

# THE ZONING OF ENTERPRISE

*Edward C. Banfield*

This paper seeks to make two principal points. The first is that upward mobility on the part of disadvantaged persons in the cities has been, is being, and doubtlessly will be, hampered by laws and regulations the manifest purpose of which is to make them better off. The second is that as our society becomes more sensitive to social injustices (real and imagined) it thereby becomes less capable of coping with certain of its problems; indeed, it increasingly confronts the dilemma that a good society, if it is to remain one, must sometimes do things that are incompatible with its goodness.

The word "disadvantaged" as used here refers to persons who are unskilled or low-skilled, whose command of English is poor or non-existent, who are subject to discrimination because of race or class, and who live in an urban enclave consisting predominantly or entirely of the disadvantaged. As used here, then, the word is not synonymous with "poor," although for obvious reasons disadvantaged persons are almost certain to be poor. Nor is it synonymous with "lower class," a term which, as I use it, refers to those whose style of life reflects unwillingness, or inability, to take account of the future. Some disadvantaged persons are ambitious, hard-working, frugal, mindful of their obligations to family. Others more or less lack these qualities. Those who lack them entirely are the extreme case of the lower class.

## The Administration's Proposal

In March 1982 the President announced his long-awaited Enterprise Zone proposal. The main idea is to offer tax credits that will encourage small businesses to locate in 75 yet-to-be-chosen depressed urban areas. There would no federal grants or other direct interven-

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tion. In choosing among applications made by cities and states, the Secretary of HUD would take into account commitments to afford tax and regulatory relief, improve public services, involve neighborhood organizations, give job training, and offer other incentives.<sup>1</sup>

Judging from press accounts, no one – not the President, not those of his assistants who worked out the plan, not local officials, businessmen, or community leaders – is enthusiastic about the plan. Indeed, it is pretty clear that they do not expect it to work. The best one can say for it, those most involved seem to agree, is that it will show that the administration is “trying,” and the cost (in tax collections forgone) will be small. Small firms, a Heritage Foundation Bulletin points out, are by far the most effective job creators, but the administration’s proposal offers these “almost nothing.” What such firms typically need, the bulletin says, is start-up capital. “The prospect of a small tax benefit at some future date, and then only if a zone business is successful, will hardly prompt investors to flock to the inner cities.”<sup>2</sup>

Even if enterprise zones *do* attract new businesses it cannot be assumed that this will have much effect on the character of the areas. In the typical depressed area there is a concentration of lower class persons. As Anthony Downs writes in a study for the Brookings Institution, “many residents there never have the conventions of civilized life instilled in their minds and behavior.”<sup>3</sup> Among the “intractable aspects” of life in these areas, he says, are values grounded on “low self-esteem, feelings of personal powerlessness, hostility toward others, admiration of criminal and other anti-social behavior, lack of respect for hard work or education, and cynicism.” Nearly all attempts to improve the quality of life without changing the residents’ values have failed, he writes, “even when those attempts were supported by significant resources.”

Some will say, perhaps, that if the Enterprise Zones do not attract new businesses or the new businesses do not change the character of the areas nothing much will have been lost. This is surely too simple a view of the matter. If, being politically painless, the Enterprise Zone idea precludes action – certain to be very painful – to

<sup>1</sup>The President’s Message to Congress on the plan is excerpted in the *New York Times*, March 24, 1982, p. 8. The plan is described and analyzed in the Heritage Foundation’s *Issue Bulletin* of March 29, 1982.

<sup>2</sup>*Ibid.*, p. 9.

<sup>3</sup>Anthony Downs, *Neighborhoods and Urban Development* (Washington, D.C.: Brookings Institution, 1981), pp. 112 and 120. Downs assures the reader that his conclusions are “not based upon ‘racism’ or any other biased perspective but upon simple recognition of reality.” He says that his remarks “should not be construed as ‘blaming the victims’ . . .” pp. 122–123.

encourage movement from the depressed areas to places where cultural and economic opportunities are better, great harm will have been done.<sup>4</sup> Moreover, when the futility of the undertaking has been demonstrated, the anger and cynicism of the residents of the depressed areas and that of their sympathizers elsewhere will certainly rise. This is a cost that may prove large.

### The IBM Experiment

In 1968 the IBM Corporation, at the initiative of its chairman, Thomas J. Watson, Jr., established a small manufacturing plant in the center of one of the country's most depressed areas – the Bedford-Stuyvesant section of Brooklyn.<sup>5</sup> Watson wanted to demonstrate that a well-managed company could successfully employ and train for promotion the so-called hard-core unemployed. Because of high land costs, stringent building codes, and other municipal regulations, and poor access to major transportation, the inner-city location was costly as compared with a suburban one and still more as compared with adding workers to existing plants. Other costs were also high. The workers – there were to be about 400 of them – were not only unskilled but unused to the discipline of a workplace. IBM's purpose being to demonstrate what could be done with the hard-core, it intended to hire only men who had been unemployed for three months or more – only men because it was widely supposed that black males were victims of "matriarchy." In the planning stage no one doubted that these conditions could easily be met; the unemployment rate in Bedford-Stuyvesant was notoriously high.

