

THE ENTERPRISE ZONE AS A POLITICAL ANIMAL

Stuart M. Butler

Introduction

Recently, a libertarian journal published a hard-hitting, if predictable, broadside of ideological purity aimed at the enterprise zone concept. All the usual arguments were there. If economic freedom is so marvelous, why ration it to a few inner-city zones? Why should a firm in the South Bronx get a tax break that a firm in Dallas cannot receive? Creating a few fiefdoms where free enterprise rules, thundered the author, is about as moral as it would have been to combat slavery in the Old South by establishing a dozen slave-free cities. Moreover, he continued, the political process will ensure that the enterprise zones will be so weak and corrupt that they will not even work. So we will end up with an unsound test that will be written off as proof that free enterprise cannot operate in the inner cities.¹

I relate the substance of this article because its criticism of the enterprise zone is based on two related assumptions regarding the nature of politics, with which I disagree. They are assumptions which distinguish orthodox libertarians from those one might call the conservative libertarians, among whom I include myself.

At the risk of oversimplification let me offer a definition of the second category. A conservative libertarian does not believe that a truly free society will result from some *Götterdämmerung* of government, in which the shackles of the state are finally thrown off, and that any compromise will only postpone the day of freedom. The

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The author is a Senior Fellow at the National Center for Neighborhood Enterprise, Washington, D.C. 20036. He is also a Consultant with The Heritage Foundation.

¹Jack Shafer, "Free Enterprise for the Favored," *Inquiry*, March 29, 1982.

conservative libertarian would probably not differ too much in his vision of utopia, but he believes that freedom is a comparative situation, and that we may need to compromise, horse-trade, and sometimes travel by an indirect route to bring society closer to the final but unattainable goal.

The first assumption contained in the criticism of free enterprise zones is that it is better to wait for a complete victory on all fronts than to score a localized victory. Or to use the slavery analogy, better to await a general uprising or liberating army than to set some of the people free. But this overlooks the fact that localized freedom can act like a benign cancer. It can rot the foundations of the unfree state around it. It provides a demonstration effect to attract the envy of others. If we can create a small number of zones where genuine freedom operates to the clear benefit of the chosen few, you can be sure that others will soon clamor for the same treatment. Even in Communist China, competitors to Hong Kong are beginning to appear. The left in politics has used this demonstration effect to great advantage. Small programs grow large and government budgets soar because citizen B will always demand any special benefits received by citizen A. The enterprise zone is an attempt to use the same approach in the opposite direction: Create areas in the inner cities where individuals are provided with lower taxes and less regulation, and political pressure will build to spread freedom. As former leftist author Paul Johnson noted, the enterprise zone offers a chance to plant free enterprise deep in enemy territory, where it can corrupt from within. It is, he said like "a dagger aimed at the heart of socialism."²

One might ask those who question the morality of establishing localized free enterprise zones just what they would see us do with the islands of freedom that already exist. Should West Berlin be abandoned because East Germany is not free? Should the freedom of Hong Kong and Taiwan be curtailed because China is enslaved? Indeed, we might ask them if the creation of the United States, with its relatively free institutions, was a retrograde step. Should those of us who believe in a free society oppose small outbreaks of freedom until we can guarantee a completely free world?

The second assumption in the criticism of free enterprise zones carries more weight. Stated simply, it is that we will never get the chance to create limited demonstration areas, such as enterprise zones, because political forces will always conspire either to dilute them beyond recognition, or worse still, to use them as a vehicle for even greater government control or manipulation. My disagreement

²Speech by Paul Johnson, The Heritage Foundation, Washington, D.C., July 30, 1980.

is that this is not inevitable. Statistically, the chances must be that the enterprise zone will indeed fail. If so, it will be, in part, because many proponents of freedom prefer to stand on the sidelines, discussing grand strategy, while the game is lost because of poor tactics and an understrength team. If it does fail, it will be a lost opportunity, no more and no less. It will be a disaster only if it becomes an excuse for more government control. That is the risk we run whenever we attempt to change the direction of society.

Foundations of the Approach

The enterprise zone is a classic conservative mechanism, combining an attempt to spread economic freedom through a demonstration effect with a device designed to alter the entire thrust of urban policy. The question to be addressed, in light of the second assumption discussed above, is whether it is doomed to failure because of the realities of politics.

