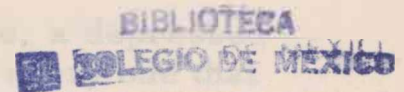


NEIGHBORHOOD FOUNDATIONS
MEMORANDUM #14



FROM: MILTON KOTLER, INSTITUTE FOR POLICY STUDIES
WASHINGTON, D. C.

DATE: NOVEMBER 1966

SUBJECT: THE COMMUNITY CORPORATION AS A UNIT OF ECONOMIC
DEVELOPMENT

Senator Ribicoff's hearings on housing and urban slum conditions were expressed to a sympathetic panel, and it remains to be seen how that subcommittee will distinguish itself from earlier Congressional investigations of the same old problem: poverty in the ghetto.

We can view this new round of legislative motion on housing and urban development as an admission that the poverty program has failed to solve poverty. In Cleveland alone, the Negro unemployment rate has increased during the past two years, notwithstanding the federal anti-poverty effort. Negro income is not increasing. Conditions of education and urban housing show scant improvement. How then can the Senate's stab at the problem of urban poverty through the rubric of housing and urban development succeed where the poverty program has failed?

It is important to isolate the failure of the poverty program and see if the Ribicoff Committee will hit a proper target. That problem seems simple enough: How to get money to the poor. But on that simple issue rests a range of approach. The poverty program sought out the root causes of poverty and aimed to precondition the poor for employment and better income. Headstart assumed poor education as a root cause of poverty; manpower training programs assumed inadequate skills as a root cause, community action assumed powerlessness as a root cause, and so on. A panoply of social preconditions were addressed with innovation. Yet the experiment has proven inconclusive.

All of these root causes were united toward a common aim: employment. The only difficulty was that by and large no major employment issued from their various programs. No substantial employment market outside the ghetto seemed to await the remedied clients of poverty.

Reflecting on two years of anti-poverty offensive, one thing becomes clear. At best the poverty programs have succeeded in equipping some ghetto

residents for outside employment. But it seems that the ghetto, a depressed and erosive community, produces at least two unemployed for every one that can be prepared for outside employment. The conclusion is inescapable. An effective program of employment must aim to build a vital economy within the ghetto. Outside employment will not suffice. The ghetto economy must be vitalized. This is what the poverty program failed to attempt. It remains to be seen whether the new Department of Housing and Urban Development can do this.

Negro employment and income are inseparable from the vitalization of the ghetto economy. There must be productive employment for Negroes in the ghetto, yielding a living wage. There must be Negro business in the ghetto to attract Negro purchase and support Negro employment. This does not mean that Negroes should not work outside the ghetto, nor that white ownership be excluded from within the ghetto. All it means is that the commercial colonialism of today should be replaced by healthy competition, holding out the prospect of Negro capital accumulation and employment.

How then do we begin? It is clear that this problem requires that any program of economic development be based on local ghetto organization. It is at this rudimentary level that the poverty program scored its greatest achievement. The vitalization of ghetto economy must spring from the foundation of local community action and organization in the ghetto. Most current thought on this subject overlooks this requirement. Some urge that the government rebuild the housing of the ghetto. Under the present arrangement, such an approach will meet the inevitable fate of public housing and urban renewal. Construction efforts by authorities outside the ghetto itself will be subject to the profit and wage interests of builders and union labor. Money will not come into the ghetto by increasing the income of builders and union labor. The issue is not to build the economy outside the ghetto, but instead, to build a permanent, healthy economy in the territorial space of the ghetto. It is the wealth of the ghetto community that we must advance. Every effort must be made to prevent the ghetto from becoming another market for outside profit from federal investment.

Today, outside corporate interests are beginning to see the ghetto as a new market for private profit from federal investment. Builders want housing in the ghetto to beef up construction profits. Unions seek more employment for their membership. Social work professionals favor the poverty program for its high salaries and the new social power which the program provides. Great industrial corporations see federal funds for their research and development efforts. But the real question is: How is it possible for federal money and subsidies to stay within the ghetto in order to build its economy? The ghetto must not be a market for outside profit. It must become its own investor in its own economic development.

During the past several years, neighborhood-based, democratically-structured community action organizations have developed over a span of issues in all the poor areas of our major cities. Many of these organizations have become sophisticated structures of community mobilization on political issues. They have demonstrated and bargained with the city for several years. To date, their negotiations have shown some measure of gain. In a number of cases, they have been funded by the Office of Economic Opportunities and other federal departments for programs of education, manpower training, housing rehabilitation, etc.