After about a year the plant manager found it necessary to relax the rule against hiring women and employed persons. Although he was willing to take boys as young as 16, to be patient with workers who did not get to work on time (a foreman would go to a man's home to get him out of bed if necessary), and to overlook arrest records for all but very serious offenses, and although the plant's mission was a simple one (assembling cables for computers), it did not seem possible to get the work done solely with recruits from among unemployed males. The awkward fact was that few of these wanted to work for IBM despite its offer of job security, high wages, training, clean toilets, patient foremen, and an all-black environment.

<sup>4</sup>This point is made by Donald A. Hicks, "Reindustrialization and American Urban Policy in the 1980s," to appear in *Transaction/SOCIETY* in early 1982.

<sup>5</sup>The account of the IBM plant is based on Edward C. Banfield, "An Act of Corporate Citizenship," in Peter B. Doeringer, ed., *Programs to Employ the Disadvantaged* (Englewood Cliffs, N.J.: Prentice-Hall, 1969), pp. 26–57.

The lesson to be learned from IBM's experience is that many unemployed males in a depressed area do not value these benefits as much as one might expect. If he must pay for them by accepting the discipline of a well-run workplace – if he must work whether he feels like it or not, learn new skills, take responsibility, and so on – a worker who is accustomed to the lower-class style of life, or to one approximating it, may not accept opportunities of the kind that IBM presents.

The kind of firm that could succeed in a place like Bedford-Stuyvesant and in succeeding, offer some opportunities – very limited ones, to be sure – to persons who are out of, or almost out of, the labor force is in almost all respects the opposite of IBM. Such a firm pays low wages (below the minimum when possible), offers no job security (like the workers it employs, it is here today and gone tomorrow), its rest rooms are dirty, its foremen are rough, it does not trouble itself about the health and safety of its workers (they can take their chances or get out), and it does not ask them to learn skills, take responsibility, or contribute to factory morale (its investment is a short-term one). This is the only kind of firm that can profitably hire the lower-class worker. It is also the only kind of firm that the typical unemployed male will work for. If he comes to work one day and not the next, nobody cares. If he comes late and half-drunk, nobody cares (although he may be told to stay away until he is sober).

Firms of this sort were once common in the cities. They were driven out by laws and ordinances intended to improve working conditions (or, if one prefers, to eliminate “unfair” competition with firms operating more nearly in the IBM manner). Driving such firms out did not improve working conditions for most workers: It merely put them out of work or moved them into illegal activities.

## Removing Government Barriers

What is needed to improve job and other opportunities for disadvantaged workers is not tax incentives for employers but removal of a variety of barriers that have been placed in their way by government in recent decades.

There follows a list of measures that should be taken to open opportunities for the disadvantaged.

1. Repeal minimum wage laws, which cause withdrawal from the labor force and unemployment, especially among males in their early teens and twenties, and probably also an increase in felony crime.<sup>6</sup>

<sup>6</sup>For a wide-ranging collection of essays on the minimum wage, see Simon Rottenberg,

2. Remove licensing and other impediments, notably the union shop, to entry into low- and semi-skilled occupations such as barber, taxi driver, and practical nurse. In New York City, Thomas Sowell has observed, where a license to drive a taxi costs \$60,000, cab drivers are mostly white, whereas in Washington, where the license costs \$200, they are mostly black.<sup>7</sup>

3. Repeal (or relax enforcement of) laws and ordinances that set unreasonably high standards for "conditions of work" and for housing construction and maintenance. Most states, Anthony Downs writes, do not prevent localities from requiring housing standards "far surpassing any required to protect the health and safety of the occupants."<sup>8</sup> Housing code administrators, he says, should recognize that "housing in low-income neighborhoods cannot be kept to the standards of housing in high income neighborhoods."<sup>9</sup>

4. Reduce the flow of low-skilled and unskilled immigrants. Legal immigration to the United States has increased greatly in recent decades: from 2.5 million in the 1950s to an estimated 4.3 million in the 1970s. Until 1960, the overwhelming majority came from Europe; in the 1970s only 18 percent came from Europe. Immigration now is mainly from Latin America and Asia. The present law tends to favor the unskilled.<sup>10</sup> Estimates vary widely, but illegal immigration may equal or more than equal legal immigration. About half the illegal immigrants are probably Mexican nationals. The number of these will doubtless increase: The Mexican labor force, 30–40 percent of which is unemployed, is expected to double in the next 20 years.

5. Repeal laws and change policies the effect of which is to reduce the supply and raise the price of low-cost housing. This includes

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*The Economics of Legal Minimum Wages* (Washington, D.C.: American Enterprise Institute, 1981). See also the paper by John Cogan, who estimates that the minimum wage is responsible for about 40 percent of the decline in black teenage employment between 1959 and 1978, mainly by preventing those displaced from agricultural work from finding jobs in industry. John Cogan, "Black Teenage Employment and the Minimum Wage: A Time Series Analysis," *Working Papers in Economics, No. E-81-11* (Stanford, Calif.: Hoover Institution, September 1981). See also his *Working Paper No. 683*, National Bureau of Economic Research, 1982.

