

ASSESSING THE ROLE OF COMMUNITY DEVELOPMENT CORPORATIONS IN INNER CITY ECONOMIC DEVELOPMENT

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Introduction	753
I. The Economic and Social Conditions of Inner Cities	754
II. The Limitations of Traditional Urban Economic Development Initiatives.....	759
III. CDCs and Community-Based Economic Development	766
A. Development Catalyst	769
B. Developer/Landlord	770
C. Equity Investor in Business Enterprise	771
IV. CDCs and Economic Development: Searching for the Appropriate Role	772
A. The Difficulties of Evaluating CDC Performance.....	773
B. Assessing the Economic Development Record of CDCs.	774
C. Economic Development as a Strategy for Inner Cities...	777
Conclusion	780

INTRODUCTION

In the last decade of the twentieth century, the condition of American inner cities remains precarious. Many large central cities, particularly those in the Northeast and Midwest, continue to lose population and jobs as infrastructure and public services deteriorate in response to fiscal constraints. Concerns about crime and the breakdown of social order are omnipresent, even in cities where the statistics do not bear out these negative perceptions. Significantly, the problems of urban America are not distributed evenly throughout all neighborhoods. To the contrary, in many inner city neighborhoods, the concentrated effects of high rates of unemployment, poverty, and social disorder have made these areas communities in name only.

Traditional government community and economic development initiatives have had little impact in rebuilding distressed inner city neighborhoods. Nevertheless, in many instances, residents themselves are taking

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matters into their own hands and forming voluntary organizations to improve their communities. These nonprofit, community development corporations (CDCs) have historically focussed their efforts on housing production and management. Increasingly, however, CDCs are either engaging in or contemplating community economic development activities such as building commercial real estate projects or beginning business enterprises in inner city neighborhoods.

In this article, I examine the economic development activities of CDCs. Although the phrase "economic development" is sometimes used to refer to all activities of CDCs, I will use the term to refer only to activities whose primary purposes are the creation of jobs and the delivery of commercial services. Housing development and political advocacy are therefore not the focus of this article.¹ Part I describes the economic and social conditions existing in many of the cities and neighborhoods in which CDCs operate. Part II examines why traditional economic development initiatives have had limited impact in spurring the growth of enterprise and employment in inner city neighborhoods. In Part III, I describe the growth of CDCs and their contributions to community development. Finally, in Part IV, I examine the role of CDCs in economic development and comment more broadly on community economic development as a strategy for assisting residents of inner city neighborhoods.

I.

THE ECONOMIC AND SOCIAL CONDITIONS OF INNER CITIES

The last half of this century has not been a kind one for large central cities, particularly the older ones located in the Northeast and Midwest. After decades of explosive population growth, many of these cities have experienced enormous population losses. Of the 15 largest central cities in 1950, 13 lost population in the succeeding four decades.² Among these cities, 5 lost over one-fifth of their populations and an additional 5 cities had losses in excess of two-fifths.³

1. For a discussion of the housing activities of CDCs, see Michael H. Schill, *The Role of the Nonprofit Sector in Low-Income Housing Production: A Comparative Perspective*, 30 URB. AFF. Q. 74 (1994). For a discussion of the political advocacy efforts of CDCs, see Benjamin B. Quinones, *Redevelopment Redefined: Revitalizing the Central City with Resident Control*, 27 U. MICH. L.J. REFORM 689, 753-58, 769-71 (1994).

2. See BUREAU OF THE CENSUS, U.S. DEP'T OF COM., 1970 STATISTICAL ABSTRACT OF THE UNITED STATES 20-21; BUREAU OF THE CENSUS, U.S. DEP'T OF COM., 1994 STATISTICAL ABSTRACT OF THE UNITED STATES 44-46.

3. The five that lost over 20% of their population were Chicago, Philadelphia, Baltimore, Washington, D.C., and Boston. Detroit, Cleveland, St. Louis, Buffalo, and Pittsburgh lost over 40% of their populations during the period 1950-1990. New York City lost 7.2% of its population during this period. The cities which were among the 15 largest in the United States in 1950 that had population gains were Los Angeles and Houston. BUREAU OF THE CENSUS, U.S. DEP'T OF COM., 1970 STATISTICAL ABSTRACT OF THE UNITED STATES 20-21; BUREAU OF THE CENSUS, U.S. DEP'T OF COM., 1994 STATISTICAL ABSTRACT OF THE UNITED STATES 44-46.

Among the many causes of central city decline is the loss of jobs many of these cities have experienced.⁴ As a result of changing technologies, suburbanization, and competition from the Sunbelt and overseas, the sector that experienced the greatest decline in older central cities is manufacturing. An analysis of employment patterns in five northern cities (New York, Philadelphia, Boston, Baltimore, and St. Louis) indicates that each lost over half of their manufacturing jobs between 1970 and 1990.⁵ Losses of manufacturing jobs were not in all cases limited to central cities. Suburbs also frequently experienced declines in manufacturing employment although these losses were a fraction of those endured by central cities.⁶

As they lost their manufacturing bases, most central cities have also experienced an increase in employment in service industries.⁷ Nevertheless, the growth of the service sector has typically not prevented hardships on the part of those who formerly would have been employed in manufacturing. Manufacturing jobs historically provided a point of entry for unskilled laborers and those with modest educational backgrounds. Service sector jobs, however, frequently demand relatively higher levels of education and skills. These trends are particularly troubling when viewed in conjunction with the large number of central city residents who have modest educational backgrounds. In 1990, over one-quarter of the residents of large central cities in the United States over the age of 25 had not completed high school.⁸ In the Northeast this proportion approaches one-third.⁹

The weakening labor market position of relatively unskilled and uneducated city dwellers is reflected in a recent study by Kasarda.¹⁰ He examined two categories of industries: those whose employees, on average,

4. For a discussion of the causes of central city decline, see KENNETH T. JACKSON, *CRABGRASS FRONTIER* (1985).

5. John D. Kasarda, *Industrial Restructuring and the Changing Location of Jobs*, in *STATE OF THE UNION: AMERICA IN THE 1990s* 215, 241-42 (Reynolds Farley ed., 1995).

6. See DENNIS R. JUDD & TODD SWANSTROM, *CITY POLITICS: PRIVATE POWER & PUBLIC POLICY* 343 (1994) (observing that from 1977 through 1987 the central cities of the 10 largest metropolitan areas in the United States lost 464,000 manufacturing jobs (22.9% decrease) whereas their suburbs lost 137,000 manufacturing jobs (4.6% decrease)).

7. Nevertheless, the expanding service sectors in cities such as New York, Philadelphia, Baltimore, and St. Louis have not generated a sufficient number of jobs to offset the losses in manufacturing. See Kasarda, *supra* note 5, at 241-42.

8. William H. Frey, *People In Places: Demographic Trends in Urban America*, in *REDISCOVERING URBAN AMERICA: PERSPECTIVES ON THE 1980s* 3-36, 3-98 (Jack Sommer & Donald A. Hicks eds., 1993). Frey's calculations are for central cities in metropolitan areas with populations over one million. In the suburbs of these metropolitan areas 18.5% of adults lacked a high school degree. *Id.*

9. *Id.*

10. See Kasarda, *supra* note 5, at 248-49. See also John Bound & Henry J. Holzer, *Industrial Shifts, Skills Levels, and the Labor Market For White and Black Males*, 75 *REV. ECON. & STAT.* 387, 395 (1993) (finding that the decline in manufacturing accounted for as much as one-half to one-third of the reductions in employment among young and less-educated blacks).

had fewer than twelve years of education and those whose employees typically had at least one year of higher education. From 1970 through 1990, each of the large cities in the Northeast and Midwest he examined experienced a decline in the number of jobs requiring low educational "requirements" and an increase in jobs with high educational backgrounds. For example, from 1970 through 1990, Philadelphia lost almost half of its jobs in industries with low average educational credentials while experiencing a 13% increase in industries that typically employ people who have some post-secondary school education.¹¹

While most large Northeastern and Midwestern central cities were experiencing dramatic decreases in economic opportunities for modestly educated individuals over the past two decades, the number of jobs for low skilled people in the suburbs of these cities were either increasing or declining at a much lower rate than central cities.¹² Furthermore, in some Southern and Western cities the number of unskilled jobs actually increased.¹³

Even in those metropolitan areas where significant numbers of low skilled jobs exist or are being created, they are often located beyond the reach of central city residents.¹⁴ High housing prices outside the central city, fostered in part by restrictive government land use regulations,¹⁵ make it difficult or impossible for low income inner city residents to move close to new sources of employment. In addition, the dispersed locations of suburban firms and plants make it impossible for many low income households to utilize public transit to commute to and from their existing residences in

11. Kasarda, *supra* note 5, at 248-49.

12. *See id.* at 220, 235. *But cf.* Arthur C. Nelson, *Regional Patterns of Exurban Industrialization: Results of A Preliminary Investigation*, 4 *ECON. DEV. Q.* 320, 327-30 (1990) (observing that manufacturing employment increased in the suburbs of the Midwest, South and West).

13. For example, of the four cities in Kasarda's study that were not located in the Northeast and Midwest, three (Atlanta, Dallas, and San Francisco) experienced increases in industries with higher than average proportions of low skilled jobs. *See* Kasarda, *supra* note 5, at 249.

14. This "spatial mismatch hypothesis" has been subjected to extensive empirical scrutiny. Most recent studies have supported the argument that the residential location of central city low income households disadvantages them in obtaining jobs in the suburbs. For recent reviews of the literature on the spatial mismatch hypothesis, see Keith Ihlanfeldt, *The Spatial Mismatch Between Jobs and Residential Locations Within Urban Areas*, 1 *CITYSCAPE* 219 (1994); John F. Kain, *The Spatial Mismatch Hypothesis: Three Decades Later*, 3 *HOUSING POL'Y DEBATE* 371 (1992); Michael H. Schill, *Deconcentrating the Inner City Poor*, 67 *CHI-KENT L. REV.* 795, 799-804 (1991).

