

# ECONOMIC DEVELOPMENT FOR WHOM? THE CHICAGO MODEL

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## INTRODUCTION

The City of Chicago's strategy for economic development represents diverse and sometimes conflicting municipal development perspectives. In a broad intellectual framework, these perspectives often beg the question of whether government can and should effectively intervene in a market economy on behalf of minorities, women, the poor, and the working class. Moral and legal issues must be examined, as well as issues of political economy, to adequately answer this question. Those on the far left argue that government intervention serves only to pacify or dampen the natural tendencies of the underrepresented to struggle against the state and capital. Those on the far right argue that government intervention creates a dependency that destroys initiative and economic growth. In addition, some advocate the less radical institutional welfare perspective, which calls on the government to provide safety net protections as well as certain entitlements. In this paper, we propose an alternative perspective, namely that government not only can, but should take significant action on behalf of the oppressed by altering the balance of power and the distribution of resources. Furthermore, this action *must* be undertaken at a local government level to ultimately achieve the political conditions necessary for meaningful change at the national level.<sup>1</sup>

We do not pursue further the question of whether government "should" intervene in economic activity. Rather, we address the "can" and "how" of government intervention, that is, the extent of government's ability to intervene, and the best ways in which such ability can be put to use. More precisely, we examine the "how" of the Chicago experience with government intervention to draw some tentative conclusions about "can." While the jury is still out on Chicago and other municipalities and states that are taking up this effort, there is a strong indication that government intervention can be

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1. See Mier, *Job Generation as a Road to Recovery*, REBUILDING AMERICA'S CITIES: ROADS TO RECOVERY 160 (1984); Stanback, *Attacking Poverty with Economic Policy*, BEYOND REAGAN: ALTERNATIVES FOR THE 80'S 57-73 (1984); see generally D. LURIA & J. RUSSELL, RATIONAL REINDUSTRIALIZATION: AN ECONOMIC DEVELOPMENT AGENDA FOR DETROIT (1981).

successfully effected.<sup>2</sup>

### URBAN ECONOMIC DEVELOPMENT STRATEGIES

Before addressing the specifics of the Chicago experience, a brief review of urban revitalization strategies can place the Chicago effort in the broader context of modern urban economic development theory. Most strategies reflect an industrial theory or a methodology theory. Under the former, a fairly widespread sentiment prevails that urban areas must hitch their economic development wagon to either service industry growth, especially financial services in the central business district, or to high-tech growth.<sup>3</sup> The service industry focus seeks to leverage more private investment in service sector expansion with public funds. The New York Partnership venture in New York City exemplifies this industry focus. It is a coalition of private business, civic, educational, and nonprofit organizations that since 1979 has sought to attract businesses to the city. Another example is Chicago's Commercial Club, a prominent business group that advocates the concentration of the city's development resources into this sector and virtually writes off manufacturing development.<sup>4</sup>

The high-tech strategies attempt to replicate the development growth experiences of the Route 128 area near Boston, the silicon valley in California, and the research triangle of North Carolina. Each of these areas has received public investment, and has experienced modest job growth. However, it is still uncertain whether such job growth was, in fact, generated by this public investment in the particular industry.<sup>5</sup>

The alternative methodology strategies tend to emphasize the use of public investment for capital formation rather than job creation. While these two categories are normally assumed to be positively related, the strength of this relationship is questionable today. Furthermore, in areas where capital formation strategies have been tied to services or high-tech, there appears to be only a marginal effect on the traditional employment status of minorities and women.<sup>6</sup> While minorities and women have lower unemployment rates in these areas relative to national averages, the jobs are generally unstable, low-paying, and a result of cyclical economic trends.<sup>7</sup> Moreover, in cities like Chicago and

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2. See Mier, *supra* note 1; Stanback, *supra* note 1, at 68-71; D. LURIA & J. RUSSELL, *supra* note 1.

3. See, e.g., MAYOR'S TASK FORCE ON STEEL AND SOUTHEAST CHICAGO, BUILDING ON THE BASICS — THE FINAL REPORT OF THE MAYOR'S TASK FORCE ON STEEL AND SOUTHEAST CHICAGO 23-25 (1986) [hereinafter BUILDING ON THE BASICS] (available through the Dep't of Economic Development, City of Chicago).

4. See THE COMMERCIAL CLUB OF CHICAGO, MAKE NO LITTLE PLANS: JOBS FOR METROPOLITAN CHICAGO 21-32 (1984).

5. See, e.g., Luger, *Does North Carolina's High-Tech Development Program Work?* 50 J. AM. PLAN. A. 280 (1984).

6. NEW URBAN REALITY 43, 51 (Paul Petersen ed. 1985).

7. See *id.* at 51; D. FLAX-HATCH & W. WINTERMUTE, STRUCTURAL CHANGES IN ILLINOIS EMPLOYMENT: AN ANALYSIS OF GROWTH AND DECLINE INDUSTRIES (1985) (available

New York, which have witnessed significant service sector growth in the central city and high-tech growth in the suburbs, the new jobs generated are largely not going to residents of the inner cities, who are the people most in need.<sup>8</sup> In both Massachusetts and North Carolina, as well as in New York and Chicago, unemployment has fallen but the poverty rate remains high.<sup>9</sup>

### *The Chicago Context*

Chicago's socio-economic environment resembles that of many northeastern and midwestern industrial cities. Throughout 1986, unemployment averaged 8.5% in the city and 8.1% statewide, despite the nation's so-called economic recovery.<sup>10</sup> Consistent with national patterns, joblessness and underemployment in Chicago have most affected minorities (26.5% black and 13.4% latino unemployment in 1985) and youth (31.8% unemployment in 1985).<sup>11</sup> Chicago is still losing manufacturing jobs, and the addition of service-related jobs only partially offsets these losses.<sup>12</sup> One consequence of this partial substitution of service for manufacturing jobs is a general decline in wages, benefits, job security, and skill level.

Many of Chicago's neighborhoods are poor and deteriorating, following decades of disinvestment.<sup>13</sup> The departure of businesses from the city, losses in the number and quality of housing units, and rising unemployment have contributed to the city's fiscal stress, which is compounded by national economic policies and the excesses of previous mayoral administrations.

### *The Chicago Strategy*

The Chicago approach directly confronts the mainstream capital forma-

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through the Research and Planning Dep't, Chicago Urban League); B. BLUESTONE & B. HARRISON, *THE GREAT AMERICAN JOB MACHINE: THE PROLIFERATION OF LOW WAGE EMPLOYMENT IN THE U.S. ECONOMY 4-7, 16-45* (1986) (available through the Joint Economic Committee of the U.S. Congress).

8. In 1960, 90% of Chicago's 475,000 central city jobs were held by Chicago residents. In 1984, 60% of those jobs were held by Chicago residents. (Figures compiled by the Dep't of Economic Development, City of Chicago.)

9. See D. FLAX-HATCH & W. WINTERMUTE, *supra* note 7; *NEW URBAN REALITY*, *supra* note 6, at 13, 45.

10. Official unemployment figures for 1986 are not available yet, but annual statistics for Chicago and Illinois were calculated from the monthly unemployment figures for those two areas. Monthly statistics for the city and state were obtained, respectively, from BUREAU OF LABOR STATISTICS, U.S. DEP'T OF LABOR, *EMPLOYMENT AND EARNINGS* (1986) and BUREAU OF LABOR STATISTICS, U.S. DEP'T OF LABOR, *EMPLOYMENT SITUATION RELEASE* (1986).

