on patterns of urban growth vary substantially across metropolitan regions. Regions with diversified economies have adapted more successfully to global competitive pressures than those

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[1] Mark Alan Hughes with Julie E. Sternberg, *The New Metropolitan Reality: Antipoverty Strategy Where the Rubber Meets the Road*, Washington, D.C.: The Urban Institute Press, 1992.

[2] Mark Alan Hughes.

[3] Henry G. Cisneros, *Cities—More Important than Ever to America's Economic Future*, Washington, D.C.: U.S. Department of Housing and Urban Development, July 1995.

[4] Henry G. Cisneros, *Regionalism: The New Geography of Opportunity*, Washington, D.C.: U.S. Department of Housing and Urban Development, March 1995.

[5] Myron Orfield, *Metropolitics: A Regional Agenda for Community and Stability*, Minneapolis, MN, unpublished manuscript, 1994.

[6] "Cities: Onwards and Outwards," *The Economist*, October 15, 1994.

[7] William R. Barnes and Larry C. Ledebur. "Local Economies: The U.S. Common Market of Local Economic Regions," HUD Roundtable, December 1994.

[8] Joel Garreau, *Edge City: Life on the New Frontier*, New York: Doubleday, 1991.

[9] William H. Frey, "The New Geography of Population Shifts: Trends Toward Balkanization," in Reynolds Farley (ed.) *State of the Union—America in the 1990s, Volume II: Social Trends*. New York: Russell Sage, 1995, p. 271.

dependent upon a narrower economic base. Areas engaged in advanced services and knowledge-based industries have fared best.[1]

Disparities Between Cities and Suburbs

One consequence of America's steady suburbanization has been growing disparities between the jurisdictions that make up urban regions. Although metropolitan regions are highly interconnected in terms of labor, housing, capital, and consumer markets, many are fragmented politically. Suburban jurisdictions tend to compete vigorously with one another and with the central city for new sources of growth to keep treasuries full and tax rates low. While poorer jurisdictions are under tremendous pressure to expand services for their needy residents, voters in the more affluent suburban jurisdictions have strong incentives to support land use regulations and growth controls that maximize property values by discouraging lower income households from moving into their communities.[2] Poor people—and especially poor minorities—are often trapped in inner cities and older suburbs.

Discrimination in urban housing markets perpetuates disparities between jurisdictions within metropolitan regions. More than a quarter of a century after the passage of the Fair Housing Act, minority homeseekers routinely face discrimination when they search for housing. They are told about fewer available units than comparable white homeseekers, provided with less information and assistance, and steered away from affluent white neighborhoods. In fact, African American and Hispanic homeseekers who visit real estate or rental agents to ask about housing advertised in the newspaper experience discrimination almost 50 percent of the time.[3] Because of the persistence of discrimination in housing, American communities remain profoundly divided on the basis of race and ethnicity. Most African Americans and Hispanics live in neighborhoods that are predominantly minority, while most whites live in neighborhoods that are predominantly or even exclusively white.[4] And because minorities experience higher poverty rates than whites, the spatial concentration of minorities also concentrates poverty and compounds its social costs.[5]

As jobs, wealth, and economic opportunities have migrated outward, poor minority communities in the central city (and in older suburbs) have become increasingly isolated from the opportunities and prosperity of their metropolitan regions, the nation, and the emerging global economy.[6] Most jobs in the

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[1] Frey, p. 273.

[2] Anthony Downs, *New Visions for Metropolitan America*, Washington, D.C.: Brookings Institution, 1994.

[3] Margery Austin Turner, Raymond J. Struyk, and John Yinger, *Housing Discrimination Study: Synthesis*, Washington, D.C.: U.S. Department of Housing and Urban Development, 1991.

[4] For example, in 1990, more than half of blacks in the metropolitan areas of Chicago, Philadelphia, Detroit, St. Louis, Baltimore, Cleveland, Memphis, and Buffalo lived in neighborhoods that were at least 90 percent black. Reynolds Farley, "Neighborhood Preferences and Aspirations Among Blacks and Whites," in *Housing Markets and Residential Mobility*, ed. G. Thomas Kingsley and Margery Austin Turner, Washington, D.C.: The Urban Institute Press, 1993.

[5] Douglas S. Massey and Nancy Denton, *American Apartheid: Segregation and the Making of the Underclass*, Cambridge: Harvard University Press, 1993.

[6] Wilson, William Julius. 1987. *The Truly Disadvantaged: The Inner City, The Underclass, and Public Policy*. Chicago: University of Chicago Press.

American labor market today are filled through employee referrals, direct application at the work site, and other informal mechanisms. Vacancies are not widely publicized, and job seekers need personal recommendations from people that prospective employers trust.[1] Recent evidence also indicates that minority jobseekers face discrimination in urban labor markets. Young black men, applying for entry level jobs in Washington, D.C. and Chicago, received less favorable treatment than comparably qualified white applicants about 20 percent of the time, and Hispanic job applicants in Chicago and San Diego were treated less favorably than comparable whites 31 percent of the time.[2] Thus, inner-city residents face real barriers to finding employment in outlying areas where job opportunities are expanding fastest.

Stark contrasts now exist between central cities and their surrounding suburbs.[3] As of 1990, median income levels in central city jurisdictions were almost 30 percent lower than in the suburbs, and the poverty rate was 18 percent, compared to only 8.1 percent in the suburbs. Disparities between cities and suburbs are even greater in the largest metropolitan areas of the Northeast and Midwest. For example, in New York City, almost one in five (19.2 percent) people live in poverty, nearly three times the suburban poverty rate (6.5 percent). And the poverty rate is a staggering 30.2 percent in Detroit, compared to only 6.2 percent in the surrounding suburbs.

Poverty is further concentrated within central cities. Between 1970 and 1990, the number of people living in areas of concentrated poverty (where over 40 percent of the residents are poor) grew from 3.8 million to 10.4 million.[4] In 1990, 11 percent of the population of the nation's 100 largest cities lived in these extreme-poverty neighborhoods, compared to 8 percent in 1980 and 5 percent in 1970. Within such severely distressed neighborhoods, social conditions are bleak:[5]

- More than 60 percent of families with children are headed by single women, compared to less than 20 percent in non-poverty neighborhoods.
- More than half of all adults have less than a high school education, compared to less than 20 percent in non-poverty neighborhoods.
- More than 40 percent of working age men are not working, compared to just over 19 percent in non-poverty neighborhoods in the central city.
- Almost 1 in 5 youths ages 16 to 19 are high school dropouts, compared to about 1 in 10 in non-poverty neighborhoods.
- One in three households receive welfare benefits, compared to only 11 percent of all central city households.

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[1] Community for Economic Development, p. 15.

[2] Margery Austin Turner, Michael Fix, and Raymond J. Struyk, *Opportunities Denied, Opportunities Diminished: Racial Discrimination in Hiring*, Washington, D.C.: Urban Institute Press, 1991; and H. Cross, G. Kenney, and W. Zimmerman, *Employer Hiring Practices: Differential Treatment of Hispanic and Anglo Job Seekers*, Washington, D.C.: Urban Institute Press, 1990.

[3] William H. Frey and Elaine L. Fielding, "Changing Urban Populations: Regional Restructuring, Racial Polarization, and Poverty Concentration", forthcoming in *Cityscape*, 2 (1995).

[4] Ronald B. Mincy and Susan J. Weiner, "The Underclass in the 1980s: Changing Concept, Constant Reality," Washington, D.C.: The Urban Institute, July 1993.

[5] John D. Kasarda, "Inner-City Concentrated Poverty and Neighborhood Distress: 1970 to 1990." *Housing Policy Debate*, 4 (1993) pp. 253-302.

Vital Statistics for 94 Large U.S. Cities,[a] 1960, 1970, 1980, and 1990

	1960	1970	1980	1990
Population as Percent of U.S.	26.1%	22.5%	20.9%	20.1%
Percent Minority Population	18.9	24.1	37.1	40.1
Unemployment Rate	5.5	4.7	7.3	8.1
Percent Employed in Manufacturing	25.3	22.1	17.4	14.0
Percent Did Not Graduate High School	58.7	48.8	42.2	27.9
Dependent Ratio[b]	37.8	37.1	32.9	32.9
Median Family Income as Percent of U.S. Median Family Income	106.7	100.4	92.6	87.5
Family Poverty Rate	17.2	11.0	13.6	15.1
Percent Population in Census Tracts With More Than 40% Poverty	8.0	5.1	8.1	10.8
Female Headed Families With Own Children as Percent of All Families	7.9[c]	10.4	13.8	14.5

Source: U.S. Census data for 1960, 1970, 1980, and 1990, as compiled by John D. Kasarda, **Urban Underclass Database Machine Readable Files,** Social Science Research Council, New York, 1992 and 1993 (except as noted). Calculations by HUD.

[a] Based on the 100 Largest MSA Central Cities in 1980 with the exception of Anchorage; Fort Lauderdale; Jackson, MS; Jersey City; Newark; and Amarillo for which tract-level data was not available in 1960.

[b] Ratio of population less than 15 and greater than 64 years of age to total population.

[c] Estimated.

In these high-poverty neighborhoods, the problems of poor education, discrimination, joblessness, teen pregnancy, single parenthood, drug abuse, and crime all reinforce one another, perpetuating a vicious cycle of poverty, inequality, violence, and despair.[1] High-poverty neighborhoods cannot support the businesses and civic institutions necessary for a healthy community. Retail businesses close down, employers move elsewhere, civic and religious institutions find it impossible to survive. The city of Los Angeles has lost a third of its supermarkets since 1970; Boston has lost two-thirds. Beginning in the late 1980s, the Roman Catholic Church closed 40 parishes in downtown Chicago and 32 in Detroit. Nationally, 50-60 Catholic schools have closed annually in recent years.[2] As central city neighborhoods lose their economic

[1] Ricketts, Erol R., and Isabel V. Sawhill. "Defining and Measuring the Underclass." *Journal of Policy Analysis and Management* 7 (1988) pp. 316-325. Also see Edward L. Glaeser, "Cities, Information, and Economic Growth," *Cityscape*, (1994) pp. 9-48 for a theoretical discussion of how violence begets violence in distressed urban neighborhoods.

[2] Richmond, p. 10.

and civic infrastructure, middle-income and working families have fewer and fewer reasons to remain.

The concentration of poverty and the suburbanization of wealth converge on central city treasuries, where a declining tax base collides with rising public sector costs. Cities with high poverty rates face high per capita expenditures for welfare, hospitals, and other public health services. For example, the problems of homelessness, AIDS, and crack abuse—all phenomena that barely existed before 1980—have had a devastating impact on city budgets. But high levels of poverty also raise the cost of other city functions, such as police, fire, and education. And as a result, the total public costs that must be covered by non-poor taxpayers are greater in high poverty cities than elsewhere. Analysis of expenditures in selected central city jurisdictions shows that per capita spending on poverty-related functions averaged $124 in low-poverty cities, but $277 in high-poverty cities. And expenditures for other local functions (including police and fire protection) totaled $656 per non-poor person in the low-poverty cities, compared to $1,040 per non-poor person in the high poverty cities.[1]

This situation yields a disastrous set of secondary effects, which further exacerbate the downward spiral of poverty concentration and fiscal distress. First, non-poor families and businesses—already discouraged from locating in the central city by high crime and poor schools—are inclined to leave to escape the increasing tax burden. This further erodes the tax base and puts enormous pressure on local governments to reduce expenditures, cutting the quality and scope of public services to poor and non-poor residents alike, and making the central city an even less attractive place to live, work, and invest. Central city governments—some of which are bloated and inefficient—fail to deliver the decent schools, public safety, and other services that families and businesses need and expect.

In some cases, public policies intended to address the problems of central city distress have actually contributed to the concentration of poverty and the isolation of central city communities. For example, urban renewal programs, which were intended to return city neighborhoods to health, often uprooted poor families and destroyed functioning communities while frequently failing to create new economic uses for which there was a real market demand. In many large cities, the public housing program produced large low-rent housing developments that disturbed the delicate social ecology of inner-city neighborhoods. As federal policies tightened the targeting of housing subsidies, many of these developments became home to increasingly poor, non-working populations, creating unmanageable living environments and exacerbating the concentration of poverty and distress.[2] And in their efforts to generate revenues and serve poor residents, some city governments have created a web of taxes and regulatory restrictions inhospitable to private business investment.

[1] Janet Rothenburg Pack, "Poverty and Urban Public Expenditure," draft working paper, Philadelphia: Wharton Real Estate Center, University of Pennsylvania, February 1994.

[2] Michael W. Schill and Susan M. Wachter, *The Spatial Bias of Federal Housing Programs*, Research Impact Paper #3, Philadelphia, PA: Wharton Real Estate Center, December 1994.

Consequences for All Americans

The vicious cycle of poverty concentration, social despair, and fiscal distress that plagues much of urban America today weakens our nation's economic health and undermines the ability of metropolitan regions to compete in the global economy. Moreover, isolation of the poor in distressed, high-poverty neighborhoods saps America's spirit, weakening the bonds of trust and common purpose. If these problems continue to go unaddressed, America's future could be severely compromised, both economically and socially, in ways that we are only beginning to understand.

The distress and decline of high poverty areas does not confine itself to the central city, but gradually spreads out to affect suburban areas as well. Older suburbs—and even some "edge cities"—increasingly find themselves in competition with newer areas of development that can attract more affluent families, retail centers, and jobs. To illustrate, Lakewood, Ohio, one of Cleveland's oldest suburbs, declined in population from 70,000 in 1980 to 60,000 in 1990. Today, nearly 10 percent of its residents receive welfare assistance of some kind, and the community is experiencing an increase in teen pregnancies and juvenile crime. Older residents, opposed to increases in property tax rates, have voted down tax levies for the local public schools four times since 1993, resulting in an anticipated million-dollar deficit for the 1995-96 school year.[1]

Central city decline is also a problem for us all because it can paralyze metropolitan growth and development.[2] Streets full of potholes, boarded-up buildings, failing public services, poorly educated workers, homeless people camped out in public parks, and high crime rates all damage the image and economic viability of a central city and—by extension—the entire metropolitan region. These problems translate into high costs and risks in the minds of business managers looking for places to locate, and the flow of new capital slows to a trickle.

Metropolitan regions need economically vital central cities to thrive. Despite the increasing trend toward decentralization of many types of business and employment, concentrations of high-skill labor and value-added firms are still critical to knowledge-based producer services, such as market and financial analysts, strategic planners, lawyers, marketing specialists, high-level accountants, and computer systems designers. Metropolitan economies increasingly depend upon such clusters of economic activity if they are to thrive in the new economy. This is one of the important competitive advantages that central cities must exploit.[3]

Communication and transactions costs are minimized in these clusters of knowledge intensive firms and workers. Wall Street and Silicon Valley both provide good examples of how the spatial concentration of workers in a

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[1] Karen DeWitt, "Aging Towns Gain Cities' Problems," *New York Times*, February 26, 1995, A18. Also see Charles Lockwood, "Edge Cities on the Brink," *Wall Street Journal*, December 21, 1994, A14.

[2] Edward W. Hill, Harold L. Wolman and Coit Cook Ford III, "Can Suburbs Survive Without their Central Cities? Examining the Suburban Dependance Hypothesis," HUD Roundtable, December 1994.