15. *See* Schill, *supra* note 14, at 811-18; Michael H. Schill & Susan M. Wachter, *Housing Market Constraints and Spatial Stratification by Income and Race*, 6 *HOUSING POL'Y DEBATE* 141, 142-48 (1995) (examining empirical evidence showing that local government regulations increase the price of housing).

the central city. Furthermore, inner city residents are at a competitive disadvantage in obtaining these jobs because physical distance is often negatively correlated with information about job openings.¹⁶ Inner city job seekers who overcome physical and informational barriers may still find that their place of residence harms their chances for obtaining suburban employment due to stereotypes that portray people from the inner city as unreliable and, therefore, unsuitable employees, stereotypes that many employers share.¹⁷

In conjunction with other factors such as race discrimination and the migration of middle income households to the suburbs, deindustrialization and the spatial mismatch of jobs and residences have generated enormous demographic disparities within American metropolitan areas.¹⁸ In 1960, the per capita income of central city residents exceeded that of suburbanites. By 1990, however, central city per capita income was only 84% of the average for suburbs.¹⁹ In many large metropolitan areas such as New York, St. Louis, and Minneapolis, the disparities are even greater with incomes of citydwellers at about two-thirds the level of suburban residents.²⁰

The proportion of people living in poverty is also much higher in central cities. In central cities in 1990, 18% of all residents had incomes that were lower than federally prescribed poverty levels, compared with 8% of suburban residents.²¹ By 1993, this disparity widened even further as central cities experienced an average poverty rate of 22% compared to 10% in the suburbs.²² Again, aggregate numbers obscure much greater disparities in individual metropolitan areas. For example, the poverty rates for Philadelphia and Chicago exceeded 20% in 1990 whereas their suburbs had poverty rates that were less than 5%.²³

Within central cities, the absence of job opportunities, high rates of unemployment, racial discrimination, and racial segregation have taken

16. Katherine M. O'Reagan & John M. Quigley, *Labor Market Access and Labor Market Outcomes For Urban Youth*, 21 REGIONAL SCI. & URB. ECON. 277, 290 (1991).

17. See Joleen Kirschenman & Kathryn M. Neckerman, "We'd Love to Hire Them, But . . .": *The Meaning of Race for Employers*, in THE URBAN UNDERCLASS 203, 215-17 (Christopher Jencks & Paul E. Peterson eds., 1991) (describing stereotyping of potential employees by their residential location).

18. Another factor contributing to intrametropolitan disparities is the concentration effects of living in neighborhoods of concentrated poverty. See *infra* text accompanying notes 29-33.

19. William R. Barnes & Larry C. Ledebur, *Local Economies: The U.S. Common Market of Local Economic Regions* 13 (Dec. 8-9, 1994) (unpublished paper on file with the *Review of Law & Social Change*).

20. H.V. Savitch & Ron Vogel, *Regional Patterns in A Post City Age* 7 (Dec. 8-9, 1994) (unpublished paper on file with the *Review of Law & Social Change*).

21. Frey, *supra* note 8, at 3-36.

22. BUREAU OF THE CENSUS, U.S. DEP'T OF COM., CURRENT POPULATION REPORTS, SERIES P60-188, INCOME, POVERTY AND VALUATION OF NONCASH BENEFITS: 1993 27-28.

23. In Atlanta, the discrepancy is even greater, with a 26% poverty rate in the city as compared to 7% in the suburbs. Frey, *supra* note 8, at 3-100.

their toll.²⁴ Low-income, predominantly nonwhite people²⁵ are increasingly living in economically segregated neighborhoods, spatially isolated from the rest of the city. From 1970 through 1990, the number of people living in the one hundred largest cities in census tracts where over 40% of the population had incomes below the poverty level ("extreme poverty tracts") jumped from 2.7 million to 5.5 million.²⁶ This increase constituted a doubling of the percentage of city population living in extreme poverty tracts, from 5.2% in 1970 to 10.7% in 1990.²⁷ In terms of space, the spread of concentrated poverty was even more dramatic with the number of extreme poverty tracts growing from 751 to 1,954.²⁸

Concentrated inner city poverty generates problems that are different both in kind and in magnitude from those experienced by poor people in less isolated settings. William Julius Wilson has argued that the geographic isolation of poor people generates behavioral adaptations called "concentration effects."²⁹ Specifically, children growing up in neighborhoods with few employed role models may develop weak attachments to the labor force.³⁰ Lacking employment opportunities and the appropriate socialization to seek work, youths will frequently engage in deviant or illegal activities to earn income and gain status, thereby further distancing themselves from middle class norms.³¹ These behaviors are reinforced by local peer groups. Activities that are likely to assist young people in obtaining employment and social mobility, such as graduating from high school, are stigmatized rather than valued.³²

24. See DOUGLAS S. MASSEY & NANCY A. DENTON, *AMERICAN APARTHEID: SEGREGATION AND THE MAKING OF THE UNDERCLASS* 115-47 (1993) (discussing how racial segregation contributes to concentrated inner city poverty).

25. According to the 1990 Census of Population and Housing, with respect to the 100 largest cities in the United States, more than 80% of all people living in census tracts where over 40% of the population have incomes below the poverty level are either black or Hispanic. John D. Kasarda, *Inner-City Concentrated Poverty and Neighborhood Distress: 1970 to 1990*, 4 HOUSING POL'Y DEBATE 253, 263 (1993).

26. *Id.*

27. *Id.*

28. *Id.* at 258.

29. WILLIAM J. WILSON, *THE TRULY DISADVANTAGED: THE INNER CITY, THE UNDERCLASS, AND PUBLIC POLICY* 58 (1987) [hereinafter WILSON, *THE TRULY DISADVANTAGED*]; see also WILLIAM J. WILSON, *WHEN WORK DISAPPEARS: THE WORLD OF THE NEW URBAN POOR* 66 (1996).

30. WILSON, *THE TRULY DISADVANTAGED*, *supra* note 29, at 56-57.

31. See *id.* at 58; see also William J. Wilson, *Studying Inner-City Social Dislocations: The Challenge of Public Agenda Research*, 56 AM. SOC. REV. 1, 12 (1991) ("The issue is not simply that the underclass or ghetto poor have a marginal position in the labor market . . . it is also that their economic position is uniquely reinforced by their social milieu.").

32. Massey and Denton argue that youths living in neighborhoods of concentrated poverty adopt "oppositional cultures" to protect their self esteem and engender the esteem of their peers. One of the most harmful elements of this culture is the devaluation of academic success as "acting white." See MASSEY & DENTON, *supra* note 24, at 167-76.

Wilson's concentration effects hypothesis has received almost universal empirical confirmation. Although the precise causal mechanism remains a matter of debate, studies testing the theory demonstrate a consistent relationship between social and spatial isolation on the one hand, and high rates of teenage childbearing, school dropouts, and welfare dependency on the other.³³

II. THE LIMITATIONS OF TRADITIONAL URBAN ECONOMIC DEVELOPMENT INITIATIVES

The absence of economic opportunities for inner city residents is both a cause and a result of the declining fortunes of central cities in America. The loss of employment has created an environment where people of limited skills and education have little likelihood of obtaining jobs that will lead to substantial economic mobility. People living in inner city communities, may, when faced with few opportunities for economic mobility, question the legitimacy of middle class norms and adopt behaviors that many associate with the "underclass." At the same time, firms do not locate in cities or neighborhoods where they will be unable to attract a workforce with the necessary skills, both technical and behavioral. Furthermore, high rates of inner city crime and other negative externalities deter firms from locating in the communities which need them the most.

For decades, federal, state, and local governments have utilized a wide array of tools to spur economic development in central cities. Among the most commonly utilized mechanisms are tax abatements or reductions, below market interest rate loans, and grants. In this section, I will examine why traditional economic development programs have had only a limited impact in generating economic opportunities for persons living in inner city neighborhoods.

33. See Elijah Anderson, *Neighborhood Effects on Teenage Pregnancy*, in *THE URBAN UNDERCLASS* 375, 382-97 (Christopher Jencks & Paul E. Peterson eds., 1991) (describing cultural explanations for teenage pregnancy in ghetto communities); see also Jeanne Brooks-Gunn, Greg J. Duncan, Pamela K. Klebanov, & Naomi Sealand, *Do Neighborhoods Influence Child and Adolescent Development?*, 99 *AM. J. SOC.* 353, 355 (1993) (noting that the presence of affluent neighbors impacts upon the likelihood that teenagers will have children and drop out of school); Rebecca L. Clark, *Neighborhood Effects on Dropping Out of School Among Teenage Boys 16-21* (Urban Institute Discussion Paper PSC-DSC-UI-13, Dec. 1992) (noting that rates of school drop-outs among boys increase as the proportion of poor households in a community increases, and as the proportion of households employed in middle-class occupations declines, although the results do not support a contagion theory); Jonathan Crane, *The Epidemic Theory of Ghettos and Neighborhood Effects on Dropping Out and Teenage Childbearing*, 96 *AM. J. SOC.* 1226, 1236-41 (1991) (explaining that as the proportion of high status job-holders in a community declines, teenage pregnancy and the rate of school drop-outs increases exponentially, thereby supporting the contagion model); Paul Osterman, *Welfare Participation in a Full Employment Economy: The Impact of Neighborhood*, 38 *SOC. PROB.* 475, 486 (1991) (explaining that neighborhoods affect whether an individual receives public assistance).