11. BUREAU OF LABOR STATISTICS, U.S. DEP'T OF LABOR, *GEOGRAPHIC PROFILE OF EMPLOYMENT AND UNEMPLOYMENT, 1985-96* (Sept. 1986) (figures are for Chicago central city).

12. This also follows the national trend, as noted in B. BLUESTONE & B. HARRISON, *supra* note 7, at 3.

13. See generally R. GILOTH, *DISINVESTMENT IN SOUTH SHORE'S LARGE RENTAL PROPERTIES* (1981), which examines real estate disinvestment patterns in one inner-city neighborhood over a seven year period. (Available through the Center for Urban Economic Development, University of Illinois at Chicago Circle.)

tion strategy by emphasizing job creation. A job focus strategy which targets the special needs of minorities and women must assess a method of capital formation by its ability not only to generate jobs, but to generate jobs that provide a significant improvement in the quality of life of the people most in need. While this certainly involves job training, it also requires balancing manufacturing and service sector growth. This principle has been central to Chicago's efforts to revitalize the steel industry and other basic manufacturing industries.<sup>14</sup>

The strategy adopted by the Washington administration in Chicago has two critical components: "bottom-up" community-based development, and negotiations with the private sector over the distribution of employment and investment. The bottom-up strategy is based on the belief that the long-term stability of employment requires increasing the degree of community control over economic activity through the generation of local ownership, including firms owned by city residents, local community development corporations, and worker-owned cooperatives. Public investment is a critical element for its success. However, to assure that publicly financed development is equitably distributed to those most in need, the city must take an aggressive bargaining posture in negotiating significant development projects. These negotiations must seek to direct more jobs to the unemployed of the city, more capital in depressed neighborhoods, and more technical resources to community-based organizations and businesses.<sup>15</sup>

This bargaining posture and the grass-roots approach do not assume that local capital formation and national economic growth will alter significantly the position of minorities and women in urban areas. Rather, these strategies acknowledge that, historically, such alterations do not occur by the random operation of the market. They occur instead as a result of carefully targeting and mobilizing communities as well as investment. Further, they focus the spotlight on the process of local decision making.

### *Decision making*

At the core of the need to significantly improve the economic conditions of minorities, women, and the poor through local government action lies the issue of decision making. First, however, the direct and significant ways in which national economic policy affects the local economy must be acknowledged. The national economy, indeed, has more impact on localities than any other variable. Yet, local actors have the capacity to make significant development decisions that either take advantage of the national trends or minimize their detrimental effects. Thus, the local decision-making process is the linch-

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14. See DEP'T OF ECONOMIC DEVELOPMENT, CITY OF CHICAGO, "CHICAGO WORKS TOGETHER" 1984 CHICAGO DEVELOPMENT PLAN (1984) [hereinafter 1984 CHICAGO DEVELOPMENT PLAN]; BUILDING ON THE BASICS, *supra* note 3, at 26-27.

15. Mier, *supra* note 1, at 170-71.

pin to shaping overall development strategies, first locally and, ultimately, at the national level.

The significance of this local decision-making process is not limited to community boundaries. Much of the difficulty experienced by advocates of national and participatory economic planning has been the result of their inability to stimulate significant popular debate over national economic policy.<sup>16</sup> The national debate was broadly cast as focusing on whether government should intervene in the economy, rather than on the opportunities for and aims of government intervention. One of the reasons for this narrow focus, we argue, is that people who have never had the opportunity to participate significantly in the decisions which affect them locally are unlikely to demand participation nationally. After all, local policy is often the most visible policy. It involves, for example, the distribution of municipal services, such as street repairs and the physical attractiveness of commercial strips. It can even involve who gets what jobs, not only in local government, but also in the private sector. If people feel cut off from these tangible decisions that touch their daily lives, it is hardly surprising that they are reluctant to debate more abstract national issues.

Traditionally, those most adversely affected by economic growth have also been the ones excluded from local decision making. The political experience of minorities and women is characterized by this exclusion. Therefore, it is imperative that minorities and women be integrally involved in any future decision making that develops policies addressing their problems or concerns.

In addition to the need to involve minorities and women in political decision making, there is the need to alter the decision-making process itself. While this has been a particularly significant concern in Chicago, given its history of patronage and exclusion, it is a key issue in all major urban areas. It is not enough simply to replace the the old actors with new faces. How they act, on what issues they act, and through what structures they act are equally important. In order for the desired results to occur, there must be a new and more direct participation of all actors in the decision-making process. This objective requires both the submission of major policy considerations to intensive scrutiny well beyond the traditional government institutions, and the commitment of elected and appointed officials to follow the mandate which results from such scrutiny.

When Harold Washington was elected mayor in 1983, he displayed a clear commitment to eliminating patronage as a variable in the decision-making process and to making government accessible and responsive to all citizens. This decision-making reform and the goal of social and economic equity made his administration unique for Chicago. This administration has had to contend with both an obstructionist Chicago City Council,<sup>17</sup> and the lack of

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16. See generally G. ALPEROVITZ & J. FAUX, *REBUILDING AMERICA* 262-67 (1984) (discussing the interface of community-based and national planning goals).

17. Chicago's City Council is currently comprised of 50 aldermen. Twenty-nine of those

any existing equitable decision-making apparatus. As a consequence, the success of the effort to open government has been uneven.

Three case studies involving Chicago development policy will serve to demonstrate the learning process experienced by the Washington administration: 1) The Mayor's Executive Policy which requires that all city contractors have 25% minority and 5% women ownership. This is known as the Minority Business Enterprise/Women Business Enterprise ("MBE/WBE") Program;<sup>18</sup> 2) The Mayor's Executive Policy that all city-funded projects which create twenty or more new jobs must utilize the Mayor's Office of Employment and Training ("MET") as the "first source" of job referrals;<sup>19</sup> and 3) The strategic uses of the Chicago Corporate Budget and the Community Development Block Grant ("CDBG") Budget.

### *The Minority Business Enterprise/Women Business Enterprise Program*

Many major cities around the country have implemented a requirement of minority and female ownership in government contracting.<sup>20</sup> However, in most places where such policies exist, two rather typical problems emerge: ownership fronts and perceptions of patronage and poor performance by the minority or woman-owned firm. The emergence and detection of minorities and women as fronts for white, male-owned firms is a critical technical problem that confronts Chicago. The perception of patronage and bad business, however, does not stand up to careful scrutiny. No evidence has been put forth to show that the MBE/WBE Program promotes patronage or bad business, yet the perception that it does persists.

Unlike many subsequent policies, the MBE/WBE policy was never subjected to any significant scrutiny by community, business, or labor organizations. Although Washington campaigned on MBE/WBE, it was hammered out internally by his administration, and as a result, advocates of its implementation have fought a constant battle against the suggestion of patronage. Had the administration taken this policy through a public review process, it may have avoided many of these difficulties by establishing the precedent of public participation, developing a clear understanding among all constituencies, resolving key points of disagreement where possible, and generating as strong a political consensus as possible on the policy. Public review is especially important in a city like Chicago where virtually everything done in the name of reform is opposed by the City Council,<sup>21</sup> significant sectors of the

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aldermen generally voted as a bloc and were tied to the wing of the traditional Democratic Party in Chicago headed by Alderman Edward Vrdolyak, who has opposed most of Mayor Washington's key initiatives since he came into office.