In its view of inner-city America, the enterprise zone concept marks a bold departure from the orthodox approach of recent decades. The assumption behind urban renewal, model cities, UDAG, and all the other programs thrown at depressed neighborhoods is that these areas are devoid of potential for development, but that it should be a goal of national policy to provide them with a life support system financed by taxing the rest of the country. A modified version of this traditional approach is that the inner cities should become the stage for a reversal of history – places where public money is used to lure back the major corporations that for years have been leaving large cities for more profitable locations.

The enterprise zone approach is quite different in its view of the inner city. In the first place, it does not constitute an attempt to freeze or reverse change. Cities have been undergoing continuous evolution in response to social and economic developments, and it would be folly to try to interfere with these broad movements. The industrial base of cities, in particular, has been influenced by the increasing attractiveness of non-urban sites. The proper response is not to place obstacles in the path of these changes, but to encourage adaption and innovation within cities so that a new generation of economic activity might arise. The enterprise zone mechanism would assist in this process by removing man-made barriers to creativity. But it has to be admitted, of course, that some cities will and should continue to decline because they have no capacity for adaption. In those cases, an enterprise zone would do nothing to halt the demise.

The second foundation of the enterprise zone concept is the belief that in even the most depressed areas of our cities there is consid-

erable potential for indigenous economic improvement. There is usually sufficient infrastructure to support a significant increase in activity, and there is generally no shortage of underemployed land and labor. Entrepreneurship may be misdirected, but it exists. And capital is not so much in short supply as misallocated or consumed. The reason for this state of affairs is that government has tried to constrain and plan the development of major cities. In so doing it has stifled creativity with regulations and a perverse tax system, and created a state of dependency among inner-city residents.

The assumption behind the enterprise zone is that by dismantling as many barriers as possible within these neighborhoods, factors of production that now lie dormant might come to life. There is no guarantee that development would occur – if an area really were devoid of all potential then it would continue to decline. But if local activity is merely suppressed by government, the enterprise zone could bring about economic improvement. Moreover, it would be a net addition to the national economy, not a reallocation of resources, if the increased business activity did not result from relocation or branching by firms located in non-zone areas. If the zones are placed in highly blighted neighborhoods, it is likely that relocation will not be significant. Data on location decisions by firms suggest that tax and regulatory obstacles are not the reason they avoid places like the South Bronx. But for the struggling first-time businessman who lives in the area, these obstacles can be the difference between success and failure.

New, indigenous growth in inner-city enterprise zones is thus central to the concept. But it must be remembered that the enterprise zone concept is not merely a vehicle to facilitate economic freedom in the cities. It has a political dimension that is important not merely to the local success of the zones, but also to their ability to resist erosion by external political forces.

A successful enterprise zone would, in effect, create a frontier community in the heart of a major city. By reducing red tape and government activity, the zones would encourage the growth of neighborhood associations and creative partnerships between these groups and local businesses. In frontier communities, free associations were formed to deal with all manner of problems and opportunities touching on the economic interests of residents. The remoteness of Washington allowed these communities to develop successful institutions and approaches to problems without outside interference from “experts.” In the inner cities we find a similar distrust of outsiders, and there exist many fiercely independent neighborhood associations formed to tackle local problems. In the South Bronx, for exam-

ple, some groups are engaged in housing rehabilitation and home-steading, others are trying to fight crime, and still others are trying to improve attitudes to education. Invariably these organizations use unorthodox methods that are frowned upon by City Hall, and they spend much of their time struggling with the bureaucracy. By reducing government controls, such as occupational licensing and zoning, the enterprise zone would strengthen these groups. In so doing, it would also strengthen the political forces in whose interests it would be to maintain the independence of the neighborhood.

Criteria for Political Success

For the enterprise zone to achieve its objective of planting robust seeds of freedom that will spread outwards, the mechanism used to create it must: facilitate entrepreneurship, involve no cash payments, concentrate tax reductions in small firms, and create an effective political coalition.

Facilitating Entrepreneurs

Independent, unorthodox neighborhood organizations are the social entrepreneurs who parallel the business entrepreneur. The preconditions for successful entrepreneurship appear to be the same for each species. In the first place, there must be a negative factor – what Albert Shapero has described as “some dislodgment from a comfortable or otherwise acceptable state of being”³ Crisis breeds entrepreneurs. As Johnson said, nothing concentrates the mind so wonderfully as the prospect of being hanged in the morning. In inner-city neighborhoods, the decline of traditional industries and mounting unemployment, combined with cutbacks in many government programs, have already helped to create this necessary condition.