<sup>7</sup>*Meet the Press*, September 29, 1981 (Washington D.C.: Kelly Press), p.6.

<sup>8</sup>Downs, p. 127; see also p. 164.

<sup>9</sup>*Ibid.*, p. 164.

<sup>10</sup>Barry R. Chiswick, "Guidelines for the Reform of Immigration Policy," in William Fellner, ed., *Essays in Contemporary Economic Problems* (Washington, D.C.: American Enterprise Institute, 1981), pp. 309–347. "A cohort of unskilled immigrants," Chiswick says, "depresses the earnings of low-skilled American workers but raises the earnings of high-skilled workers and the owners of capital." pp. 309–310.

repealing rent control laws which reduce investment in the maintenance of housing; ending subsidization of urban renewal and other projects which displace low-income people; revising zoning laws which tend to prevent housing from being passed on to the poor more or less as second-hand automobiles are; and repealing "tenant protection" laws which make eviction of destructive occupants all but impossible, thus precipitating the rapid decline of good neighborhoods.

6. With respect to public housing, change laws and regulations so as not to discourage upward mobility on the part of tenants. Under present law no more than 10 percent of the national supply may be rented to families with incomes 50 percent or more above the median family income. This gives some families an incentive to keep their income down; without a substantial percentage of upwardly mobile families, projects are apt to be "taken over" by the disreputable poor and eventually destroyed.

7. The quality of schooling should be improved by removing students who are disruptive (Downs says that the "state should permit public schools to suspend or expel disruptive students"<sup>11</sup>), and by introducing competition among schools by means of the voucher plan or otherwise ("Using public funds to provide at least some support to privately run schools," Downs writes, "would enable some students now attending public schools to switch to private ones"<sup>12</sup>). Efforts at racial integration should be dropped where it is clear that their incidental effect is to impair learning, and bilingual teaching should be stopped except as it is useful for the teaching of English.<sup>13</sup> The performance of pupils should be carefully monitored with standard tests, and only those able to perform at grade level should be promoted. School administrators should have authority to discharge incompetent teachers.

Whereas the barriers that have been listed make it difficult or impossible for the disadvantaged person to get his foot on the bottom

<sup>11</sup>Downs, p. 132.

<sup>12</sup>Ibid., p. 132.

<sup>13</sup>In his account of his service as Secretary of HEW, Joseph A. Califano, Jr., remarks that the bilingual program "had become captive of the professional Hispanic and other ethnic groups. . ." and that as a result "too little attention was paid to teaching children English, and far too many children were kept in bilingual classes long after they acquired the necessary proficiency to be taught in English." In part because of this, 40 percent of the Hispanic children dropped out of high school. *Governing America*, (New York: Simon and Schuster, 1981), p. 313. See also the criticisms of bilingual (including black English) teaching in Richard Rodriguez, *Hunger for Memory*, (Boston: David R. Godine, 1981), pp. 34-35.

rung of the ladder, welfare programs discourage him from trying to climb the ladder. The incentive effects of these programs reduce mobility in ways that are both direct and indirect.

It suffices here to refer to the striking changes in family structure that have occurred and are occurring, especially among the disadvantaged and most especially among disadvantaged blacks: the tripling of the number of unmarried couples in the past decade; the increase of 50 percent in the number of births by unwed mothers in those years; the increase in female-headed households from about 10 percent of all in the early 1960s to about 15 percent now (among blacks from about 23 percent to about 41 percent). George Gilder is doubtlessly guilty of rhetorical extravagance in attributing these changes to the growth of the welfare rolls.<sup>14</sup> Other forces have also been at work. But no one doubts that the poor, like other people, respond to incentives or that the tendency of welfare incentives is to make it easier to evade family and other responsibilities. That the great majority of welfare recipients are old, disabled, or children, and that no one becomes old, disabled, or a child in order to get welfare payments, is of course true. There is no denying, however, that welfare has contributed significantly to these changes. For many years a mother was ineligible for Aid to Families with Dependent Children if there was a man in the house, and even now in about half the states only single mothers may receive AFDC and Medicaid. These rules account in large part for the increase in the female-headed households.<sup>15</sup> And Martin Kilson is right when he writes that, regardless of race, female-headed households display an "incapacity to foster social mobility comparable to husband-wife and male-headed families."<sup>16</sup>

### Facing Political Reality

No one can suppose that the barriers and disincentives government has placed in the way of mobility on the part of the disadvantaged will be removed or even lowered. The Urban Enterprise Zone proposal is illustrative of the general situation. The President is said to have thought reduction in the minimum wage and relaxation of certain safety regulations should be key elements of the plan, but he

<sup>14</sup>George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 12.