[3] Michael E. Porter, "The Competitive Advantages of the Inner City," *Harvard Business Review*, (May-June 1995).

particular field facilitates the flow of information, and may lead to important leaps forward in knowledge and productivity.[1]

Spatial concentration also facilitates technical specialization. Every suburban office park cannot support an expert on the legal complexities of doing business in China, for example. But every large metropolitan region probably needs at least one such expert, and downtown is normally the most efficient place for such expertise to be located. Analysis of business transactions in New York, Los Angeles and Chicago confirms that both central city and suburban firms rely overwhelmingly on central city providers of specialized business services (such as investment banking and law).[2]

While a strong regional economy benefits from a vital central city, the reverse is also true. A city's ability "to access competitive clusters is a very different attribute—and one much more far reaching in economic implication—than the more generic advantage of proximity to a large downtown area with concentrated activity."[3] According to Michael Porter, cities can create their own competitive advantage by supporting the growth of firms that provide supplies, components and support services to their nationally and globally competitive regional clusters, and by specializing in so-called downstream products and services for which the clusters create a strong demand. An example of the latter would be an inner city company in Boston drawing on that city's strength in financial services "to provide services tailored to inner city needs—such as secured credit cards...both within and outside the inner city in Boston and elsewhere in the country."[4]

Thus, urban and regional economies are intimately connected. Considerable research now documents strong statistical relationships between metropolitan economic performance and city-suburban disparities.[5] For example, data on 56 large metropolitan regions shows a strong correlation between metropolitan-wide employment growth and the ratio of central city to suburban income. More specifically, employment grew most where income disparities were lowest.[6] Although the evidence of a causal connection is not yet conclusive, there are strong reasons to believe that the social and fiscal distress of high-poverty central cities impedes the growth of the specialized producer service activities that are the drivers of metropolitan economies.

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[1] Edward E. Glaeser, "Cities, Information, and Economic Growth," *Cityscape*, 1 (August 1994) pp. 9-47.

[2] For example, suburban companies obtained 53 percent of their actuarial accounting services and 71 percent of their legal services from central city firms. Alex Schwartz, "Corporate Service Linkages in Large Metropolitan Areas: A Study of New York, Los Angeles, and Chicago," *Urban Affairs Quarterly*, (1992) pp. 276-296.

[3] Porter, p. 60.

[4] Porter, p. 60

[5] For example, by Larry C. Ledebur and William R. Barnes: "Toward a New Political Economy of Metropolitan Regions," *Government and Policy*, vol. 9, 1993, pp 127-141; *All In It Together: Cities, Suburbs, and Local Economic Regions*, Washington, D.C.: National League of Cities, 1993; and *Local Economies: The U.S. Common Market of Local Economic Regions*, Washington, D.C. National League of Cities, August 1994. Also see H.V. Savitch, David Collins, Daniel Sanders and John P. Markham, "Ties that Bind: Central Cities, Suburbs, and the New Metropolitan Region," *Economic Development Quarterly*, (November 1993) pp. 341-358; and Richard Voith, "City and Suburban Growth: Substitutes or Complements?" *Business Review Federal Reserve Bank of Philadelphia*, (September/October 1992) 3 pp. 21-33.

[6] Larry C. Ledebur and William R. Barnes, *Metropolitan Disparities and Economic Growth*, Washington, D.C.: National League of Cities, August 1993.

Moreover, the costs to our economy of extreme spatial dispersion and inner-city abandonment are high. Because metropolitan regions sprawl across such large areas of land, the U.S. has had to build and maintain infrastructure networks that are far more extensive than those of its competitors in the global economy. Acreage in new development has been increasing 86 to 100 times faster than population in Chicago, New York, the D.C.-Baltimore region, Dallas-Fort Worth, Atlanta, San Francisco and other regions.[1] And as development extends outward, existing infrastructure in central cities goes underutilized; since 1950, the metropolitan population of the U.S. has almost doubled, but the population density in its central cities has fallen by half.[2]

An even greater threat to our economic future is the failure of inner-city school systems to adequately educate large numbers of the nation's children. In the highly technical, knowledge-based industries of the future, education is the key to individual and collective success. "America's economic and global primacy depends on the success of the children now being educated in our city schools. They are, after all, the next generation of citizens, workers and voters."[3] Concentrated poverty not only reduces the resources available for education through its drain on a jurisdiction's tax base; it also increases the resources needed (per child) to provide an effective education. Today inner-city schools are often "chaotic and ineffective for all their students."[4]

The educational achievement of public school students in inner cities is well below that of their peers in more affluent communities. The 1992 National Assessment of Educational Progress, for example, indicates that three quarters of fourth graders in disadvantaged urban areas were reading below basic skill levels, and less than 6 percent were rated as proficient or advanced. In more affluent urban school districts, only 18 percent of 4th graders were reading below basic skill levels, and 60 percent were rated as proficient or advanced.[5] Math and science scores showed similar disparities. Yet inner-city students represent a substantial share of tomorrow's workforce—public school districts of central cities are educating almost one in three American youth.[6]

In addition to the economic costs of concentrated poverty, the polarization of urban communities today is exacting a high social and civic toll. The crime and violence of distressed neighborhoods have made suburbanites

To understand the challenges facing inner city schools today, consider this description of the students in the Hartford public school system: "In a typical class of 23 students. . . an average of 21 students are either Black or Hispanic; 3 were born to mothers on drugs; 5.3 to teen mothers; 3 were born underweight; 8.4 live in poverty; 14.9 live with a single parent; 9.2 have parents with less that a high school education; 8.2 live in households where more than 30 percent of the income is spent on housing costs; 4.6 in a home where a language other than English is spoken; 9.5 in households where a member is involved in criminal activity; and 9.2 live with parents who are not in the labor force.

Source: Citizen's Commission on Civil Rights, *Civil Rights at a Crossroads,* citing testimony of Professor Gary Natriello, in *Sheff v. O'Neill,* December 30, 1992.

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[1] Richmond, p. 7.

[2] The U.S. spends substantially more per capita for commuting costs than other industrialized nations. For example, per capita vehicle travel in the U.S. is about twice that in Europe and Japan; and 15-18 percent of our gross national product goes to transportation, compared to only 9 percent in Japan. Between 1990 and 2005, traffic congestion is expected to more than quadruple, resulting in an estimated productivity loss of $58 billion per year. Richmond, p. 24. Also see Bank of America, "Beyond Sprawl: New Patterns of Growth to Fit the New America," pamphlet, 1995.

[3] Council of Great City Schools, *National Urban Education Goals 1992-3 Indicators Report,* p. xi.

[4] George E. Peterson, *Confronting the Nation's Urban Crisis: From Watts (1965) to South Central Los Angeles (1992),* The Urban Institute: Washington, D.C., 1992.

[5] Ina V.S. Mullis, Jay R. Campbell, Alan E. Farstrup, *NAEP 1992: Reading Report Card for the Nation and the States,* National Center for Education and Statistics, Report No. 23-ST06, September 1993.

[6] Edward W. Hill, Harold L. Wolman and Coit Cook Ford III, "Can Suburbs Survive Without their Central Cities? Examining the Suburban Dependence Hypothesis," paper presented at a U.S. Department of Housing and Urban Development roundtable, December 1994. Also see *School Enrollment—Social and Economic Characteristics of Students, Oct 1993,* Table 2.

increasingly afraid of the central city and its residents. At the same time, the isolation of poor central city residents—especially poor minorities—from mainstream institutions and opportunities in the metropolitan area engender alienation and hostility. This widespread breakdown of trust and reciprocity among major segments of society poses a fundamental threat to our cherished democracy. It threatens civic engagement, interferes with communication and collaboration, and undermines the capacity of public and private institutions to solve our common problems.[1] "Some neighborhoods in this nation are so violent and menacing that terms such as community building and shared civic values are meaningless. No community organization can thrive on streets where children murder each other without remorse and where gangs, drugs, and violence have replaced family, work, and the rule of law."[2]

The problems facing urban America today are severe, and their potential consequences are frightening. But these problems are by no means insurmountable. The United States remains a tremendously wealthy nation and the work ethic persists as a fundamental norm, even in the most distressed communities. For example, in central Harlem, where 40 percent of the population is poor, two thirds of all households have at least one full-time worker and 14 people apply for every minimum wage job opening.[3] Moreover, although poverty concentrations and distress may overwhelm some central city jurisdictions, these problems appear less daunting when viewed in the context of whole metropolitan regions. America is not a Third World country where the poor are many and the middle class are few. In America the middle class are many and the poor are few. This country has the capacity to end the isolation of the poor and to address the decline of central cities.

Solutions to the problems confronting metropolitan regions—as well as the leadership and resources to implement them—will come primarily from within. Communities are able to generate opportunity and prosperity only to the extent that the people who live there—acting as parents, as neighbors, as members of civic and religious organization, as citizens—assume responsibility for their individual and collective welfare. But the federal government must become a more constructive partner to families, businesses, and communities in their efforts to help themselves. The next two chapters provide the details of President Clinton's Community Empowerment Agenda. Chapter 3 describes the Administration's national economic policies to foster sustainable, high-productivity economic growth across metropolitan regions, upon which poor families and poor neighborhoods depend for opportunities. And Chapter 4 outlines the strategic federal investments that reconnect poor people and distressed communities to jobs, helping them share in the nation's expanding economy.

Hartford, the capitol of Connecticut, has become one of America's most distressed cities. Between 1950 and 1990, the city's population dropped 21 percent to 139,000. In 1989, the average income of city residents was 53 percent of suburban residents, and over 20 percent of Hartford's population was poor. Crime rates have soared and school failure rates were so high that the city's school board brought in a private management company to run the public school system.

Seen as "the city's problem," Hartford's social agony seems unsolvable. Yet, when viewed from a regional perspective, problems facing the 1 million people of the Hartford metropolitan area are not so insurmountable; of every 100 residents, only 3 are poor and white, 2 are poor and Hispanic, and less than 2 are poor and African American. The problem is not the region's overall level of poverty—only 7 out of every 100 residents are poor—but its high concentration in inner-city areas.

[1] Robert D. Putnam, "Bowling Alone," *Journal of Democracy*, 6 (January 1995) pp.s 65-78; William Julius Wilson, *The Truly Disadvantaged*, Chicago, IL: University of Chicago Press, 1987; and John Parr, "Civic Infrastructure: A New Approach to Improving Community Life," *National Civic Review*, 82 (Spring 1993) pp. 93-100.

[2] Committee for Economic Development, p. 29.

[3] Katherine S. Newman, "What Scholars Can Tell Politicians About the Poor," *Chronicle of Higher Education*, June 23, 1995, p. B2.

Two years ago when we were fighting for the economic plan, the people who were against it said the sky would fall. If the President's plan passes, the economy will be wrecked. Everything will be terrible. Some said I was cutting too much. Some said it was an error to raise taxes on the wealthiest Americans to put against the deficit because that would hurt the economy. Well, 2 years later, we have over 6 million new jobs and the lowest combined rates of unemployment and inflation in 25 years. —*President Bill Clinton*
April 5, 1995

CHAPTER 3

Establishing a Firm Foundation for Economic Growth

Urban policies must seek to build bridges from distressed communities to economic opportunity, and a strong national economy is the essential foundation upon which these bridges will be built. Because the wealth of the nation depends upon the health of metropolitan regions, this country must convert the potential of its cities and surrounding regions into real productivity and growth. And the first step toward healthier cities is to create national conditions for steady economic growth and expanding employment opportunity.

President Clinton's economic agenda emphasizes investments that generate sustainable, long-term economic change, rather than short-sighted attempts to counter temporary downturns in the business cycle. It sets the stage for expanded employment opportunities and increased wages through strategies that:

- **Establish fiscal integrity** by balancing the federal budget while preserving investments in the future.
- **Provide middle-class tax relief** to encourage savings and reward investment in children and education.
- **Open the world to U.S. products,** thereby expanding markets abroad while allowing consumers at home to enjoy a greater variety of goods at lower prices.

The nation's cities will be important contributors to—and primary beneficiaries of—the long-term economic growth these policies will produce.

Fiscal Integrity

The federal debt grew out of control during the 1980s, rising from less than $1 trillion in 1980 to $4 trillion in 1992 and threatening to choke off economic growth. By the time Americans went to the polls in 1992, businesses had stopped growing, job creation was weak, incomes were stagnant, business investment had barely regained its pre-recession level, and consumers were losing confidence. The unemployment rate kept rising—to a high of 7.6 percent in June 1992—for a year after the 1990-1992 recession technically ended. The country needed more jobs.

Businesses were unable to respond because they lacked capital. Instead of financing the new investments that would enable them to compete in the global economy, businesses were forced to spend too much current income to pay interest on their debt. Many firms were caught in a "credit crunch": banks and thrifts would not extend credit to them, contending that federal regulators had created a climate that discouraged even loans bearing only modest risks.

Cities also saw their fiscal problems exacerbated by high interest rates and debt service costs. Central cities had to grapple with the effects of the recession on their increasingly poor and economically isolated residents. Even as demand for social services grew, however, debt service at high interest rates siphoned away precious revenue. At the same time, high interest rates drove up the cost of obtaining bond capital, making infrastructure projects and other needed investments prohibitively expensive.

President Clinton recognized that lower interest rates and more readily available capital were crucial to an economic recovery, so the Administration acted swiftly and prudently to ease the credit crunch. Within 2 months of taking office, the President announced a program to improve credit availability, especially for small and medium-sized businesses. This initiative allows strong banks and thrifts to lend to small businesses with minimal documentation, raises the threshold level for requiring appraisals, and eases other requirements.

But the Administration's most important efforts to revitalize the economy were in the area of deficit reduction. The President proposed, and Congress passed, the largest deficit reduction package in history—the Omnibus Budget Reconciliation Act of 1993. This historic measure:

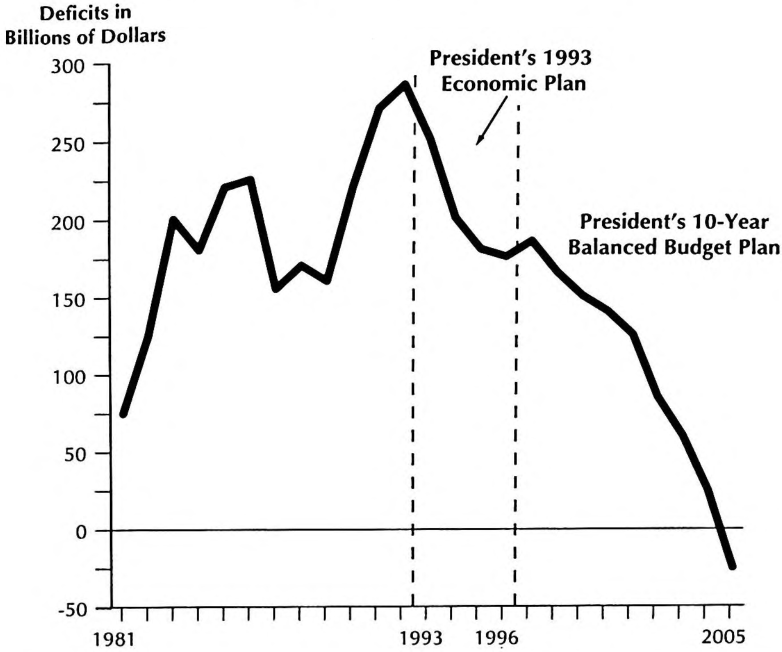
- Cut $255 billion of federal spending from over 300 domestic programs.
- Reduced the federal deficit by $505 billion over 5 years.
- Asked the wealthiest 1.3 percent of American households to pay more to reduce the deficit.