The positive factor in successful entrepreneurship is the ease with which innovative activities can be conducted. In reality this is also a negative factor—the absence of barriers or obstacles. New neighborhood organizations, like new business ventures, find invariably that their biggest headache is local licensing, zoning, and other regulations that restrict creativity and increase costs. This is much more threatening than either federal rules or the problem of acquiring start-up cash. So the enterprise zone must contain the means to reduce these barriers. If it can also encourage a modest flow of investment into new businesses, so much the better.

³Albert Shapero, “The Role of Entrepreneurship in Economic Development at the Less-Than-National Level” (unpublished paper, Academic Faculty of Management Sciences, Ohio State University, 1979).

Absence of Cash

To be successful, the enterprise zone must involve no cash support either to businesses or to community-based organizations. We have plenty of experience to teach us that once a source of funds is made available, it seems to breed people who find ways of absorbing it and then conducting successful campaigns for more funds. Not only that, the businesses and organizations created to utilize this money become the advocates of regulations and other barriers to freeze out weaker competitors—and that usually means new and innovative alternatives.

Targeted Tax Incentives

If substantial tax relief accompanied the establishment of an enterprise zone, some objections to the concept would have greater validity. The tax relief might lead to considerable reallocation of economic activity, for the benefit of some areas, and it might tend to help existing, large corporations rather than new entrants. If this caused other places to clamor for equal treatment, it would still serve a valuable purpose, of course; but if the enterprise zones can be justified only on the basis of their contribution to the national economy, they would be harder to accept. Moreover, if the zones are to fulfill their role as a clear demonstration to poor inner-city residents that free markets offer them a real opportunity to create businesses and climb the economic ladder, in contrast to the stifling climate of the welfare state, then the emphasis of the zones must be on the small entrepreneur. So it would be preferable, from many points of view, to implement tax reductions that favor the new, small firm rather than reducing general business taxes.

Virtually all firms pay social security and various state payroll taxes, and for small, labor-intensive companies these can be onerous. Small, new firms, however, generally show little or no taxable profit in their early years. Hence, employment and investment tax credits used against business income taxes are of only limited value to these firms, while enhancing the growth of large, profitable companies. Allowing such credits to be taken against payroll taxes, and reducing payroll taxes directly, would remove a heavy burden from struggling new firms and allow them to compete more successfully with established firms.

New companies could be helped in another way. Major firms can offer numerous shelters and other relief to investors and hence attract capital. Small firms – with the possible exception of those engaged in real estate operations – have a far more restricted range of incentives they can offer investors to offset the higher risks associated with new businesses. Providing incentives for investors in small firms

would offset the bias in the tax code which favors real estate and investments in large firms, and hence stimulate the flow of capital to the new entrepreneur.

Creating a Coalition

It is a hard political fact that a majority in Congress is necessary to pass a law – even if the law is intended to reduce the role of government. This requires a mechanism which strikes a delicate balance between satisfying the special interest groups necessary for passage, and creating a vehicle which can be dominated and corrupted by those same interest groups. Obviously, this is not an easy task to accomplish – it requires both political judgment and luck.

British and American Models Compared

It is interesting to examine the way in which the enterprise zone has developed on both sides of the Atlantic from the perspectives of these requirements for success. The history of enterprise zones in Britain has provided critics of the whole approach with plenty of ammunition – but it has also provided proponents with some valuable lessons. Libertarians will no doubt feel their suspicions confirmed to learn that the basic features of the concept originated with a Fabian socialist planner, Professor Peter Hall. Yet Hall's "Freeport," as he termed it, was hardly orthodox British socialism. He argued that what cities needed to bring them back to life was not bigger doses of central planning or government cash, but rather

an essay in non-plan, small, selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimal control. In other words, we would aim to recreate the Hong Kong of the 1950's and 1960's inside inner Liverpool or inner Glasgow.⁴

Hall envisioned the areas both as free-trade zones and as zones where domestic business could operate with only minimal controls and taxation. In addition, he saw them as places where residence would be based on choice, and those who lived in the freeports would have to accept lower government benefits along with lower taxes. In effect, the zones would be largely outside the normal boundaries and jurisdiction of the host country.

The Conservative party took up Peter Hall's idea in a modified form when it came to power in 1979. For a year the concept was studied within the government bureaucracy before legislation was introduced and passed, allowing for 11 experimental enterprise zones.

⁴Stuart M. Butler, *Enterprise Zones: Greenlining the Inner-Cities* (New York: Universe Books, 1981), pp. 96, 97.

The British enterprise zones are a far cry from Hall's original idea. They are generally vacant or derelict inner-city sites, averaging one square mile. For the most part the land is owned by the government or a nationalized industry, and the "rollback" of government is hardly sweeping. Business properties are exempt from property taxes (cities are reimbursed by the Treasury for the lost revenue), and plant and machinery can be depreciated in one year. The degree of deregulation is minimal. Other than a few minor changes in statistical reporting requirements, the only reduction in red tape concerns zoning. Instead of the normal procedure under which businesses must submit detailed plans that are then amended by the local government planning committee – a lengthy, uncertain and costly process – businesses in the enterprise zones receive automatic building permission, provided that basic designs meet a set of simple criteria. Needless to say, the British enterprise zones have not become havens for small entrepreneurs or innovative community associations. They are merely urban industrial parks.

There are many reasons why the British enterprise zones failed to live up to the boldness of their intellectual origins. But the question at issue is whether these factors are endemic to the whole approach, or whether they are avoidable in this country.

In the United States, a version of the enterprise zone concept is taking shape. At the time of writing, the Reagan administration has presented proposals to Congress,⁵ and a number of states have enacted laws to create business areas with lower tax rates and some reduction in regulation. The state zones established so far are not very radical, although legislation in other states, such as Illinois and Kentucky, includes provisions that could mean substantial state and local deregulation. Understandably, most attention has focused on the federal initiative – which has the potential of making the greatest tax and regulatory impact on the designated zones. If we compare the development of the American initiative with the history of the British zones, we find some intriguing similarities and differences.

When Sir Geoffrey Howe, the present British treasury secretary, first suggested a modification of the Hall freeport idea, he warned of "grey men" in the bureaucracy, whose job it is to consider the administrative difficulties of any novel idea and to manufacture the small print that can kill any initiative. Once an idea descends into the hands of such men, he said, it can be counted as lost.

⁵The Enterprise Zone Tax Act of 1982 (H.R. 6009, S. 2298). For an analysis of the legislation, see Stuart M. Butler, "The Enterprise Zone Tax Act of 1982: The Administration Plan," *Heritage Foundation Issue Bulletin* No. 80, March 29, 1982.

Yet this is exactly what happened to the enterprise zone concept in Britain. The idea disappeared from view when the Conservatives won power. Nobody talked about it; no conferences were held on the subject; no one really expected action to be taken. Meanwhile, the bureaucracy was quietly eradicating from the proposal everything it considered controversial. When the measure was finally laid before Parliament, it was the kind of legislation acceptable to the civil service.

The concept's journey through the American political system bears some resemblance to this process of emasculation, but there have been sufficient differences for us to believe that the final result may indeed be a program which will plant the seeds of free enterprise in the cities. This hope rests on a combination of political tactics, fortuitous political events, and the fact that we have learned from Britain's mistakes.

The Reagan bureaucrats treated the enterprise zone in the same fashion as their British counterparts did. Every attempt was made to slow down the evaluation process within the administration and to remove mechanisms which were new or controversial. The administration is supposedly conservative and ideological, but that did nothing to change the process in any noticeable way. Officials at Treasury, in particular, spent over a year chipping away at the tax incentives in the proposal. Political appointees at HUD did try to incorporate features that might break the hold of government in inner-city communities, but they were able only to score an honorable draw in their struggle with the career staff.

But unlike Britain, the enterprise zone has not been the sole property of the bureaucracy in this country. While officials tried to downplay the proposal and conducted their discussions behind closed doors, conferences, meetings, and media debates on the enterprise zone took place across the country. Moreover, an effective public relations campaign by proponents of the radical version of the concept accomplished two vital objectives. It succeeded in selling the enterprise zone concept to the wide spectrum of interest groups needed for it to have any chance of passage, groups ranging from grassroots and minority organizations to ultraconservative Republicans. By so doing, it achieved a second purpose of placing government officials and city planners very much on the defensive. In Britain it was government which developed a weak enterprise program and then, in effect, told the country to accept it. In America the bureaucracy has been under constant pressure to radicalize the proposal, and powerful political forces have emerged to improve the chances of this being done in the Congress.

The growth of powerful support outside the administration has been greatly assisted by some of the budget slowdowns achieved in the first year of Reagan's presidency. While the budget reductions may be criticized as little more than a ripple in the growth of government, cities and other interest groups clearly believe that a fundamental change is underway. This has made them very receptive to the only urban initiative under consideration. Naturally the breadth of the enterprise zone coalition is not without its side effects. There are many supporters who see the program as a Trojan horse, which can be used as a vehicle to reintroduce many of the special-interest expenditures cut back in the budget. If they succeed in amending the plan to include appropriations, in addition to tax incentives and deregulation, then the opportunity presented by the enterprise zone will probably be lost. Once cash is made available, it will be used by those who oppose the philosophy of the zone approach to sustain themselves and crowd out their competitors. But so far the opponents of appropriations are in the minority—apparently more interest groups feel their budgets will be trimmed if money is added to the zone plan than feel they would benefit.

Budget pressures may help to produce effective enterprise zones in another way. There is a broad consensus that any enterprise zone program should be experimental: *Only a limited number of designations should be made until the results can be measured.* Of course, the same view was widely held in the case of Model Cities and other programs, but Congress kept expanding the number of sites for political reasons. This is much less likely to happen with enterprise zones because cities are not quite so inclined to embrace a program which requires local deregulation and tax cuts as one which simply hands out money. So there is a good chance that the tight limit on numbers will remain and that a reasonable degree of competition will occur among applicants.

The administration plan uses a priority system to choose between competitive applications. Cities are required to submit a local package of incentives, which must include some mixture of business deregulation, local expenditures, and the removal of barriers to neighborhood organizations. Local budget pressures due to federal cuts will make it difficult for cities to increase government activity as a method of improving their local package. Thus, if demand does exceed the supply of enterprise zones, it is probable that financially strapped city governments will be forced to consider serious business deregulation and greater freedom for community associations.

The British awarded 11 zones in their programs, and there was strong competition among applicant cities, many of which were con-

trolled by the opposition socialist Labor party. One mistake made by the Conservative central government, however, was to agree in principle with certain cities that they would be chosen before the details of local zoning simplification had been approved. The *London Observer* noted the result:

Before the choice of zones was made, competition was so keen that Whitehall (i.e., the central government) officials were simply telling councils that they would either accept the largely laissez-faire terms [sic] as they stood or drop out of the running. Now the local authorities will no longer be frightened to press for the terms they want.⁶

There is little doubt that political considerations will cause the same thing to happen in some instances in this country. We have evidence of it already. The South Bronx in New York City is generally expected to receive a zone designation because its congressman, Robert Garcia, is the key Democratic House cosponsor of the administration's Enterprise Zone Plan. It is interesting, but not surprising, that New York has indicated no willingness to prepare anything more than a token local package to complement federal tax and regulatory reductions. But other cities, such as Pontiac, Michigan, and Norwalk, Connecticut, which have no guarantee that they will be chosen, are feverishly trying to outbid their competitors by dismantling government controls. If the administration can maintain a reasonable level of uncertainty and draw up firm contracts with cities prior to final approval, there is a good chance that the bidding process will produce acceptable results.

The criteria under discussion in this country are very different from the British model, and this may also help to ensure that the zones become bastions of free enterprise. In Britain, the zones are virtually devoid of population. Some supporters of the enterprise zone concept favored such sites because they seemed to offer a chance to start with a clean slate. They would allow free enterprise to flourish without impediments erected by the political representatives of the resident population, either to protect vested interests or because of fear of change. Unfortunately, the major incentive offered in the British zones is a one-year depreciation of all new buildings and machinery in order to spur rapid development. This has made the zones most attractive to large-scale developers with heavy tax bills. Meanwhile, those entrepreneurs who rent obtained very little relief from their heavy sales and payroll taxes. Finally, the absence of population also meant the lack of any innovative com-

⁶*The Observer*, August 3, 1978.

munity organizations that could become strong political power centers, pressing for even greater freedom within the zones.

In the United States, a minimum population of 4,000 residents looks certain to be a prerequisite for a zone designation. This means that the zones will probably be sited in residential inner-city communities with some abandoned buildings and vacant lots. The Reagan plan also encourages applicant cities to remove barriers to neighborhood organizations and small, local businesses. Thus, there is a good chance that a strong, independent political and business structure will result from an enterprise zone, and that this will help both to insulate the zones from city government and to provide plausible spokesmen for the virtues of enterprise zones in other communities.

Conclusion

The critics of enterprise zones recognize correctly that they do involve risk. There is a danger that the program which finally emerges from Congress will be too weak, despite the factors noted above. If that happens, and the zones are seen as a failure of the free market, there will no doubt be pressure for an increase in the role of government in the inner cities. That would hardly be anything new. The charge that "free enterprise" had failed in places like the South Bronx would be unjust. But it is likely that the most common reaction would be that *blighted inner-city neighbors are impervious to improvement*, not that free enterprise is inferior as a system.

But let us examine the possible results if the risk is rewarded with a reasonable degree of success. Let us assume that out of 100 or so zones designated over the next few years some 20 or 30 are areas in which zoning, occupational licensing, and other local regulations are noticeably relaxed. It would therefore be much easier for neighborhood associations to become more active in delivering services, and simpler – and so less costly – for small, local businesses to start up in basements and garages. Let us assume that the tax incentives offered by the federal government have the effect of stimulating modest investment and business creation, and that they also encourage some elements of the underground economy to surface and expand.

If that does occur in a number of cases, we will see enclaves of activity in otherwise desolate parts of our cities. They might be enclaves chosen mainly for political reasons, but that would not matter. Strong economic activity would send out equally strong political signals. The successful zones would be a clear demonstration that improvement flows from a reduction in man-made barriers and leads to creativity in even the most hostile environments. One would need only look across the borders of the zone to make a comparison

with the alternative approach. No doubt other neighborhoods would press to be designated as enterprise zones. But this would mean further reductions in regulations and taxes, instead of the increases in federal expenditures and the controls that normally accompany program expansion. If the zones did, indeed, result in a mobilization of indigenous resources, and not the relocation of existing businesses, the creation of additional zones would have no significant negative effects on the earlier zones. So there would not be major opposition to "creeping" enterprise zones.

The encouragement of strong community organizations, offering services and an alternative political base for residents, would also help prevent the erosion of the zones from the outside. They would be a countervailing force to city officials and interest groups attempting to reimpose their authority and protections. Indeed, strong community organizations could become the agents of further deregulation in the zones, as they identify barriers to their own growth.

It has been admitted often in this article that there is no guarantee that the enterprise zone mechanism will operate as hoped. But there are good reasons, it has been argued, to feel that even an imperfect form of zone may set in motion forces that will tend to strengthen freedom rather than weaken it. If this belief is wrong, then we will have gambled and lost, but at least we were gambling to gain ground.

THE E-Z ROUTE AND URBAN POLICY

John Rees

Peter Ferrara sees the enterprise zone concept as an “entirely new approach” toward solving the nation’s urban problems. Yet the concept gives this writer a feeling of *déjà vu*, with the enterprise zone representing both an extension in policy and reduction in scope of President Carter’s program of targeting federal aid toward very specific spaces within a metropolitan area. Ferrara traces the origin of the concept in the American policy arena to Stuart Butler, who has been attributed as the one responsible for introducing Peter Hall’s original idea from the British context, via Geoffrey Howe, into Reaganese. Because the Ferrara and Butler papers complement each other, the former dealing with the evolution and rationale for enterprise zones and the latter with the concept as a political animal, it seems appropriate that they be discussed together.

As Stuart Butler suggests, the enterprise zone is a political animal – both at its very best and its very worst. It is the product of political compromise, perhaps of political tokenism. Given the initial attempts to zero out the Economic Development Administration, the Community Development Block Grants, and Urban Development Action Grants, and the potentially harsher reality of the Accelerated Cost Recovery System mechanism subsidizing more growth in the growth areas, the enterprise zone concept, or E-Z route, represents a retrenchment. It is merely an attempt to show that some form of urban policy is in effect during the tenure of the Reagan administration. Urban policy may be one of the few substantive areas, though, where the best policy is no policy.

One of Butler’s major concerns involves criticism of the enterprise zone concept based on assumptions about the political process. “That

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The author is Associate Professor, Political Economy Program, University of Texas at Dallas, Richardson, Texas 75080.

it is better to wait for a complete victory on all fronts than to score a localized victory" is indeed a questionable criticism of the enterprise zone concept. Yet one must ask what is the real cost, both political and economic, of victory or indeed defeat. The creation of areas in the inner cities where "lower costs and less regulation . . . will build to spread freedom" are worthy goals. But the world of politics is pragmatic and sometimes devious. As Butler admits, "Political forces will always conspire either to dilute [enterprise zones] beyond recognition, or worse still, to use them as a vehicle for even greater government control." Because the "real-politik" of the enterprise zone concept has *only begun*, the political stakes are indeed high. Just as the Model Cities program had a cloning effect around the country, enterprise zones may multiply as they pass through the political arena.

Then what of the economic cost? Ferrara gives us a flavor of the Treasury Department's estimates of the revenue losses to the federal government, about \$300 million per year for 25 zones. However, he provides no explanation of the derivation of these estimates. Statistically, as Butler suggests, the chances are good that this E-Z route will fail. If one of the facets of the enterprise zone concept is regulatory relief, policy analysts have to ask the inevitable question: "How do we spell relief?" There is little chance that policy analysts will see any economic success in the macro targeting policies of EDA of the recent past, the intermediate targeting strategies of CDBG and UDAG strategies, or the micro targeting efforts implicit in the enterprise zone idea.

There exists very little in the policy literature to suggest that tax and regulatory factors are important determinants of industrial or commercial locations (Rees 1980; Advisory Commission on Intergovernmental Relations 1980). Variations in tax costs are roughly one-tenth of the variations in the cost of labor, marketing, and transportation. And, on average, labor costs make up about 50 percent of a company's production costs. At the same time we must recognize that the relative importance of the tax differential factor appears to increase as the location process narrows down to a specific site within a broader region.

In spite of the evidence on the minimal impact of state and local government policy on industrial location, 45 states offer other types of low-interest loans; 25 states do not collect sales tax on newly purchased industrial equipment; 38 do not levy inventory taxes on goods in transit. Virtually all states and cities have industrial development agencies, and many states and local governments offer tax credits and rapid depreciation to encourage new investment in plant

and equipment (Weinstein and Firestone 1978, pp. 134–139). One can only wonder why.

Let us consider an extreme example. Let's assume that a government subsidized the cost of setting up a plant in a depressed region to the tune of 50 percent of total investment in plant and equipment, and further supported this plant with other payroll subsidies and tax benefits. Let's assume that these schemes were called Regional Employment Premiums and Selective Employment taxes, that the company was called Chrysler, and that the place was Glasgow. And let's assume, correctly as the evidence has it, that all these subsidies were not enough to keep Chrysler alive in Scotland. The case was turned over to Peugeot; perhaps it could only be solved by Poirot!

The above example is not fictitious; it comes from post-Keynesian fascination with regional and urban policy in the United Kingdom. It is from this context that Peter Hall's original conception was born, as Stuart Butler accurately points out. But the concept in the American context today does not reflect Disraeli's concern for history: What we learn from history is that we do not learn from history.

Let's reflect a little more on the lessons of history. One result of European experience with such policies is that rapid depreciation encourages capital-intensive rather than labor-intensive investment, hardly a panacea for the labor pools of the nation's inner cities.

A second more important operational lesson concerns the border zone between the enterprise zone and the "unenterprising zones" that surround it. The creation of such zones can only create an Iron Curtain-type mentality in the grey areas between the zones and the more healthy suburban communities. In the history of British regional policy, intermediate areas were established between London and the development areas with a moderate amount of government subsidies (Keeble 1976). If enterprise zones are created, such intermediate areas will be inevitable creations of the body politic.

Can this enterprise zone cloud have no silver lining? There is a glimmer of hope in the concept, specifically the potential for indigenous economic improvement. What the Europeans have termed the "mobilization of indigenous potential" (Goddard 1982) is the road that must be taken before 1990 for this nation's economic recovery. I am not convinced that the E-Z route is the best one for mobilizing the indigenous potential of this country's urban industrial system. Indeed, Struyk and James (1975) and others, have shown very little evidence that the older, larger cities of the United States serve any longer as incubating environments for the birth of new enterprise. The mobilization of this indigenous potential for the long run has to lie in a coherent and more stable macroeconomic policy that encour-

ages innovation and productivity, new capital formation, and a less erratic growth in money supply. In this regard, the ACRS and research and development tax credit components of the Economic Recovery Tax Act of 1981 are a step in the right direction. As for enterprise zones, I prefer to bury Caesar, not to praise him.

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