In the past several years these organizations, like HARYOU and MFY in New York, TWO in Chicago, and ECCO in Columbus, have gradually developed into federally and municipally assisted territorial authorities for social service program operation. Although private corporations, they have been developing aspects of public jurisdiction. Internally, their program and fiscal management has become competent. To a considerable degree this management has become accountable to the scrutiny and decision of the organizational membership. They are becoming democratically structured corporate organizations of delineated ghetto territory, receiving program authority and funding for service development within the ghetto. In some cases, as in ECCO in Columbus, they are virtually becoming neighborhood governments over certain areas of public activity.

These community organizations are legal incorporations of ghetto territory, with tax-exempt status. While they have developed and have, thus far, been viewed as mere structures for participation of the poor people in the services of their community and toward their fuller rights in the city, these territorial-based community organizations are capable of new roles in the economic development of the ghetto. This new legal, corporate entity of the ghetto territory, based on popular sovereignty and elected officials has become the promising instrument of political and social change in the ghetto. It must now emerge also as the instrument of economic change as well. The community corporation must become the ghetto community's instrument of its own economic development of a vital ghetto economy. These corporate organizations of the ghetto community must become the legitimate recipients of federal and local, public and private financial assistance to redevelop and vitalize the economy of the impoverished ghettos of the city.

Let us see how this could work through the example of ECCO in Columbus, Ohio. ECCO (East Central Citizens Organization) is the corporate organization of 7,000 residents of a territorially delineated area of approximately one square mile. The community corporation, through its elected councilmen, direct membership assembly and appointed staff, is today governing direct grants from the Office of Economic Opportunity and the Office of Juvenile Delinquency of \$300,000 annually. A pending grant to OEO for \$130,000 awaits the 1967 appropriation for funding. This could bring the 1967 budget to the level of approximately \$450,000. In addition,

new proposals for health service and housing rehabilitation are currently being prepared for submission to appropriate federal, state and local agencies.

The area of ECCO is impoverished. With its current resident distribution of 70% Negro and 30% white, unemployment is at the level of 30%. One thing is clear. If the area of ECCO is to economically develop, it must be through the corporate organization of ECCO.

After two years of corporate organization and development for social service program operation, ECCO is now beginning to think of its corporate move into community economic development. The question is: How can the ECCO corporation, based on one man-one vote, develop its area to reduce its unemployment and build a healthy economy.

Last year ECCO began negotiations for an On-the-Job Training program. While the Department of Labor was interested in funding a program, after much discussion ECCO decided to drop the project. The Urban League in Columbus was having enough trouble filling the 200 training slots that it was funded for under its own OJT program. Rather than start its own program, ECCO decided to help make a go of the Urban League project. The principal reason that discouraged ECCO from its own OJT program was the difficulty which the Urban League was having in finding employers who would accept trainees. Employment standards were out of line with the condition of the neighborhood unemployed. For example, employers refuse unemployed who have a police record. Yet, a record is almost a fact of life and growing up in the slum. Secondly, their insistence on testing does not accommodate the level of literacy among the unemployed in the slums. For these and other reasons, few are encouraged to enter training programs of dubious outcome. The simple fact is that employment must not rest on such restricted conditions. But only the internal community of the ghetto is prepared to limit these restrictions, if it had jobs to offer. The OJT program, which did not meet this condition, was rejected. Implicitly, it would be feasible for training unemployed for jobs supported and paid for by the community itself. But how can we conceive of a source of local ghetto community jobs? If ECCO had jobs to offer its own residents, the OJT program would work. But ECCO does not have a substantial number of job positions to fill, nor does it have the capital to invest in such job creation. The question is: How can this be achieved? How can ECCO, as a tax-exempt neighborhood corporation, become a viable investor and producer, and hence a job-creating structure for its own membership which is substantially unemployed or under-employed?

Toward this aim we note a suggestive fact. Whereas no member of the ECCO area has much money to manage (median: under \$3,000) the fact is that the ECCO corporation is today managing nearly 1/2 a million dollars of federal funds for a variety of services, which employ many of its own

resident members in the area. Since ECCO is the legal enterprise heretofore managing social services, why can't it also manage economic investment and development? What could it do if it had substantial capital at its disposal and the hired professional assistance required for capital management. ECCO might do the following things. ECCO could:

1. Purchase the dilapidated housing in its area for rehabilitation and new construction at a federally subsidized interest rate. This would give the ECCO corporation:
 - (a) home ownership; (b) subsidized funds for rehabilitation;
 - (c) reduced rents for members, and (d) if it wished to exploit itself, some surplus income, above costs, as an accumulated corporate capital for further investment.
2. Through a subsidiary profit-making corporation it could gain a small business loan for ECCO investment. ECCO could open a corporate food market, run by ECCO trading with its own membership at a small profit to repay that loan; and thereby offering its membership food at reduced prices. It could start a development bank channeling low interest loans to its own individual members for profit-making business ventures in the neighborhood. Conceivably, it could lend money to a large ECCO profit-making subsidiary. For example, ECCO has already discussed the possibility of purchasing the Roller Land Skating Rink in its area to run as a profit-making neighborhood-governed recreational facility attracting kids from all over Columbus and grossing over \$100,000 annually.
3. ECCO could move, through subsidiary corporations, to finance its own members' installment purchases. Or it could develop a community group insurance program.
4. ECCO could negotiate distribution franchises from national chains like McDonald's Hamburgers or Midas Mufflers. In this way it could begin to attract expenditures into the neighborhood from people in other parts of town.
5. ECCO could invest in stock certificates, and with good management reap the nearly 8% average annual return on paper investments which universities have harvested over the last 20 years.
6. At a further point of development, ECCO might move into certain kinds of light production, through franchises or original enterprises.

In all these cases, the ECCO community corporation would be investing its capital in building a neighborhood economy, which can develop employment

through the use of its profit. As a non-profit organization, its income above costs is converted in to further economic investment. Its return is manipulated between the axial principles of either reducing goods and service costs for its members, or increasing their employment wages. ECCO must be corporate investor, producer, and employer for its membership. It must be the non-profit and profit-making entrepreneur of its own community. It must be bank, producer, employer and employee of itself.

The question then remains: How can ECCO and territorially-based community organizations like it get capital to its corporate structures for these purposes? Various federal programs exist to serve some of these development possibilities. Under the Housing Act, Section 221 (d) (3) would permit ECCO purchase of area slum real estate and its rehabilitation. The Small Business Administration could currently assist this development if it wished to do so. . But here we get to the heart of the problem: politics. The private economy would likely oppose this conceivable federal assistance, fearing prospective competition from corporate community enterprise.

While federal flexibility for these purposes should constructively advance, a realist might say that politically its promise is too limited. Private enterprise might oppose communal enterprise. Private corporations would oppose federal tax dollar support and subsidy assistance to community corporations for entrepreneurial development. This dim prospect only illuminates a compelling option of constructive federal participation in this effort of supporting ghetto corporate enterprise.

There is nothing so liberal as paper. There is nothing so non-ideological as a dollar seeking dividends and appreciated value. There is nothing so politically free as the private dollar seeking good returns, however tight and politically restricted the public tax dollar may be. The dim political prospects of federal money for ghetto economic development suggest one clear need. How can the ghetto corporation get its capital for investment and employment development from private sources. It is precisely this strategy which the federal government could pursue. Because it is only in assisting that strategy of private capital investment in the community corporation that the federal government could be expected to help.

Today the federal government guarantees bonds for the construction of merchant ships. With this precedent the federal government should recognize that our slum conditions are no less critical than U.S. merchant ship-building. Accordingly, the federal government should guarantee private purchase of ECCO community development bonds. Correspondingly, if the municipality can accept ECCO as a delegate public agency of its metropolitan housing authority, which now floats federally tax-free bonds.

ECCO could then advance a substantial 4-1/2% bond issue, tax-free and federally guaranteed, for its actualization of a developed economic plan. Based on a prospectus of investment and return, ECCO and other ghetto community corporations could attract millions of private dollars for internal ownership, capital accumulation and investment.

Such an approach as here outlined requires considerable local detail, but after that is done a simple piece of federal guarantee legislation and a municipal agency could substantially move the real issue of economic development of our ghettos toward a vital internal economy in its own interest. For the federal government, this would be a risk worth taking. For the municipality, it would be the surest way to bring the ghetto into a metropolitan responsibility. The Ribicoff subcommittee would do well to consider this line of development. The other paths are so worn.

STATEMENT OF MILTON RIBICOFF
BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON EXECUTIVE REORGANIZATION

HEARINGS ON PROBLEMS OF THE CITY

Dursey

December 8, 1966

Mr. Chairman, Members of the Committee:

I want to thank you for inviting me to comment on the urban crisis and government's approach. None of which thought and hard practice in the ECCO project in Columbus, Ohio, which could be of substantial value in rebuilding our ghettos and of achieving a better city for all.

The facts of urban poverty and despair in our ghettos and slums are too shocking to ignore. The situation is great, the problem is deep, the need is real and so on. These facts require a national attention. Yet, there is some encouragement in the committee's systematic deliberation on this question of rebuilding the ghettos, as well as recent legislative developments representing a commitment of our government to apply some of the wealth and resources of this nation to attack this urban crisis.

However, rebuilding ghettos and slums is not the question. How is this task to be done? What is the proper method of action to rebuild our ghettos? What is the proper role of different agencies of change, public and private, federal, state, and local, to best assist this situation? The central theme is our ability to understand the urban crisis and undertake a method of change. All too often,

CS:kk
5/67