This plan provides the foundation for $1 trillion in deficit reduction through the year 2000, upon which **all** proposals to balance the federal budget in the years ahead are built.

Now President Clinton has presented the nation with a blueprint for erasing the entire federal deficit by the year 2005. The President's plan incorporates five fundamental principles:

- Reform welfare to reduce costs and provide incentives for moving able-bodied people from welfare to work, while continuing to protect children.
- Increase funding for education and training, because the future health of the economy depends on maintaining a highly skilled labor force.
- Reduce Medicare and Medicaid costs without reducing health care services.
- Provide tax relief for the middle class to encourage saving and investment for education and homeownership.
- Ensure that balancing the budget does not derail sound economic growth.

Balancing the Budget: The President's Economic Plan



Source: White House Press Packet: The President's Economic Plan: A Balanced Budget That Puts People First, June 1995.

The President's budget plan is crucial to the long-term health of the American economy. There is wide agreement among economists that moving toward a balanced budget will result in substantially lower interest rates. The Government will no longer be competing with businesses for the funds its citizens save; private investment will increase. By reducing the deficit, the Government can help restore confidence in the economy both at home and abroad, which in turn will further increase investment and strengthen the dollar. Most importantly, the country will stop adding to the debt burden to be borne by future generations. The deficit reduction steps already taken and those proposed by the President are radically transforming the relationship between the federal government and the American economy. In only 10 years, the budget will have moved from a deficit of $292 billion to a surplus of $18 billion.

This Administration's fiscal and budget policies have already yielded significant economic benefits. After 30 months of the Clinton Administration, the U.S. economy has experienced sustained low-inflation growth and a smoother, more rapid transition into the new global economy. Deficit reduction and more flexible oversight of financial institutions, combined with the Federal Reserve's efforts to expand the money supply, virtually eliminated the credit crunch by the end of 1993. The economy has produced 7.5 million new jobs, the unemployment rate has been below 6 percent for 10 consecutive months, and inflation was only 2.6 percent in 1994.

As the economy moves from recovery to steady, long-term growth, attention should focus on increasing real income and wages. Real hourly earnings fell almost every year between 1978 and 1992 and have remained virtually unchanged since then. The President expressed the anxiety that many American workers have felt at the failure of recent economic growth to translate into higher wages:

> And here at home, . . . the highest [economic] growth rates in a decade, the stock market at an all-time high, almost 7 million more jobs, more millionaires and new businesses than ever before, but most people working harder for less, feeling more insecure.[1]

For this reason, the President's economic policies have focused on increasing private investment and encouraging greater education and training.

Both businesses and consumers have responded positively to the improving economy by their willingness to make major financial commitments. Economic growth during 1993 and 1994 was heavily concentrated in business investment goods. Consumers also invested in homes, automobiles, and other durable goods. Such purchases are typically financed by borrowing, and this Administration's program has made such loans more accessible and less costly. As businesses and government invested and consumers bought big-ticket items, employment rose.

Cities have also benefitted from improved federal fiscal discipline. As the economic recovery put people to work, unemployment lines shortened; tax revenues went up and social service costs went down. Hundreds of cities refinanced $190 billion in debt at lower rates, allowing them to save almost $4 billion[2] in interest expenses annually. Because of lower debt service payments, cities, states, and public school systems have been better able to undertake important infrastructure investments. Most cities improved their fiscal positions in 1994, according to the National League of Cities.[3]

The President's balanced budget proposal and the principles that undergird it are particularly responsive to the needs of cities. It not only preserves the social "safety net" for the elderly, the disabled, and the truly needy, but actually improves it. Welfare reforms offer a way to help reconnect the poor to the traditional values of work and responsibility. New resources and incentives for education and training are essential to preparing the urban labor force for employment in today's growth industries. And lower interest rates promote greater investment in infrastructure by urban governments and reduce the cost of local borrowing. In fact, based on current estimates, balancing the federal budget should save cities over $15 billion annually in lower interest costs.[4]

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[1] Remarks by the President on Responsible Citizenship and the American Community, July 6, 1995, Gaston Hall, Georgetown University, Washington, D.C.

[2] The precise amount of savings realized is not known. The Administration estimates that the $190 billion was refinanced at rates that averaged 2 percentage points below the original rate. Thus, estimated savings are $3.8 billion a year.

[3] National League of Cities, *City Fiscal Conditions in 1995*, Washington, D.C.: National League of Cities, July 1995.

[4] In 1994 State and local government debt and tax exempt obligations totaled $1.2 trillion, of which the local share is estimated to be $760 billion. It is estimated that balancing the Federal budget will reduce long-term interest rates by approximately 2 percentage points.

Middle-Class Tax Relief

After World War II, the GI Bill of Rights helped transform a wartime economy into an extraordinarily successful peacetime economy by helping average Americans purchase homes and improve their educations. This historic initiative was key to building the great American middle class. At the end of 1994, President Clinton announced a new Middle Class Bill of Rights that, like the GI Bill of Rights, is designed to help Americans cope with the demands of a changing economy.[1]

The proposed **$500 tax credit for children under 13** recognizes that the existing tax allowance for children has not kept pace with inflation and income growth. In 1948 the real value of the so-called "dependent exemption" for each child was nearly half again as large as today's $2,500 exemption. Meanwhile, many of the costs of raising children—especially medical care and education—have increased far more rapidly than overall inflation. The proposed non-refundable tax credit would be fully available to families earning up to $60,000, and would be gradually phased out by $75,000.

The proposed **tax deduction of up to $10,000 for postsecondary education and training expenses** encourages individuals and their families to increase the knowledge and skills they bring to the job market. By investing in themselves, people enhance their productivity, ensure their marketability in the global market, and lay the foundation for higher future earnings. The President's proposal recognizes that individuals know best what training and education suits their needs and the needs of their children. The tax deduction would be fully available for families earning up to $100,000, and would be phased out by $120,000. More than 90 percent of all American families could potentially benefit from the proposed deduction.

The President has proposed an **expansion of IRAs** that will encourage households to save more. The nation's ability to compete successfully, to maintain strong economic growth, and to provide rising wages and a higher standard of living depends on boosting private savings and investment. The proposal makes IRAs completely deductible for married couples with incomes below $80,000. It helps families meet emergency situations by allowing penalty-free withdrawals to defray large medical expenses or cover long-term unemployment expenses. Families and individuals who want to invest in their future can withdraw IRA funds without penalty to pay for postsecondary education or to buy a home. Over the last 50 years, homeownership has been the primary means of wealth accumulation for millions of American families. The President's proposal would allow families to convert their IRA savings into home equity without paying a tax penalty. Encouraging families to save for homeownership, combined with the greater flexibility and expanded coverage of the Administration's IRA proposal, will enhance the incentive for personal saving.

Strong, low-inflation economic growth has improved fiscal conditions in America's cities:

- Cities are increasing the share of revenues they set aside to fund capital improvements and guard against future fiscal emergencies. After drawing down ending balances in 1992 to an average of 20.7 percent of General Fund expenditures, cities have restored these balances to 24.9 percent in 1994.
- In 1995 General Fund expenditures by city governments are expected to increase by 4 percent in constant dollars, the highest budgeted growth rate since 1990. This increase reflects both accumulated reserves and confidence in future revenues.
- Three out of five local fiscal officers felt their cities were better able to meet their fiscal needs in 1995 than in the previous year, compared to only one-third who felt such confidence in 1993.

Source: National League of Cities, *City Fiscal Conditions in 1995,* Washington, D.C.: National League of Cities, July 1995.

[1] This discussion is drawn from: Council of Economic Advisers, *The Economic Report of the President*, Washington, D.C.: U.S. Government Printing Office, February 1995.

Open the World to U.S. Products

Expanding trade is key to the future growth and prosperity of America and its metropolitan regions. As noted in the previous chapter, central cities are well-positioned to compete in the global economy. The attributes of cities—such as density, proximity, and highly developed infrastructure—are vital to the knowledge-based industries that are leading the way into the future. The economic functions of cities—as centers of finance, specialized services, planning, and distribution—are key contributors to national and international economic activity.

The fundamental challenge for cities is to build on these strengths, but they need help. For example, cities can do little on their own to ensure that foreign markets are open to their products or that the widest possible array of goods are available to their residents. Here the federal government has an important role to play. President Clinton has made free and fair trade a central component of his foreign policy.

To open world markets and create high-quality jobs, this Administration completed negotiations over the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) on December 15, 1993. Experts estimate that the new GATT agreement, when fully implemented, will expand the U.S. economy by $100 to $200 billion annually and create hundreds of thousands of high-wage jobs in America.

The President also negotiated the side agreements on the environment and labor cooperation for the North American Free Trade Agreement (NAFTA) and worked successfully to secure the treaty's approval by Congress. By creating a free-trade area among Mexico, the United States, and Canada, NAFTA creates the largest and richest market in the world—370 million consumers and more than $6.5 trillion in annual output. NAFTA also enhances the ability of American manufacturers to compete in Mexico, a large and growing market for U.S. products.

In the long run, NAFTA benefits the United States by fostering a prosperous and more stable Mexico. After the signing of the NAFTA, U.S. exports to Mexico for the first three quarters of 1994 were 21.7 percent higher than during the same period in 1993. This increase was twice the rate of growth of U.S. exports overall. Mexico's recent financial crisis has temporarily depressed imports from the U.S., but trade is expected to rebound to stronger levels over the long term. As Mexican wealth and political stability increase, the result is not only a larger market for U.S. exporters, but also higher environmental standards and reduced illegal immigration. Indeed, President Clinton's decision to join the IMF and the World Bank in providing support to Mexico was critical to American jobs, American exports, and American interests.

Finally, the Clinton Administration has engaged in serious negotiations with the government of Japan to gain access on fair terms for American products to that sizable market. Specifically, the Administration has negotiated 16 agreements to open Japan's markets for everything from autos and auto parts to cellular telephones and medical equipment, from apples to rice, from construction services to financial services. All of these agreements help American firms and American workers break into one of the most important export markets.

Outlook: A Revitalized National Economy

At the national level, President Clinton's economic policies have had a dramatic impact on the economy. Over seven million jobs have been created during the Clinton Administration. In 1994 alone, the economy created 3.5 million jobs, the strongest job growth in a decade. These are good jobs, too. Over 90 percent have been created by the private sector—that is higher than the average during any administration in the last 70 years. In 1994 more jobs were created in high-wage industries than in the previous 5 years combined. After losing more than 2 million manufacturing jobs in the 12 previous years, the economy has gained 382,000 manufacturing jobs since the Clinton budget plan was passed. Jobs in the auto industry have increased by 94,000 during the Clinton Administration; construction jobs are up by 715,000. The minority unemployment rate has dropped below 10 percent for the first time in 20 years. The private sector has shown its confidence in the economy by greatly expanding business investment, which grew by 12 percent in 1993 and by another 14 percent in 1994.

Sustained national economic growth will help U.S. cities complete the restructuring needed to compete in the new global economy. The new opportunities that economic growth provides will also stimulate efforts to build bridges between communities and America's economic mainstream. But the relationship between a healthy economy and healthy cities is complex.

A healthy economy will not guarantee a prosperous future for our cities or all our citizens. "A rising tide lifts all boats" is a nice aphorism, but an insufficient urban policy. Experience has shown this is not so. Real wages have been sluggish in responding to an improved economy. Despite positive aggregate economic growth during the 1980s, conditions in central cities worsened—poverty increased and became more concentrated; the income distribution, both nationally and between cities and suburbs, continued to become more unequal. A rising tide cannot reasonably be expected to raise all boats when long-standing barriers discourage—or even prevent—the inner-city poor from gaining access to economic opportunities. Therefore, at the same time that we expand opportunities nationwide, we must connect distressed communities and their residents to the full range of opportunities our metropolitan economies offer. The next chapter of this report describes the Clinton Administration's coordinated strategy for helping individuals and communities rebuild these bridges to opportunity, because, as the President said:

> It has always amazed me that we have given incentives to our business people to help to develop poor economies in other parts of the world . . . but we ignore the biggest source of economic growth available to the American economy, the poor economies isolated within the United States of America.[1]

[1] President Bill Clinton, Washington, D.C., July 19, 1995.

Our job is to work together to grow the middle class, to shrink the underclass, to expand opportunity and to shrink bureaucracy, to empower people to make the most of their own lives. We can't give any guarantees in this rapidly changing world, but we can give people the capacity to do for themselves. And we must do that—all of us must do it. —*President Bill Clinton March 13, 1995*

CHAPTER 4

Expanding Access to Opportunities

A stable and expanding national economy, though essential to the revitalization of distressed urban communities, is not sufficient. The Clinton Administration's policies to establish fiscal integrity, ensure tax fairness for working families, and open the world to U.S. products are generating national economic growth with low inflation, and creating jobs and economic opportunities for Americans. However, not all Americans are able to take advantage of these expanding opportunities. Too many people and too many neighborhoods are disconnected from economic opportunity—cut off by the combined barriers of poor education, low skills, distance, discrimination, and work disincentives in the existing system of social supports. We cannot end the isolation of distressed inner-city communities without forceful efforts to lower these barriers and to build bridges that allow families to overcome them.

This chapter describes Clinton Administration initiatives that empower people and communities to overcome the barriers to opportunity that perpetuate the isolation and despair of many inner-city neighborhoods. By re-entering the world of work and responsibility, residents of distressed neighborhoods can rebuild their lives and their communities. And America's cities can regain their historic position as vital centers of innovation, investment and economic progress.[1] As discussed in Chapter 1, the Community Empowerment Agenda encompasses policies that ***link families to work***—empowering and encouraging them to get jobs and achieve self-sufficiency—as well as policies that ***leverage private investment*** in cities—rebuilding jobs and opportunities in distressed urban communities. Both types of initiatives are described here. All of these initiatives support solutions that are ***locally driven***, rather than dictated by federal bureaucrats. And all of them affirm and reinforce ***traditional values*** of work, family, responsibility, and community.

Some of the Clinton Administration's Community Empowerment initiatives are currently being implemented on a relatively small scale. Nevertheless, they represent critical first steps in the right direction. Others open up new and expanded opportunities for all persons in need. And when government is effective in lifting barriers and eliminating disincentives, the productive energies of individual Americans as well as the private and non-profit sectors can be unleashed at relatively little cost.

[1] Michael E. Porter, "The Competitive Advantages of the Inner City," *Harvard Business Review* (May/June 1995).

Linking families to work through—

- Initiatives that link poor people to entry-level jobs in the private market by **rewarding work and making work pay**.
- Universal initiatives that enable people to prepare for higher wage jobs and upward mobility by **investing in education and training.**
- Initiatives that link poor families to jobs, housing, education, and other opportunities by **expanding access to metropolitan opportunities.**

Leveraging private investment through—

- Place-based initiatives that foster private sector investment and job creation by restoring **access to financial capital** in the inner city.
- Initiatives that reward savings and investment and rebuild vital residential neighborhoods by **expanding homeownership opportunities.**
- Coordinated initiatives for **attacking crime and violence,** that are essential for stimulating capital formation and economic activity in central city neighborhoods and economic opportunity for inner-city youth.

All of these critical linkages come together—

- In the **Empowerment Zones and Enterprise Communities Program,** which targets federal resources and local partnerships to rebuild some of the nation's most distressed urban communities.