Until relatively recently, the common wisdom among economists was that policies to spur economic development such as lower taxes would have little impact on job growth. These analyses, based in part upon surveys of firm managers, indicated that other factors such as the availability of expansion space, a capable workforce, and access to markets were more important than local fiscal policy in influencing where firms would locate.³⁴ Furthermore, given the ubiquity of tax concessions and incentive programs, some commentators have suggested that public sector economic development efforts are a zero sum game.³⁵

Nevertheless more recent and sophisticated studies of the impact of taxes on firm location have tended to support the proposition that local tax rates can have a significant impact on firm location decisions. For example, after reviewing empirical studies published between 1979 and 1990 on state and local metropolitan job growth, Bartik concluded that 40 of the 57 analyses estimated at least one tax effect that was negative and statistically significant.³⁶ Among studies that controlled for the level of public services provided by the taxing unit, the average long-run elasticity of business activity to state and local taxes was $-.33$.³⁷ In other words, a 10% reduction in state and local business taxes would be expected to yield an increase in business activity of 3.3%.³⁸

It is important to note that the studies finding significant impacts of tax reductions on economic development were based upon samples consisting of state or local jurisdictions dominated by suburbs. The studies, therefore, may have limited relevance to central cities since suburbs may be imperfect substitutes for large cities.³⁹ Researchers who have examined the impact of tax differentials on the relative share of central city economic activity have not consistently found statistically significant effects.⁴⁰

Tax incentives for business enterprise are just one weapon in a large arsenal of local economic development tools. Many states and cities also

34. See, e.g., Susan S. Jacobs & Michael Wasylenko, *Government Policy to Stimulate Economic Development: Enterprise Zones*, in FINANCING STATE AND LOCAL GOVERNMENT IN THE 1980s 175, 187 (Norman Walzer & David L. Chicoine eds., 1981) (concluding that labor supply and external economies are important factors); Roger W. Schmenner, *Industrial Location and Urban Public Management*, in THE PROSPECTIVE CITY 446, 457 (asserting that space needs are important).

35. See, e.g., Barry M. Rubin & C. Kurt Zorn, *Sensible State and Local Economic Development*, 45 PUB. ADMIN. REV. 333, 334 (1985) (observing that economic development officials are engaged in a zero sum game).

36. Timothy J. Bartik, *The Effects of State and Local Taxes on Economic Development: A Review of Recent Research*, 6 ECON. DEV. Q. 102, 103 (1992).

37. *Id.*

38. *Id.* at 105-06. Bartik constructed a confidence interval for the elasticity estimate and found that 95% of the time one would expect the elasticity to fall within the range of $-.15$ and $-.85$.

39. See *id.* at 107.

40. See *id.* at 108.

provide direct subsidies to firms that locate within their borders. For example, some offer firms tax exempt financing, loan guarantees, grants, tax credits, infrastructure improvements, and land writedowns. One commentator estimated that about three-quarters of all manufacturing location decisions involve some form of public sector assistance.⁴¹

Compared to research on the effects of taxes on firm location, empirical analyses of the impact of government incentives is embryonic. Several studies of tax exempt financing have found no statistically significant impact on employment growth.⁴² Two recent studies, however, provide some, albeit limited, evidence that public sector economic development incentives can affect local employment growth. Loh reports that the dollar value of state grants to businesses was significantly related to county employment growth in the State of Ohio from 1982 to 1990, although the value of loans was not.⁴³ Similarly, Goss and Phillips find that state economic development spending during the 1980s was positively related to employment growth in those states.⁴⁴

Therefore, based upon recent empirical literature, it appears that traditional state and local economic development policies are not merely a zero sum game, but can increase aggregate employment.⁴⁵ Whether these policies can have a large impact on central cities, however, remains unsettled. Furthermore, even if one assumes that the public sector can influence firms to locate in large central cities, there is reason to doubt that residents of predominantly low income inner city communities would benefit from the jobs generated.

Increased demand for labor attributable to economic development initiatives is likely to be satisfied not solely by existing city residents, but also by people who commute from outside the city. In addition, over time, households would be expected to migrate to the city in response to the increased demand. Indeed, one review of the literature suggests that in the

41. JOHN P. BLAIR, *URBAN & REGIONAL ECONOMICS* 39 (1991).

42. See Eng Seng Loh, *The Effects of Jobs-Targeted Development Incentive Programs*, 24 *GROWTH & CHANGE* 365, 366 (1993) (reviewing studies demonstrating that the volume of revenue bonds issued by states is generally not a statistically significant variable in explaining state or county employment growth).

43. See *id.* at 371-73. Loh also found that capital subsidies to businesses were more effective than labor subsidies in spurring employment growth. *Id.*

44. Ernest Preston Goss & Joseph M. Phillips, *State Employment Growth: The Impact of Taxes and Economic Development Agency Spending*, 25 *GROWTH & CHANGE* 287, 296 (1994).

45. Although public sector economic development activities may, in some instances, increase aggregate employment, they may not promote economic efficiency. Firms may choose locations that would be less than optimal absent the public sector subsidy. In addition, subsidies for labor or capital may distort the efficient allocation of societal resources.

long run, migrants will absorb between 60% and 90% of all incremental job growth.⁴⁶

Although economic research suggests that central city residents would attain employment in at least some of the jobs created as a result of economic development initiatives, there is no guarantee that these jobs would go to residents of inner city, low income neighborhoods. Indeed, there are many reasons to be skeptical about the prospect of employers hiring and retaining large numbers of residents of these communities. First, a sizable proportion of the people living in neighborhoods of extreme poverty will not have the skills necessary to qualify for employment. According to Kasarda, more than half of the people over the age of 25 who live in extreme poverty neighborhoods have not completed high school.⁴⁷ Furthermore, many of the residents, particularly the young, have not regularly worked and may lack the discipline necessary to successfully hold conventional jobs.⁴⁸

On the demand side, there is also reason to believe that employers might fail to hire otherwise qualified residents of predominantly low income neighborhoods. Residents of extremely poor neighborhoods in central cities are overwhelmingly nonwhite.⁴⁹ Studies repeatedly show that nonwhites are significantly under-represented as employees of firms that are owned and operated by white individuals.⁵⁰ The relative absence of

46. Timothy J. Bartik, *Who Benefits from Local Job Growth: Migrants or the Original Residents?*, 27 REGIONAL STUD. 297, 303 (1993). See also TIMOTHY J. BARTIK, WHO BENEFITS FROM STATE AND LOCAL ECONOMIC DEVELOPMENT POLICIES? 95 (1991) (estimating that over three-quarters of all new jobs from growth would be absorbed by in-migrants).

47. Kasarda, *supra* note 25, at 273.

48. See WILSON, THE TRULY DISADVANTAGED, *supra* note 29, at 60-61 (observing that "inner-city social isolation also generates behavior not conducive to good work histories. The patterns of behavior that are associated with a life of casual work (tardiness and absenteeism) are quite different from those that accompany a life of regular or steady work (e.g., the habit of waking up early in the morning to a ringing alarm clock.); Cf. Ronald B. Mincy, *Introduction*, in NURTURING YOUNG BLACK MALES 7, 21 (Ronald Mincy ed., 1994) (describing how "street culture" may negatively impact employment opportunities).

An additional reason inner city residents may not attain newly created jobs is that they are not tied into the informal networks that would inform them of job openings. See Timothy Bates & Constance R. Dunham, *Facilitating Upward Mobility Through Small Business Ownership*, in URBAN LABOR MARKETS AND JOB OPPORTUNITY 239, 270 (George E. Peterson & Wayne Vroman eds., 1992) (observing that whites rely on social networks and referrals to obtain jobs more than blacks); cf. Roberto M. Fernandez & David Harris, *Social Isolation and the Underclass*, in DRUGS, CRIME, AND SOCIAL ISOLATION: BARRIERS TO URBAN OPPORTUNITY 257, 287-89 (Adele V. Harrell & George E. Peterson eds., 1992) (observing that poor blacks are more often socially isolated than working blacks, but that neighborhood poverty concentration seems to have little impact on this isolation).

49. Kasarda, *supra* note 25, at 263.

50. E.g., Timothy Bates, *Utilization of Minority Employees in Small Business: A Comparison of Nonminority and Black-Owned Urban Enterprises*, REV. BLACK POL. ECON., Summer 1994, at 113, 118 (finding that over half of the small businesses owned by white individuals in 28 large metropolitan areas had no minority employees on the payroll).

minority employees may be attributable in part to the lower skills and educational qualifications of the nonwhite workforce.⁵¹ In addition, there is substantial evidence to indicate that employers continue to discriminate in hiring based upon race.⁵²

Finally, the use by employers of stereotypes may disadvantage residents of inner city communities. Interviews by Kirschenman and Neckerman of 186 employers in Chicago reflected the view that the "inner-city . . . connoted black, poor, uneducated, unskilled, lacking in values, crime, gangs, drugs and unstable families."⁵³

Therefore, for a combination of factors, traditional state and local economic development programs are unlikely to have a major effect in improving inner city employment opportunities. It is possible, however, that economic development initiatives which are targeted to these neighborhoods may have a greater impact. One type of targeted economic development program is the enterprise zone.

Enterprise zones have their roots in a series of urban initiatives in Great Britain during the 1980s that sought to promote the revitalization of inner city areas by targeting regulatory and tax relief to firms located in these neighborhoods.⁵⁴ Despite much debate in Congress, the federal government did not enact a major enterprise zone initiative until 1993.⁵⁵ Nevertheless, between 1982 and 1992 thirty-seven states adopted their own enterprise zone programs.⁵⁶ There is tremendous variance among the

51. See, e.g., GERALD D. JAYNES & ROBIN M. WILLIAMS, *A COMMON DESTINY: BLACKS AND AMERICAN SOCIETY* 332-54 (1989) (showing an increasing similarity between the number of years that blacks attend school, a relative decline in black college attendance and comparatively lower levels of black educational achievement); Mincy, *supra* note 48 at 10-15 (describing black/white discrepancies in education and skills); Nan L. Maxwell, *The Effects on Black-White Wage Differences of Differences in the Quantity and Quality of Education*, 47 *INDUS. & LAB. REL. REV.* 249, 253 (1994) (showing that despite some convergence since 1970, black individuals lag behind whites in median years of schooling, college attendance and completion of high school).