<sup>15</sup>For evidence that welfare assistance influences female family headship rates, see Marjorie Honig, "AFDC Income, Recipient Rates, and Family Dissolution," *Journal of Human Resources* IX, no.3: 303-322.

<sup>16</sup>Martin Kilson, "Black Social Classes and Intergenerational Poverty," *Public Interest* 64 (Summer 1981): 61

found that features of that sort would kill any chance that the plan might have in Congress. The political reality became evident when the bill sponsored by Representatives Jack Kemp (R-N.Y.) and Robert Garcia (D-N.Y.) was introduced. “[D]espite any false rumors to the contrary,” Representative Garcia said then,

the Enterprise Zone bill does not create a sub-minimum wage, eliminate the OSHA or other vitally needed government bodies, nor in any way reduce the presence in the inner cities of health or safety programs. I have devoted my entire legislative life in Washington to putting those laws on the books and I would never participate in their dismantling.<sup>17</sup>

As with the minimum wage, so with the other barriers listed above. Each has interest groups that will fight for it. Organized labor will not permit the relaxation of health and safety laws, however unreasonable. The building trades, in concert with the manufacturers of building materials, will not stand for any tampering with housing and building codes: The more extravagant the standard, the more material to sell and the more to install. Changes in immigration laws and regulations to reduce the number of unskilled immigrants are about as likely to be approved by the powerful Hispanic organizations as changes in the schools (easy procedures for dismissal of incompetent teachers, for example) by the organized teachers.

Beyond the opposition of special interests there lies another obstacle to the elimination of the barriers and the removal of the disincentives. This is the view – taken for granted by the college-educated middle class – that these measures benefit “the poor.” No doubt self-interest supports this view: The minimum wage, for example, benefits skilled workers, and a policy favoring unskilled immigrants benefits skilled workers, among others. It seems safe to say, however, that it is mainly out of concern for the less well off that middle-class opinion supports the minimum wage, the immigration policy, and the other obstacles to upward mobility.

Since the Second World War the process of “middle-classification” has gone on at a rapid and accelerating rate. (In 1980, 16 percent of persons aged 25 or over had graduated from a four-year college, double the percentage of 1960; in 1980 nearly 40 percent of families had incomes of \$25,000 or more, twice as many [in 1980 dollars] as in 1960.) For the same reasons that effective demand for wine, gour-

<sup>17</sup>*Congressional Record*, June 3, 1981, p. E2714. This year Representative Kemp said he would oppose the administration if there were a minimum wage waiver because it might “turn off the whole coalition that we have put together – liberals, Northeastern Democrats, civil rights groups and conservatives.” *New York Times*, January 30, 1982, p. 19.

met foods, and opera has increased, the demand for "alleviation of social injustices" has also increased. Although the rate of change may be slower, there is good reason to expect that in the next several decades the proportion of the population having the tastes and standards of the middle and upper-middle classes will continue to increase.

One must expect, then, that the old barriers, instead of being torn down, will be built higher, and that new ones will be added. Consider, for example, the findings of a recent study by the New York State Industrial Commission of working conditions in the garment manufacturing industry.<sup>18</sup> It has always been easy, the report says, for contractors to set up shop if they could find employees willing to work for less than a lawful wage; increasingly, such workers have become available in New York City.

Just as in the early 1900s they are poor immigrant women. Often undocumented, unassimilated and equipped with only general skills, they work for whatever is paid, in the shops and in their homes. While learning specialized skills they work long hours to increase their earnings. Payment at the piece rate makes the situation attractive to noncomplying employers who ignore hourly minimum wage requirements.

That the women are learning specialized skills, that it may be impossible for some to work away from home, and that they evidently deem low pay better than no pay – these considerations apparently count for nothing with the commissioner, who has proposed new regulations for the industry, violation of some of which would carry criminal penalties.

As this example suggests, the middle-class reformer tends to see as "exploitation" what the disadvantaged worker is "opportunity." He is likely, too, to find it hard to bring himself to make some sacrifice of a principle or symbolic value for the sake of some concrete return. Dean Derrick A. Bell, Jr., a civil rights activist, points to a bias of this sort on the part of civil rights organizations. These, he writes, are

supported by middle class blacks and whites who believe fervently in integration. At their socioeconomic level, integration has worked well, and they are certain that once whites and blacks at lower economic levels are successfully mixed in the schools, integration also will work well at those levels. Many of these supporters either reject or fail to understand suggestions that alternatives to integrated schools should be considered, particularly in majority-black districts. They will be understandably reluctant to provide financial support for policies which they think unsound, possibly illegal, and certainly disquieting.<sup>19</sup>

<sup>18</sup>*New York Times*, March 14, 1982, p. 51.

<sup>19</sup>Derrick A. Bell, Jr., *Yale Law Journal*, 1976.

## A Larger Class of Disadvantaged

I have contended that the disadvantaged are in large measure a by-product of the continuing “middle-classification” of American society. Those who have climbed the ladder have, most often with kindly intentions, knocked out its lowest rungs, thereby making it difficult or impossible for those following them to get a foothold by which to rise. Also, especially in the last two decades, government has provided a set of welfare programs intended to relieve the distresses of the poor but having the effect of inducing many people to discard traditional values emphasizing work, self-sufficiency, and responsibility and to accept a life of dependence for themselves and their children. As the size and affluence of the advantaged increase, it is to be expected that the society will invest more heavily in efforts to reduce real and imagined injustices and that the outcome of these efforts will be a larger and less mobile class of the disadvantaged. It would not be surprising if in another two or three decades a considerable part of the whole population, perhaps as much as 10 or 20 percent, were to be in the society but not of it: unskilled and unschooled, unable or unwilling to work, accepting as a matter of right a level of material living – perhaps about half the median in the society – far higher than most people enjoyed a generation or two ago.

From an economic standpoint this outcome will present no great problem. Even if real income grows slowly, the compounding effect will enable the society to provide for many more dependents without taking for the purpose a larger share of GNP. Indeed, in the super-affluent society most people will have to work less if they are not to be buried under an avalanche of consumer goods.

Even at present the problem that the disadvantaged represent is not essentially an economic one. To be sure, there may be unfairness in taking from some in order to give to others, but the unfairness is not less when, as is mostly the case, the recipients are rich rather than poor. The real problem is the exclusion of the disadvantaged from a life that is truly human – from one that, as Aristotle taught, can be made so only by participation in the moral life of a community. It is one thing for persons who have been introduced, however imperfectly, to the elements of civilization to live without working or even at the expense of others. It is quite a different thing for those to live this way who (to quote Downs one last time) “never have the conventions of civilized life instilled in their minds and behavior.”<sup>20</sup>

<sup>20</sup>Downs, p. 112.

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In this latter case, life must be at a less than fully human level no matter how adequate the supply of consumer goods. What fate could be worse?

From the standpoint of the society, the presence of a large class of the permanently disadvantaged will constitute a serious political problem. As the gap between the disadvantaged and the rest of the society widens, more and more of the *disadvantaged will drop into* the lower class. Insofar as it tries to protect itself against the violence and irresponsibility of this class, the society will have to adopt measures which it finds obnoxious. A city, for example, must infringe upon the rights of its citizens if it is to prevent a few "problem families" from destroying good neighborhoods. It must infringe upon them still further if it is to drastically reduce street crime. If it chooses to put up with these aggressions, it thereby invites further aggressions. Either way it loses.

As "middle-classification" proceeds, the goodness of the society—"compassion" is the cant word—increases. The public has more inclination (as well as more means) to be kind, generous, forgiving, and so on. It is more generous to the truly needy and, perforce, to the much larger number of those who are not truly needy but who pretend to be in order to avoid work or to gain some other benefit. But goodness, admirable as it is in private affairs, may be disastrous in public ones. What is required for the protection and good order of a public is not goodness but virtue. This is the quality of the statesman, and it often necessitates actions that are harsh or even cruel. American opinion, it is to be feared, will more and more insist upon the rule of goodness, for it is in the nature of goodness not to recognize its limitations. Carried too far, the rule of goodness will produce consequences which threaten the welfare—and the goodness—of the society.

## COMMENT ON BANFIELD'S "ZONING OF ENTERPRISE"

*Claude E. Barfield*

Professor Banfield posits two themes in his paper. The first is that the upward mobility of the disadvantaged has been hampered by the very laws and regulations created to aid them. The second is that the increasing "middle classification" of American society (i.e., the widespread acceptance of modern liberal values) has produced a heightened sensitivity to social injustice, but at the same time has rendered society less capable of meaningfully coping with the root causes of social problems.

The second theme, which I shall take up first, is in reality more asserted than proved with supporting evidence. Indeed, the recent history of the United States would seem to prove just the opposite of Banfield's thesis. At all levels of government – local, state, and federal – the middle class in the United States over the past decade has participated in, and provided great support for, a conservative reaction against key elements of the liberal reform tradition. Starting in the mid-1970s, the middle class showed strong support for local and state tax revolts – Proposition 13 in California and Proposition 2½ in Massachusetts being the most famous examples. At the national level, we have it on the authority of that enthusiastic chronicler of liberal and Democratic party history, Arthur Schlesinger, that the Carter administration represented the most conservative Democratic administration since that of Grover Cleveland. Despite this swing to the right, the Carter administration still went down to the conservative onslaught of the Reagan candidacy, and was abandoned by much of the middle class.

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Finally, whatever the ultimate outcome and verdict on the Reagan administration, it certainly will be counted as the most conservative presidency since the New Deal and possibly of this century. With support from the middle class, President Reagan has dramatically reduced the rate of growth of social programs, increased defense expenditures substantially, and eliminated or rendered less stringent numerous economic, social, and environmental regulations.

Rather than increased middle-class sensitivities, I would suggest another explanation for the greater difficulty attendant to coping with social and economic issues: the explosion of special-interest groups and their deep entrenchment in the American political process. Banfield, though he does not explore its implications, takes note of this phenomenon when he acknowledges the role of labor in opposing changes in minimum wage legislation and opposition of Hispanics to major revisions in the immigration laws.

Any examination of the history of attempts by the Congress to deal with the two most pressing social issues of the 1970s – welfare reform and health care – will reveal the key role played by particular special-interest groups (from doctors to welfare rights organizations) which, with their links both to the relevant congressional subcommittees and to supportive elements of the federal bureaucracy, have formed immovable and implacable barriers to major reform. Moreover, awareness and criticism of the deleterious role of special interest groups is not confined to conservatives – the most cogent recent analysis of their overwhelming presence has come from former Secretary of Health, Education and Welfare Joseph Califano, who has stated:

Political party discipline has become shattered by the rise of special-interest politics in the nation's capital. Washington has become a city of political molecules, with fragmentation of power, and often authority and responsibility, among increasingly narrow, "what's in it for me" interest groups, and their responsive counterparts in the executive and legislative branches. . . This is a basic – and perhaps *the* basic – fact of political life in our nation's capital.<sup>1</sup>

The Reagan administration has a very sophisticated view and understanding of the role of interest-group politics in the creation and nurturing of federal programs. For this reason, its New Federalism proposal has a decidedly political goal: to force political decision making down to state and local levels, and to force special-interest groups to operate on these levels rather than at the federal level. Its aim is to break apart the Washington connection between

<sup>1</sup>Remarks of Joseph A. Califano, Jr., before the Economic Club of Chicago, April 1978.

special-interest groups, congressional subcommittees, and executive agency bureaucrats. As President Reagan told a group of House Republicans last year:

It's far easier for [interest groups] to come to Washington to get their social programs. It would be a hell of a lot tougher if we diffuse them, and send them out to the states. All their friends and connections are in Washington.<sup>2</sup>

## Enterprise Zones

Banfield deals with enterprise zones in the context of his first theme, that often the disadvantaged are undercut by the very programs designed to aid them. In Banfield's view, the administration's Enterprise Zone proposal is at best irrelevant and at worst quite harmful. Potentially, the proposal is quite harmful, states Banfield, because it may well produce angry disappointment and large social costs when it fails to live up to the inflated expectations its proponents claim.

In Banfield's view, enterprise zones are poor substitutes for more fundamental and more important social and economic reforms. He therefore sets forth his own agenda for removing or reducing the barriers that currently limit economic opportunities for the disadvantaged. These include: repeal of minimum wage laws; removing licensing impediments; repeal of unreasonable standards for "conditions of work"; tightening immigration laws; revision of public housing regulations; education vouchers and an end to busing; and wholesale reform of the welfare system.

From the viewpoint of conservatives (whom he is largely addressing) Banfield's criticisms are well taken. However, a balanced assessment (again from the view of conservatives) would have to recognize that the enterprise zone concept does not contain several of the most egregious faults of earlier liberal urban programs. In the first place, it does not require a large federal bureaucracy to administer the program. Further, the dimensions of the federal client-state are not added to — the administration has vowed explicitly not to subsidize or support the community and neighborhood groups that will form the backbone of the program locally. Second, there is to be no direct federal appropriation. Use of the tax code (which will make the program self-executing) will greatly lessen the opportunity for federal bureaucrats to intervene and dictate enterprise zone rules and regulations (as they have with HUD's Community Development Block Grants).

<sup>2</sup>Quoted in Steven V. Roberts, "Budget Ax Becomes a Tool for Social Change," *New York Times*, June 21, 1981.

## Role of Government

Banfield's paper and most of the papers at this conference are replete with examples of misguided government policies and programs that often had unintended negative consequences. As such, they form an interesting complement to themes developed by the Reagan administration, which is launched on a crusade to reduce government at all levels and to shift responsibility for many federal programs to state and local governments. Both the papers and the administration's philosophy and actions are quite explicit about what the government should *not* do. What is lacking in all of this is a well-crafted rationale for what government *should* do. What is the proper role and responsibility of the public sector in the political climate of the 1980s?

Banfield's list of what he considers failed and even harmful federal laws and regulations represents a sweeping indictment of much of the social and economic legislation since the New Deal. Yet he offers no clear view of what specific changes he would substitute for past failures. For instance, what are the alternatives to the present welfare system; how does one fashion a health care system that fosters competition and satisfies consumer interests; what are the most efficient and cost-effective methods of regulating the environment; and which health and safety regulations regarding "conditions of work" should be dispensed with, which modified, and which kept in place?

Similarly, the Reagan administration's New Federalism programs present the same challenge: What are the possible frames of reference and criteria for defining the appropriate role of the federal, state, and local governments? Over the past year, the President has repeatedly pledged to maintain the "social safety net," but there is still no precise definition of the term or catalogue of programs encompassed by it. In seeking to federalize Medicaid and to turn over AFDC and the food stamp program to the states, as part of a federalism swap, has the administration concluded that medical assistance to the poor is part of the "social safety net" and income assistance is not? If so, what is the line of reasoning? The President's bold New Federalism proposal contains within it numerous such questions that will require careful examination if the nation is to achieve a more rational and orderly federal structure.<sup>3</sup>

<sup>3</sup>For a fuller discussion of the New Federalism and suggestions for reordering federal, state, and local responsibilities, see Claude E. Barfield, *Rethinking Federalism: Block Grants and Federal, State, and Local Responsibilities* (Washington, D.C.: American Enterprise Institute, 1981).

## THE ZONING OF ENTERPRISE: A COMMENT

*Jennifer Roback*

**B**anfield presents two major theses which are crucial to understanding the dynamics of urban problems. The first is that restrictive or protective laws hamper the efforts of disadvantaged persons to better themselves. The second is that as incomes rise, people become more interested in helping and more willing to help people poorer than themselves. I believe that both of these ideas are sound. Professor Banfield has done a great service by calling our attention systematically to these two areas. (As an economist, I am especially gratified to see a non-economist arguing the first point as strongly as Banfield does.) However, I believe that both of his points can be argued more carefully and persuasively.

Banfield offers a list of seven specific areas in which the law hinders or discourages the efforts of the disadvantaged. This list provides a powerful overview of backfired social legislation. Some of the items such as the minimum wage are well known inhibitors of economic advance. Others are not as widely known or as well documented. The discussion of housing controls and public housing programs, for example, is suggestive and intriguing, but unevenly documented. Both "rent control laws which reduce investment in the maintenance of housing" and "urban renewal . . . which displace[s] low-income people" are phenomena well known to economists. On the other hand "zoning laws which tend to prevent housing from being passed on to the poor" and "'tenant protection' laws which . . . precipitate the rapid decline of good neighborhoods" are very plausible points but not so widely researched. References here would have been useful so the general audience could find out more about these issues.

A more important weakness in this discussion of laws which hinder upward mobility is the treatment of immigration policy. The author's point is somewhat unclear here. Banfield does not explicitly tell us how immigration policy constitutes a barrier to mobility or why he believes immigration to be a problem for urban areas. I will address two possible interpretations of his discussion.

Banfield may be arguing that the increase in immigration is unwise because the immigrants will add to the already swollen pool of the urban disadvantaged. This interpretation is suggested by his definition of disadvantaged earlier in the article as including those whose English is poor or who are subject to discrimination. If this is indeed Banfield's concern, he may take comfort from the work of Barry Chiswick. Chiswick shows that the earnings of immigrants surpass the earnings of comparable native-born Americans within 10 to 15 years after migration. This pattern holds for all national origins he studied, including Cubans and Mexicans.<sup>1</sup> Thus, immigrants may indeed be "disadvantaged" as Banfield uses the term, but on the average they are certainly not "lower class" in their values and aspirations. They don't even seem to long remain poor relative to their native-born counterparts.

A second interpretation of Banfield's argument is that an inflow of unskilled workers will depress the wages of native-born American unskilled workers. This line of argument is correct only in the short run. An increase in the supply of unskilled labor will decrease the wages of directly competing labor and increase the return to complementary factors of production such as skilled labor and capital. This is correctly pointed out in Banfield's 10th footnote. However, the long-run effects of immigration will at least partially offset the fall in unskilled wages. The increase in population will increase the demand for consumer goods and hence for all types of labor. This increased demand for labor tends to offset the fall in unskilled wages. To the extent that unskilled wages do fall, the prices of consumer goods should fall.<sup>2</sup> This benefits all consumers, including the disadvantaged and the poor. Finally, immigration induces economic growth,<sup>3</sup> which again benefits the disadvantaged.

<sup>1</sup>Barry Chiswick, "The Effect of Americanization on the Earnings of Foreign Born Men," *Journal of Political Economy* 86 (October 1978):897-922.

<sup>2</sup>Jennifer Roback, "Immigration Policy: A New Approach," *Cato Institute Policy Analysis*, October 1981.

<sup>3</sup>Julian Simon, "The Really Important Effects of Immigrants Upon Natives' Incomes," in Barry Chiswick, ed., *The Gateway: U.S. Immigration Issues and Policies* (Washington, D.C.: American Enterprise Institute, 1981).

Even without the beneficial side effects of immigration, it would be difficult to argue that restricting immigration is equivalent to removing a barrier to mobility. Redefining a relevant geographic area illustrates the semantic confusion. If the District of Columbia tried to restrict immigration to protect the wages of current residents, then people who wished to better themselves by seeking work in this high-income area would be excluded by the accident of their birth. Some current residents of the District would benefit at the expense of other current residents and at the expense of the potential migrants. Restricting the geographical movement of people is in fact nothing other than a barrier to entry into certain markets for certain people.

We should also remember that any increase in the labor force will have the same kind of economic effects as an increase in immigration. The baby boom and the increased labor force participation of married women are two of the most outstanding features of the postwar demographic landscape. Surely Banfield would not propose restricting the labor force participation of women to protect the wages of competing labor.