Rewarding Work and Making Work Pay

A fundamental tenet of the Clinton Administration is that all Americans must assume responsibility for the well-being of their families and that people who work full-time should be able to lift themselves and their children out of poverty and dependency. Tragically this basic principle seems to have lost its meaning for many Americans today. When people see that working at an entry-level or low-skill job will not lift them out of poverty, they are less likely (and less able) to step onto the first rung of the employment ladder. Instead, they remain disconnected from the economic opportunities that exist around them, dependent upon welfare or on illegal activities.

Even among the vast majority of Americans who work hard and play by the rules, a growing number must struggle to provide for themselves and their families in jobs that do not pay a living wage. Since the early 1970s, the relative wages of lower skilled workers have fallen in real terms.[1] By 1993, 16.2 percent of all full-time, year-round workers earned too little to lift a family of four above the poverty line, and 11.4 percent of families with a working parent nevertheless lived in poverty.[2] In addition to violating our basic sense of justice and fair play, these realities create strong disincentives for people with limited skills or experience to join the labor market. And they make it difficult for people attempting to escape from poverty and dependency to stay in an entry-level job long enough to build their skills and credentials.

The Clinton Administration's strategy for linking poor people to the expanding employment opportunities of the future begins with three key initiatives that make work pay and encourage people to take the first steps out of dependency toward self-sufficiency. The Earned Income Tax Credit and the President's proposed increase in the minimum wage directly increase wages for people at the bottom of the employment ladder. And the Administration's welfare reform proposals would create strong incentives for people to make the transition to the world of work, without creating unreasonable hardships for children and young mothers.

The expansion of the Earned Income Tax Credit in the Omnibus Budget Reconciliation Act of 1993 effectively provides a pay raise for America's working poor. For a family with two children, the Earned Income Tax Credit makes a $4.25-per-hour job pay the equivalent of $6.00 an hour, allowing a full-time worker to lift his or her family out of poverty, and strengthening the incentives for non-working parents to take a low-paying job and assume responsibility for their families' support. The expanded Earned Income Tax Credit now totals about $20 billion per year, a substantial investment which can be expected to draw non-working Americans back into the labor force and encourage low-skill and entry-level workers to climb up the opportunity ladder.

Today, fully 2.1 million Americans work at minimum-wage jobs. At $4.25 per hour, the minimum wage will sink to its lowest real value in 40 years if it is not increased in 1996. President Clinton has proposed a 90-cent increase in

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[1] Sheldon Danziger and Daniel Weinberg, eds, *Fighting Poverty: What Works and What Doesn't*, Cambridge, MA: Harvard University Press, 1986; and Sheldon Danziger, Gary D. Sandefur and Daniel Weinberg, eds, *Confronting Poverty: Prescriptions for Change*, Cambridge, MA: Harvard University Press, 1994.

[2] Sharon Parrott, *How Much Do We Spend on Welfare?* Washington, D.C.: Center on Budget and Policy Priorities, March 1995.

the minimum wage (to $5.15 per hour) to be implemented over the next two years. In conjunction with the Earned Income Tax Credit, this increase will enable Americans in entry-level and low-skill jobs to better support themselves and their families. And, like the Earned Income Tax Credit, a higher minimum wage creates strong incentives for welfare recipients to rejoin the world of work and responsibility. Although economists differ on the secondary impacts of an increase in the minimum wage, several recent studies indicate that the net effect of a modest increase will benefit American workers (particularly in today's expanding economy) without costing jobs.[1]

The third component of the Clinton Administration's strategy for rewarding work is its commitment to welfare reform, which would further strengthen incentives for poor Americans to make the transition from welfare to self-sufficiency. The current welfare system creates too many unintended disincentives for work. For example, in most states, the Aid to Families with Dependent Children Program (AFDC) imposes more stringent requirements for families with both parents present than for single-parent families. When AFDC recipients go to work, they quickly lose cash benefits, and their automatic receipt of Medicaid health coverage ends after twelve months.[2] Residents of federally assisted housing must absorb rent increases as soon as their incomes rise and may even lose their subsidies long before they have achieved any real measure of stability and security.

Since taking office, President Clinton has vigorously advocated an end to welfare as we know it. He has proposed in its place a system that offers meaningful opportunities for people to move from welfare to work as quickly as possible, providing only temporary benefits to help them make the transition to self-sufficiency. The President's welfare reform principles recognize that these benefits impose an obligation on recipients in return, requiring them to move toward resuming their responsibility for supporting themselves and their families.[3]

The Clinton Administration's welfare reform principles require that people work as a condition of assistance.[4] To help people make the transition from welfare to work, job search and job training would be available for welfare recipients who lack connections to the labor market, and child care would be provided so that mothers could return to the workforce without neglecting their children. People unable to find jobs would perform work assignments in the public, private, and nonprofit sectors in return for their welfare benefits.

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[1] Isaac Shapiro, "Assessing a $5.15-An-Hour Minimum Wage," press release from the Center on Budget and Policy Priorities, February 3, 1995. See also Shapiro, "Four Years and Still Falling: The Decline in the value of the Minimum Wage," analysis from the Center on Budget and Policy Priorities, January 11, 1995.

[2] After twelve months of employment, parents generally lose their eligibility for Medicaid, although poor children can retain eligibility even when a parent is employed.

[3] In fact, contrary to the popular stereotype, welfare offers most recipients the temporary "helping hand" it was intended to provide. Most people who enter the welfare rolls do not continue to receive benefits over many consecutive years. It is much more typical for recipients to move on and off the welfare rolls: two out of every three people who enter the welfare system leave within two years, and fewer than one in ten receives benefits for eight or more consecutive years. However, half of those who leave welfare return within two years, and three of every four return at some time in the future. Moreover, even though long-term welfare recipients are a relatively small share of people who enter the system, they are a large share of those receiving benefits at any given time.

[4] Exceptions would be made for people facing very serious barriers to employment, including physical disabilities.

Welfare reform proposals that do not create meaningful opportunities for work, or that fail to ensure the safety and well-being of dependent children, may appear to save the federal government money in the short-term, but they will not be effective in moving welfare recipients toward lasting self-sufficiency.[1]

In addition, the Clinton Administration's vision for welfare reform strengthens child support enforcement to ensure that noncustodial parents assume responsibility for the financial support of children they bring into the world. Today, less than half of all custodial parents receive any child support, and among mothers who have never married, the rate is dramatically lower—only 15 percent receive support. Therefore, the Clinton Administration seeks to establish child support awards in all cases where children are born out of wedlock, to ensure that award levels are fair, and to ensure that custodial parents actually collect the awards they are owed.

As part of the Administration's overall approach to welfare reform, the Department of Housing and Urban Development (HUD) has incorporated work incentives into its proposed reinvention of housing assistance programs for very low-income renters. Local housing authorities are authorized to give preference to working families on their waiting lists and to temporarily "disregard" increases in income—thereby holding rent payments fixed—when an unemployed resident goes back to work. Moreover, assisted families who do not work will be required to perform at least eight hours of community work per month. These reforms will help reward work and make federal housing assistance a platform from which assisted families can move toward self-sufficiency.

Investing in Education and Training

American workers need to improve and upgrade their skills in order to meet the challenges of today's rapidly changing economy. Fewer and fewer low-skill jobs pay decent wages, making it increasingly difficult to earn a good living without high-level skills. Investments in education prepare Americans for the world of work and help build the skills they need for the jobs of the future. Studies show that each year of postsecondary education or job training—whenever it occurs in the course of a career—boosts earning power by 6 to 12 percent on average. Investments in education also pay off for employers. A recent employer survey found that a ten percent increase in worker education is associated with an 8.6 percent increase in productivity—well over twice the payoff from investments in physical capital.[2] Initiatives that improve the quality of public education and expand training opportunities play a critical role in linking people to jobs, self-sufficiency, and upward mobility.

Federal policy must strengthen the crucial ties between learning and productivity. It is essential that our system of public education equips all our children for work in a highly competitive global economy. Efforts to prepare the nation's workforce for the challenges and opportunities of tomorrow must span the entire educational continuum—from preschool to college.

[1] The President's basic principle of work is also reflected in legislation offered by Senators Daschle, Mikulski, and Breaux.

[2] National Center on Educational Quality of the Workforce, *The Other Shoe: Education's Contribution to the Productivity of Establishments*, U.S. Department of Education, 1995.

Therefore, the Clinton Administration has proposed to increase federal spending on education and training by $40 billion over seven years. And President Clinton's plan for balancing the budget by 2005 sustains his commitment to priority investments in education and training, investments that empower individual Americans to make the most of the economic opportunities of the future and to achieve self-sufficiency and prosperity for their families and communities.

The first prerequisite is that all children start school ready to learn, and the expansion and reform of the Head Start preschool education program passed by the Clinton Administration provides that foundation. But preparing preschoolers to learn will not be effective if their elementary and secondary schools cannot deliver an education for the 21st century. Therefore, the Administration's Goals 2000 Educate America Act, enacted by Congress in 1994, supports state and local efforts to achieve the National Education Goals. This bipartisan Act provides a framework for states to set challenging content and world-class performance standards for what all students should know and be able to do in science, mathematics, history, English, geography, civics, foreign language, and the arts. Under Goals 2000 the responsibility for change in educational systems is properly assigned to states and local communities, which will develop and implement their own plans for achieving the National Education Goals and maximizing student performance.

Many central city schools face special challenges as they attempt to prepare an increasingly diverse student body for the job opportunities of the next century. Nearly 40 percent of the nation's African American children, 32 percent of Latino children, and 36 percent of students with limited English proficiency are being educated in just 47 big-city school systems. Many of these young people emerge poorly prepared for the world of work, as reflected in high rates of functional illiteracy and school dropouts.[1] Therefore, in conjunction with Goals 2000, the Improving America's Schools Act targets funds to raise the educational achievement of children in low-income areas. This Act focuses on ensuring access to a quality education for our most disadvantaged students so that they can learn the basics and achieve challenging academic standards. It promotes proven strategies to improve teaching in more than 50,000 schools and benefits five million children in high poverty areas. States will apply the same high standards for these children as for those in more affluent communities, and it will hold their schools accountable for making progress toward these standards. In addition, the Clinton Administration's increased investment in education includes $20 million for Charter Schools that will eliminate excessive regulations and enhance parental choice, and will condition funding on achieving higher student performance.

Historically, American public education has not done an effective job of assisting most young people with the critical transition from school to work. For the first time, the School-to-Work Opportunities Act addresses this often precipitous leap. This initiative, jointly administered by the Departments of Education and Labor, brings together local partnerships of employers, educators, and others to develop new programs of work-based learning, apprenticeships, and internships. These linkages between learning and work experience are particularly beneficial for students isolated in inner-city schools, and will help

[1] Committee for Economic Development, *Rebuilding Inner-City Communities: A New Approach to the Nation's Urban Crisis*, New York, 1995.

Opportunity Skyway combines private, corporate, and government funding to develop a vocational and technical program to train high school students for aviation careers. Based in Georgetown, Delaware, Operation Skyway gives students hands-on experience in everything from piloting to maintenance. Recently, as part of the 4-year, $1.2 billion School-to-Work program, Opportunity Skyway has been expanded to serve students in six states.

Source: Ruth Marcus, "Clinton Pushes Training for High School Students: Job Preparation for Those Not College-Bound," *The Washington Post*, December 4, 1993, p. A4; and Paul Bedard, "Apprenticeship Program Gets Boost," *The Washington Times*, September 4, 1993, p. A4.

prepare all young people for high-skill, high-wage jobs and a lifetime of learning.

The Clinton Administration is also committed to helping more of America's high school graduates attend college. In 1994 the Administration proposed and Congress authorized a program of direct college loans that will reduce bureaucracy and make financial assistance more accessible to students of all ages. It will offer a range of repayment options including a "pay-as-you-earn" plan that will enable every American to invest in learning new skills. In addition, the Administration's AmeriCorps national service initiative enables young people to earn money towards a college education by volunteering in such critical community-based institutions as schools, hospitals, neighborhood centers, and parks. For example, Americorps volunteers will work in inner-city schools, mentoring, tutoring, and helping youngsters from poor neighborhoods take advantage of School-to-Work opportunities. In 1995, approximately 20,000 young people are participating in Americorps, and President Clinton has proposed to more than double this number in 1996.

Even after Americans finish school, they must continue to adapt and learn if they are to succeed in today's rapidly changing global economy. Today, job changes are far more common than in the past, and it is normal for workers to hold several jobs in the course of a career. Skill requirements change rapidly, even for workers who stay in the same jobs. Thus, fewer and fewer workers can prosper for twenty or thirty years on the same set of skills they started out with. Today's patchwork of federal job training and placement programs grew up over the course of more than 60 years. Although each element was designed in response to a specific need, the resulting system does not respond effectively to today's challenges. Therefore, President Clinton has proposed to consolidate 70 federal job training programs into a flexible program of grants to individuals and simultaneously to increase total funding levels by $1 billion. The President's proposal would provide individual grants to unemployed, low- and moderate-income workers and job seekers, empowering them to choose the training and education programs that best meet their needs.[1]

Expanding Access to Metropolitan Opportunities

As discussed in Chapter 2, urban Americans today are more likely to find employment in the suburbs of our great metropolises than in the central cities. Many employers may be attracted back to central cities by the availability of investment capital, by the redevelopment of brownfields, and by progress in combatting crime and violence (all discussed further below). But in conjunction with rebuilding employment opportunities in the central cities, federal policy must help establish functional linkages between the people who live in the inner city and expanding opportunities to be found throughout the metropolitan region. Choice is the keynote of this Administration's policy. President Clinton is committed to ensuring that people are not trapped and isolated in predominantly poor neighborhoods for lack of options.

Currently, federal job training programs (funded under the Job Training Partnership Act) are implemented by individual jurisdictions, with strong incen-

[1] Assisted by the federal Departments of Labor and Education, states would be responsible for providing information people need to make effective choices and to ensure that workers are not defrauded by incompetent or unscrupulous providers.

tives for placing participants in jobs within the jurisdiction from which they applied for assistance.[1] This limits the ability of central city residents to train for and find jobs in areas where employment opportunities are expanding fastest. As a part of the President's proposed G.I. Bill for America's Workers, a network of One-Stop Career Centers will be created to serve the entire labor market within each local region. These Centers will strengthen connections between employers, schools and colleges, and workers and students throughout the metropolitan area. Good information on what skills are being rewarded with what jobs, what job openings and career opportunities are available, and how effectively schools and colleges deliver education, training and skills will be provided. These One-Stop Career Centers will offer the essential connection to link inner-city residents to available jobs and learning opportunities throughout the entire region.

The Bridges-to-Work initiative, which is scheduled to be implemented as a demonstration beginning in 1996, will test the feasibility and impacts of helping inner-city residents who are unemployed find jobs in suburban areas where employment opportunities are expanding. One component of Bridges-to-Work focuses on the job placement link. In addition, however, workers commuting from the central city to the suburbs face other barriers, especially if—like almost 60 percent of black residents in high-poverty urban areas—they do not have access to cars.[2] The Bridges-to-Work initiative will address each of these barriers explicitly, tailoring a program for each participant that forges an effective and lasting linkage to suburban employment. Participating workers will receive assistance with transportation to their suburban jobs and overcoming other impediments, particularly child care.