18. Exec. Order No. 85-2, Office of the Mayor, City of Chicago (1985).

19. Exec. Order No. 86-X, Office of the Mayor, City of Chicago (1986).

20. Examples include Atlanta, Oakland, and all cities utilizing federal Urban Mass Transit Assistance funds.

21. After the U.S. District Court ruled that Chicago's ward boundaries discriminated against blacks and latinos, and after an approved redrawing of these lines, a special election for seven City Council seats was held in March 1986. The result was a 25/25 split between support-

business community, several labor organizations, and the media, which generally attacks such initiatives as anti-business and wasteful.

### *The First Source Program*

The lessons from the MBE/WBE experience were carefully heeded by the administration in two subsequent policy initiatives. Since 1984, the city had been requiring all recipients of funds under the Illinois Fixed Rate Loan Program to utilize MET as the "first source" of referral for employment. Several community organizations had made the First Source Program a major issue for the city and had criticized the Washington administration for not moving more aggressively to assure that needy Chicago residents had the first opportunity to receive jobs created with public funds. Lack of clarity over the policy's scope and substance, coupled with bureaucratic delays, considerably slowed the implementation process. Further delays were caused by resistance from the City Council, which asserted that such a policy would be a patronage tool for the mayor, and from the business sector, which perceived the policy as an added burden to their enterprises.<sup>22</sup>

To overcome these problems, in October 1985, the mayor appointed a fifty-member task force comprised of both skeptics and advocates in business, labor, community-based organizations ("CBOs"), and relevant government offices. This task force was directed to address the full range of issues raised by the First Source Program. It invited additional participants from each sector to give testimony on their experience with the policy under the Illinois Fixed Rate Loan Program. Extensive research was conducted by city staff and reviewed by a local job advocacy coalition. The final recommendations of the task force, which have since been adopted and implemented, included several key points of consensus: 1) There should be a First Source policy in both permanent employment and construction jobs, given the overwhelmingly disproportionate share of new jobs going to non-residents of Chicago; 2) This policy should cover virtually all development-related loans and contracts; 3) The referral of job applicants should take place through the existing network of over eighty community-based organizations currently subcontracting with the city for funds under the Job Training Partnership Act ("JTPA") and CDBG; and 4) Both incentives and sanctions should be used to assure compliance (depending on the type of contract).<sup>23</sup>

The existence of this task force facilitated the approval of monies by a skeptical City Council,<sup>24</sup> and it has made progress on key objectives not

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ers of the mayor and supporters of the Vrdolyak bloc. In a deadlock, the mayor casts the deciding vote.

22. *New Hurdles for Developers*, Chicago Tribune, Nov. 1, 1985, Sec. 1, at 18, col. 1.

23. For permanent jobs, the First Source Task Force recommended the use of incentives to encourage active participation. For construction jobs, the task force recommended the imposition of penalties to assure compliance with hiring goals.

24. See OFFICE OF BUDGET AND MANAGEMENT, CITY OF CHICAGO, 1986 PROGRAM AND BUDGET SUMMARY (1986).

reached by the MBE/WBE policy: expanded public participation, a clear understanding of the issues, resolution of key differences where possible, and a workable political consensus.

*Corporate Budget of the City of Chicago and Community Development Block Grant Funds*

The 1986 corporate and CDBG budgets stated a clear set of development priorities.<sup>25</sup> While public review and scrutiny of each of these budgets was conducted separately, the same principles were followed for both. Therefore, an examination of the corporate budget process will be sufficient for our purposes here.

In each of the previous two years of the Washington administration, the City Council had opposed the mayoral budget down to the wire — midnight, New Year's Eve. A major area of contention in those battles concerned the allocation of resources to some of the reform policies outlined later in this paper. Most of these policies involved expanded community participation and benefits in city development.<sup>26</sup> For the 1986 budget, the mayor chose to apply the lesson of open participation and review to his budget proposals. The initial budget was circulated and discussed in over 125 public meetings, hearings and conferences sponsored by the administration and by community organizations throughout the city. The results were that, in addition to setting a dramatic precedent for public review and influence over the final budget, the expenditure side of the budget met with minimal opposition from the City Council and passed a full week ahead of schedule.<sup>27</sup>

*Summary*

These three cases demonstrate that progressive reform will materialize only where there is an active mobilization of those who will most benefit from that reform. This cannot be solely government-sponsored mobilization or it will encourage the very real risk of co-optation. Every bureaucracy suffers from inertia; therefore, independent mobilization is essential. However, local governments must be open and willing to assist in the formulation of demands. It is important that people be given this opportunity to debate the issues of local economic development as a step towards the debate over national economic policy. The cases also illustrate the possibility for full-fledged public policy based on grass-roots participation and aggressive public-private bargaining. The ensuing section describes the wider range of policy possibilities addressed by Chicago government and the codification of these policies in a development plan.

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25. *Id.* at i-iii; CITY OF CHICAGO, COMMUNITY DEVELOPMENT BLOCK GRANT YEAR XII FUND (1986).

26. See COMMUNITY DEVELOPMENT BLOCK GRANT YEAR XII FUND, *supra* note 25.

27. The budget was passed on December 23, 1985.



## THE CHICAGO DEVELOPMENT PLAN

Chicago has selected a development strategy which has two cornerstones: bargaining for specific returns to neighborhoods; and a "bottom-up" focus on community-based organizations and small business enterprises. Through bargaining, the city has negotiated or renegotiated virtually every local development project and major purchasing contract either to establish specific guidelines for "first source" employment and minority/female business participation, or to allocate significant development resources to neighborhoods in the form of cash, technical assistance or additional projects.

An important outcome of encouraging grass-roots participation is a conscious policy to utilize the growing number of community-based contractors and delegate agencies to implement local development, research and evaluation. For example, in the past the Department of Economic Development employed a staff of industrial representatives whose task was to identify and work with small and medium businesses in the city to encourage job retention and development. While this function remains, today these representatives must also identify and work with local community organizations responsible for reviewing business plans for the area and monitoring local business developments.

Another successful example comes from the Mayor's Office of Employment and Training. In 1982, as the prime city contractor for Comprehensive Employment and Training Act ("CETA") monies, MET contracted with sixty providers for job training and placement. Fewer than twenty-five of these providers could be considered community-based. Under the strategy devised by the Washington administration and utilizing JTPA and CDBG funds, the number of contractors has grown to 129, over 50% of which are CBOs. While increasing the access of minorities and women to job training and placement services, this approach also builds the capacity of community-based organizations to sustain development programs.

In addition to a process encouraging equitable, effective development, the Chicago Development Plan has established clear criteria for judging the impact of specific projects on job development. The following matrix of the Chicago Development Plan illustrates the goals and policies that were set forth in the first year of the Washington Administration. These goals and policies were also used to evaluate existing programs and projects. For example, an evaluation revealed that although \$1.4 billion in planned investments was budgeted for development of O'Hare Airport (including the creation of 50,000 jobs), there was little likelihood that Chicago residents would receive many of these jobs since 90% of the current jobs were being held by suburbanites.<sup>28</sup> In addition to the general goals and policies identified in the matrix, specific annual numerical targets were set, such as 6,000 units of rehabilitated housing,

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28. 1984 CHICAGO DEVELOPMENT PLAN, *supra* note 14, at 30-31.