52. See, e.g., Marc Bendick, Jr., Charles W. Jackson & Victor A. Reinoso, *Measuring Employment Discrimination Through Controlled Experiments*, *REV. BLACK POL. ECON.*, Summer 1994, at 25, 30 (summarizing studies that demonstrate that white job applicants have a higher probability of being offered jobs than similarly situated minority applicants); Ronald B. Mincy, *The Urban Institute Audit Studies: Their Research and Policy Context*, in *CLEAR AND CONVINCING EVIDENCE - MEASUREMENT OF DISCRIMINATION IN AMERICA* 165 (Michael Fix & Raymond J. Struyk eds., 1992) (reviewing studies demonstrating the continued existence of employment discrimination based upon race).

53. Kirschenman & Neckerman, *supra* note 17, at 215.

54. For a description of the British enterprise zone program, see Peter Hall, *The British Enterprise Zones*, in *ENTERPRISE ZONES: NEW DIRECTIONS IN ECONOMIC DEVELOPMENT* 179 (Roy E. Green ed., 1991) [hereinafter *ENTERPRISE ZONES*].

55. For a description of the Empowerment Zone/Enterprise Community Program enacted by Congress in 1993, see *infra* text accompanying notes 67-68.

56. See Rodney A. Erickson, *Enterprise Zones: Lessons from the State Government Experience*, in *SOURCES OF METROPOLITAN GROWTH* 161, 162 (Edwin S. Mills & John F. McDonald eds., 1992) (describing a study of 39 enterprise zone programs which demonstrates that the legislative intent behind the programs often includes welfare development and job creation).

states in the precise structures of their enterprise zone programs. The most common elements are incentives for entrepreneurs to invest capital in a limited number of distressed communities. These incentives typically include property, sales, and investment tax credits. Many states also subsidize investments in labor through tax credits for each employee hired. Some of these labor subsidies may be earmarked for formerly unemployed persons or for employees who live within the zone.⁵⁷

State enterprise zone programs have typically generated mixed reviews. One study of 357 enterprise zones in 17 states found that, on average, employers in each zone created or saved 175 jobs.⁵⁸ Although the authors expressed some doubt as to whether zone designation had more than a marginal impact on job creation, they concluded that in several instances, the zones played a "catalytic role."⁵⁹ Rubin's analysis of New Jersey exhibits less ambivalence in concluding that enterprise zones are a "cost-effective economic development tool, leveraging almost \$2.00 in State and local taxes for every \$1.00 foregone in State tax revenues."⁶⁰

Other analyses are much less positive. For example, a General Accounting Office study of three zones in Maryland found that although employment increased in each of the designated areas, the increases were not attributable to zone designation. Based upon surveys with firm owners in each zone, the authors of the study concluded that location decisions were not influenced by the financial advantages offered by the program.⁶¹ Other analyses of enterprise zones in Illinois, Indiana, Kentucky, and Ohio found modest employment growth in zones despite relatively large costs in terms of tax revenue foregone.⁶² One recent review of the literature on enterprise zones concludes that "the zones have not proved to be a cost-effective means of providing jobs"⁶³ while another argues that they "do not appear

57. *Id.* at 165-72.

58. *Id.* at 175 (reporting that the median number of new jobs created or saved in zones was 175; the mean was 464).

59. *See id.* at 178 (noting higher investment and job gains in the zones).

60. Marilyn M. Rubin, *Urban Enterprise Zones in New Jersey: Have They Made A Difference*, in ENTERPRISE ZONES, *supra* note 54, at 105, 118. Rubin's results have been somewhat controversial. *See* Franklin J. James, *The Evaluation of Enterprise Zone Programs*, in ENTERPRISE ZONES, *supra* note 54, at 225, 228, 237 (arguing that Rubin's study does not sufficiently control for economic trends outside the zone and understates cumulative costs); Helen F. Ladd, *Spatially Targeted Economic Development Strategies: Do They Work?*, 1 CITYSCAPE 193, 206-07 (1994) (making an argument similar to James').

61. *See* Patrick G. Grasso & Scott B. Crosse, *Enterprise Zones: Maryland Case Study*, in ENTERPRISE ZONES, *supra* note 54, at 122, 130-32 (indicating growth stemmed primarily from increased demand for goods and services, not from the program).

62. *See* Richard C. Elling & Ann W. Sheldon, *Comparative Analyses of State Enterprise Zone Programs*, in ENTERPRISE ZONES, *supra* note 54, at 136, 150 (allowing, however, that "[s]tate differences in uncontrollable costs presumably matter most for firms considering interstate relocation of operations"); Leslie E. Papke, *What Do We Know About Enterprise Zones*, in TAX POLICY AND THE ECONOMY 37 (James Poterba ed., 1993).

63. Ladd, *supra* note 60, at 207 (commenting on enterprise zones in both England and the United States).

to represent a promising strategy for addressing the problems of poor inner city neighborhoods."⁶⁴

The extent to which jobs created in enterprise zones have gone to neighborhood residents is also disputed. Erickson reports that, on average, about two-thirds of the jobs saved or created are filled by people who live within the designated communities.⁶⁵ On the other hand, an evaluation of Indiana enterprise zones concludes that less than one fifth of the jobs were filled by zone residents.⁶⁶

One of the reasons neighborhood residents may not have higher rates of employment in enterprise zones is that they lack the skills required for the jobs created. Partly in response to this concern, the new federal Empowerment Zones and Enterprise Communities Program enacted by Congress in 1993⁶⁷ includes significant incentives for job training and social services. Nine "empowerment zones" have been created, six in urban areas and three in rural portions of the country.⁶⁸ Employers located in Empowerment Zones will receive a tax credit for each worker who lives in the zone worth up to twenty percent of the worker's first \$15,000 in salary. Empowerment zone businesses will also be eligible to take advantage of expanded tax exempt bond financing and advantageous capital expense rules. In addition, each Empowerment Zone will receive \$100 million in federal grants to be used for social service and economic development programs in the zone.

It is still much too early to assess whether empowerment zones will achieve the twin objectives of increasing economic development in predominantly poor, inner city neighborhoods and employing a significant number of neighborhood residents. Some analysts have criticized city plans for spending the federal grant funds on programs that are not geared to promote private enterprise and job creation.⁶⁹ Others doubt that the resources committed to the program will be sufficient to turn around distressed communities.⁷⁰

64. Avis C. Vidal, *Reintegrating Disadvantaged Communities into the Fabric of Urban Life: The Role of Community Development*, 6 HOUSING POL'Y DEBATE 169, 188 (1995).

65. Erickson, *supra* note 56, at 175.

66. Ladd, *supra* note 60, at 204.

67. Pub. L. No. 103-66, 107 Stat. 543 (1993).

68. An additional 95 enterprise communities were created which receive more limited forms of assistance. *Id.*

69. See, e.g., Mitchell L. Moss, *Where's the Power in the Empowerment Zone?*, CITY JOURNAL, Spring 1995, at 76, 80 (commenting on New York's empowerment zone).

70. See Vidal, *supra* note 64, at 187 (raising concerns that empowerment zone funds are inadequate to address neighborhood problems). See also Harry J. Holzer, *Black Employment Problems: New Evidence, Old Questions*, 13 J. POL'Y ANALYSIS & MGMT. 699, 715 (1994) (doubting that enterprise zones will be cost-effective).

III.

CDCs AND COMMUNITY-BASED ECONOMIC DEVELOPMENT

The limited success of traditional economic development initiatives in benefiting residents of distressed, inner city neighborhoods has caused residents in many of these communities to seek alternative methods of promoting economic enterprise. Frequently, community economic development is carried out by CDCs. The modern CDC has its roots in the late 1960s. CDCs were frequently formed by residents of communities in response to neighborhood controversies such as slum clearance and financial institution redlining.⁷¹ Many of the early CDCs received funds from the federal Office of Economic Opportunity and, later, the Community Services Administration. In addition, philanthropies such as the Ford Foundation took an active role in nurturing CDCs, most notably the Bedford Stuyvesant Restoration Corporation.⁷²

In addition to housing, the so-called "first generation" CDCs engaged in a significant amount of economic development. Some developed shopping centers and financed small businesses in their communities. Several actually began enterprises themselves or purchased stores or factories that would otherwise have gone out of business. Despite innovative strategies, many of these CDCs had only limited success in economic development. Job creation was difficult as was maintaining profitability.⁷³ Financial difficulties mounted with the loss of many federal subsidies in the 1980s. According to several accounts, many of the business ventures set up by CDCs during the 1960s and 1970s failed.⁷⁴

CDCs experienced a resurgence in activity in the late 1980s and 1990s. As the federal government reduced subsidies to developers of low income housing, CDCs frequently stepped into the void, patching together several forms of government subsidy, private equity, and debt finance to construct low income housing.⁷⁵ In the early 1990s, Congress rewarded CDC efforts

71. See NEAL R. PEIRCE & CAROL F. STEINBACH, *CORRECTIVE CAPITALISM: THE RISE OF AMERICA'S COMMUNITY DEVELOPMENT CORPORATION, REPORT TO THE FORD FOUNDATION 19-26* (1987) (detailing the history of CDC's).

72. See ROBERT HALPERN, *REBUILDING THE INNER CITY: A HISTORY OF NEIGHBORHOOD INITIATIVES TO ADDRESS POVERTY IN THE UNITED STATES 132-33* (1995) (showing that Ford Foundation contributions almost equal those of the federal government); Mitchell Sviridoff, *The Seeds of Urban Revival*, *THE PUBLIC INTEREST*, Winter 1994, at 82, 94.

73. See HALPERN, *supra* note 72, at 136 (detailing the huge financial and human resources required to create each job and to maintain profits).

74. See PEIRCE & STEINBACH, *supra* note 71, at 30-31 (citing overambitious agendas as a key contributing factor in the failure of many first generation CDCs); HALPERN, *supra* note 72, at 138-39 (citing overambition and an emphasis on individual minority entrepreneurs instead of overall community development as reasons for the failure of early CDCs).

75. See Schill, *supra* note 1, at 78-81 (describing the various sources and methods used to finance the preconstruction expenses, project equity, and debt finance aspects of low income housing projects).

in the housing arena by legislating mandatory set-asides for nonprofit organizations under several housing programs.⁷⁶ A 1994 census of CDCs by the National Congress For Community Economic Development (NCCED) demonstrates their significant achievements. According to the census, between 2,000 and 2,200 CDCs in the United States have produced approximately 400,000 units of affordable housing.⁷⁷

A significant number of modern CDCs include economic development as part of their mission. According to the 1994 NCCED census, 23% of CDCs reported completing industrial or commercial developments.⁷⁸ In addition, 18% indicated that they were involved in business lending, equity investing, or owning and operating a business enterprise.⁷⁹

CDCs typically finance economic development projects by combining several sources of equity and debt. Among the most important sources of funding for CDC projects are grants from the Urban and Rural Economic Development Program of the U.S. Department of Health and Human Services Office of Community Services (OCS). In 1995, the OCS made available to CDCs over \$23 million to establish business development projects in disadvantaged communities.⁸⁰ In addition, many projects utilize grants and loans from the Economic Development Administration (EDA), the Small Business Administration (SBA), and the U.S. Department of Housing and Urban Development (HUD). States and municipalities often contribute Community Development Block Grant funds and below market interest rate loans. In addition, cities frequently provide land to CDCs for nominal prices. CDCs also frequently receive grants or loans from foundations, local corporations, and financial institutions.⁸¹ In some instances, economic development financing comes from national intermediaries such

76. For example, states must set aside 10% of their annual allocation of Low Income Housing Tax Credits for nonprofit housing developers under I.R.C. § 42(a), (h), (s) (1988); municipalities must earmark 15% of their HOME Investment Partnerships grants for nonprofit housing developers under the Cranston-Gonzales National Affordable Housing Act of 1990 § 231, 42 U.S.C. § 12771 (1990). See Schill, *supra* note 1, at 86-87 (describing several programs enacted by Congress in the early 1990s to encourage private sector investment in low and middle-income housing projects).

77. NATIONAL CONGRESS FOR COMMUNITY ECONOMIC DEVELOPMENT, *TYING IT ALL TOGETHER: THE COMPREHENSIVE ACHIEVEMENTS OF COMMUNITY-BASED DEVELOPMENT ORGANIZATIONS 1* (1995) [hereinafter NCCED, *TYING IT ALL TOGETHER*].

78. *Id.* at 11.

79. *Id.*

80. Under the terms of the program, 75% of the jobs created must be filled by low income residents of the community. Request for Applications Under the Office of Community Services' Fiscal Year 1995 Discretionary Grants Program, 60 Fed. Reg. 2103, 2105 (1995).

81. In many instances local financial institutions invest in CDC economic development projects to fulfill their obligations under the Community Reinvestment Act of 1977, 12 U.S.C. §§ 2901-2907 (1996). See generally KENNETH H. THOMAS, *COMMUNITY REINVESTMENT ACT PERFORMANCE: MAKING CRA WORK FOR BANKS, COMMUNITIES AND REGULATORS* (1993) (presenting a comprehensive examination of over twelve thousand CRA ratings and giving a detailed analysis of over six thousand public evaluations). Under the

as the Local Initiatives Support Corporation (LISC).⁸² Occasionally, equity interests in projects are sold directly to private investors.

CDCs engage in economic development activities to achieve a variety of objectives. Among the most central of CDC purposes is community building, recreating the social fabric and institutions of distressed inner city neighborhoods.⁸³ Therefore, one objective common to virtually all CDCs is the desire to generate economic opportunity and jobs for the residents of their communities. A second reason many seek to promote commercial development and business enterprise is to provide needed services for their communities. Many inner city neighborhoods lack high quality retail stores and commercial services.⁸⁴ Because of high residential densities, effective demand in these neighborhoods may be substantial despite the relatively low incomes of residents.⁸⁵ Nevertheless, externalities, high security costs, fear of community opposition, and a lack of information may cause entrepreneurs from outside the neighborhood to avoid opening potentially lucrative stores and offices. Those stores and services that do exist in these communities frequently charge higher prices than comparable businesses in other neighborhoods.⁸⁶ CDC economic development activities frequently seek to meet community demand for high quality goods and services at competitive prices. By providing outlets within their neighborhoods, they also hope to capture a greater share of the retail purchases of residents and

Community Reinvestment Act, federal regulators are empowered to deny approval to financial institutions which wish to obtain new charters or merge with or purchase other institutions if they fail to meet the credit needs of their communities. § 2903(a)(1).

82. LISC was created by the Ford Foundation in 1979 to serve as an intermediary between private foundations and corporations and CDCs. According to information provided by LISC, the organization has helped more than 1,300 CDCs throughout the nation build or rehabilitate 57,000 units of housing and create 9.6 million square feet of commercial and industrial space. LISC has raised \$1.7 billion from 1,400 corporations, foundations, individuals, and public agencies. LISC, Local Initiatives Support Corporation (undated). One of LISC's most ambitious programs is the Retail Initiative, a \$24 million dollar fund to provide community development corporations with equity to build low income communities shopping centers with supermarkets. See *\$24 M Fund to Build City Supermarkets*, 6 THE LISC LINK 1 (1995).

83. See Vidal, *supra* note 64, at 212-13. Vidal notes that many CDCs engage in community building in addition to their physical and economic development work. These community building activities may involve organizing neighborhood residents to address issues of importance to the community; such as advocacy, housing development or the delivery of needed neighborhood services.

84. See Marc Bendick, Jr. & Mary Lou Egan, *Linking Business Development and Community Development in Inner Cities*, 8 J. PLANNING LITERATURE 3, 6 (1993) (observing that inner city areas are "under-stored").

85. See Michael E. Porter, *The Competitive Advantage of the Inner City* 18 (June 1994) (unpublished paper, on file with the *Review of Law & Social Change*) (reporting that although inner city Boston has a 21% lower average income than the rest of the city, its spending power per acre is 5.6% higher than surrounding suburbs).

86. See RES. AND POL'Y COMM., COMM. FOR ECONOMIC DEV., *REBUILDING INNER-CITY COMMUNITIES: A NEW APPROACH TO THE NATION'S URBAN CRISIS* (1995) (observing that in many inner city areas, "the nearest shopping center is miles away, and the retailing that is available offers only a minimal selection of poor-quality products at high prices.").

thereby support increased levels of economic activity.⁸⁷ Some CDCs may also involve themselves in economic development activities to earn income that can be used to support their other activities such as housing, social services, or advocacy.⁸⁸

CDCs engage in a wide variety of economic development initiatives. Among the roles they play are: (1) development catalyst, (2) developer/landlord, and (3) equity investors in business enterprises.⁸⁹

A. Development Catalyst

Instead of actually taking an equity stake in economic development projects, CDCs may facilitate the plans of others by acting as planners or intermediaries. In many cities, CDCs operate revolving loan funds that provide financing to indigenous entrepreneurs. For example, between 1990 and 1995 the Bedford Stuyvesant Restoration Corporation made 19 loans to businesses owned by women and minorities in Brooklyn. These loans, which ranged in amount from \$5,000 to \$150,000, were used to help entrepreneurs start businesses as well as to enable existing firms to expand or remain in business.⁹⁰ The revolving loan fund is capitalized with over \$850,000 provided by the EDA, the New York State Urban Development Corporation, and the Restoration Corporation, itself. Interest rates are typically set at the prime rate. As loans are repaid the money is loaned out to other eligible recipients.⁹¹ Of the 19 loans made as of 1994, one had defaulted and one was severely delinquent.

CDCs may also specialize in providing technical assistance to community entrepreneurs. For example, in Washington, D.C., the Latino Economic Development Corporation helps neighborhood businesses obtain SBA loans by working with them to develop acceptable business plans. Faculty from Howard University are enlisted to work with the CDC and the loan applicants. The program has been operational since the early 1990s and has thus far resulted in seven approved loans and an additional six in process.

87. See Bendick & Egan, *supra* note 84, at 8 (discussing "multiplier effects" of purchases within a community).

88. See Herbert J. Rubin, *Renewing Hope in the Inner City: Conversations with Community-Based Development Practitioners*, 27 ADMIN. & Soc'y 127, 137 (1995) (discussing business activities of CDCs that cross-subsidize social service programs).

89. Much of the material in the following sections is based on telephone interviews with representatives of more than a dozen CDCs. The interviews were conducted by the author in 1994 (with some follow-up in 1996) and the CDCs were selected based upon discussions with housing and community development professionals and a search of newspaper articles in the Westlaw and NEXIS databases.

90. Among the recipients are service and retail industries, light manufacturing enterprises, and a couple of restaurants.

91. The maximum term for the loans is five to seven years.

Some CDCs further community economic development objectives primarily by operating job training facilities as part of their social service mission. One of the most ambitious programs is run by Esperanza Unida in Milwaukee. The CDC provides city residents with job training in enterprises it owns including auto repair and body shops, a welding company, and a restaurant. After the six month training program is over, Esperanza Unida helps the trainees obtain jobs in private businesses. Although the CDC charges customers of the auto shops and the restaurant for services provided, most of the enterprises, themselves, are not profitable.

B. Developer/Landlord

Perhaps the most common CDC economic development activity is the development and leasing of commercial real estate. For example, following the 1980 riots in Liberty City, the Tacolcy Economic Development Corporation was founded to promote redevelopment of the neighborhood. In addition to several housing developments, Tacolcy built Edison Plaza, a 48,000 square foot shopping center.⁹² Edison Plaza was financed by grants and loans provided by the City of Miami, the EDA, LISC, and the Ford Foundation. Its anchor tenant is a Winn-Dixie supermarket which, at least symbolically, replaced a Pantry Pride market that had been burned down during the civil unrest. The supermarket has found its location in Edison Plaza to be profitable. In fact, in part due to Winn Dixie's desire for more space, CDC has plans to demolish the existing shopping center and build in its place a much larger development. Despite the profitability of the stores in the center, Tacolcy has not made a profit from its operation of the development. Instead, it subsidizes the shopping center with revenues from other sources.

Although retail developments seem to be more typical of CDC real estate ventures, some organizations also own properties that are devoted to industrial or wholesale purposes. For example, in Boston, the Neighborhood Development Corporation of Jamaica Plain purchased a five acre site that had been used until the mid-1960s as a brewery. With money provided by the OCS, loans from the state, and bank financing, it rehabilitated over one hundred thousand square feet of space for manufacturing. The buildings in the Brewery project currently are home to 28 small businesses employing 140 people, many of whom come from the Jamaica Plain neighborhood. Among the businesses are a Samuel Adams micro-brewery, food processing plants, woodworking, and building supply manufacturers.

92. See NATIONAL CONGRESS FOR COMMUNITY ECONOMIC DEVELOPMENT, *A PLACE IN THE MARKETPLACE 8* (1992) [hereinafter NCCED, *A PLACE IN THE MARKETPLACE*]; Technically, Edison Plaza is owned by Belfonte Tacolcy Center, a nonprofit organization that was originally run by the founder of Tacolcy Economic Development Corporation. Nevertheless, Tacolcy Economic Development Corporation developed the property and is in charge of management.

NDC does its own day-to-day management and, at present, the buildings' rents cover their costs.

C. *Equity Investor in Business Enterprise*

During the 1980s, a number of CDCs sought to take a more active role in community economic development by becoming equity investors in business enterprises. In some instances, they would invest capital, both financial and human, in joint ventures with profit-motivated businesses. Probably the most widely celebrated CDC to engage in this type of activity is the New Community Corporation in Newark. Like several other CDCs, New Community grew out of the riots of the 1960s. Community residents in Newark's Central Ward, a predominantly low income, black neighborhood, banded together to improve their community under the leadership of an energetic and charismatic priest, Father William J. Linder. Since the late 1960s, New Community has built or renovated ten major housing developments in Newark and serves as a landlord to over 6,000 tenants.⁹³ New Community also provides a wide variety of social services to community residents such as child and health care.

In addition to housing and social services, New Community has developed an office complex and a shopping center. The shopping center cost 16 million dollars to develop and was financed using a federal Urban Development Action Grant, a state development loan, a grant from the city's Community Development Block Grant allocation, and a loan from Prudential.⁹⁴ The centerpiece of the development is a 43,000 square foot Pathmark supermarket. Under the terms of its arrangement with Pathmark, New Community owns two-thirds of the equity in the Pathmark store while Supermarkets General, the parent company of Pathmark, owns the other one-third.⁹⁵ Pathmark operates the store under a management agreement and is entitled to a management fee for its efforts.⁹⁶ Any profits generated by the store are shared between the two joint venturers in proportion to their equity interests.⁹⁷

93. *Renewing the Economic Development Administration: New Approaches to Economic Development, Hearings Before the Subcomm. on Economic Growth and Credit Formation of the House Comm. on Banking, Fin. and Urban Affairs*, 103d Cong., 2d Sess. 340, 341 (1994) (testimony of Raymond M. Codey of the New Community Corporation) (describing the work of New Community Corporation).

94. ROBERT GUSKIND & NEAL PEIRCE, *AGAINST THE TIDE: THE NEW COMMUNITY CORPORATION 1968-1993* 24-25 (undated).

95. FOOD MARKETING INSTITUTE, *JOINT VENTURE IN THE INNER CITY— SUPERMARKETS GENERAL CORPORATION AND NEW COMMUNITY CORPORATION 2* (undated).

96. Pathmark has a similar arrangement with the Bedford Stuyvesant Restoration Corporation. See Elliot Zwiebach, *Panel: Inner-City Stores Need Community Support*, SUPERMARKET NEWS, Feb. 8, 1993, at 11 (excerpt of statement from Jack Futterman, CEO of Supermarkets General Holdings Corporation, the parent company of Pathmark).

97. FOOD MARKETING INSTITUTE, *supra* note 95, at 2.

Beyond leasing the land and providing a share of the capital, New Community plays a limited role in the operation of the Pathmark. Members of New Community sit on the board of the corporation that owns the store and provide assistance in hiring, security, product selection, and promotional efforts. Nevertheless, day-to-day operating authority is vested in Pathmark pursuant to the management agreement.

The Pathmark store has been hailed by many as an overwhelming success. It employs 200 people, many of whom come from the Central Ward.⁹⁸ The quality of its merchandise is good and its prices are, according to one source, 38% less than neighborhood convenience stores.⁹⁹ According to Supermarkets General, the store's sales-per-square foot exceed company averages. The store is profitable, although neither the company nor New Community release information that permits comparisons with other supermarkets.¹⁰⁰

New Community's joint venture with Pathmark provides an example of a CDC taking an equity interest in a business enterprise, yet not actually running the entity. Some CDCs, however, go beyond this role and become both owners and managers of businesses. In some instances, the business is closely related to the CDC's mission. For example, New Community operates a chain of child care centers and a long term health care facility.¹⁰¹ In other cases, the enterprise may have little to do with the CDC's organizational objectives other than bringing to the community jobs and capital. For example, until recently, CDC of Kansas City owned and operated Builders Block, a factory that produces cement blocks for construction. The company was purchased by CDC in the mid 1980s with a grant from the OCS and bank loans. When owned by CDC, the plant employed thirty workers and, at least in some years, grossed \$2 million. According to CDC, the plant had been profitable for two years prior to its sale.

IV.

CDCs AND ECONOMIC DEVELOPMENT: SEARCHING FOR THE APPROPRIATE ROLE

In the concluding section of this article, I assess the role of CDCs in urban economic development as well as the strategy of urban economic development itself. The first section describes the difficulties entailed in evaluating the economic development activities of CDCs. The second section examines existing evidence on the performance of CDCs and seeks to draw some conclusions about which activities seem most successful. The

98. *Id.*

99. *Id.* at 3; see also Andrew C. Revkin, *A Market Scores a Success in Newark*, N.Y. TIMES, Apr. 30, 1995, at 39 (describing Pathmark's success in Newark's Central Ward).

100. Telephone Interview with Stanley Sorkin, Vice President of Public Affairs at Supermarkets General.

101. GUSKIND & PEIRCE, *supra* note 94, at 26-31 (discussing New Community's Babyland Nursery, which as of 1993 cared for 640 children in six child care centers).

final section critically examines the concept of urban economic development.

A. *The Difficulties of Evaluating CDC Performance*

Remarkably little careful analysis has been done, to date, to evaluate the success of CDCs in community economic development. One of the reasons for this absence of research is uncertainty over what standard to use in evaluating their performance. CDCs engage in economic development activities for a wide variety of social and economic objectives. Nevertheless, the farther these organizations venture away from what are conventionally thought to be charitable activities (e.g. social services, housing for the indigent), the more difficult it is *not* to compare their performance to existing actors in the marketplace. For example, few people would expect a CDC that owns and operates transitional housing for the homeless to be as profitable as a private landlord catering to middle income tenants. Nevertheless, can the same be said of a CDC that rents space in a shopping center to a large chain store or to a nonprofit organization that operates a plant manufacturing cement blocks?

In some instances, holding CDCs to the same standards as profit-motivated enterprises may be unwise. A large element of the justification for CDCs lies not with concepts of economic efficiency, but instead with the desire to promote redistributive objectives. Despite many examples to the contrary, in some neighborhoods it may not be cost-effective to locate low price, high quality food stores. Nevertheless, we may believe that it would be unfair to deprive residents of these services and thus be willing to subsidize them through government grants or loans. For similar reasons, society may feel that low income people should have more economic resources and therefore be willing to promote economic development activities in predominantly poor communities as a way of supplementing income.¹⁰²

Furthermore, comparisons with profit-motivated entrepreneurs may be inappropriate even if the norm that guides the evaluator is economic efficiency. It is likely that CDCs generate at least some benefits that resemble public goods. Several CDCs have redeveloped shopping centers or office buildings, even though the rents that the spaces command would not justify similar investments by private real estate developers. Nevertheless, these investments might be justified on the ground that they create positive externalities in otherwise deteriorated neighborhoods as new supermarkets replace abandoned and dangerous industrial plants. A second form of public benefit may be the willingness of CDCs to hire people from their communities in preference to other seemingly more qualified and, at least initially, more productive employees. Employment and job training might

102. Economic development subsidies may be viewed as a substitute for public assistance programs. To the extent policymakers believe cash grants create dependency, subsidizing the creation of jobs should alleviate some of these perceived negative effects.

permit these residents to become productive contributors to the economy instead of recipients of public assistance. In addition, to the extent that Wilson's theories are correct, increased numbers of working people in inner city communities may generate role models for youths and make labor force participation the norm rather than the exception. Furthermore, and of considerable importance to CDC advocates, participation in CDCs may "empower" community residents to take control of their neighborhoods, fight crime, and create strong and stabilizing social institutions.¹⁰³

Nevertheless despite redistributive objectives and the possibility of generating public goods, CDCs must be held accountable to some standard of performance, particularly in light of the substantial public revenues that they receive.¹⁰⁴ In light of the scarce resources available for urban programs, CDCs should be expected to operate in as efficient a manner as is compatible with their public objectives. Managerial incompetence or wastefulness cannot be excused, no matter how noble the cause. Furthermore, to the extent that the activity undertaken by the CDC is not directly related to the redistributive or public goods justifications offered above for CDC economic development activities, but instead more closely resembles an activity typically undertaken by profit-motivated entrepreneurs, a stronger case can be made for holding them to the same standard as other participants in the economy.

B. *Assessing The Economic Development Record of CDCs*

Economic development is a very risky undertaking, a lesson many first generation CDCs learned the hard way. Most CDCs undertake economic development activities only after they develop a solid track record in housing production.¹⁰⁵ Although they share some risks in common such as susceptibility to cost overruns and neighborhood change, at least in some respects, economic development may be more risky than housing production and management. Even though the construction and rehabilitation of low income housing often requires familiarity with complex business structures, CDCs and their attorneys have developed models which, more often

103. See, e.g., Paul S. Grogan, *Proof Positive: A Community-Based Solution to America's Affordable Housing Crisis*, 7 *STAN. L. & POL'Y REV.* 159, 163 (1996) (discussing CDC role as community "anchors."); NCCED, *TYING IT ALL TOGETHER*, *supra* note 77, at 1 ("Through CDCs, residents work together to achieve the economic and social revival of their communities. . . ."); Sviridoff, *supra* note 72, at 96 (describing "the more ambitious mission of CDCs, namely, the rebuilding of shattered communities socially as well as physically and economically."). See also MERCER L. SULLIVAN, *MORE THAN HOUSING: HOW COMMUNITY DEVELOPMENT CORPORATIONS GO ABOUT CHANGING LIVES AND NEIGHBORHOODS* (1993) (reporting on the first phase of a research project to analyze social revitalization activities of CDCs).

104. In addition to government grants and loans, CDCs receive funds from foundations, which are entitled to receive tax deductible donations.

105. See AVIS C. VIDAL, *REBUILDING COMMUNITIES: A NATIONAL STUDY OF URBAN COMMUNITY DEVELOPMENT CORPORATIONS* 76 (1992) (reporting that CDCs typically begin their economic development activities with housing).

then not, they can replicate. Because economic development activities are more diverse than low income housing, it is consequently much more difficult to create replicable patterns for transactions. For example, the skills and knowledge necessary to plan and operate an industrial structure may be very different from those required to develop and manage a retail shopping strip. Even more difficult is the planning, execution, and management of an operating business. Insufficient knowledge or experience may easily cause economic development activities to fail, leading the CDC to lose scarce capital and prestige.

In addition to the greater difficulty of putting together commercial ventures, it is also likely that market demand would be harder to predict. In light of the shortage of affordable housing in many central cities, most nonprofit housing providers are likely to continue to face demand that outstrips supply.¹⁰⁶ As the recent boom and bust in the commercial real estate market demonstrate, the same cannot be said for owners of non-residential properties. Competition from other developments may undermine the viability of CDC shopping strips; oversupply of office space may drive down rents. In addition, even in the absence of changing market conditions, current tenants may go out of business leaving the CDC with no income and burdensome carrying costs. Even greater difficulties are likely to exist for CDCs that own operating businesses. Not only must they correctly anticipate the future direction of input prices, but they must also gauge future demand in specialized product markets.

To date, only one study by Vidal¹⁰⁷ has gathered information systematically on the success or failure of modern CDC economic development activities. The author surveyed 130 well established CDCs; 87 were involved in commercial real estate and 75 supported business enterprise development.¹⁰⁸ Failure was defined rather broadly to include, in addition to the complete collapse of an activity, major cost overruns, poor quality construction, over-estimation of demand resulting in high vacancies and poor management.¹⁰⁹ Vidal found that housing development was the least risky activity, with failure rates ranging from 17% to 38%, depending upon the number of years the CDC had been in operation.¹¹⁰ Failure rates for commercial real estate development were a bit higher ranging from 18% to 40%. The least successful activity, by far, was business enterprise development. Among organizations that had worked in the area for fifteen years

106. Nonprofit housing developers will typically lease their units to tenants at rents that are substantially below prevailing market levels. One reason for this is the charitable mission of these groups. A second reason is that most of this housing received subsidies or tax credits and therefore must be operated pursuant to government regulations that require sustained affordability.

107. VIDAL, *supra* note 105, at 65-73.

108. *Id.* at 63.

109. *Id.* at 77-78.

110. *Id.* at 78.

or less, failure rates ranged from 28% to 47%.¹¹¹ Among the five CDCs that had pursued business enterprise development for over fifteen years, all had experienced failures.¹¹² When asked to explain what had led to project failures, the most common responses offered by CDCs were poor or inadequate planning or insufficient organizational capacity.¹¹³

Anecdotal accounts also suggest that CDCs might be well advised to avoid acquiring their own operating companies, at least when the businesses are unrelated to the charitable missions or expertise of the CDCs. Like many small businesses begun by profit-motivated entrepreneurs,¹¹⁴ CDC businesses are seldom successful over the long run and sometimes can cause the organizations to lose substantial sums of money. For example, flush from its successful development of Edison Plaza, Tacolcy Economic Development Corporation in Miami purchased a fish restaurant in 1992. Its officers soon realized that they knew little about operating restaurants, lost money, and closed the restaurant. The establishment is now being operated by an experienced restaurateur, apparently at a profit. A similar experience was encountered by Bethel New Life Corporation when it constructed a state-of-the-art recycling plant in a distressed community in Chicago. The CDC lacked experience in the business and lost money until it sold the plant to a private, profit-motivated company that specialized in paper products.

In addition to possible financial losses, CDCs that engage in economic development activities also run the risk of encountering internal conflicts over the groups' objectives. For example, one of the tenets of the CDC movement is community "empowerment." Community residents are supposed to take an active role in running the CDC and thereby take control over their lives and their community's future. Nevertheless, as the complexity of CDC activities increases, the likelihood that modestly educated neighborhood residents will have meaningful input into decisions is likely to decline.

Another conflict among objectives might occur to the extent that business goals do not correspond with social objectives. A recent example of this difficulty involved the Third Ward Partnership in Chicago, a CDC created by Alderwoman Dorothy Tillman. The Partnership formed a joint venture with a local real estate developer, Matanky Realty Group, to build

111. *Id.*

112. *Id.* See also Helen Mazarakis, *Community Based Economic Development: Are CDCs Up To The Challenge?*, SHELTERFORCE, Jan./Feb. 1994, at 4, 6 (observing that LISC experienced significantly lower loan repayment rates for business enterprise loans than for housing development projects).

113. VIDAL, *supra* note 105, at 78-79.

114. See Timothy Bates, *Why Do Minority Business Development Programs Generate So Little Minority Business Development?*, 9 ECON. DEV. Q. 3, 5 (1995) (reporting that over 70% of loans made to new minority business enterprises by the SBA defaulted); Bendick & Egan, *supra* note 84, at 5 (describing the difficulties of small businesses, particularly those located in inner cities).

a shopping center on the southern edge of the Robert Taylor Homes. One of the conditions required by the CDC was that the operator of the supermarket be a minority resident from the community. The CDC insisted on this condition despite the fact that an experienced minority entrepreneur could not be located. In the end, someone with little experience signed a lease and defaulted on his obligations, which led permanent lenders to refuse to extend credit. The construction lender foreclosed its mortgage causing Matanky and the Third Ward Partnership to lose their equity interests.¹¹⁵

C. *Economic Development As A Strategy For Inner Cities*

CDC community development initiatives, as well as the more traditional forms of economic development cities have used for decades, present an additional issue that must be addressed. Efforts to promote the growth of jobs and economic activity in central cities fly in the face of strong market forces that have tended to disfavor inner city locations. These forces explain why many of these initiatives have had only limited success and why most require substantial public subsidies. Although one can create a number of creative economic arguments based upon market failure to justify government intervention to spur central city economic growth on the grounds of economic efficiency,¹¹⁶ it is very likely that many of the subsidy programs now in existence promote an inefficient allocation of societal resources. Of course, these inefficiencies may well be a small price to pay for the achievement of objectives that have nothing to do with economic efficiency, such as a more equitable distribution of income.

Yet it is not clear that focussing government and philanthropic attention on community economic development is necessarily in the best interests of inner city residents. Questions of economic efficiency aside, given the political climate in America as we approach the twenty-first century, it is inconceivable that government will appropriate the sums necessary to reverse decades of urban decline. Instead, we are faced with the prospect of continued racial and economic segregation, of children continuing to grow up in neighborhoods where they will face tremendous disadvantages including overwhelming poverty, mediocre education, and the prevalence

115. A somewhat different type of conflict, not unique to economic development activities, occurs as a result of the dependence of CDCs on government for their financial support. CDCs often begin their existence as advocates for the interests of community residents. Frequently, this advocacy leads to confrontations with local governments and business interests. This advocacy role might be compromised by the necessity for CDCs to look to government and businesses for dollars to support their activities. Cf. Rubin, *supra* note 88, at 140-42 (describing concerns of CDCs with maintaining autonomy).

116. Among the arguments that are at least plausible are that government action might be useful to counteract insufficient information about inner city economic opportunities, negative externalities, and transaction costs that might make coordinated investment by private firms difficult.

of harmful social norms. CDCs have and will make heroic efforts to ameliorate these conditions by building communities, but these battles will be hard won and the victories difficult to maintain.

A more balanced agenda to ameliorate the problems of concentrated inner city poverty would also facilitate efforts by inner city residents to move to areas of greater opportunity. The evidence I presented in Part I suggests that job opportunities for low skilled workers are greater in the suburbs and in regions outside the Northeast and Midwest. At present, inner city residential locations impede individuals from obtaining these jobs because of excessively long commutes, the absence of information about job openings and the stereotypes used by employers. A mobility or "deconcentration" strategy¹¹⁷ that assists poor families in moving from inner city communities also would enable children to grow up in communities where they could obtain higher quality educations and live in safer environments away from peer group influences that inhibit their social mobility.

The Gautreaux Assisted Housing Program¹¹⁸ provides the best evidence, to date, on the potential for a deconcentration strategy to assist inner city residents. Under the program, applicants for public housing in Chicago were offered up to three homes in either the city or the suburbs. The homes were owned by private landlords and subsidized by housing vouchers or certificates. Sociologists from Northwestern University have interviewed participants over several years to evaluate the effects of deconcentration. Overall, the findings of these studies suggest very positive results.

One set of studies examined the educational experiences of children. A comparison of youths who had moved to the suburbs seven years earlier with those who had moved within the city shows that the suburban residents had a much lower school drop-out rate and significantly higher college attendance rates. They also tended to earn higher salaries than youths

117. Elements of such a strategy would include expanded use of housing vouchers, a relaxation of local regulations that impede construction of affordable housing, and enhanced enforcement of anti-discrimination laws. See Michael H. Schill, *Distressed Public Housing: Where Do We Go From Here?*, 60 U. CHI. L. REV. 497, 526-54 (1993); Schill, *supra* note 14, at 831-52.

118. The Gautreaux program derives its name from the remedy ordered by a federal court in *Gautreaux v. Chicago Housing Authority*, 503 F.2d 930 (7th Cir. 1974), *aff'd sub nom.*, *Hills v. Gautreaux*, 435 U.S. 284 (1976). The lawsuit involved a challenge by residents of the Chicago Housing Authority (CHA) to discriminatory practices of HUD and the CHA. The court in *Gautreaux* ordered the CHA and HUD to provide housing opportunities for minority public housing applicants in non-segregated areas of Chicago as well as its suburbs.

who remained in the city.¹¹⁹ Less positively, a greater proportion of suburban students were placed in special education and experienced racial discrimination.¹²⁰ Nevertheless, mothers expressed greater satisfaction with teachers and schools in the suburbs as compared to the city.¹²¹

Other studies examined the experiences of the *Gautreaux* mothers. Suburban residents had a higher probability of being employed although differences in wages were not statistically significant.¹²² In terms of neighborhood satisfaction, suburban movers were more satisfied than their urban counterparts with neighborhood safety, police protection, and schools, but less happy with transportation and health care.¹²³ With respect to social integration, the responses were also positive. Suburban movers interacted with their neighbors more often than those who remained in the city; children were as socially integrated into their communities as their urban counterparts.¹²⁴ Nevertheless a significant proportion of the suburban movers at one point since their move have felt isolated and experienced discrimination. These negative experiences, however, diminished in frequency over time.¹²⁵

Despite its advantages, deconcentration of the inner city poor is not a complete strategy for alleviating the hardships of inner city residents. The opposition of suburban residents to an influx of low income residents,¹²⁶

119. James E. Rosenbaum, *Black Pioneers - Do Their Moves to the Suburbs Increase Economic Opportunity for Mothers and Children?*, 2 HOUSING POL'Y DEBATE 1179, 1198 (1991).

120. James E. Rosenbaum, Marilyn J. Kulieke & Leonard S. Rabinowitz, *White Suburban Schools' Responses to Low-Income Black Children: Sources of Successes and Problems*, 20 URB. REV. 28, 33, 39 (1988).

121. *Id.* at 38.

122. James E. Rosenbaum & Susan J. Popkin, *Employment and Earnings of Low-Income Blacks Who Move to Middle-Class Suburbs*, in THE URBAN UNDERCLASS 342, 350 (Christopher Jencks & Paul E. Peterson eds., 1991).

123. James E. Rosenbaum & Susan J. Popkin, *Economic and Social Impacts of Housing Integration 21* (Mar. 1990) (unpublished report, on file with the *Review of Law & Social Change*).

124. James E. Rosenbaum, Leonard S. Rubinowitz, Marilyn J. Kulieke, Cheryl Coppell, Alicia McCareins, & Galen Carey, *Low-Income Black Children in White Suburban Schools 150-53* (1986) (unpublished report on file with the *Review of Law & Social Change*).

125. James E. Rosenbaum, Susan J. Popkin, Julie E. Kaufman & Jenifer Rusin, *Social Integration of Low-Income Black Adults in Middle-Class White Suburbs*, 38 SOC. PROB. 448, 455 (1991); Rosenbaum & Popkin, *supra* note 123, at 20.

126. Suburban opposition to an influx of low income, predominantly minority residents from the inner city may be attributable to a number of motives. First, residents may wish to preserve the uncrowded amenities of their municipalities and be disinclined to permit the types of dense development that would make affordable housing feasible. Second, suburban residents may wish to exclude poor residents to maintain low tax rates and avoid redistribution. See Schill, *supra* note 14, at 811-17. Third, some residents may believe that it is fundamentally unfair for families receiving public assistance to achieve the same lifestyle that they have had to work for. See Howard Husock, *A Critique of Mixed Income Housing: The Problems with "Gatreaux"* [sic], 5 THE RESPONSIVE COMMUNITY 34, 38 (1995) (discussing "unjust reward" reaction to deconcentration strategies). Fourth, some residents will be frightened that former residents of the city will bring with them high crime rates and social disorder. Finally, the opposition of at least some segments of the population to low income

insufficient funds for housing vouchers, and preferences among some inner city residents for remaining in their current neighborhoods would ensure that many poor people will remain in the inner city and continue to require assistance from government and the voluntary sector. The efforts of CDCs will therefore remain important, provided that they concentrate on those activities that they achieve best, such as housing and the delivery of needed community services.¹²⁷ Even more importantly, to the extent that CDCs are successful at community building and restoring social fabric in inner city communities, they may be able to create environments that enable residents to lift themselves out of poverty.

CONCLUSION

CDC community economic development activities are difficult to analyze dispassionately. The idea of groups of citizens banding together to improve their lives and those of their neighbors is deeply ingrained as a positive virtue in American society.¹²⁸ Furthermore, in many respects, the plight of inner city America is not just the result of invisible market forces

immigration may be attributable to racism. The recent experience of HUD's Moving To Opportunity (MTO) Program in the Baltimore metropolitan area illustrates how difficult it might be to achieve deconcentration. The MTO program involved giving vouchers to public housing applicants for use in the suburbs. Community opposition in blue collar suburbs surrounding Baltimore influenced the Senator from Maryland, then chairperson of the HUD Appropriations Subcommittee, to substantially reduce funding for the program. See Ed Brandt, *Scare Tactics Bring Down A Federal Housing Program*, BALTIMORE SUN, Oct. 30, 1994, at 1B.

127. Indeed, before branching out to undertake more difficult and complex activities, many CDCs might benefit from improving their own activities as housing providers. A recent evaluation of nonprofit housing providers found some troubling evidence of management difficulties and financial problems "which, if unaddressed, will greatly threaten the stock of affordable housing" RACHEL G. BRATT, LANGLEY C. KEYES, ALEX SCHWARTZ & AVIS C. VIDAL, *CONFRONTING THE MANAGEMENT CHALLENGE: AFFORDABLE HOUSING IN THE NONPROFIT SECTOR* 7 (1994). Evaluations of 34 developments found that one-third had excessive rent collection backlogs and one-quarter had exterior physical condition problems. *Id.* at 8. The study also revealed that many developments had insufficient capital and operating reserves and over half were spending more than they were earning in rent. *Id.* at 9. The financial difficulties of nonprofit housing are not solely attributable to inefficient management practices. Many of the developments were financed with insufficient equity and too much debt. In some cities, such as Chicago, housing developments or management authority have been taken away from nonprofit developers by funders. See Tom Andreoli, *Helter Shelter: Problems Plague Tax-Credit Housing*, CRAIN'S CHICAGO BUSINESS, May 1, 1995, at 1 (describing problems of three CDCs in Chicago). In other cities, such as Minneapolis, developments are undergoing refinancing and workouts involving the infusion of more equity and more favorable loan terms. See Eric J. Wiewfering, "I am totally opposed to people using real estate as an investment tool:" *The twisted economics of Minneapolis neighborhood nonprofits and low-income housing*, CORP. REP. MINN., Mar. 1994, at 61 (criticizing the current approach of non-profit developers in developing low-income housing).

128. This notion that voluntarism and self help are quintessentially American dates back to the early days of the republic. See generally 2 ALEXIS DE TOQUEVILLE, *DEMOCRACY IN AMERICA* ch. 5 (Henry Reeve trans. & Phillips Bradley ed., Alfred A. Knopf 1945) (1840).

or the characterological faults of the people residing in these communities. Instead, the flight of the middle class from cities, deindustrialization, and even the legal distinction between cities and suburbs, itself, have either been facilitated or created by government.¹²⁹

Nevertheless, CDCs and their supporters ignore the market at their own peril. As this article has repeatedly stated, we need more and better information about how well CDCs perform their activities. CDCs have accomplished much in difficult environments and under tremendous constraints. Their mission of providing housing, social services, and economic opportunity is vital. Nevertheless, given their reliance upon public and philanthropic support, they must not squander their economic capital, and thereby their social capital, by engaging in activities that they do not do well or that others do better. In addition, CDCs and their supporters must not oversell what these organizations can deliver and ignore other, possibly more promising, avenues for improving the lives of people living in the inner city.

129. See, e.g., JACKSON, *supra* note 4 at 190-218 (examining the impact of federal housing policies on how and where Americans live); Michael H. Schill & Susan M. Wachter, *The Spatial Bias of Federal Housing Law and Policy: Concentrated Poverty in Urban America*, 143 U. PA. L. REV. 1285 (1995).