This initiative, and others like it that are being implemented by individual communities, have the potential not only to link individuals to suburban jobs, enabling them to start the climb out of poverty, but also to revitalize distressed neighborhoods. As participants find jobs and begin to earn higher incomes, they will spend some of it in neighborhood shops and restaurants; they will provide role models for their neighbors; and they will acquire information on suburban employment centers that may enable their neighbors to find jobs as well. Thus, individual linkages between unemployed central city residents and suburban employers have the potential to replenish the resources of inner-city neighborhoods and to forge more extensive connections between distressed neighborhoods and the metropolitan labor market as a whole. Moreover, the organizations that provide these bridges to suburban employment opportunities must be firmly grounded in the inner-city communities that they serve.[3]

For some poor families, the most promising path toward self-sufficiency is to move from distressed, high-poverty neighborhoods to areas that offer better educational and employment opportunities. "In the United States, residential location helps define opportunity. . . School quality, personal safety, and job

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[1] Mark Alan Hughes with Julie E. Sternberg, *The New Metropolitan Reality: Antipoverty Strategy Where the Rubber Meets the Road*, Washington, D.C.: The Urban Institute Press, 1992.

[2] John D. Kasarda, "Inner City Concentrated Poverty and Neighborhood Distress, 1970 to 1990," *Housing Policy Debate* 4 (1993): 253-302.

[3] See especially, Bennett Harrison, Jon Gant, and Marcus Weiss, *Building Bridges: Community Development Corporations and the World of Employment Training*, H. John Heinz III School of Public Policy and Management, Carnegie Mellon University: Pittsburgh, PA, 1993.

access all tend to increase as neighborhood income rises, at least from poverty levels to the middle-income range."[1] Evidence has shown that—with proper assistance—the opportunity to move to a lower poverty neighborhood can lead to economic independence for poor families. For example, young people whose families moved to the suburbs were more likely than their central city counterparts to stay in high school, choose college track courses, attend college, find jobs, and earn more than the minimum wage.[2]

The first step in ensuring all Americans free and fair choice about where to live is to aggressively attack housing discrimination. As discussed in Chapter 2, the persistence of discrimination in urban housing markets discourages many minority families from moving to neighborhoods of their choice. The Clinton Administration is vigorously attacking discrimination against minority families by aggressively enforcing federal fair housing laws. Support for non-profit organizations and state and local agencies that help enforce fair housing laws has increased three-fold, and HUD offices across the country have been reorganized to accept and investigate fair housing complaints more effectively.

The federal government has a special responsibility to ensure that free and fair housing choice is a reality for families who receive subsidized housing. Historically, federal housing assistance for the poor has provided subsidies for the construction of housing projects—including both public housing and privately owned subsidized projects. Most of these projects provide high quality, affordable housing and are an asset to their communities. But in too many cases, subsidized housing has been inappropriately sited, badly constructed, and poorly managed. Large projects in poor neighborhoods have often exacerbated racial segregation, contributed to the concentration of poverty, and blighted their surroundings.[3] Nevertheless, housing needs among poor renters are so severe that the waiting lists for these projects are often several years long.

In its *Reinvention Blueprint*, HUD proposes to transform its low-rent housing programs so that they provide subsidies to people rather than to projects. The current system of project-based subsidies provides public housing agencies and private housing providers with guaranteed capital and operating subsidies, and relies on complex rules and regulations to manage their performance. Under the new system, families will be empowered to decide for themselves whether the projects in which they currently live offer the opportunities they need.

Arletta Jackson used to live in Ida B. Wells, one of the grim public housing projects that march for miles along Chicago's South Side. When Arletta Jackson lived at Ida B. Wells, she did not have a job; there were no jobs in the vicinity. She used to fear for her son's life each time he went outside to play. Every time she heard a car backfire, she would rush to the window, thinking it was gunfire and fearing that her son had been shot. Today, with the assistance of HUD's housing certificate program, Ms. Jackson and her son live in Hoffman Estates, a safe suburban community where there are good schools and job opportunities. Ms. Jackson has a job and is self-supporting. And her son, Jason, plays the flute in the school band.

[1] George E. Peterson and Kale Williams, "Background Paper for the First National Conference on Housing Mobility as an Anti-Poverty Strategy," The Urban Institute, Washington, D.C., August 1994.

[2] James E. Rosenbaum, "Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux program", in *Housing Policy Debate*, 6 (1995). See also Rosenbaum "Closing the Gap: Does Racial Integration Improve the Employment and Education of Low-Income Blacks?" in Lawrence B. Joseph (ed.), *Affordable Housing and Public Policy*, Chicago: University of Chicago Press, 1993.

[3] John Goering, Ali Kamaly, and Todd Richardson, *The Location and Racial Occupancy of Public Housing in the United States*, Washington, D.C.: U.S. Department of Housing and Urban Development, 1994; and Michael H. Schill and Susan M. Wachter, *The Spatial Bias of Federal Housing Programs*, Research Impact Paper #3, Philadelphia, PA: Wharton Real Estate Center, 1994.

Existing projects for which there is little or no demand will be demolished if they cannot be modernized cost-effectively. But most of today's public and assisted housing projects will remain in use, providing low- and moderate-income families with modest housing at affordable rents. As current residents—almost all of whom have very low incomes—exercise their option to move, affordable housing will become available for moderate-income families, who are not eligible for federal subsidies but nevertheless need modestly priced housing. The ultimate result will be greater income diversity in projects that are currently occupied almost exclusively by the poor. Thus, by opening up opportunities for very low-income families to move away from high-poverty developments, HUD's reinvention also promises to bring working families back to distressed urban neighborhoods.

HUD's proposed Housing Certificate Fund (HCF), which builds upon the existing Section 8 Certificate and Voucher programs, will empower assisted families to choose moderately priced housing in the locations that offer them opportunities for upward social and economic mobility. Tenant-based assistance of this kind is less likely than project-based programs to concentrate needy households in high-poverty neighborhoods. Data collected by the General Accounting Office (GAO) for four metropolitan areas indicate that fewer than 10 percent of Section 8 recipients live in high-poverty neighborhoods (where more than 30 percent of residents are poor), compared with 44 percent of public housing residents. Moreover, recent experience indicates that tenant-based housing assistance can be effectively supplemented by landlord outreach and housing search assistance to expand opportunities for choice and mobility.[1]

The Housing Certificate Fund will not require assisted families to move and will not limit their neighborhood choices. However, public housing agencies (PHAs) will have an affirmative obligation to reach out to property owners and to assist families in searching for rental housing throughout their market area. And HCF will create strong incentives for PHAs throughout a metropolitan housing market to collaborate in making the widest possible range of opportunities available to certificate holders. In addition, HCF will eliminate burdensome requirements that have discouraged some landlords from participating in the existing Section 8 program. Specifically, HCF does away with the "take one, take all" rule and the prohibition against lease terminations for other than good cause. Moreover, HCF families who are evicted for serious lease violations will lose their eligibility for assistance, creating a strong incentive for responsible behavior by program beneficiaries.

HUD's reinvention of federal housing programs is already changing the landscape of distressed central city neighborhoods. Over the past two years, HUD has been working to transform some of the nation's most severely distressed public housing projects. In recent months, projects in New Orleans, Philadelphia, and other cities that were blighting neighborhoods and the lives of children have been demolished. Other projects are undergoing comprehensive revitalization through the HOPE VI program, which provides both flexibility and funding for local strategies that combine "bricks and mortar" improvements with community-based employment training and job creation, as well as social and community investments. The goal of these revitalization

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[1] John Goering, Helene Stebbins, and Michael Siewert, *Promoting Housing Choice in HUD's Rental Assistance Programs*, Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, July 1995.

strategies is to transform public housing projects into communities of opportunity, where residents receive the shelter and support they need to move forward with their lives.

In Charlotte, North Carolina, the local housing authority is undertaking the comprehensive transformation of the 409-unit Earle Village project, where only one-quarter of the households have any earned income, the average family income is under $6,000, and more than half the population is under 18 years of age. The plan for Earle Village includes a significant reduction in density; a total of 164 units will be demolished, to be replaced with new construction elsewhere in the city, including scattered site developments. Seventy-five units will be made available for purchase by first-time homebuyers, drawing working-class families into the community and encouraging existing residents to strive toward homeownership. Thus, the Earle Village transformation will convert a blighted public housing project into an asset to its community even as it expands residents' opportunities for mobility and choice.

Ensuring Access to Financial Capital

Central cities throughout the United States need to create conditions conducive to private sector business development and job creation. And central city residents need more job opportunities in order to rejoin the world of work and responsibility. As discussed in Chapter 2, the high density of central city business districts can offer important competitive advantages for the knowledge-based businesses that will fuel the future economic health of whole metropolitan regions. Moreover, inner cities can capitalize on their regions' unique clusters of interrelated companies that compete nationally and even globally. These competitive clusters create opportunities for the formation of new businesses that deliver specialized supplies, components, and support services. Finally, inner-city consumers—who are woefully underserved—represent an immediate market for entrepreneurs and new businesses.[1] Public policies must help create conditions that enable and encourage private businesses to take advantage of the unique opportunities cities offer, and to bring investment and jobs back to central city neighborhoods.

One of the most critical impediments to business creation and job growth in central city areas is the lack of private investment capital. The federal government can help cities realize their competitive advantage by improving their access to capital. Therefore, the Clinton Administration has placed high priority on initiatives that attract private capital back to our central cities, where it can fuel the expansion of economic opportunities that directly benefit distressed communities and their residents.

The Administration's Community Development Banks and Financial Institutions Act, which Congress enacted in 1994, will create a network of community development banks whose primary mission is to lend, invest, and provide basic banking services in low- and moderate-income communities. This initiative will encourage the private sector to extend capital to neighborhoods that have long been underserved. The President's 1996 budget proposes $144 million in funding for these community-based institutions. By catalyzing matching investments from local community development agencies and the

[1] In Los Angeles, for example, retail penetration per resident in the inner city compared with the rest of the city is 35 percent in supermarkets, 40 percent in department stores, and 50 percent in hobby, toy and game stores. Michael E. Porter.

private financial sector, this new funding can leverage several billion dollars in capital per year to build a nationwide network of self-sustaining local community development financial institutions. These intermediaries will, in turn, issue more than ten times this amount in loans to entrepreneurs, growing businesses, homebuyers, and community redevelopment projects. Equally important, these local financial intermediaries will connect communities to mainstream financial sources and unleash the private sector to help rebuild communities that want to help themselves.

With its new implementing regulations, the Community Reinvestment Act (CRA) will further expand access to private credit in distressed urban communities. The purpose of CRA is simple—to extend credit where credit is due, by encouraging lending institutions to serve the needs of credit-worthy borrowers in the communities where they are located. Federal regulators have rewritten the regulations that implement CRA to reduce regulatory burden, increase access to credit, and advance economic development. Under the new regulations, banks will be judged on performance—actual lending, investments and basic banking services—rather than paperwork. This reform is expected to unleash billions in new credit to distressed urban communities.

In many cities, abandoned, environmentally contaminated industrial sites called "brownfields" represent another severe impediment to private sector investment and economic revitalization. These sites, which cannot be redeveloped without significant environmental cleanup, often pose so much financial risk and uncertainty that they remain unused, blighting the surrounding community. The Comprehensive Environmental Response, Compensation, and Liability Act—known as CERCLA or the Superfund law—holds all current and past owners of contaminated sites, as well as governments and lenders who hold liens on the property, potentially liable for the cost of cleaning up environmental hazards. Many financial institutions are no longer willing to assume the potential liability that comes with financing a project on a previously contaminated site. As a result, older industrial sites often stand vacant, robbing cities of potential jobs and tax revenues, and blighting the surrounding neighborhoods.

Increasingly, federal, state, and local agencies are recognizing this as a serious economic development issue, as well as an environmental health issue. The General Accounting Office estimates that between 130,000 and 425,000 sites throughout the nation contain some contamination. For example:[1]

- The state of Illinois has estimated that it has 5,000 abandoned or inactive sites within its boundaries, with as much as 18 percent of Chicago's potential industrial acreage unused.
- A study of Union County, New Jersey, identified 185 contaminated sites amounting to 2,500 acres.
- Pennsylvania's Monongahela Valley contains hundreds of acres of land filled with vacant steel mills and other manufacturing facilities.

The Environmental Protection Agency (EPA) recently launched a Brownfields Redevelopment Program that will demonstrate ways to return unproductive and abandoned urban sites to productive use. As part of this initiative, 25,000

[1] *Superfund: Extent of Nation's Potential Hazardous Waste Problem Still Unknown*, GAO/RCED-88-44, December 1987.

In Chicago, a partnership of local businesses and state and local government agencies is redeveloping the Santa Fe railroad yard, a 32-acre brownfields site adjacent to Chinatown. This site, used for over a century as a factory and railroad yard, was seriously contaminated with PCBs, underground storage tanks, and cleaning solvents. The final agreement involved cost-sharing by the developer and the Santa Fe Railroad and long-term deed restrictions to ensure that environmental guidelines are followed if further contamination is discovered in the future. The city of Chicago established a tax-increment financing district, which has issued $5.5 million in bonds. A retail center has now opened on the site, residential development is underway, and future projects include additional retail space, more housing, a small hotel, and an Asian trade center. This redevelopment effort is expected to generate over $120 million in new development.

sites that no longer pose environmental hazards have been removed from the Superfund inventory. In addition, EPA is working actively with local governments and the private sector—clarifying liability issues, streamlining review and decision procedures, and developing cleanup methods—to address barriers to private sector reinvestment in and redevelopment of contaminated sites. And finally, EPA is providing up to $200,000 for each of 50 local brownfields redevelopment projects. With this money, cities will be able to conduct the extensive planning and analysis necessary to develop economic development strategies that will work locally. They will also receive direct assistance from the federal government in overcoming regulatory barriers to investment and risk-taking.

In conjunction with its efforts to return private financial capital to distressed central city communities, the Clinton Administration is targeting federal resources to place-based initiatives that will catalyze private investment. These economic development efforts leverage private capital and create conditions that foster private-sector job creation and business formation:

- The Economic Development Administration (EDA) works in partnership with states, local governments, and private and public nonprofit organizations to promote long-term recovery in economically distressed communities. EDA helps fund community initiatives and infrastructure investments that generate jobs and support commercial and industrial growth. Many urban communities use EDA grants and loans to stimulate community-based revitalization. For example, Los Angeles County is now implementing a defense adjustment strategy—developed with grant funds from EDA and the Department of Defense—which brings together the resources of the private sector, the academic and research communities, and the public sector to plan for job retention and job growth. Increasingly, EDA is reforming its programs to take advantage of local public and private intermediaries and to capitalize revolving loan funds, which leverage private resources and subject economic development investments to the discipline of the marketplace. EDA's Competitive Communities Initiative will support local strategies for bringing high-growth, globally competitive businesses to distressed inner-city communities.

- The Federal Transit Administration's Liveable Communities Initiative strengthens the link between transit and the communities it serves. It recognizes that transit programs can be instrumental in shaping the nature of community development and are important tools for enhancing the vitality of urban neighborhoods. This initiative provides cities with the flexibility to use FTA Capital funds for transit-oriented initiatives that have not traditionally been considered eligible, such as day-care centers adjacent to transit facilities.

- Low-income communities often lack the depth of entrepreneurial experience and financial expertise needed for small businesses to grow and flourish. The Small Business Administration (SBA) is addressing this problem by establishing One-Stop Capital Shops that provide business and technical support, as well as assistance in obtaining capital for new and existing businesses.