Finally, Banfield's statement that present policy tends to favor the unskilled is not correct. The quotation he offers as evidence is not an evidentiary statement, but a theoretical statement: "A cohort of unskilled immigrants depresses the earnings of low-skilled American workers but raises the earnings of high-skilled workers and the owners of capital." In fact, the official policy toward immigration aims at the reunification of families, without regard to skill. Migrants without families must demonstrate to the satisfaction of the Secretary of Labor that they will not "take a job away from an American."<sup>4</sup> Unofficial or illegal immigration is of course a different problem. It is inherently more difficult to assess the characteristics of illegal migrants. One has the impression that they are concentrated in the agricultural sector, where they probably do not create urban problems.

Banfield's second thesis is that alleviating social problems is a luxury good in that people demand increasingly more "social justice" as their incomes rise, or in Banfield's terminology, as they become more middle-class. This idea is essentially sound. A society which is struggling for subsistence literally cannot afford to support even its handicapped or elderly members, much less a pool of able-bodied unemployed adults. However, the dynamics of political support for any particular measure is far more complex than the brief discussion in the article suggests. Banfield undoubtedly did not intend his remarks

<sup>4</sup>U.S. Congress, Senate Judiciary Committee, *U.S. Immigration Law and Policy 1952-1979*, May 1979, pp. 86-93.

to be the final word on this important subject, so I will take the liberty of trying to show where his ideas can be expanded or where further research efforts should be directed.

Banfield argues that the middle class supports social reform because they believe these measures benefit "the poor." No doubt many people do sincerely hold these views. The puzzle for social scientists is why the middle class has these beliefs. Most of the reforms in fact are destructive to the disadvantaged and hinder upward economic mobility, as Banfield so strongly argues. One might think that if the middle class were willing to spend some of their income to help the poor, then they might also be willing to spend some income on discovering what measures actually will be helpful to the poor. Why the liberal middle class has consistently supported demonstrably counterproductive programs like the minimum wage is an issue deserving further attention.

A more complicated problem is that the middle class is not a homogeneous group of people. The National Taxpayers Union is largely a middle-class group, and yet they would not support income redistribution and other modern liberal reform measures. The term "middle class" is probably too broad to be useful in understanding political pressure for helping the poor. Banfield offers examples of groups which support the restrictive legislation whose stated aim is helping the poor. Most of these examples are of interested persons, not the abstract, disinterested middle class. The middle class may go along with reform, but they are probably not the driving force. Thus, the relation between increasing "middle-classification" and increasing pressure for "social justice" is not straightforward.

Banfield seems to suggest that the middle class supports the present immigration policy. This is not uniformly true. Many groups most actively supporting restrictivist immigration policies are middle or upper-middle class. Trade unions, the Ku Klux Klan,<sup>5</sup> and Zero Population Growth<sup>6</sup> all favor tighter immigration controls. Each of these diverse organizations holds its position for a very particular reason, only tangentially related to helping the poor. And the members of each of these groups are primarily middle-class.

In fact, even predicting a person's political views based on membership in a much more narrowly defined group can be a tricky task. Banfield says that Hispanic groups favor more open immigration

<sup>5</sup>J. Huston McCulloch, "Immigration Barriers," *Cato Institute Policy Report*, February 1980.

<sup>6</sup>Neal R. Peirce and Roger Fillon, "Should the U.S. Open its Doors to the Foreigners Waiting to Come In?," *National Journal*, March 7, 1981, pp. 390-393.

policies. Yet Cesar Chavez has favored a crackdown on illegal immigration.<sup>7</sup> His role as an organizer of current U.S. residents outweighs his allegiance to Mexican nationals. Many Hispanic leaders also favor the very restrictions Banfield mentions,<sup>8</sup> as his quote from Representative Garcia suggests. Their role as reformers dominates their allegiance to their impoverished constituency. Thus, interest-group politics is far more complex than Banfield's provocative discussion suggests.

Throughout the article, Banfield notes the importance of people's attitudes and values in shaping society. This is an important point, one economists would do well to take more seriously. But Banfield displays ambivalence on the important question of how those values and attitudes evolve in a society. On one hand, he seems to think that people are destined to hold certain values. His discussion of the "middle-classification" of society suggests that attitudes toward alleviating social injustice change with rising income just as surely as tax brackets change. On the other hand, much of the paper is devoted to discussing incentives for particular conduct. If we believed that some individuals were stuck with lower-class values, removing barriers to economic advance would be an exercise in futility.

Banfield seems to believe that incentives can nurture certain values and attitudes. The conclusion he draws from the IBM incident is that people need to work in environments which are appropriate to their own values, not necessarily the values of the middle class. A further conclusion is that if people have the opportunity to work at jobs they regard as appropriate, then their attitudes or their children's attitudes may change. The removal of political barriers to economic improvement may help people to remove their own psychological barriers. Banfield has done us a service by drawing from the ideas of economics, sociology, and politics to aid our understanding of the problems of the urban poor.

<sup>7</sup>McCulloch, p.1.

<sup>8</sup>Peirce and Fillon, p. 391.