10,000 jobs created or retained, and 12,000 persons trained in job skills.<sup>29</sup>

The Chicago Development Plan has been recognized for its creativity and

<b>Chicago Development Plan Goals/Policies Matrix</b>					
<b>Policies</b>	<b>Job Opportunities</b>	<b>Promote Balanced Growth</b>	<b>Neighborhood Development</b>	<b>Public Participation</b>	<b>Legislative Agenda</b>
Targeted Business Investment in Support of Job Development	•	•			
Local Preference in Buying and Hiring	•	•			
Skilled Labor Force Development	•	•	•		•
Infrastructure Investment for Job Development	•	•	•		
Affirmative Action	•	•			
Balanced Growth Downtown/Neighborhoods	•	•	•		
Public-Private Partnerships	•	•	•	•	
Equitable Distribution of Tax Burden	•	•	•		•
Strengthened Tax Base	•	•	•		•
Neighborhood Planning	•	•	•	•	
Expanded Housing Opportunities	•	•	•	•	•
Linked Development	•	•	•		
Increased Citizen Access to Information		•	•	•	
Increased Opportunities for Citizen Involvement		•	•	•	

From "Chicago Works Together", 1984 Chicago Development Plan.

From "Chicago Works Together", 1984 Chicago Development Plan.

admired as a "well-conceived blueprint for running the City for the benefit of the people."<sup>30</sup> However, despite existing local support for the goals and policies that it espoused, developers of the plan repeated earlier mistakes by ignoring opportunities in its codification stage for wider participation through public review. Instead, administration officials developed the document inter-

29. *Id.* at 5, 14.

30. Krumholz, Costigan & Keating, Book Review, 51 J. AM. PLAN. A. 395 (1985) (reviewing CHICAGO DEPARTMENT OF PLANNING, THE CHICAGO DEVELOPMENT PLAN 1984 (1984)).

nally, resulting in criticisms of the plan. Currently, the development plan is undergoing extensive public review and expansion.

### *Development Plan Accomplishments*

During his campaign and after his election, Mayor Washington clearly articulated the goals which became the basis for the original Chicago Development Plan. Mayoral support for reform goals is essential, but not sufficient in itself, to meet these goals. Beyond the constraints of the national economy, the reduction of federal support for urban areas and an antagonistic state government, there exist other major barriers to the implementation of the Chicago Development Plan. The local Democratic Party machine, with its traditions of racism and sexism, has long dominated the Chicago political scene. There is also the entrenched bureaucracy of civil servants, many of whom are patronage employees of previous city administrations. An entrenched culture of inefficiency, waste, and corruption, while greatly mitigated, remains an obstacle to accomplishing the goals of the plan. Finally, the current administration lacks experience and precedent for attempting such reform in this context.

It is obviously too early to determine the plan's impact on such explicit indicators as employment, income, and other quality of life variables. However, despite local, state, and national opposition, there have been some significant and concrete changes which indicate that we are moving in the right direction.

In the year following release of the plan, 33.7% of the eighty-six programs and projects referenced in the plan met or exceeded their performance targets.<sup>31</sup> Fifty-seven percent partially achieved their targets and 5.8% made no progress.<sup>32</sup> Major successes were realized in the areas of job training and placement, minority and female contracting, job creation, loans to small neighborhood businesses, rehabilitation of low and moderate income rental units, and expansion of citizen participation in planning and development decisions.

There seems to be no distinguishing pattern that differentiates the fully successful programs from those that achieved partial or no success. In large measure, however, the accomplishments relate to process issues such as expanded subsidies to community-based organizations (CBOs). There are presently 225 CBOs funded through three city departments — MET, Economic Development, and Housing — as compared to 159 in the previous administration. In addition, 153 CBOs (including eighty new ones) are being funded by the Department of Cultural Affairs, and increased funding by the Department of Planning is also anticipated.

A related accomplishment is a much improved decisionmaking process. There are eleven new task forces and commissions with over 600 participants

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31. See DEP'T OF ECONOMIC DEVELOPMENT, CITY OF CHICAGO, 1984 CHICAGO DEVELOPMENT PLAN ACCOMPLISHMENT ANALYSIS (1985).

32. *Id.*

working on development issues and projects. These individuals include, for example, labor and management representatives from the steel industry and the apparel industry, waste management experts, and proponents of neighborhood land use policy. In addition to the work of the task forces and commissions, hundreds of community meetings and hearings have been conducted.

Critically, these actions have created a new precedent for citizen and neighborhood participation and influence in city development goals. The policies and programs of the plan genuinely reflect neighborhood sentiment. During the Fall of 1986, the city conducted five feedback meetings with over 100 individuals and neighborhood organizations who participated in drafting the mayor's development agenda. Their evaluation of the plan's implementation was overwhelmingly positive. Additionally, the provision of expanded subsidies and technical assistance to community-based organizations strongly indicates the increased capacity of these organizations to manage programs and organize constituencies. Notably, these CBOs service a wide range of geographic, racial, and ethnic communities and political alignments.

#### CONCLUSION

Three key lessons have emerged from the Chicago experience which represent three critical ingredients for the construction of a progressive city development policy that significantly alters the position of minorities, women and the poor:

1. *Private Sector Bargaining.* A city must be willing to bargain with the private sector to increase the allocation of resources to neighborhood organizations.
2. *CBO Subsidies.* A city must provide community-based organizations with sufficient subsidies to allow them to be active participants in the development process.
3. *Open Decision making.* The decision-making process must be broad enough to insure the input of those to be affected and to establish political consensus.

These essential ingredients, along with the strong leadership and commitment of the city's chief elected officials, combine to promote the capacity of individuals to participate in the formulation of local development strategies, which constitutes a vital step toward a rational and just national economic policy.

## RESPONSE

SARA GOULD:\* I think that the paper by Dr. Stanback and Commissioner Mier presents a very positive and creative approach to what a local government can accomplish. There were five points in particular that I found very encouraging and would like briefly to identify and comment on here.

The first is the authors' emphasis on the manufacturing versus the service sector. The second is the creative use of public investment for job creation as opposed to capital formation.

A third point is the emphasis on jobs for the poor, working poor, women and minorities. It's very important that we remember that women comprise a majority of the poor and working poor in this country. Approximately 48% of women who work on a full-time basis in the United States earn less than ten thousand dollars a year. Women's economic issues in the United States have always been addressed in terms of a social service framework rather than the economy. Traditionally, economic means have been used to strengthen the position of white men in society, while a social service framework of income maintenance programs and training programs has been reserved for strengthening (or maintaining) the status of women and minorities. Not only is there no coordination between these two areas, there actually exists a substantial barrier between them. If society is to progress, this barrier must be overcome. We must recognize that women, particularly poor women, working poor women and minority women, are very much a constituency in the economic development process. Without this recognition, women in this country will be condemned to remain poor and working poor.

The fourth point I wanted to touch on was the paper's emphasis on building the capacity of community-based organizations. I've worked for many years in the field of community-based economic development with women's social service organizations. Many people in this room are aware that there's a strong, productive and capable network of women social service organizations that has developed in the United States over the last ten years. These organizations have a tremendous understanding of the needs of women, particularly minority women and poor women. They have successfully implemented programs to meet these needs, and recently have extended their services into the field of economic development. This move creates incredible potential for women to become actively involved in economic issues at the community level.

Finally, I was very encouraged by the paper's focus on making the political process more participatory, including an increased role for women in that process. This concept holds tremendous promise for changing the way eco-

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conomic development is practiced in the United States. Increasing the diversity of the actors involved will mean a greater emphasis on cooperation as opposed to competition in economic development; on smaller scale economic development to meet local needs; and on using the resources at hand to create jobs and offer supportive services to residents of low income communities. These services, such as child care, are especially important for young women, who bear the major responsibility for child rearing in our society. If given a chance, these women can and want to be economically productive.

To illustrate what I mean, I'd like to tell you a little bit about two programs in the United States that are supporting women's efforts toward self-employment. The first is a program developed by a women's organization in St. Paul, Minnesota, called the Women's Economic Development Corporation ("WEDCO"). In the last two years, WEDCO has been contacted by over 1500 women in the Minneapolis/St. Paul area. WEDCO is a full service economic development corporation that helps women create self-employment situations and start businesses that create jobs for others.

In 1985, WEDCO assisted 170 ongoing businesses to expand and create new jobs. It also helped start-up 250 new businesses in the Minneapolis/St. Paul area. That year, 46% of the women that WEDCO served had total family incomes of less than \$7,000 a year. The business fields that women have entered in Minneapolis and St. Paul include the service sector (42%), which you might expect; retail trade (21%); manufacturing (19%); and food service and production (6%). This spread shows the diversity of businesses that women are going into. One-third of the small enterprises that WEDCO assisted in 1985 created from two to five full and part-time jobs in addition to the owner's job.

Another very important element of WEDCO's program is the unique relationship it has developed with the banking institutions in the area. It successfully convinced the First Bank system that it should provide \$150,000 of operating capital for WEDCO over three years, and that the Bank also needed to do a better job of making loans to local women. Through WEDCO's efforts, about seventy-eight loans were made through the consumer loan division in 1985 to women who generally had very small lending needs. The loans were made on the basis of "creative collateral," meaning they were secured by actual contracts for service or goods, rather than on the basis of signing over a home or a car or pledging business assets. The record on these loans speaks for itself: there hasn't been a single default since WEDCO began to develop this relationship with the bank about eighteen months ago. For women who haven't yet established a credit rating, WEDCO also manages a small loan fund of its own which assisted about thirty women in 1985 by providing some last resort financing.

The second project I'd like to mention briefly is located here in New York City. It's a worker-owned home health care company called Cooperative Home Care Associates ("CHCA"), and is sponsored by the local Community

Service Society. It's a particularly creative project within the home health care industry, which we know is characterized by low wages, lack of benefits, part-time work and a high turnover rate.

CHCA was begun in 1985, and currently has sixty worker-owners. It is projected to have about 200 worker-owners within the next two or three years. Because of its cooperative ownership structure, it is able to offer the highest starting wage in the industry in New York. The profits of the business benefit the workers, rather than some outside owners. CHCA hopes to offer a wider range of important benefits to their worker-owners in the near future, including vacation time and child care.

In closing, I'd like to stress that in the last five years, women all over the country have been organizing to become recognized as a constituency in the economic development process. I'm encouraged by their progress in Chicago and I hope that they'll be making similar progress in many other communities.





## RESPONSE

RUTH MESSINGER:\* I want to thank the authors for their valuable contribution to the contemporary life of cities. What is different and important about their paper is that it reports on urban programs, urban progress, and urban successes. It's willing to say that not everything works perfectly, but a lot of things work well and some of them work better than you ever dared hope.

Having those programs in place and operating in Chicago moves the rest of us beyond the debate about should we or shouldn't we. The question now is can municipal government do anything if there is not a friendly, national economic or political climate, or a supportive state government.

The paper performs two important functions. First, it advertises the Chicago model so that it can be replicated. Second, through the authors' presentation of this model, they encourage other competitive models in the best tradition of what both private enterprise and government ought to be about in this country. Hopefully, other cities will say that if Chicago has found a model that works for Chicago, then we should take up the challenge and develop a model that will work for our community.

It's in that context that I want to make a few comments about New York City. In this city, we spend all our time debating whether government should or should not intervene and, in my experience, the latter view usually wins out. We don't even ask the question much anymore. With a few notable exceptions, we have managed to convince ourselves that if we interfere with the private sector, we will lose city development and investment opportunities.

Despite this common belief, much of what we do in city government seems to support the exact opposite supposition. We solicit investment and development without any overall plan, on the theory that developers know best, and then we end up constantly intervening to meet the demands of those developers. They set down the conditions under which they will come or stay or expand. The city keeps talking about not interfering with the free market, but then we go ahead and interfere whenever developers ask us to. We give them help with land assemblage, with zoning variances and with tax abatements.

The net effect is that we have lots of investment and development, much of which we would probably have had anyway, but it is neither planned nor targeted. We very often surrender investment resources to this new development that we not only didn't have to surrender, but frankly, that we cannot afford to surrender if we want to reach our goals of promoting economic development for all sectors of the population. In other words, if you don't target the money you have in a way that distributes the benefits of economic develop-

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\* City Councilperson, New York City.

ment, you end up with a growing mismatch of skills, and with a two-city alienation.

Unfortunately, this is where New York City stands today. Despite our supposedly booming local economy, we have an extraordinary rate of school drop-outs. We have substantial racism and sexism in virtually every aspect of our education, training, and employment markets. We have an unbelievable lack of publicly available subsidized day care and other support services for people who need it to move into the world of work. In fact, in New York City we provide publicly funded day care to only 18% of those children who are eligible under federal eligibility levels.

Due to these deficiencies, as well as to national declines in certain industries, New York City has suffered some disasters. We have lost manufacturing and we have lost small businesses, particularly in the printing and garment industries. Downward national trends in these industries have been worsened by two failures of local government. One, we have done nothing to protect small businesses against astronomical rent increases which have displaced many small operations from their traditional, vital Manhattan locations. Two, because of our inattention to the enormous traffic problems, we have done nothing except create more headaches for any business that is dependent on the movement of supplies and goods in and out of the city.

During the last eight years, we've created a large number of new jobs in the finance and service sectors, two-thirds of which have gone to non-residents. Whatever measures have been adopted for economic recovery in New York, neither minorities, women nor young people have been the beneficiaries of that recovery.

What I hope is that we will recognize publicly that the government in New York City, as in most other places, intervenes all the time. Then we can start to promote the notion of not only linkage but leverage. Government resources should be used as a lever. The whole principle of a lever is that it creates an advantage so that more can be lifted than would be possible otherwise. What we need to do is to hang useful things off the end of the lever, so as we press down on one side, we can elevate a particular desired social impact.

We need to establish a variety of special programs, not only commercial rent regulation or arbitration, but also easier access to credit and other kinds of protection for small business and troubled industries. I am in the process of trying to draft what we would call first source legislation, similar to what is in operation in Chicago. The current scandals in New York are rooted in the fact that New York City does approximately five billion dollars worth of contract business per year, two billion of which is discretionary. A powerful example of a government lever to stimulate opportunity for jobs would be to attach a first source requirement for hiring or a commitment to do training to every one of those government contracts. As the press has reported over the past few months, people are willing to do all kinds of bizarre things to get government business; we should be able to get them to do legal things instead.

Finally, I hope that those people here who are New Yorkers will take a look at the new state programs to encourage work opportunities for welfare recipients. This is an area where you need more than rhetoric. Although I believe that the Governor's intentions are noble, and that they reflect the needs of most of the people who are raising their families on public assistance, nothing will happen if there is no money in the State budget. The Governor's current program and budget proposal before the State legislature would provide no more than fifty dollars per recipient for all assessment and placement services, and no more than a total statewide increase of a million and a half dollars for day care, when we need about a hundred million. There is not nearly enough money targeted for the creation of additional jobs through linkage and leverage programs to enable those people presently alienated from the mainstream to enter the workplace.



## RESPONSE

JERRY C. H. TUNG:\* In the interest of debate, I do disagree with some aspects of the paper being presented today. First, though, let me tell you where we're coming from. Our organization, Asian-Americans for Equality, is very much a part of Harold Washington's and Jessie Jackson's political movement. The recent increase in the number of Asian Americans running for political office is largely a result of the influence of Jessie Jackson's presidential campaign. Many of us also believe that Jessie was empowered, in turn, by Harold Washington's successful candidacy for mayor of Chicago. We have tremendous respect for the model that's evolved in Chicago and we're continuing to follow it for future developments. With this in mind, I'd like to offer my responses, both positive and negative, to the paper.

Initially, I'd like to address the more global question of the need for the redistribution of wealth by focusing in on the plans presented in the paper on how to enforce the affirmative action contract and compliances requirements. We can learn a lot from the First Source Program in Chicago. If Mayor Koch in New York City had set up a similar program, he might not be in so much trouble now. The question of redistribution of wealth, that is, of existing jobs and opportunities, is critical to uniting people from different backgrounds. You cannot unite people simply on the concept of a need to unite. You also have to show fairness in practice. This is essential to inspire people to work together to fight for larger social change. In this respect, I definitely agree with the position taken in the paper.

I also support the idea of a significant role for government intervention, or, as Councilwoman Messinger said, government leverage. Despite right-wing advocacy of laissez-faire capitalism, Ronald Reagan and other conservatives actually practice a tremendous amount of leverage, usually favoring financial institutions and big businesses. This activity on behalf of commercial interests ranges from import/export bank financing to various kinds of protective legislation that benefit industry. All these things are actually government levers.

The problem is that the use of these levers is rarely done in such a way that will really aid long-term American efforts to be competitive in a world market. The U.S. automotive industry is a perfect example. When the federal government and institutional investors joined forces to bail out Chrysler, very little of that money, that economic lever, went into re-tooling and strengthening research and development in the industry. It is crucial to revamp the industrial infrastructure if the U.S. is to be competitive in a world marketplace. This reindustrialization would result in more jobs, more permanent jobs, for

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\* Founding member and Chairman of the Advisory Board of Asian-Americans for Equality, based in New York City.

U.S. workers. Government intervention exercised in this manner would be a positive force in our economy, but the Reagan Administration would rather pretend that no government intervention is being practiced at all.

However, I think that in the paper there's a tendency to pit capital formation strategies to start-up high-tech companies against the redistribution of contract jobs and other methods of local economic development. To me, the growth of high-tech industries must be central to any long-term strategies to revitalize this country's economy. Only these strategies guarantee that permanent jobs will be generated and that we will not be reacting to the problem solely on a short-term basis.

I think there is too much emphasis on the question of the redistribution of contract jobs. While we need to fight for such programs, those are only the most immediate struggles and demands. I do not think that they need preclude the formation of high-tech industries, such as Triangle Research Park in North Carolina, Route 128 in Boston or Silicon Valley, California.

The strongest argument against capital formation strategies is that most of the jobs created in those high-tech industries do not benefit women and minorities. However, I think that in the long term, the real problem in this country is that we are not pumping enough money into capital formation, which means that the benefits are not being spread as widely as they should be. The Reagan administration's emphasis on military spending and the ever-increasing national deficit are draining off capital that could be put to use in restructuring America's economy. What is needed is congressional regulation to control the non-productive financial activities and military spending so that capital formation will enhance economic development more equitably.

At the same time, we need to call for a strong, concurrent emphasis on education, particularly in our inner city communities. Right now, there's a lot of talk about entrepreneurship, but real resources are not coming into the communities to raise the education level of our youth. Not only are there fewer jobs out there now, but many young people do not have the requisite skills to qualify for the jobs that are available. We should encourage government intervention and investment both in capital formation and in education, rather than watch budgets be cut in these critical public sector areas.

I would also like to say something here about Chinatown, the area that I know the best, in terms of the relationship between capital formation and jobs. Right now, the problem in the Chinatown community is that last year about 100 garment businesses, about one-fifth of the entire local industry, closed down. At least 5,000 jobs were lost and, along with this tremendous amount of sudden unemployment, there is also vast underemployment.

This problem has affected many other commercial services in the area, from fruit and vegetable stands to retail shops. The rate of failure in those areas is enormous. Fifty percent of the restaurants today are losing money. Twenty-five percent are only breaking even. Only one out of four restaurateurs is actually making money. The whole thing is centered around the declining

garment industry because increased unemployment means decreased demand for other retail services.

Since most of the garment shops are actually sub-contractors, what is called for is government assistance in the form of financial aid, protective regulation or skills development programs. These sub-contractors could then join existing manufacturing associations or even create new ones, so that they would have the network to market their garment wear and rise from the status of sub-contractors to become manufacturers and distributors themselves. This would start the job situation moving again.

The problem with this is that there is not the skill, nor the capital available to capture the kind of spot market to pull this together. Consequently, capital formation is crucial to job creation on a local, as well as a national, level.

The paper also has a tendency, inaccurately I think, to downplay the role of privately-owned small businesses. Even though the paper mentioned some alternatives to private ownership, like workers' co-ops and community credit unions, the problem with these operations is that you usually don't have the skilled managers necessary to keep them going. When the personnel does become skilled, they often get raided by the big banks and leave.

What is needed in our inner city communities is to encourage city government to develop internal loan programs, commercial rent control, such as the kind that Ruth Messinger's advocating, and other programs to promote small businesses. I would include both individual vendors and small storefront operations in my definition of small businesses. Once you've developed sufficient capital and skilled workers to operate these operations successfully, these small businesses will provide the financial and organizational foundation for more widespread commercial growth in the future.

Let me conclude my response by repeating that I think there is a danger of overemphasizing in a one-sided way the question of a redistribution of contract jobs or other resources in this society, while not addressing the issues of community development, particularly the needs of the small businesses. There is a danger that if we pursue only the former, we'll just end up with small businesses fighting other small businesses. We must avoid pitting people with similar needs against each other. We must focus on combatting the larger abuses existing in our economy, for example, how federal regulations treat independent banks at the community level, banks which small businesses depend on to survive. If we fight the larger issues, we can begin to unite people, from the minority vendors in Chinatown to the small business owners in white communities. Within this new structure of conciliation, we can form large long-term coalitions to fight the abuses of big corporations and the right-wing movement in this country.





## RESPONSE

MARILYN RUBIN\*: I, too, found the paper very interesting. I think that a number of the issues that were addressed in the paper are issues that have to be examined, not only by cities, but by all levels of government. There is a danger in thinking of problems in terms of the cities versus everybody else. I think that sometimes in periods such as this, when there are massive changes taking place, such as the cuts in federal funding levels, there is a tendency to frame the issues in terms of us versus them. This can be counter-productive because there is a danger in thinking of Chicago, New York, or any city, as a closed system or a closed labor market. A city, by itself, is not a labor market and cannot function as a labor market; most of my remarks are going to be made within that context.

Economic development today has become a term that embraces everything — housing, transportation, and commercial rent control. Clearly, there can be a multitude of goals and objectives within what we call economic development. Sometimes these goals and objectives may be in conflict. For example, maximizing job opportunities for local residents is an important economic development goal. However, as Mr. Tung just said, this may be a short-term goal. Other important long-term goals, such as maximizing the number of jobs in an urban area, or maximizing city revenues to enable local government to provide essential services may conflict with this short-term goal. This kind of conflict is where we need to concentrate efforts and thinking: how can we take the short term goal of maximizing the number of jobs for city residents and incorporate this into some of the other goals and objectives that we might have for the long-term.

A good example of this can be found in the manufacturing industry. There is a controversy raging over whether or not cities like New York and Chicago should be encouraging industries to remain there which could operate most efficiently some place else. On one hand, industries like garment and printing have traditionally employed low-income residents, new migrants, and people who have just come into the community. They have been tremendously important sources of integration into mainstream employment. However, it is questionable whether we should be encouraging industries to stay that might operate elsewhere more efficiently and at lower cost. We need to focus our attention on those industries that have a very strong multiplier effect, where jobs in those industries will, in turn, create thousands of other jobs.

I think the danger of looking at the city as an isolated system comes up here again. One of the problems is that the suburbs are best suited as the location for many types of manufacturing industries, particularly those types

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of industries that require large horizontal spaces for efficient operations. Most cities do not have this type of space readily available to manufacturers; most suburbs do. This fact leads to significant obstacles that must be overcome if manufacturing is to continue to play its transitional role of integrating new workers into the economic mainstream.

First of all, transportation is a problem. How do workers who live in the city get to the suburbs? We know that most mass transit routes were designed and built to carry suburbanites into the cities. As a result, you cannot get a train at the right time going in the right direction from New York City to many parts of New Jersey, for example, where manufacturing plants are located. People who live in the city just cannot get out there.

The lack of affordable housing is another problem. People may live in the city because it is the only place where they can afford to live. Many suburban communities have practiced restrictive zoning for years. Low-income workers cannot afford to live there. There are no multiple dwellings in many communities. In at least one New Jersey community, which is the locus for many manufacturing jobs, there is no legal multi-family housing in the whole town. None. They do not even have high cost condominiums or cooperative apartments. They have nothing but single family dwellings. So the fault lies not only with the city itself. The city is not a closed economic entity — it is part of the larger metropolitan area, and suburbs must be held accountable for their contribution to the problems.

In order to overcome all of these obstacles, we must look at questions of both equity and efficiency without losing sight of the fact that the city does not stand by itself. Mass transit and other transportation policies must take into account new traffic patterns, and suburban housing barriers must be broken if the manufacturing industry is to maintain its vital integrative function in society. Training programs and additional government aid may be appropriate to persuade those industries to stay that can operate efficiently within city boundaries. Local economic development activity must recognize that the short-term health of the community's economy is inextricably linked to the long-term health of the urban area as a whole. Our short-term and long-term goals have to be reconciled, and that is the very difficult job we have ahead of us.

## DISCUSSION

AARON SETOGAWA,\* MODERATOR

**AUDIENCE COMMENT:** My name is Lancelot Fletcher. With regard to the first source program and the possible extension of that idea, it strikes me that the first source idea is a kind of labor-oriented import replacement strategy. My question is whether the people in Chicago have considered extending this strategy to purchases other than labor services.

**ROBERT MIER:** We actually have a very aggressive import substitution program, a "buy Chicago" program. We discovered that out of approximately four hundred million dollars of direct city purchases, a little less than 40% of those purchase contracts were going to Chicago businesses each year. By applying the same principles to purchasing as we did to the first source hiring program, we have brought that number up to about 58%.

This change in policy was implemented in several different ways. To begin with, we opened up the purchasing process by doing aggressive local advertising when a contract was going to bid. Additionally, we're developing a system of bid differentials that will favor local contractors and suppliers. Of course, to a great extent, our purchasing is controlled by state and federal purchasing regulations. However, we're trying to advance the notion of net low cost purchasing by factoring in the benefit to the city, mostly through tax revenues, when it uses a local contractor or company as opposed to a foreign company. This would be done by giving the local company a discount or bid bonus. Right now, we're using a discount of a couple percent across the board, but once we've really examined various categories of purchasing, we might find justification for giving 10%, 15%, or 20% bid bonuses in some cases.

**AUDIENCE COMMENT:** My name is Elizabeth Strum. Here in New York, we're led to believe that if we try to take a tough bargaining position with either real estate, commercial, or industrial developers, they will all leave and go to New Jersey. In fact, we're often told if we don't offer them pretty exorbitant tax abatements, they won't want to develop here at all. I'm wondering whether the position that Harold Washington is taking in Chicago has led to the flight of either residential or industrial developers?

**ROBERT MIER:** It's always hard to judge whether or not your hard bargaining is really affecting the economic decisions being made. Of course, the business class likes to point to every adverse outcome and say it was caused by your bargaining. Recently, following New York's lead, we implemented a 6% commercial lease tax on all commercial real estate. Within minutes, the business community was running around looking for symbolic deals that were falling

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\* Project Coordinator, Office of Manhattan Borough President, New York City.

apart so it could encourage them to fall apart quicker, and then step forward and blame the failure on the commercial lease tax. They found one and ballyhooed it. We knew that, in fact, the financing of that particular deal had pulled out a month before the commercial lease tax was ever talked about and the deal was going to go belly up. Despite this, certain business people have been very successful in propagating the public notion that hard bargaining taxes, regulations, etc. are driving out business. It's hard to judge and you have to be careful. We have sections of the city where I feel we can bargain hard, and others where we have to go easier, depending on the texture of the local real estate market. Right now, we have a central area real estate market that is robust. We've seen ten billion dollars' worth of real estate development there over a five year period and there's no let up in sight. In that situation, we can do some very strong leveraging.

**HOWARD STANBACK:** Another point to remember is that we don't have any indication that the rate of disinvestment or the rate of movement, as distinguished from the rate of foreclosures or bankruptcies, is any greater now than it was prior to the Washington Administration. There are so many national and state factors that have to be considered, that it's very difficult to determine exactly why factories or businesses are leaving the area or why they're moving in. Both of these things are happening, but it's hard to pin down exact causes.

One method we have used, as we indicated in the paper, is to send out a team of industrial representatives to all kinds of businesses, both large operations and neighborhood businesses, to talk to businesspeople and stay on top of this issue. It's sort of an early warning system and it has been fairly successful in getting a quick handle on firms that are giving some indication of leaving the area. We also have a job retention strategy which tries to institute and create certain kinds of development packages, including retraining programs and other kinds of reinvestment for the area. The industrial representatives also work with community members to get them involved in determining the economic future of their neighborhood, so that if a firm does leave, there may be some alternative way of generating economic activity in the neighborhood.

**AUDIENCE COMMENT:** I'm Rick McGahey from N.Y.U.'s Urban Research Center. This is a fiscal question. Does the government intervention you're talking about cost a lot more money in Chicago? In New York, since the mid-70s, everyone has taken it as binding that we don't have the money to institute new social programs. I think the fiscal crisis created a false, but pervasive, notion that nothing can be done. Could you tell me, aside from whatever theoretical market objections to government intervention that may exist, has the issue of practical fiscal constraints been raised in Chicago and how have you dealt with it?

**HOWARD STANBACK:** There's no question that funding is an issue. But let me give you one concrete example of how we're adjusting to the funding cutbacks while, at the same time, we're trying to make the current programs more re-

sponsive and more effective. During previous administrations, Chicago was receiving a budget of a hundred and fifty million dollars in federal Comprehensive Employment Training Act ("CETA") funds to be spent for job training programs. The city, in turn, subcontracted this money out to about 60 agencies, 60% of which were professional, profit-making job training agencies, and the rest community-based organizations. Today, the city of Chicago's federal JDEPA allocation totals roughly fifty million dollars, or just about one-third of the previous CETA allocation. Consequently, our subcontracting strategy has changed considerably. The city now subcontracts to 122 agencies, 60% of which are community-based organizations.

Now, it's obvious that this type of distribution of funds requires a lot more administrative focus to adequately manage all of those contracts. Despite the difficulties, however, it is being done and we feel that two important purposes are being served through this strategy. First, because the people who are in most need of employment training are out there near these community-based organizations, we believe that they will have much greater access to the programs than they would if they had to travel to a professional agency downtown. Greater access means a more effective employment training program. Second, this strategy furthers our goal of expanding the capacity of community-based organizations to run and manage programs, so that they can become actively involved in the economic development of this city. This is just one example that I'm most familiar with of what is being done with a smaller pot of money, and although it does impose some extra burdens on the staff, it is the policy of the city and that policy is being carried out.

**AUDIENCE COMMENT:** My name is Amy Almoon. I'm a student and my question concerns the issue of education. It seems to me that if we're concerned about youth employment and training and available labor pools, then some improvements in the inner-city school system is the place to start. I'd like to know what effect the Chicago program has had on this.

**ROBERT MIER:** I actually intended to comment on education because of something Jerry Tung said earlier about not only focusing on capital formation, but also on human capital formation. I think that if we have an Achilles heel right now, it's our inability so far to make progress on the education front. Of course, we are operating under some unique constraints because the Mayor's only control over the Board of Education is his appointment power, subject to City Council approval, and the City Council's not approving any of his appointments. But there's no denying that our education system is in shambles. Twenty-two percent of the kids who enter Chicago public high schools can only read at a seventh grade level four years later. I suspect the New York City situation is probably the same. I also taught in the University system long enough to know that the only difference between the products of urban school systems and suburban school systems is that the suburban school graduates think they know more. We're producing a legion of functional illiterates and it's a serious problem. We do not have an education agenda,

although we are doing a lot of things on an ad hoc basis. We've tried to address the financial crisis of our public schools and have been able to get more money, particularly state money, into the school system. But we're not at all sure that this is having any impact on the quality of education.

HOWARD STANBACK: You have several "education systems" within the city that relate to both youth and adult education. It's true that in Chicago, the City Council will not approve the Mayor's appointments; therefore, a comprehensive education strategy is difficult to implement. Through JTPA, though, we do enroll roughly eighteen thousand people a year in some kind of placement or training activity. Most JTPA programs follow the same kind of approach around the country; namely, they tend to deal with the people who need less extensive training and education. One thing we're doing this year is biting the bullet and spending more money per participant. We've put in a few more million dollars to subsidize training programs which will link basic education to vocational training. This means that people who need a tenth grade reading level to get into a computer repair course, or a cable T.V. installation course, but who currently read at only an eighth grade level, can now improve their basic educational skills at the same time they get the vocational instruction they need. We give favored attention to these kinds of programs, but it's still a small piece of the pie. The kind of comprehensive, city-wide cooperation that's needed to create the quality kind of educational system that you're talking about is just not in place yet.

AUDIENCE COMMENT: Bill Victory from Columbia University. You spoke of difficulties you had when you imposed a tax on commercial leases, the argument being that these taxes would drive business away. Have you given any thought to the possibility of recasting your tax structure in a way that would be free of this effect; specifically, of shifting from the property tax as we know it generally, to a tax primarily on land values, assessed in a way that is independent of the use made of the particular property so that there can be no evasion of the tax by moving away. The land stays there. This has been used with some degree of success in Pittsburgh, as well as several cities in other countries.

ROBERT MIER: Unfortunately, the property tax system is out of the Mayor's control because it is the county that imposes property taxes, although the city draws revenues from it. We would like to see the tax system changed. Even more basically, we would like to get away from the property tax system entirely and go to a progressive income tax structure, which would have to be done by the state legislature. We have talked about trying to see if there is some way we could do exactly what you're talking about, particularly near the central area of the city where there's a lot of vacant land. There is the potential there for a robust market if we could stimulate development, possibly by placing a greater burden on those who are holding vacant land and speculating on it. Realistically though, we're not going to be able to change the property tax structure unless we first lessen our dependence on it. This could mean

going to something like a state income tax for a while, and then maybe looking at the property tax structure and trying to make it more equitable.

**AUDIENCE COMMENT:** My name's Phil Thompson. I'm with the Manhattan Borough President's office. There are studies currently in the works that are predicting that by the year 2000, New York City will be completely polarized: one faction representing the financial sector and certain aspects of the service sector, and another faction, consisting of the poor and minorities, who will have little opportunity for getting an education and will be pushed further and further out of the "mainstream" of society. Right now, we're at least pretty sound economically; we're not in a recession, and some businesses are developing and moving into the city, so there is some possibility of using leveraging and other sorts of devices. My question is, how much do you think you can do to abate this trend of polarization, and what effect do you think some future recession might have on those efforts?

**HOWARD STANBACK:** The obvious answer is we really don't know. We think that one of the essential conditions to being able to reduce the extent of polarization is to have a balanced economy, sectorally. That is, while taking advantage of the growth in the service and particularly the financial sectors, at the same time having a strong, productive, vibrant manufacturing sector. In other words, not putting all your eggs in one basket. The same kind of balance is needed between large and small operations and between neighborhood and downtown development. We've learned through the experience of many northeastern cities that one of the keys to resisting contraction and polarization is to have that kind of balance. Another part of this strategy is investing in the sectors that need to be encouraged in order to keep the balance. Investment and balance go hand in hand. The question that remains is whether there's enough time to generate this investment fast enough. This is a political problem as well as a public investment problem, and we're not sure whether there's enough evidence within the U.S. to give us an answer.