The Community Opportunity Fund, which is budgeted to receive $4.8 billion in 1996, is further evidence of the Clinton Administration's commitment to providing flexible federal resources for community development investments that benefit low- and moderate-income people. It consolidates a wide range of existing program activities and initiatives into two basic components: the Community Development Block Grant (CDBG) component and a new performance bonus pool for job creation initiatives. This consolidation builds upon the successes of the existing CDBG program, with a heightened emphasis on economic empowerment, job creation and brownfields redevelopment. The $250 million performance bonus pool will be used to award competitive grants for job creation and brownfields reuse projects too large to be funded from the community's regular formula allocation.

President Clinton recognizes that the greatest potential for economic growth in this country lies in the underdeveloped economies of disadvantaged communities—communities where the free enterprise system too often does not now reach. In an effort to tap the human and economic potential of these areas, and build upon other initiatives to revitalize inner-city credit markets and stimulate job creation, the President has asked Vice President Gore "to develop a proposal to use the federal contracting system to support businesses that locate themselves in these distressed areas or hire a large percentage of their workers from these areas."[1] This initiative will ultimately make the federal government's procurement system a source of jobs and economic opportunity for distressed, inner-city communities.

Expanding Homeownership Opportunity

Families who save and are prepared to invest in their communities should be able to achieve the American Dream of homeownership. For most Americans, homeownership provides a pathway to wealth accumulation and long-term economic security. In fact, home equity accounts for more than half of the average American homeowner's net wealth. Thus, access to homeownership represents an important link to longer term economic opportunity. Homeowners also have both a financial and emotional stake in the future of their communities, which encourages them to maintain their housing, collaborate with their neighbors, participate in community organizations, and promote the security and vitality of their neighborhoods.[2]

Today, however, the dream of homeownership is out of reach for many American families, especially minorities and those who are self-employed, have modest incomes, or live in inner cities. For example, among married couples aged 35 to 44 who have children, only 52 percent of those with incomes under $20,000 are homeowners, compared to 94 percent of those whose incomes exceed $80,000. And at every income level, minorities have significantly lower rates of homeownership than whites.[3] During the 1980s, the national homeownership rate fell from a historic high of 65.6 percent in 1980 to 64.2 percent in the first quarter of 1995. Although this decline may appear modest in percentage terms, it represents 1.4 million renters who

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[1] Remarks by the President on Affirmative Action, July 19, 1995.

[2] Peter H. Rossi, and Eleanor Weber, "The Social Benefits of Homeownership: Empirical Evidence from National Surveys," presented at Fannie Mae Annual Housing Conference, May 1995. William R. Rohe and Leslie Stewart, "Homeownership and Neighborhood Stability," presented at the Fannie Mae Annual Housing Conference, May 1995.

[3] Frederick J. Eggers and Paul E. Burke, "Simulating the Impact on Homeownership Rates of Strategies to Increase Ownership by Low-Income and Minority Households," presented at Fannie Mae's annual housing conference, May 1995.

otherwise would have become homeowners. Moreover, the drop in the rate of homeownership was even more precipitous for young families, lower income people, and minorities.

To reverse this trend, President Clinton directed HUD Secretary Henry G. Cisneros to work with leaders in the housing industry, representatives of nonprofit organizations, and officials at all levels of government to develop a National Homeownership Strategy that combines private and public sector resources and commitments to expand homeownership opportunities for populations and communities too often excluded from the American Dream. The strategy—which was announced by the President in June, 1995—includes initiatives to cut the costs of homeownership, including financing, production, and transactions costs. It will increase choice and remove barriers to homeownership for all Americans. And it will raise public awareness and knowledge about available homeownership opportunities. The goal of the National Homeownership Strategy is to raise the national homeownership rate to an all-time high of 67.5 percent by the year 2000, creating as many as 8 million additional homeowners.[1]

The commitment to expanded homeownership opportunity has revitalized the Federal Housing Administration (FHA). Today, FHA is back in business as a major supporter of homeownership for working families. In 1993 and 1994, FHA insured nearly 2.3 million single-family home loans, a half million more than in any previous year in its 60-year history—and 36 percent of those loans were for first-time buyers. FHA's 203(k) rehabilitation mortgage loan insurance program, recently simplified by the Clinton Administration, has the potential to be a particularly valuable tool for bringing homeownership back to older urban neighborhoods. Under this program, a family can roll the costs of buying and fixing up an existing home into a single first mortgage. The 203(k) program was created 34 years ago, but it was so complicated that very few lenders or borrowers used it. Today, investors and homebuyers—including many first-time buyers—are using 203(k) loans to rehabilitate older homes and revitalize neighborhoods.

FHA is working substantially better today than it has in the recent past. Nevertheless, after 61 years, it needs a major overhaul. FHA is a Fortune 100-size insurance company with a $380 billion portfolio. But instead of operating like the insurance company it is, it works like a lumbering bureaucracy. Its procedures are cumbersome and its ability to adjust to changing market conditions is severely constrained by statutes, rules and regulations. HUD's *Reinvention Blueprint* proposes to transform FHA into a government corporation that would adopt the best practices of private mortgage insurance companies and work more effectively with localities, states, and the private market to expand affordable housing and homeownership. This new corporation will work more closely with communities and the private sector to increase the flow of mortgage capital to low- and moderate-income families in underserved communities.

The federal government also has a vital role to play in ensuring that qualified families are not excluded from homeownership opportunities by illegal discrimination. Recent data on mortgage lending patterns indicate that blacks

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[1] *The National Homeownership Strategy: Partners in the American Dream*, U.S. Department of Housing and Urban Development, Washington, D.C., 1995.

are twice as likely to be denied a mortgage loan as whites at the same income levels, and that loan officers more readily assist white applicants in correcting flaws in their credit reports.[1] The Clinton Administration has formed an Interagency Task Force on Fair Lending to combat discrimination in home mortgage lending. The ten federal agencies with responsibilities for fair lending have agreed upon a consistent set of policies that will apply to all private lenders. This agreement brings the full weight of the federal government to bear to ensure fair lending for all Americans.

In conjunction with its enhanced fair lending enforcement efforts, HUD is reaching out to the real estate and mortgage lending industry to adopt voluntary "best practices" accords and compliance agreements. Through these agreements, HUD seeks to develop a "best efforts" standard with individual companies. The accords spell out practices that affirmatively promote access to housing opportunities for low-income and minority renters and would-be homebuyers. A historic best practices agreement has been signed with the Mortgage Bankers Association of America, and this umbrella agreement has led to individual accords with several of the nation's largest mortgage companies.

Historically, housing finance markets have failed to adequately serve lower income and minority neighborhoods. Lack of capital for home purchases and renovations can contribute to a downward spiral of neighborhood disinvestment and distress. Aggressive enforcement of federal laws prohibiting lending discrimination constitutes a critical first step in reversing neighborhood disinvestment. But fair lending enforcement alone is not enough. Lower income whites, as well as minorities, need better access to housing finance. The Clinton Administration is committed to expanding the flow of mortgage financing to qualified borrowers in underserved neighborhoods. In accordance with oversight authority granted under the Federal Housing Enterprises Financial Safety and Soundness Act, HUD has established performance goals for 1993 and 1994 for Fannie Mae and Freddie Mac, the two Government-sponsored enterprises (GSEs) that provide secondary market resources to the private housing finance sector. In 1994 the GSEs increased their purchases of mortgages on homes for low- and moderate income families by 489,000 loans over 1992. Significant improvements were also shown in GSE mortgage purchasing performance with regard to very low-income families, low-income families in low-income areas, and properties located in central cities.

Finally, in order to extend homeownership opportunity to families who could not otherwise afford it, HUD's proposed new Affordable Housing Fund establishes a loan guarantee authority that would give states and localities an additional source of financing for large-scale development of affordable homes. Moreover, HUD will allow very low-income families to use tenant-based housing assistance to make the transition from renting to first-time homeownership. This empowers families already receiving rental assistance to "graduate" to assisted homeownership as their incomes rise, creating a powerful incentive for responsible behavior and progress toward economic

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[1] The 1993 data collected under the Home Mortgage Disclosure Act (HMDA) showed that the rejection rate for whites was slightly under 11 percent, while blacks were rejected almost twice as often (22.5 percent). Note that differential rejection rates are probably explained in part by discriminatory treatment, but that disparate impacts of underwriting criteria as well as differences in minority wealth and credit history may also play a role. See Alicia H. Munnell, Lynn E. Browne, James McEneaney, and Geoffrey M. B. Tootell, "Mortgage Lending in Boston: Interpreting HMDA Data" Working paper series, Federal Reserve Bank of Boston, 1992.

self-sufficiency. It reflects the Clinton Administration's fundamental reorientation of social welfare policy toward initiatives that help people gain access to upward mobility opportunities, rather than requiring them to remain poor in order to get help.

Freedom from Fear

Crime and violence are terrorizing many of America's urban neighborhoods and commercial districts, destroying the lives of families and young people and robbing their communities of any chance for reinvestment and revitalization. Businesses and homeowners cannot be expected to risk their capital or their futures in neighborhoods where drug dealers are doing business on street corners, gangs control community spaces, and random gunshots keep residents living in fear. Moreover, in neighborhoods where few other opportunities are evident, drugs and gangs may appear to young people to offer the best route to economic advancement, luring them into criminal activities that further isolate them from mainstream opportunities.

To address the crisis of violent crime in America, President Clinton introduced, and Congress passed, the Violent Crime Control and Enforcement Act of 1994. This legislation—along with the Brady Bill—launched an aggressive strategy for combatting violent crime and drug dealing and for restoring hope to urban neighborhoods. The 1994 Crime Act imposes tougher penalties for violent crime and provides funding to build more prison space so that violent, career criminals can be incarcerated. A critical element of the Clinton Administration strategy is to keep guns out of the hands of criminals. In 1993 Congress passed the Brady Bill to require a 5-day waiting period and background check for prospective handgun buyers.[1] The 1994 legislation adds a ban on the 19 deadliest assault weapons, the weapons of choice for drug dealers and gangs.[2]

Under the guidance of the Attorney General, the Department of Justice is undertaking a National Anti-Violent Crime Initiative to establish partnerships with state and local law enforcement authorities in order to target the most severe local violent crime problems. Each United States Attorney has organized and met with coordinating groups of local law enforcement officials to plan violent crime enforcement efforts on a community-by-community basis. The U.S. Attorneys work with local officials, police departments, and prosecutors to determine which areas of enforcement should be federal priorities and which should be attacked primarily by local law enforcement. This initiative recognizes that local authorities not only play the lead role in confronting violent crime, but that they deserve the support and assistance of federal law enforcement in this difficult task.

Putting 100,000 community police on the streets is a cornerstone of the Clinton Administration's fight against crime and violence. Community policing recognizes the importance of communication and cooperation between citizens and police in efforts to control crime, maintain order, and improve the quality of life in urban communities. Police officers build crime fighting part-

[1] The Brady bill also helps local law enforcement by ensuring that criminal records are shared among jurisdictions.

[2] The need to control the weapons that destabilize and destroy neighborhoods is recognized by the business community. Committee for Economic Development, p. 10.

nerships with neighborhood residents, schools, churches, and members of the business community to jointly solve crime problems, prevent crime and social disorder, and restore safety and stability to distressed communities. When community policing is practiced effectively, the community becomes an active partner with law enforcement in defining problems to be addressed, tactics to be used, and indicators of success. By addressing underlying conditions which contribute to crime, community policing can significantly reduce crime and maintain public safety. Community policing has important implications for other public and private agencies as well. The philosophy and implementation of community policing extends into the economic revitalization of communities, fostering a partnership between citizens, businesses, and public officials. Community policing creates linkages among governmental resources, empowering communities to enhance not only their safety and security, but their economic vitality as well.

The Office of Community Oriented Policing Services (COPS) was created by the Attorney General to implement community policing strategies. COPS has already provided funding for over 20,000 community police offers in more than 8,000 cities. In addition, COPS has encouraged urban police departments to reexamine their operational strategies and rethink the deployment of crime fighting resources to effectively improve the delivery of services to the urban communities that are most affected by crime.

Unfortunately, many of the individuals involved in urban crime and violence are young people. Although overall crime rates have been dropping, the incidence of youth crime—including violent crime—has risen. Therefore, the 1994 Crime Act sends a strong message to young criminals: it bans handguns for juveniles, imposes stiff penalties for gang members who commit crimes, and establishes Boot Camps and Drug Courts to discipline first-time offenders. At the same time, it invests in prevention programs that target at-risk youth (especially in distressed neighborhoods), offering them positive alternatives to criminal activities.

The Clinton Administration's efforts to combat violent crime and drug dealing combine law enforcement with prevention and community revitalization efforts. For example, the Safe and Drug Free Schools and Communities Act responds to the continuing crisis of drugs and violence in our schools by supporting comprehensive school- and community-based drug abuse and violence prevention programs. And the Administration has expanded interagency initiatives to combat crime and revitalize communities through the combination of enhanced law enforcement and community policing on the one hand, and prevention, treatment, and neighborhood restoration on the other. These anticrime initiatives are critical components of the Clinton Administration's overall effort to promote work and responsibility and to rebuild economic opportunities in distressed neighborhoods.

Project PACT is a Clinton Administration initiative designed to help communities fight crime more effectively. The project is already fully underway in four geographic areas—metropolitan Denver, the state of Nebraska, metropolitan Atlanta, and Washington, D.C.—where the federal government is vigorously supporting the development of broad-based, fully coordinated anti-violence strategies to make communities safer. In cities nationwide, these strategies will focus on enhancing public safety as the first step in building vital, healthy communities. In addition, project PACT removes barriers between levels of government, and ensures that all federal agencies join together to form strong partnerships with cities, counties, and states.

Empowerment Zones and Enterprise Communities

For the nation's most severely distressed urban communities, President Clinton's Empowerment Zones (EZ) and Enterprise Communities (EC) Program will help rebuild all of the linkages encompassed by the Community Empowerment Agenda. The EZ/EC initiative provides the tools communities need to bring private capital back to the central city, create jobs within distressed neighborhoods, invest in education and training, and link residents to economic opportunities throughout the metropolitan region.

Designated EZs and ECs receive preferences for federal funding for over 115 categorical programs. These preferences reward the strategic planning process undertaken as part of the EZ initiative. In a recent series of competitions for HUD funding, 8 EZs received over $350 million, and 64 ECs received over $550 million in economic development, community development, and housing funds.

This initiative, enacted in 1993, targets an estimated $2.5 billion in tax incentives and $1.3 billion in flexible grants to 105 severely distressed urban and rural areas over ten years. Urban Empowerment Zones (EZs) are receiving $100 million each in flexible block grant funding that can be applied to a broad range of activities, including social services and physical improvements. To encourage hiring, businesses located in these zones receive a tax credit of up to $3,000 annually per employee to offset the higher costs of wages and training for zone residents. Zone businesses also receive "expensing" tax credits for investments in qualified zone properties and access to tax exempt facility bond financing. Areas designated as urban Enterprise Communities (ECs) have been awarded $2.95 million in flexible block grant funds and tax-exempt facility bond financing. In addition to these resources, all of the EZs and ECs are receiving priority consideration for existing federal programs and special assistance from the President's Community Empowerment Board in removing bureaucratic red tape and regulatory barriers that prevent innovative uses of existing federal funds.

In order to be designated as an EZ or EC, communities developed strategic plans for revitalization with input from a wide range of partners, including community residents, state and local agencies, and the private and non-profit sectors. The public-private partnerships created by the EZ/EC planning process leveraged substantial additional investment. In Baltimore, $8 in outside resources were pledged for every $1 of federal funds, including a commitment by seven area foundations to commit 1 percent of their assets for the next five years to the EZ. In Detroit, more than $2 billion in private-sector commitments were pledged. And the Detroit EZ has already begun to spur new business activity. The Chrysler Corporation recently announced that it will invest $750 million in a new engine plant and General Motors announced plans to invest $200 million to expand and improve an existing assembly plant in the zone.

Many urban EZs and ECs have embarked on ambitious plans to consolidate human services and provide access to economic opportunities in centralized locations. The Louisville EC, for example, recently opened Neighborhood Place, an integrated human service center that will link health programs, educational services, family financial assistance, and job training and placement in one location. In order to make the 30,000 residents of the area full partners in the effort, the center will be staffed and overseen by community residents.

The EZ/EC planning process generated strategies for change that combine innovative economic development initiatives with essential human capital and community building investments. Most EZ/EC revitalization plans combine job creation, job training and linkages for community residents, physical redevelopment, community policing, and social services into a coherent package that promises to rebuild civic infrastructure. For example, both the Baltimore and Atlanta EZs are opening Village Centers that will serve as the distribution point for human services and as the ongoing vehicle for involvement of neighborhood residents in zone decision making.

Communities are using the EZ/EC program's targeted resources to build on their unique competitive advantages. For example, in New York City the strategic plan envisions a Harlem International Trade Center that will "expand markets for existing entrepreneurs and create new businesses capable of capitalizing on the cultural and multi-ethnic character of the EZ and its economic linkages with nations in Africa, the Caribbean, and Central and South America." New York City's strategy also exploits an excess supply of land and office space, and emphasizes job creation through expansion of existing small businesses and the creation of new community-based enterprises.

The Clinton Administration's EZ/EC initiative differs fundamentally from previous proposals for "enterprise zones," which relied almost exclusively on geographically targeted tax incentives to create jobs and business opportunities in distressed communities. The EZ/EC program combines federal tax incentives with direct funding for physical improvements and social services, and requires unprecedented levels of private sector investment as well as participation by community organizations and residents. This collaborative strategic planning and co-investment exemplifies the federal government's emerging role as a catalyst for local change, and exemplifies the larger principles of President Clinton's Community Empowerment Agenda:

> We need to do more to help disadvantaged people and distressed communities. . . There are places in our country where the free enterprise system simply doesn't reach. It simply isn't working to provide jobs and opportunity. . . I believe the government must become a better partner for people in places. . . that are caught in a cycle of poverty. And I believe we have to find ways to get the private sector to assume their rightful role as a driver of economic growth.[1]

[1] President Bill Clinton, Washington D.C., July 19, 1995.

There's a big difference between necessary budget cuts and unnecessary pain. There's a real difference between creating a stronger economy with a right kind of balanced budget and actually driving the country into a recession with the wrong kind of balanced budget. And we have to recognize...the budget deficit is not the only deficit we have. We still have some education deficits. We've still got a lot of poor children and some social deficits. We've still got some technology deficits we need to close. We have to make some investments even as we close the deficit.

—President Bill Clinton
June 21, 1995

Chapter 5

A New Vision for a Community Empowerment Partnership

We stand at a decisive crossroads for national urban policy. Global economic forces are transforming the historic functions of American cities. Our great urban centers, which once generated unparalleled social and economic opportunity, now act to isolate the poor—and especially the minority poor—from those opportunities, perpetuating inequality and despair. In the wake of the 1994 midterm elections, fundamental questions are being raised about the extent of our national commitment to the future of cities and about the role of the federal government in restoring opportunity and hope to the most vulnerable among us. How much should we, as a nation, do to repair the social fabric of our urban centers or help the people and neighborhoods that have been left behind? What is the fundamental purpose of government in confronting these issues? How large a role should the federal government play—relative to cities, states, and the private sector—in urban revitalization?

President Clinton welcomes debate about these critical questions. Such debate frees us to question old assumptions and challenge old ways of doing things. It permits us to seize the opportunity to pursue new approaches to problems that have long beset our urban communities. But this moment in history, so rich in opportunity, is also full of peril. In our eagerness to rectify the mistakes of the past, we must not ignore the constructive lessons experience has taught us. There is grave danger that in our haste to do something dramatic, we will do something destructive. Today, America stands poised between acting on a new understanding of our national responsibility for cities, and rejecting this responsibility altogether. We stand poised between renewal or rejection of a national commitment to help the elderly and the infirm and the millions of our fellow citizens who, while working hard and playing by the rules, still struggle daily against tremendous odds to make a better life for themselves and their children.

America cannot afford to abandon its cities. Their future is a matter of grave national concern, not only because fairness demands that all citizens in a democratic society have the chance to succeed, but also because the vitality of urban regions is critical to our economic future. National economic policies that ignore the critical role of cities in our metropolitan economies or that neglect crushing urban problems will not yield lasting prosperity. The federal government has a responsibility to help lay the groundwork for restoring central cities to their role as powerful and expanding economic generators of jobs and opportunity. It also has a responsibility to nurture the roots of our democracy by empowering citizens to solve their own problems and hold leaders accountable for results.

President Clinton's Community Empowerment Agenda represents this Administration's affirmative response to the urban crisis in America. It recognizes that the most pressing challenges for our cities result from fundamental and irreversible economic transformations. The Community Empowerment Agenda seeks to rebuild cities' long-term competitiveness through strategic investments in both human and physical capital. And, most importantly, it empowers poor people and poor communities by opening up opportunities for them to help themselves.

A National Partnership for Community Empowerment

Acting alone, the federal government cannot reconnect people and neighborhoods to economic opportunity and prosperity. The Community Empowerment Agenda reflects the President's belief that the federal "government should be an instrument to create opportunity in the private sector, to empower people and firms, and then to challenge them to assume both individual and community responsibility . . . ."[1] But all of us—individuals and families, community-based institutions, the business community, local and state governments—also have responsibilities for rebuilding our cities.

In healthy communities, residents identify and address problems, share information, reinforce social norms, work toward common goals, acquire needed support through formal and informal mechanisms, maintain and utilize resources and contacts from across their metropolitan areas, and promote productive lives for themselves and their families. Primary responsibility for creating these healthy communities lies with the individuals and families who live there and the local organizations that serve them.[2] Our shared culture teaches us that individuals and families have an obligation to work toward self-sufficiency, to teach their children how to live productive lives, to protect young people from falling prey to the temptations of crime and drugs, and to end the upsurge of teenage pregnancy. Public programs can never replace these private responsibilities. There can be no hope for inner cities unless traditional values of work, family, and community are reconstructed.

Business leaders, too, have a responsibility to rebuild central city communities. The Committee for Economic Development (CED), an independent research and policy organization of business leaders and educators, argues that the injustice, the economic waste, and the threat to social order in the nation's distressed inner cities are reasons enough why business leaders should be among the most vocal advocates and active participants in rebuilding urban communities.[3] CED urges executives to connect their varied business activities to inner-city communities—as locations for plants or offices, as potential

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[1] President Bill Clinton, Washington D.C., January 1994.

[2] Committee for Economic Development, *Rebuilding Inner-City Communities: A New Approach to the Nation's Urban Crisis*, New York: Committee for Economic Development, 1995, p. 3.

[3] Committee for Economic Development, p. 8.

consumer markets, and as sources of potential employees, subcontractors, and suppliers.[1] Businesses should join networks of support for urban revitalization, such as national community development intermediaries, metropolitan-wide housing partnerships, and community development banks. They should also guide their corporate charitable activities and community involvement toward inner-city community building.

But without local government reforms, private industry cannot be expected to fulfill its responsibilities. Businesses will continue to be discouraged from locating in central cities because of outmoded and overlapping regulations, stifling tax burdens, and unwieldy bureaucracies that do not concentrate resources on core municipal functions. When cities fail to provide such basic services as good schools, safe streets, and sound infrastructure, private industry looks elsewhere to invest and grow. This is why old methods of managing cities are giving way to new governing philosophies, grounded in contemporary management techniques, a motivated workforce, financial integrity, and accountability.

Democratic and Republican mayors throughout the country are also putting their fiscal houses in order by reducing waste and increasing productivity. Through creative public-private partnerships, these municipal leaders are leveraging private resources to revitalize urban centers that have been given up for dead, redefining what government should and should not do by privatizing a wide range of public services, and moving their cities on a path toward greater efficiency.

Many mayors are also building partnerships between cities and suburbs. The problems of America's cities cannot be solved in isolation from the resources and opportunities of their metropolitan regions. Historically, central cities represented the heart of urban areas; today, the evidence indicates that America's metropolises cannot reach their full potential without healthy cities at their core. As Seattle mayor Norm Rice, president of the U.S. Conference of Mayors, has said:

> Cities and suburbs have more in common than we have in conflict. We both work from the bottom-up. We both care dearly about the quality-of-life for our citizens. We are all wrestling with the same issues of crime, violence, economic development, education and human services . . . [This is why] regional goal-setting and regional problem-solving must be a central part of any overhaul of federal programs.[2]

Finally, the Clinton Administration's vision of urban revitalization cannot be realized unless the federal government becomes a better partner with America's communities. In many respects, Washington has inadvertently worked against community revitalization by accumulating unmanageable budget deficits, by imposing unfunded mandates and regulatory burdens, and by creating a tangle of disconnected grant programs. President Clinton is committed to reinventing the federal government as an effective partner to families, businesses, and communities. This long-term effort has three major components: 1) moving the federal government toward a balanced budget, while investing in our people and honoring the nation's commitment to rewarding work for all while preserving the social safety net for the most

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With more than 21,000 vehicles and a budget of $120 million, Los Angeles' motor pools rival all but the largest service corporations in fleet size. But the city's operation could not survive in the private market. Complacency, perverse work rules, inadequate facilities, lack of information, and other problems translated into poor performance—up to 30 percent of the city's sanitation trucks were out of service on a given day, and a lack of police cruisers left officers scrambling for cars at times of peak demand.

City officials have begun to rethink the way they use and service their vehicles, often adopting methods used in the private sector. In the Department of General Services, mechanics have begun to launch surprise inspections; vehicle abuse reports now list the driver's name. With these and other common-sense reforms, the sanitation fleet's out-of-service rate and overtime costs have both fallen by about 40 percent. And more than half of Water and Power's mechanics now work on the night shift, so more vehicles are available during the day. The Department has even invested in a new $10 million repair shop that officials hope will someday handle work from other city agencies as well.

Source: Jeff Bailey, "How Can Government Save Money? Consider the L. A. Motor Pool," *The Wall Street Journal*, July 6, 1995, pp. A-1, A-10.

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[1] Committee for Economic Development, p. 8.

[2] Speech to the U.S. Conference of Mayors, Miami, Florida, June 21, 1995.

vulnerable among us; 2) reducing significantly the regulatory burdens that have enmeshed states, local governments, and private firms in webs of micro-management and uncompensated costs; and 3) reinventing the federal grant-in-aid system by consolidating hundreds of separate categorical programs into performance partnerships that expand opportunity for individuals, communities, cities, and states to take greater responsibility for their own performance and results.

In each of these areas, President Clinton strongly believes that there is both a right way and a wrong way to proceed. Responsible reforms and reinvention will ultimately yield a federal government that is an effective partner to families, communities, businesses, cities, and states seeking to revitalize urban America. But irresponsible budget-cutting and indiscriminate deregulation run the risk of abandoning federal responsibilities for protecting the rights of individuals and sacrificing the potential of America's central cities as engines of economic growth and prosperity.

Community Empowerment Budget

On June 13, 1995, President Clinton presented to the American people a bold plan to balance the federal budget **the right way**—a way that reflects shared national values and priorities that will shape the future for our children, our families, and generations to come. Noting that "it took decades to run up this deficit; it's going to take a decade to wipe it out," the President will veto any Congressional budget plan that seeks to slash investments critical to empowering families and communities with the tools they need to build a brighter future for themselves and the country. The nation needs a balanced budget that sustains growth and expands opportunity, not one that inflicts unnecessary pain on our people, our cities and towns, and our prospects for sustaining economic growth.

Under the budget resolution adopted by the Republican-led Congress,

> low-and moderate-income families stand to receive little or no assistance from the tax cuts while bearing a highly disproportionate share of the reductions in benefits and services. Middle-income families will receive a tax cut, but also bear substantial reductions in such areas as Medicare and student loans. They also are likely to face state and local tax increases as those levels of government cope with added responsibilities but fewer federal funds.[1]

President Clinton's balanced budget plan would eliminate wasteful spending, streamline programs, and end unneeded subsidies. It would take the first, serious step toward health care reform, reward work, and end welfare as we know it. It would increase priority investments in education, crime prevention, and environmental protection by cutting other non-discretionary funding by 22 percent in real terms. And, finally, the President's budget proposal would target tax relief to hard-working, middle-income Americans.

The President's budget plan maintains the critical focus of the Community Empowerment Agenda—linking poor people and poor communities to work. All too often, however, Congressional Republicans ignore these essential linkages

[1] Pauline Abernathy, "The Budget Resolution Conference Agreement," Center on Budget and Policy Priorities, June 29, 1995.

in budget-cutting proposals that would effectively abandon poor inner-city communities to economic isolation and distress. The contrast in approaches is revealing:

- The Clinton budget proposal **rewards work** by preserving tax relief for the working poor through the Earned Income Tax Credit (EITC), which gives unskilled and inexperienced workers an important incentive to take the first steps up the opportunity ladder. The President's plan also saves $3 billion over 7 years by improving error and fraud control, and preventing illegal aliens who are not authorized to work in the U.S. from receiving the EITC. *Senate Republicans would cut the EITC by $21 billion over 7 years, thereby raising taxes on 14 million poor, working families by hundreds of dollars each.*

- President Clinton's plan **maintains the basic nutritional safety net.** It would give 600,000 more women and children access to the important health and nutrition benefits of the Special Supplemental Food Program for Women, Infants and Children (WIC). *House appropriators would freeze participation at the level reached at the end of FY 1995.*

- President Clinton's budget includes a welfare reform proposal that **moves people from welfare to work** through strict work requirements and investments in training and child care, while saving $38 billion in low-income programs over 7 years. *The Republican plan is weak on work and denies assistance to hundreds of thousands of children, cutting low-income programs two and one-half times deeper to pay for tax cuts for the wealthy.*

- The Clinton proposal **expands investments in education and training** to help average Americans gain the skills they need to get high-wage jobs in the new economy. The plan would increase investments in education and training—from Head Start to college loans—by $40 billion over the next 7 years. *Congressional Republicans would slash education and training programs by up to $36 billion over the same period, eliminating AmeriCorps and 50,000 opportunities for national service in 1996, eliminating Goals 2000 and higher standards in 16,000 schools in 1996, cutting 50,000 children from Head Start in 1996, and cutting 23 million students from Safe and Drug-Free Schools in 1996.*

- President Clinton **recognizes the importance of housing assistance to the social safety net and to helping low-income families move from dependence to economic independence.** The President's budget preserves homeless assistance, fully funds public housing operating subsidies, retains the current requirement that tenant rents be set at 30 percent of household income, and funds rent certificates for 530,000 additional poor households over the next 7 years. *Congressional Republicans slash housing assistance by cutting homeless assistance grants by half in FY 1996, reducing public housing operating subsidies by nearly one-fourth, raising the rents of 600,000 poor families by an average of $1,000 per year; and ending 20 years of bipartisan support for tenant-based rental assistance by funding no new certificates in FY 1996 and serving 680,000 fewer families over 7 years.*

- President Clinton's budget **sustains the vigorous fight against violent crime** by increasing grants to states and localities by $6.7 billion annually and allocating additional resources to federal investigations, prosecutions, and imprisonment. The President proposes to fully fund the Violent Crime Reduction Trust Fund by providing the full $30.2 billion authorized from 1995-2000, and bringing the total fund to $38.7 billion in 2002. The President also supports full funding of the COPS program, which would provide localities with targeted grants that will put 100,000 new police officers on the streets of America. *Congressional Republicans would eliminate the COPS program and instead would fund a general law enforcement block grant program that would allow unfettered spending on anything from street lights to public works projects.*

- The Clinton proposal strengthens the Medicare Trust Fund without increasing costs to beneficiaries and promotes efficiency and flexibility in the Medicaid program without sacrificing coverage. *Congressional Republicans are cutting Medicare and Medicaid two to three times more deeply in order to finance tax cuts for the well-off. The Medicare cuts would raise out-of-pocket costs for seniors by thousands of dollars. Their extremely harsh Medicaid cuts could leave 7 million children and nearly 1 million elderly and disabled persons without insurance coverage. Together, these Medicare and Medicaid cuts would devastate many urban hospitals, which are already badly overburdened. Quality and access to health care would be threatened for millions of urban residents.*

Reducing the Burden of Federal Mandates and Regulations

As a former governor, President Clinton has a unique perspective on the issue of unfunded mandates. He has seen first-hand the extent of regulations and mandates imposed on states and localities by the federal government. Unfunded mandates—programs or regulations that the national government enacts but does not pay for—cost states and localities billions each year. A recent study commissioned by the U.S. Conference of Mayors examined the costs of 10 prominent unfunded mandates. After conducting a survey of 314 cities, the report concluded that the extrapolated cost to all cities was $6.5 billion in 1993 for those 10 mandates alone.[1] Cities, counties, and states contend that even this estimate does not capture the total burden. Many federal mandates generate widely-shared benefits or protect vulnerable populations—and thus are well worth the costs they impose. Others, however, may not generate public benefits commensurate with their costs, and may force states and localities to shift spending priorities or distort their local decisions.

To ease the burden on state and local governments, the President issued Executive Order 12875 on October 26, 1993. "Enhancing the Intergovernmental Partnership" sought to reduce unfunded mandates by stipulating that no executive department or agency could promulgate any discretionary regulation that created a mandate for a state or local government unless the agency (1) earmarks the funds necessary to pay the direct costs incurred by the affected governments, or (2) provides the Director of the Office of Management and Budget with a description of the agency's prior consultations with officials of the affected government.

While this brought a halt to many unfunded mandates, statutory mandates remained a liability for states and localities. To address this concern, the Administration requested that the Advisory Commission on Intergovernmental

[1] *Impact of Unfunded Federal Mandates on U.S. Cities,* U.S. Conference of Mayors and Price Waterhouse, 1993.

Relations (ACIR) provide information and guidance on mandate relief legislation. ACIR convened two task forces to define the problem of unfunded mandates and establish a set of guidelines for mandate relief legislation. As a result of these recommendations, the President supported and eventually signed into law the 1995 Unfunded Mandates Reform Act. This Act requires agencies to perform cost-benefit analyses for all new regulations with an annual unfunded burden of $100 million or more. It also requires agencies to consult with state and local governments before issuing regulations that impose unfunded mandates.

This Administration takes great pride in halting unfunded mandates whose benefits do not justify the costs, but it will not stop there. In March of 1995, the President ordered all federal agencies to conduct "a page-by-page review of all your agency regulations now in force and eliminate or revise those that are outdated or otherwise in need of reform." In announcing his regulatory reform initiative, President Clinton said that "it is time to move from a process where lawyers and bureaucrats write volumes of regulations to one where people work in partnership to issue sensible regulations that impose the least burden without sacrificing rational and necessary protections."[1] Though still in its early stages, this process has already resulted in the removal of 16,000 pages from the government's Code of Federal Regulations. This directive—in addition to interstate banking deregulation, procurement reform, and customer service initiatives—represents part of a concerted effort by this Administration to help return the federal government to the people of this nation and to make it a better partner for the future.

However, the Clinton Administration is not willing to eliminate or weaken regulations indiscriminately. Efforts to reduce unfunded mandates cannot be allowed to eliminate regulations that ensure fundamental fairness in the marketplace or protect the rights of minority Americans. For example, the President opposes efforts to reduce the coverage of the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA), both of which protect low-income or minority borrowers from unlawful discrimination and redlining. These federal regulations have substantially increased private lending to credit worthy borrowers, enabling them to purchase homes and invest in their neighborhoods. Weakening such protections would represent a tragic step backwards in our nation's efforts to ensure equal opportunity for all its citizens.

Reinventing Government to Support Local Solutions

Federal agencies cannot possibly know what is best for each of America's diverse regions and communities. They cannot design a "one size fits all" strategy for reconnecting poor city residents to opportunity or for reenergizing the economic potential of inner-city communities. The Clinton vision sees the federal government as a catalyst and enabler of change, not as its planner or implementor. Specific strategies for urban revitalization must be the result of community-based planning and decisionmaking if they are to achieve lasting results.

Clinton Administration policies are enhancing support of local community building initiatives in two ways. First, the federal government is becoming

[1] Memo to Heads of Departments and Agencies, Regulatory Reform Initiative, March 4, 1995.

The members of the Community Empowerment Board are showing how federal agencies can work together—and with state and local governments—to remove barriers to community building efforts.

EZ/EC communities have requested hundreds of waivers from federal requirements concerning job training, community development, and "safety net" programs, often in their efforts to create effective, integrated, neighborhood-based service delivery systems. For requests that require no waiver or are not prohibited by statute, special internal teams at the affected CEB agency follow up promptly with the EZ/EC community to quickly resolve the request. In many cases, the authority to waive a particular requirement lies with the state, so CEB agencies have been facilitating meetings with the appropriate state officials.

The Clinton Administration is working to use the insights gained from this cooperative effort to provide localities with additional flexibility. Field staff from various CEB agencies now meet in monthly regional forums to discuss problem-solving and barrier removal issues that will help them serve their EZ/EC communities even more effectively. The Administration is reviewing requests that are statutorily prohibited to determine what legislative changes may be appropriate. It also supports proposals to remove federal impediments that constrain innovation, experimentation, and entrepreneurship at the local level.

more responsive to locally perceived needs and bottom-up planning strategies by radically reforming the current categorical federal grant process into a system of performance partnerships. And by recognizing that piecemeal efforts to correct individual systems in distressed communities—such as housing, health, education, or welfare—have not worked very well, Administration policies are encouraging and empowering communities to take a more comprehensive approach to community renewal that addresses simultaneously the full range of barriers that isolate people and neighborhoods from economic opportunity.

In 1993 the President created the Community Empowerment Board (CEB) to encourage and support comprehensive community revitalization. The CEB is chaired by the Vice President and consists of the heads of 15 federal agencies with critical domestic responsibilities. In creating the Board, the President acknowledged that federal resources and regulations "form an overly complex, categorical, unworkable, and ineffective response to the needs of distressed communities."[1] The President directed his cabinet to reward communities that develop comprehensive strategic plans by coordinating federal responses to their requests for assistance, and by eliminating unnecessary regulatory or other program requirements that inhibit local innovation. In addition, CEB members were directed to give Empowerment Zones and Enterprise Communities priority for additional discretionary program funds and to waive existing federal regulations that impede their plans.

The current federal grant system is deeply flawed. It contains too many separate funding categories, imposes too much suffocating regulation and paperwork, places a misdirected emphasis on remediating rather than preventing problems, and lacks a clear focus on measurable outcomes. This dysfunctional system stifles initiative and squanders resources, often without achieving significant results. Communities that are working to improve education and training, fight crime, attract private capital, create jobs, and foster homeownership often find that their initiatives do not "fit" the federal government's categorical definitions, or that federal programs leave critical gaps unaddressed.

Yet, according to David Osborne, the founder of the "reinventing government" movement, merely bundling similar categorical programs into traditional block grants will not necessarily create a federalism that works, because it lacks any accountability mechanism:[2]

> The Republicans' impulse to hand money to the states regardless of their performance is particularly ironic given the public's intense demand for more efficient and effective government. Remember, this is federal money, raised through federal taxes to attack national problems that state and local governments will never solve on their own.

Because block grants are blind to performance and "shower as much money on wasteful, ineffective programs as they do on innovative, cost-effective approaches," Osborne argues for a third way: block grants in which state and local governments compete in part based on the results they achieve.[3]

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[1] Presidential memorandum creating the Community Empowerment Board, September 9, 1993.

[2] David Osborne, "Setting a Gauge for Block Grants," *The Tampa Tribune*, June 25, 1995.

[3] Osborne.

The Clinton Administration calls this third way "performance partnerships." Performance partnerships consolidate programs and funding streams into broad funding categories that allow state and local governments much greater flexibility and discretion in achieving progress toward national goals, while creating strong incentives for good performance by rewarding successful outcomes. Performance partnerships will enable and empower local communities to develop and implement more effective strategies for reconnecting people to jobs and jobs to distressed neighborhoods. As Osborne notes,

> The Clinton Administration is already testing a version of this model through its "Oregon Option"—a performance-based contract between the state and several federal departments, first proposed last year by the Alliance for Redesigning Government. HUD Secretary Henry Cisneros has also proposed three performance-based block grants. Yet, few Republicans in Congress are willing to listen.[1]

HUD's reinvention proposal consolidates more than 60 separate grant programs into three flexible performance partnership funds. All three of these funds will be allocated by formulas that reflect state and local needs, and all three will create strong incentives for setting and achieving ambitious performance goals:

- The **Housing Certificate Fund** will provide direct assistance to very low-income renters, empowering them to choose modest housing of the type and in the locations that best meet their needs. A performance bonus pool of up to 1.5 percent of total funding levels will reward communities that help families who achieve self-sufficiency, move to low-poverty neighborhoods, or become homeowners.
- The **Affordable Housing Fund** will provide state and local jurisdictions with a single, flexible stream of funding for affordable housing construction, rehabilitation, and homeownership initiatives. Ten percent of each community's initial formula funding allocation will be reserved for states and localities that set and achieve ambitious performance goals in these areas.
- The **Community Opportunity Fund** will provide flexible funding for a wide range of initiatives, including loans for commercial and industrial development, targeted business development, job training and job search assistance, and brownfields redevelopment. A competitively awarded bonus fund will encourage communities to target their resources for job creation, and provide supplemental resources for large-scale economic development or brownfields redevelopment activities.

Performance partnerships represent the right way to consolidate programs and provide greater flexibility and discretion to states and localities. They will enable and encourage communities to look at their needs and assets more strategically, and reward them for developing initiatives to achieve results rather than to fulfill disparate categorical requirements. Increasingly, experience shows that comprehensive strategies are critical to the revitalization of distressed urban communities. Although the idea of comprehensive community revitalization is not entirely new, it has rapidly gained adherents since the late 1980s, based on the experience of a number of neighborhood-based

[1] Osborne.

initiatives.[1] These initiatives, though varied, generally try to achieve positive change in distressed neighborhoods by simultaneously addressing physical, economic, and social problems.

The Clinton Administration has embraced the philosophy of comprehensive community initiatives in programs such as Project PACT, Livable Cities, and especially in the Empowerment Zones and Enterprise Communities program. The EZ/EC application established broad guidelines, and encouraged local communities to come together around a common strategic vision for change. Communities were also asked to identify their own desired outcomes against which their performance could be gauged. The EZ/EC program unleashed a wave of community building efforts in more than 500 communities. Local residents, private and nonprofit institutions, schools, universities, churches, and state and local governments were active partners in the process. In the course of preparing their proposals, many communities saw barriers come tumbling down between disparate community interests and racial and ethnic groups. This led the Wall Street Journal to single out the EZ/EC program as "one of the few concrete examples of how government can instigate change without directly spending a dime."[2]

The civic infrastructure that has been built as a result of the EZ/EC application process seems poised to endure in many places, whether or not communities won zone designation and the resources that go along with that selection. For example, Enterprise Community applicant Athens, Georgia, has moved ahead with its plan, recently opening a neighborhood health facility in the EC area. Designated EZs/ECs have established their own communication networks to encourage participation and to share information among all community partners, as well as formal governance structures that broadly represent all community partners in the ongoing revitalization effort. The Atlanta EZ, for example, uses computerized polling systems and electronic networking to share resident views. As the nation gains experience with this new approach to connecting poor communities to the mainstreams of regional growth, the Clinton Administration is prepared to build on the success of the EZ/EC process.

Making Federal Urban Policy Work at the Grassroots Level

The challenges facing urban America are many and complex, and federal policies to address these needs must encompass tax and regulatory policy, the welfare system, education and job training, crime prevention, housing and community development, access to capital, transportation, and environmental protection. No single agency can or should have jurisdiction over all components of federal urban policy. Moreover, some of these policies are explicitly place-based in focus, while others are targeted to poor people wherever they may live, and still others are generally available to all Americans.

Nevertheless, these components do ultimately come together and make their mark on urban places. In other words, all of the initiatives discussed in this report as part of the Clinton Administration's Community Empowerment

[1] James P. Connell, Anne C. Kubisch, Lisbeth B. Schorr, and Carol H. Weiss (eds.), *New Approaches to Evaluating Community Initiatives: Concepts, Methods, and Contexts*, Washington, D.C.: The Aspen Institute, 1995.

[2] Jeffrey H. Birnbaum, "Like Dumbo's Feather, Prospect of Federal Grants Gives Cities the Confidence to Fly on Their Own," *Wall Street Journal*, August 24, 1994.

Agenda, ultimately have place-based impacts. They have the potential to affect employment rates, income levels, school performance, and crime rates, housing quality and homeownership, job opportunities, and youth development programs on city streets and in urban neighborhoods.

The challenge for the federal government is to monitor and assess the combined impacts of its policies on urban places, and to resolve any persistent gaps, inconsistencies, or conflicts. President Clinton recognized the magnitude of this challenge when he created the Community Enterprise Board, which is responsible not only for implementing the Empowerment Zone and Enterprise Communities Program, but also for coordinating across agencies the various federal programs available (or potentially available) to distressed communities, and for making the entire federal effort more responsive to these communities' needs. The efforts of the Community Enterprise Board represent critical first steps in a long-term process of learning how to coordinate the place-based impacts of federal urban policies in a way that is responsive to the needs of local communities.

Within the framework of a reinvented government and a balanced budget, President Clinton's Community Empowerment Agenda represents the beginning of a long-term commitment to the revitalization of America's great cities. Ending the isolation and despair of distressed urban communities and restoring our cities to their historic role as engines of opportunity and prosperity are ambitious, long-term goals. It would be naive to expect that they will be achieved easily or immediately. The erosion of central city communities did not happen overnight, but the resources needed to begin bridging the distance between them and the mainstream of our economy and society already lie within each of us. Speaking at a town hall meeting in a Memphis church in November 1993, President Clinton reminded local citizens that

> We cannot rebuild all these institutions overnight, but we can start saving these kids, in the words of a good friend of mine, the same way we lost them, one at a time, which means that there's something for all of us to do here. There is something for all of us to do. And we need both love and discipline. We need both investment in these kids and our future and we need rules by which people live. It's not an either/or thing.[1]

[1] Remarks by the President at Town Hall Meeting, Olivet Baptist Church, Memphis , Tennessee, November 13, 1993.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT