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LOCAL DEVELOPMENT PAPER NO. 11

The Community as a Base for Regional Development

by

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FOREWORD

The purpose of the Economic Council's project on Directions for Regional Development was to look at situations in which local communities had assumed more responsibility for their own development, and to see what lessons could be learned from these experiences. Fourteen case studies were undertaken, while a number of Issue Papers examined subjects of general concern to communities and development practitioners. The research was deliberately designed to be different from work typically undertaken by the Council in the past. The primary task was to collect instructive evidence, and to verify it where possible by drawing upon existing evaluation studies. The authors were not expected, for example, to undertake the extensive data collection needed to do cost-benefit studies. Rather, they were asked to capture the diversity of the local development experience in Canada.

The results of the research are being reported in a special collection of Local Development Papers. Recent and forthcoming releases in this collection are listed at the end of this document. An overview of the findings from these cases and Issue Papers will be presented in a paper entitled Developing Communities: The Local Development Experience in Canada.

A subsequent phase of the project will analyze the context within which local development initiatives take place and evaluate their actual and potential impact on reducing regional disparities.

This Document presents two of the Issue Papers produced by the Directions for Regional Development project under the direction of Dal Brodhead.

Like the case studies, these Issue Papers arose out of the project team's research and consultations with community development workers, government officials, women's groups, business people, non-profit organizations, and many others across Canada. A unique feature of the project was its regional orientation through the use of three regional consultants who played a major role in the development of the case studies and issue papers and in the consultation process. Equally important were the numerous joint research ventures undertaken with a wide range of regionally based partners.

Our work in the first part of the project suggests that programs sensitive to the needs of individual communities and based on some type of partnership between government and local groups may make a contribution to economic development in Canada's diverse regions. In particular, our research suggests that communities have an important role to play in identifying development priorities and the particular skill requirements of individuals and local businesses. They also indicate that such "bottom-up" strategies can be assisted by a Local Development Organization (LDO), whose mandate is sufficiently broad and constituency base sufficiently large to enable it to take a long-term development perspective. An important feature of "bottom-up" community development strategies is their focus on community capacity-building aimed at increasing local self-reliance and innovation.

The issues on which we have chosen to focus illustrate a number of the ways in which Canada's communities have mobilized their available human, financial, and material resources to help assure a future for themselves. We believe that the resulting papers will be of value both to community and regional development practitioners and to regional policy-makers at all levels of government.

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Judith Maxwell
Chairman

Paper 1:

An Assessment of the U.S. Experience for Purposes of Canadian Development Policy

Paper 2:

Options in Regional Development Policy: From the U.S. Experience with the Community-Based Approach

Paper 1:

AN ASSESSMENT OF THE U.S. EXPERIENCE FOR PURPOSES OF CANADIAN DEVELOPMENT POLICY

ABSTRACT

A close review of the U.S. experience in community-based economic development shows that this approach can be mined to shape regional development policy for Canada. For example, it can be free policies and programs from the zero-sum myth that development in one region (or community) is at the expense of another.

"Community economic development" is a revitalization strategy arising from local ideas and energy, even though federal or other governments can effectively help that local effort. Community economic development is not just the stimulation of local business to create jobs; it is instead a comprehensive program to improve the entire range of local social and physical resources, in such fields as education, leisure, housing, transportation, and so on, as well as businesses and jobs.

One key to the comprehensive strategy is the planned integration of social and business development goals. This can bring into play the full complement of underutilized or ignored community assets and thereby lever markets, capital, and other resources from outside the community.

This strategy helps to demonstrate that the conventional policy of relying upon tax credits and other business location incentives is often irrelevant or even destructive of local efforts. Research on the U.S. experience documents this but also shows that proper local use of outside capital, such as flexible federal funds for local investment, can actually return to other regions and to the whole country a financial benefit that exceeds payback of the federal funds. Further, far from interfering with business viability, the necessary local insistence that any businesses aided by the local development investments must contribute to social goals (not just make profits) turns out to be productive. Indeed, the integration of social goals with business development goals actually improves business viability.

The U.S. experience also casts doubt on the common policy of encouraging migration and concentrating efforts on "growth centers." Research shows that community-based development directly in the depressed areas can create real jobs there and thus respond more efficiently to the needs of the residents. Moreover, the U.S. experience demonstrates that the more conclusive the local control over the program, the more effective the program. Thus, it becomes clear that centralized control (Washington or Ottawa) must be avoided. And, finally, a rational program of government support of community economic development does not require huge sums for capital investment. Limited government funds as seed capital can lever substantial private financing when granted under those conditions for local control.

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THE COMMUNITY AS A BASE FOR REGIONAL DEVELOPMENT

This paper begins from the assumption that the U.S. experience in community economic development represents an important new direction in regional development, which can have practical policy implications for Canada. Paradoxically, the significance of that experience has not yet been fully appreciated in the United States itself. Yet the experience is documentable, and it has in fact been subjected to systematic, if unpublicized research over a period of more than a decade. It is, therefore, accessible for consideration in Canada, which can benefit from a thorough examination of that experience.

Accordingly, this paper will review the logic, the argument, and the research findings of the U.S. experience with community economic development in order to demonstrate the relevance of that approach to Canadian regional development policy. A careful review may also help dispel a destructive myth in economic development -- namely, that development has to be a zero-sum game in which one community or region can benefit only at cost to another.

The Strategy of Community Economic Development. Community economic development evolved in the distressed urban and rural areas of the United States.[1] It arose with the realization that government or other outside actors cannot produce the necessary level of full local renewal and that in fact such external actors have, on occasion, been part of the problem. The strategy arose, then, from the basic recognition that local efforts are the critical ingredient; thereafter in each local case there came a resolution to mobilize all local resources, both human and material, for a comprehensive development campaign.[2]

In this perspective, development comes to be seen as not just the encouragement of business but the creation of an entire mosaic of community resources that make the locale a more conducive environment both for economic activity and, more generally, for living there. Such a development program may well be just as concerned with schools, leisure activities, political leadership, housing, and so on, as with business and employment creation. In the process, multiple goals will need to be concurrently pursued, and in particular social goals must be integrated with business goals. For example, a project that dealt with leisure activities could be structured as income-generating, perhaps even as a self-sufficient business. At the same time it might also serve to increase the attractiveness of the area to potential entrepreneurs. Similarly, a choice in business investments would be made in terms of not just the gross number of jobs created but also the quality of those jobs; and not merely in terms of such jobs but also in terms of its effects upon the attractiveness of the local environment.

The initial tool for such a campaign has been called the community development corporation or CDC. The term CDC refers to a coalition organization of local residents to carry out their own comprehensive program of community renewal activities, including, in particular, business development.[3]

A CDC represents the capacity of the local leaders (many of whom are apt to be relatively informal and unrecognized, except locally) to organize and create an alliance of hitherto underutilized people from different sectors of the community, including business, social agencies, citizen advocacy groups, and churches. Working together, these diverse people then focus on conceptualizing, planning, and executing a program for the creation and expansion of local economic resources. The new or enhanced economic resources come into being because local leaders can see opportunities not otherwise recognized and can piece together the economic, social, cultural, political, and other elements within the community that must be integrated to make a difference.

To be sure, the CDC will have to import some significant resources for its revitalization program. With careful planning, however, it can usually do so on its own terms. A well-organized group usually will have little trouble in identifying sources of outside aid, and then the issue becomes, How can that aid be attained without having to give up too much flexibility or autonomy? In other words, can important priorities and decisions on the use of the aid remain localized?

There are three major types of imported resources: ideas or knowledge resources, people or human resources, and financial capital. These imports supplement rather than supplanting or substituting for any local resources of the same type. For example, the new resources of imported ideas or knowledge may initially be information about how others in similar situations have gone about similar tasks. But such information would not be practically accessible unless the local leaders were conceptually prepared to use it -- unless, that is, they already had relevant information on local problems and were already conceptualizing their situation in ways that would make that outside knowledge relevant.

Similarly, bringing in outside people is a deliberate effort to supplement the skills of local leaders by recruiting staff and/or consultants who not only possess the needed skills but also are willing and able to work under local direction. (Incidentally, that recruiting often takes the form of attracting former residents to return.) Finally, outside capital for local projects will be most effectively mobilized when it is levered by local capital and made to fit local needs rather than just those of the capital suppliers. For example, an effective CDC will typically apply for a government grant only if the grant can be matched to local resources and priorities and not just to the aims of the authorizing agencies.[4] In short, what happens in community economic development is a process by which dormant, forgotten, or previously scorned local resources are brought into play and only thereafter lever various kinds of outside assistance.

Community economic development, based as it is on the typically small-scale needs and activities of an economically peripheral region, can proceed, in part, by meeting some of those small-scale needs for products or services; thus its opportunities can often be exploited more or less independent of major industrial and other economic trends elsewhere. However, that does not imply that the local strategy can or ought to ignore major national or international economic trends. For instance, the national shift in business activity from products to services (especially financial, computer, and communication services) must interest community economic development strategists and those policy makers who would use the community economic development approach.

With the new opportunities in the service economy, what may have been disadvantages for the depressed community -- such as its isolation or higher transportation costs -- are no longer so important; the information processing at the heart of many service businesses is often carried on telephone lines or by satellite, transcending any geographical location disadvantages. The export of high-technology-linked clerical jobs (using word processing and related techniques) to less developed countries with low-wage work forces forecloses opportunities for keeping such jobs within the depressed areas of the U.S. or Canada.

However, if telephone wires or satellites can carry the work of Montreal or Boston to a low-cost Caribbean work station, then they can carry that same work to a CDC facility in Newfoundland or Maine. The less developed enclaves within the U.S. and Canada can be preferable alternative sites for such jobs, if the additional advantages of community-based development are factored in. Now a quite minor subsidy might make the difference between exporting and retaining the jobs in question.

Note especially that, as in this example, it is not central to the community-based approach to rely upon the importation of a package of resources, as represented by the tactic of trying to attract a company to set up a new facility in that setting. Instead, the community-based approach implies, almost by definition, the piecing together of local resources with the minimum necessary outside resources. And from that standpoint, the process does not depend on the zero-sum competition of location incentives of conventional economic development practitioners.

Rejecting Location Incentives. Conventional economic development strategies, in contrast to the community economic development strategy, rely on location incentives -- that is, on offering inducements, especially tax benefits, to outside industry to open local facilities. It may be useful to enlarge here on the reasons why location incentives are irrelevant or even rejected in community economic development.

Perhaps most important is that such incentives immediately define the local problem as susceptible to solution by outside industry; this in itself denigrates the existing community resources and places the community in a dependent position psychologically as well as industrially. Further, outside ownership has been demonstrated to be risky to a community, as the cases of abandoned communities testify.[5] The boardrooms of Toronto or New York set target profit levels for facilities that are discontinued when those levels are not reached, while locally-owned facilities can be and indeed often are maintained at lesser levels of return. There is even evidence that hiring patterns differ with outside ownership; for example, more jobs are created by locally-owned companies than by absentee-owned companies.[6]

The literature reviewing state government incentives for business location shows a consistent trend of such negative findings. Harrison and Kanter report:

> With very few exceptions, the empirical literature fails to reveal significant plant relocation or expansion resulting from (or even correlated with) differentials in state business incentives.[7]

The authors note that surveys of firms expanding their facilities in a particular locale or moving to that area find that employers seldom mention spontaneously such things as state and local tax rates or the availability of subsidized credit. Indeed even if they are specifically asked about such incentives, the response varies between 5 and 15 percent. For example, as far back as 1950, only 9 percent of the managers of 118 plants moving to Michigan thought that Michigan's tax benefits were an "important consideration." And about 25 years later, a survey even of companies whose owners had applied for state benefits for moving either to Connecticut or to Massachusetts showed that the companies had made their plans for moving and only afterwards learned of possible tax credits, and the like.[8] These findings have been confirmed over and over again.

It is indeed strange, Harrison and Kanter suggest, that with such consistent findings policy makers still insist on using location incentives. Moreover, the authors demonstrate that there is no theoretical reason to expect significant effect from such incentives; thus it should come as no surprise that in fact those incentives do not work. Yet one finds that business itself is in the forefront of pressure for the incentives, leading Harrison and Kanter to conclude that they are merely an easy way for business to get government subsidies. The authors insist that, once the opportunity costs of the location programs have been calculated, incentives are a pure waste of resources.[9] It is no wonder, then, that leaders in community economic development, concerned with the distress of their communities and needing to make the best use of scarce resources, do not figure in the clamor for regional tax incentives.

The Community Approach to Regional Development. A distressed or disadvantaged region is composed of communities in which local resources are not being exploited. Community economic development organizes those resources. The resources are place-bound. That is, they must initially be used (processed) locally. They can include undeveloped natural resources (forests, fish, minerals, etc.), or they may be cultural or physical assets, such as an archaeological site or an abandoned military base, which obviously cannot be exported. Most important, they include undeveloped human resources -- people whose actual skills are not being used or whose abilities have not been fully developed.

Contrary to abstract theory and to misguided policies of the past, people are not fully mobile and, not readily open to the idea of moving to another region, as they will demonstrate by their resistance to government pressure. This is particularly true of lower-income people, precisely those who are most representative of low-income, distressed areas.[10]

It is essential to understand that people are what they are through relationships with each other; and breaking those relationships (particularly the integrated relationships of an entire community) through pressured or even enforced migration means decreasing the utility of the persons concerned, who are bereft of the personal interconnections that can make them productive.[11] It should be quite understandable that many people have grave difficulty adapting to new settings that are in great contrast to their usual venues. In short, trying to move people in order to link them to other resources (for instance, from a rural setting to an urban complex of factories that could use a bigger labor pool) is most costly in dollars and human stress and natural productivity. Instead of forcing mobility, the task is to engage people's productive capacities locally.

Of course, no setting, even the most developed, can provide for the needs of every resident; and so opportunities for mobility are essential in order for individuals to take advantage of specialized resources elsewhere. Also there are, albeit rarely, instances in which the deterioration of local economic circumstances can persuade virtually a whole community, as individuals and as a collectivity, to give up and seek a better chance elsewhere.[12] The availability of mobility assistance makes that local decision easier and more reasonable. These exceptions aside, a general case can be made for rejecting a policy of persuasion or pressure to move away from economically distressed areas.

It can therefore be concluded that, in most instances, whatever the resources of a region, they are only to be developed (or, at least, best developed) there, not elsewhere. The necessary development is first and foremost a local organizational task, even though some additional resources must eventually be imported. For example, the underdeveloped community or region will at some point in the development process need more capital than is locally available. And clearly that same outside capital, if used in one location, is not available for use in another.

The question must arise, then, under what circumstances is it economically efficient and effective to transfer resources (of whatever degree and kind) to a particular disadvantaged region? This is an extremely complex question. Both effectiveness and efficiency, from a national standpoint, are very difficult to predict. First, there are technical issues of measurement, such as: What exactly should be measured? It is possible, for example, to use a conventional economic input/output model to determine what the distressed region might contribute to other regions compared to what it receives. By that model, one could analyze the results of an influx of new resources from, say, targeted contracts let by government agencies or from the decentralization of a government agency and its staff to new offices in the targeted area. But the problem is that the region's contribution to the nation may not be fully or ultimately reducible to the dollar terms in which the transfer of resources is generally expressed. (This, of course, is the well-recognized problem of relying on the dollar yardstick.) And there are also positive effects of the development process that are internal to the region and might not show up when using the input/output conception of region vs. the outside.[13]

Second, as has been implied earlier, the mobilization of local resources is a prerequisite for the appropriate integration of imports. In the absence of the local organizing or entrepreneurial function, the existing assets of the disadvantaged region will not be appropriately utilized and the imports cannot be efficiently used. Probably their effects will be dissipated, and even if they make a difference, that difference may not be what the import initiative contemplated.

In sum, key research or technical questions as well as programmatic ones remain to be answered. We will need conceptual tools and qualitative explorations to map out the universe of discourse in ways that standard economic techniques and standard policy considerations do not. There are already encouraging signs of new thinking with regard to such basic tools as development indicators.[14]

One particular issue especially needs attention. This is the issue of strategic choices in major investment policy. Among the possible choices are three which have intuitive persuasibility but which are more or less mutually exclusive. First, there is the strategy of opportunity, which holds that investments ought to be made in any industrial or other project that comes upon the scene and appears to be reasonably feasible and reasonably productive of jobs. Second, there is the strategy of investment in human resource development, especially in institutions of higher education with their associated research activities, implying a potential for local technology transfer into local businesses. And finally there is the choice of sectoral concentration for impact, choosing investments to achieve economies in horizontal or vertical integration in nearby locales, so as to create synergistic effects over an entire region.

One variation on the third choice has been a policy called "sectoral intervention," in which the CDC (and others) engage in a strategic emphasis on a specific economic or industrial sector in order to achieve <u>a change in institutional practices</u>. Here the basic assumption is that the locality suffers from institutional practices that have been forced upon it, and an improvement in the economy of the region will depend upon a change in those practices. Sectoral intervention holds that a significant impact can often be made by concentrating on building local expertise and industrial or other projects within a single key economic sector so as to <u>change</u> the way in which that sector operates locally, to the benefit of the communities concerned.

An example is provided by the strategy of the Mountain Association for Community Economic Development, which seeks to make a more generalized impact by concentrating on changing market practices in the sawmill industry. The CDC offers improved market access for the small sawmills -- by a CDC business that buys, processes, and resells the lumber. It does this not because that is such a lucrative enterprise for the CDC or because it creates a lot of good jobs in the CDC's business venture, but because it liberates the small sawmiller from some of the routine market uncertainties -- and from the power of the big lumber companies -- and concurrently assures a critically important source of supplementary part-time jobs throughout the surrounding rural region. The institutional change occurs in the marketing practices and has ramifications for the stability of part-time jobs for those who, in the usual pattern of a rural region, may also be doing a little farming or a little of some other remunerative activity.

Note that the MACED strategy accepts the small business/ proprietorship structure as the institutional form to support by means of the CDC's buying power. A much more complex tactic would be the organization of a cooperative of small operators for the same purpose. The cost in time and effort to build the necessary infrastructure of a co-op could pay additional community dividends later on, and again an institutional change in business practices would occur, de-emphasizing competition in favor of joint efforts, for example. However, the cultural and psychological opportunity for the cooperative form will vary from setting to setting, and the CDC and its community will have to make their own judgements on each such element of institutional change through sectoral intervention.

Whether sectoral concentration for economic impact (or its variant, sectoral intervention for economic institutional change) is the best choice for regional renewal is not established as yet. Other U.S. CDCs have succeeded at what seems to have been a strategy of opportunity, and the relative merits of each choice remain one of the many unanswered questions of the community and regional development process. Public policy makers will have to review systematically the extant ideas and programs of CDCs as meaningful practical hypotheses to test further.

<u>Evaluation Studies</u>. Fortunately, there are already some instructive research studies of specific community economic development programs. These offer avenues for the assessment of regional programs and at the same time document the contribution of community economic development to cross-regional or national economic health. In effect, the findings contradict the zero-sum myth, showing that local investments do not subtract from the potential for investment elsewhere.

The simplest tool used for evaluation was designed by the Kentucky Highlands Investment Corporation (KHIC), a CDC located in the impoverished counties of eastern Kentucky.[15] It is perhaps not surprising that the index for evaluation purposes was created under the leadership of a director who had been a practicing public accountant. The assessment tool is a constructed statistic that embodies a CDC's direct contribution to the national economic account. The computations demonstrate what KHIC calls a "Return on Taxpayers' Investment" or ROTI. ROTI is, of course, intended to hark back to the conventional book ROI or "return on investment" which is used in general financial analysis as one measure of the value of an investment. Just as it is important to recognize that ROI on, say, a stock investment (dividends + change in price divided by initial price) is only one measure of the 'true performance' of a company,[16] so ROTI is only one measure of the performance of a government investment in an economic development project -- in this case, in new business ventures. Nevertheless, ROTI is a rather straightforward way of assessing a government expenditure for establishing (or expanding) a business for economic development purposes.

Specifically, the ROTI statistic is composed of three different contributions to the federal treasury which are made by the new ventures that the CDC creates in its own territory, using government grants for investment purposes. <u>Corporate taxes</u> paid by the new ventures comprise one contribution. <u>Personal taxes</u>

paid on the wage income of those previously unemployed are the second contribution. And the third is the federal savings on welfare program costs, represented by the transfer payments that the federal government would have had to make for the previously unemployed workers who had been on various forms of welfare. The year's total of these three contributions to the federal government by CDC ventures is then computed against the total federal funds ever provided to the CDC to come up with a percentage return on those federal funds, conceived as a (nondivestible) investment by taxpayers in the ventures created and sponsored by the CDC with the federal money.

For example, for the period 1969-1980, the total federal funds that KHIC had ever received (for all its programs as a CDC, including programs for activities other than venture development) was $7.7 million, and the total contribution of KHIC ventures for that year was $1.447 million.[17] This yielded a Return on Taxpayers' Investment of 18.7 percent for 1980 alone. In previous years the statistic had gone as high as 25 percent. The total federal investment has long since been reimbursed to the federal treasury, and the government is continuing to receive long-term financial benefit, not to mention the other side benefits for the community, the people employed, and so on.

It should be emphasized that the new ventures were not facilities or subsidiaries of established companies attracted to the region. They were in fact the result of a procedure for encouraging and helping to capitalize potential entrepreneurs, drawn almost exclusively from the region surrounding KHIC. The entrepreneurs participate in joint ventures in the depressed four-county area that KHIC serves.

Admittedly, KHIC is one of the more successful CDCs in the U.S. in the realm of venture creation, but it does its work in one of the most recalcitrantly impoverished areas of the country, the Appalachian highlands. For example, about 58 percent of the population of one county were below the official federal poverty line when the CDC was originally organized; and its other counties were similarly populated. Thus the meaningfulness of the CDC's results is highlighted by the basic unfriendliness of its given economic environment, where played-out coal mines and hard-scrabble farming are typical. Moreover, there are a good many other returns from the CDC's activities in venture development. See the accompanying chart detailing the benefits from one KHIC investment -- in Outdoor Venture Corporation (OVC), a tent-making company that KHIC helped to start in 1972 by committing $100,000 in equity and $120,000 in credit.[18]

It should be clear from the OVC chart that, for regional development purposes, a good deal more than might be caught in an input/output analysis is involved in the actual community economic development process and its results. The social ripple effects are surely as significant as the return on taxpayers' investment. So the ROTI statistic does not describe all the positive results of a CDC investment with government funds, nor should it be expected to carry the full burden of evaluation, even of the single CDC activity of venture development. Yet ROTI, as an evaluation technique, does clearly focus on important effects outside the region where the investment was made, showing

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RIPPLE EFFECTS FROM THE OVC INVESTMENT

*Almost all employees had been residents of the area; and within eight years, over 220 people were in jobs at OVC and a subsidiary it established to produce a related product -- sleeping bags.

*Of the residents hired, at least 75 percent in the subsidiary and as many as 95 percent in the original company had been previously unemployed and untrained. Yet some of these same people quickly moved on up to become line supervisors.

*Within the first two years, OVC expanded so much that it had to move out of its original quarters into two new facilities totaling 92,000 square feet -- the first major industrial real estate construction in the county in many years.

*The erection of these new plants in their economically depressed community so encouraged the citizens that they organized a "planting day" during which over 100 children from the area set out pine seedlings for soil conservation on the OVC site.

*A small manufacturer of farm gates in a nearby town diversified into tent pole manufacturing. Soon he began to sell tent poles not only to OVC but to a producer in another state.

*A local trucking company took on the job of handling OVC tents and qualified for a federal license to transport goods across state lines. With that license the company could reach out to other firms and handle their business too.

*A major regional bank, over 200 miles away, found OVC to be a good customer. The bank offered OVC a generous line of credit, which has tended to increase each year. By 1980 the bank was pumping $8 million annually into the area to finance OVC's operations.

*The county discovered that it had new human resources and energy for other purposes as well as a new industrial firm. The county established its first public library when the OVC president spearheaded a successful petition campaign.

*OVC also offered other socially significant services to the community. The company established a sheltered workshop program (for the mentally and physically handicapped), and company executives are active in other social service activities in the area.

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up in the return on government funds granted. It is this sort of result that indicates how capital invested in one region can in fact offer capital resources for use elsewhere, thus dispelling the zero-sum myth of economic development.

Other research studies explore further aspects of the community economic development approach and thereby highlight the significance of the KHIC results, suggesting that they are not a fluke and offering other evaluation measures. These studies will be reviewed here more or less in chronological order of their publication.

In the period 1970-1973, Abt Associates, a Cambridge, Massachusetts, firm under contract with the federal government, assessed the performance of a group of CDCs that had received federal funds.[19] A central concern was the performance of business ventures financed by the CDCs, and Abt used usual financial analyses to establish a business failure (or potential failure) rate. Abt was able to project (fairly accurately as will be shown) that these businesses would have a failure rate of no more than 50 percent after four years. Compared with the standard failure rate conventionally projected for new small businesses in the U.S., which is 80 percent (over a five-year period), this is an excellent result, particularly considering the fact the CDC businesses were being established in some of the most unfriendly economic environments of all, in depressed communities <u>and</u> during a period of national economic slowdown.

As it turned out, several years later a further study by the National Center for Economic Alternatives (NCEA), conducted in 1980, was able to document that this projection was on the mark.[20] That is, 51 percent were still active in 1980. NCEA went further and determined the costs of all the failed CDC businesses in terms of capital losses; and i.e., deducted that from the overall gains of the CDC businesses. The result was still a net overall profit, although small -- $1,751,000, after deductions of $39 million for failed operations which accounted for a little over 10 percent of total capitalization of CDC ventures. In short, the government grants used as investments by the CDCs could and did have long term results, showing up in the longevity of a business firm. However, no ROTI calculations were made on the data in order to describe federal benefits, even though by that time, the statistic had already been conceived and used by KHIC.

Three major policy conclusions can be drawn from the Abt and NCEA investigations: Systematic venture development in depressed areas can be successful. It is not necessary to concentrate resources in so-called growth areas or centers. And it is not necessary to move people out of depressed communities in order to find them jobs.

Another set of findings, based upon quite different concepts and measures, offers reassuring evidence of the effectiveness of pursuing both social and business goals within the same development program. As has been mentioned earlier, the strategy of community economic development attempts to integrate social goals in its business development activity. For example, every CDC emphasizes hiring local residents in the businesses it finances or otherwise assists. A CDC would not consider its venture investment to be successful if most jobs went to outsiders. In fact, according to the Abt study, 65 percent of new employees in the CDC ventures came from the CDC's own community. And at the time of the later study by NCEA, 71 percent of the nonmanagerial jobs and 53 percent of the managerial jobs were filled by local residents. Thus, the KHIC/OVC results in employment benefits are seen in other CDCs as well.

Moreover, a substantial percentage of the jobs created by the CDCs went to residents who were previously unemployed, just as in the KHIC/OVC case. At the time of the Abt research, that percentage was 29, and in the NCEA research, conducted later, the percentage was 45. Thus, not only did the CDC businesses respond to the need for local jobs but their performance in this respect targeted the neediest and improved over time. In short, the CDCs have demonstrated that businesses can make money and at the same time respond to social needs. The fact that the CDCs could simultaneously reach both social and business goals should be stressed here, since at the time it was widely held that their business success would be compromised by their devotion to the cause of job creation and local hiring.

On another dimension critical to community economic development -- the dimension of local control and initiative -- the research studies again support the efficacy of the community-based approach. As the Abt study put it, there was "strong evidence for the positive effects of community participation and control on CDC performance." That is, the more community control, as indicated by the percentage of resident and other locally representative board members versus outside board members, the better the CDC performance.[21]

Some years later, another study using different techniques arrived at a similar conclusion. Dr. Rita Kelly, a political scientist, reported that her statistical survey found a positive correlation between high performance and the strength of the community boards of directors.[22] Historically, the evaluation results strengthened those in the U.S. federal programs who argued that Washington should not dictate the projects for which it would give funds and should instead respond favorably to investment proposals for which the local group could provide the necessary evidence from standard business feasibility studies and planning documents.

The NCEA report provides an interesting sidelight on the federal program of support for community economic development. The NCEA evaluators concluded overall that even in an era of limited federal funds, community economic development was a good federal investment, but it suggested that the limited funds would have a greater positive effect if they were targeted to relatively small though already somewhat experienced groups rather than to larger, more clearly successful CDCs. In short, the federal grants ought to be conceived as seed money to give a boost to groups that were on their way but not yet fully established. This is another way of saying that capital as such is not <u>the</u> basic means for achieving development goals but simply one potential tool.

<u>Other public policy implications</u>. Generally speaking, the U.S. evaluation studies encourage those who might otherwise doubt whether targeted (regional or local) development effort can accomplish the ambitious goals that it is supposed to.[23] The evidence is quite consistent that community economic development

can be efficient and effective in stimulating growth in depressed areas. This is not to say that no more searching studies could be undertaken. Certainly other evidence could be systematically assembled by further data collection operations, but it is worth noting that different investigators, using different methods, over different time periods, have arrived at essentially similar results.

Perhaps the most significant lesson from the U.S. research is that community economic development must be carried on under local direction, according to local priorities, and by mobilizing local resources first. That is quite different from conventional development policy which begins with central decisions in the economic core areas about what should happen in the peripheral regions.[24] The U.S. experience suggests that in Canada, as in the U.S., regional economic development policy, rather than being formulated by core-area economists or others, ought to be generated out of the analyses and ideas of local practitioners, especially those who have had a track record of accomplishment and of learning from their own failures.

The proper role of core area vis-a-vis peripheral development is in offering the three kinds of imports that the periphery will need from time to time -- namely, ideas or knowledge about various aspects of the development process, consultants or staff resources, and technical support and capital. The key term is "offering" -- which somehow must be done in such a way as to permit the use of the imports under peripheral-area or local regulation rather than core-area regulation. Historically, that appears to be difficult for core-area development agencies. That is, assistance is generally offered only so long as the peripheral-area recipients will accede to detailed core-area decisions on how the assistance is to be used.

It is true that U.S. federal administration of its community economic development assistance has only intermittently afforded a high degree of local autonomy, and there is no reason to suppose that it would be easier for Canadian federal administrators to take a hands-off posture.[25] State and provincial policies have not been any different. The explanation is not some sort of power drive on the part of government administrators. It is only natural for officials charged with the responsibility for the disbursement of tax funds to disburse them with all the caution that can be mustered, which would mean depending on one's own judgement in preference to that of local users of the funds. Only if legislators at the federal or provincial level actually mandate a freer hand for localities can the administrators be expected to provide it. Yet the underlying secret of the U.S. experience is very simply that local energies cannot be mobilized by fiats from the core area or even by financing from core-area sources -- public or private. As emphasized before, capital as such is not the secret, and, in fact, considerable impact can be achieved by small amounts of capital made available to reasonably experienced community groups which have additional sources of capital to match with the imported money. A rational policy for regional development does not have to anticipate great sums for capital. Instead it must anticipate the need for great restraint in mapping out how local groups should go about their own local revitalization. With this policy, each community can be expected to contribute to the overall development of its region, and, ultimately, of the nation as well.

NOTES

1 The experience in Canada is essentially the same, but Canadian community economic development as been less extensive, and there have been no systematic quantitative surveys, as there have been in the United States. Thus the U.S. experience is more accessible for purposes of policy analysis. Two helpful reports of Canadian cases can be found in Greg MacLeod, New Age Business: Community Corporations That Work (Ottawa, Ontario: Canadian Council on Social Development, 1986). See also Susan Wismer and David Pell, Community Profit (Toronto, Ontario: Is Five Foundation, 1981). For a detailed examination of both countries, see Stewart E. Perry, Communities on the Way: Rebuilding Local Economies in the United States and Canada (Albany, NY: State University of New York Press, 1987).

2 Importantly, local efforts are effectively mobilized only when the community is able to transcend an oversimplified paranoid conceptualization of its problem as being primarily due to outside actors. A reconceptualization takes place in which community leadership places a greater emphasis on creative local efforts.

3 However, not all local groups organized for community economic development use that term, and moreover, it has been used for other purposes -- such as bank subsidiaries for housing loan purposes.

Given Canada's strong tradition of cooperatives organized to combat economic problems in distressed areas, it is also useful to emphasize the differences between the cooperative and the CDC, which extend beyond differences in their legal and organizational formats. Most importantly, CDCs, as mentioned, are concerned with fielding a multi-purpose program of economic renewal for an entire target area, while co-ops are almost exclusively single-purpose and for the benefit of members. That is, a co-op tends to be limited to a single type of activity for its own members -- such as offering lower cost consumer goods, or providing joint marketing services, or establishing a worker-owned business. Each of these activities might be taken up by a CDC, but a CDC would do many more other things as well, always including a business development program.

Two further comments on particular cases may clarify the distinction. In Spain, the Mondragon complex of co-ops operates as a multi-purpose community economic development program; as a system, these co-ops are analogous to a very large CDC. By contrast, in Canada, even the Antigonish movement, though it aimed at promoting the co-op structure for a variety of economic problems in Nova Scotia, never evolved an integrated system for comprehensive local development. Canadian co-ops (and those in the U.S.) have thus far remained single-function structures, more or less independent of others with different functions. For example, a credit union usually has little to do with a local worker co-op.

4 For example, successful CDCs sometimes have the experience of being importuned by a government agency to apply for a new program. To the agency, that CDC's application would represent both a confirmation of the program and the likelihood of a successful project to be administered by the CDC. But sometimes the new program is rather low on the local priority scale, and to apply for it, receive the grant, and focus energy on it would be a misplaced use of scarce resources.

5 Even a large city can feel the impact of outside ownership. The Glidden Paint Company was founded in Cleveland in 1883, but after it was acquired by SCM Corporation in 1967, the Cleveland facilities were soon closed in favour of factories elsewhere. So Cleveland lost a native industry. On the abandonment of lesser communities by major outside corporations, see Robert Goodman, The Last Entrepreneurs: America's Regional Wars for Jobs and Dollars (Boston, MA: South End Press, 1979).

6 See, for example, Michael Booth, "Ownership of Industry: The Maine Case" (working paper published by the Center for Community Economic Development, Cambridge, Massachusetts, 1972). Booth documented that for the period studied (1958-1969, the latest for which data were then available), absentee-owned industries grew at the rate of 8 percent, while all Maine industries grew at the rate 82 percent. And in the troubled shoe industry, employment at absentee-owned companies fell 12 percent, while Maine shoe companies as a whole grew at an amazing 110 percent. A broader explanation may be that locally-owned ventures tend to be smaller, and job growth is usually higher in smaller companies. Compare David L. Birch, The Job Generation Process (Cambridge, MA: M.I.T., 1979).

7 Bennett Harrison and Sandra Kanter, "The Political Economy of States' Job-Creation Business Incentives," AIP Journal (October 1978) 44: 424-435; see p. 430. For a recent review of empirical studies, see Donald N. Steinnes, "Business Climate, Tax Incentives and Regional Economic Development," Growth and Change (1984) 15: 38-47. On the general effect of state tax levels as an encouragement to business growth, see the negative findings of T. Bartik, "Business Location

Decisions in the United States: Estimates of the Effects of Unionization, Taxes and Other Characteristics of States," Journal of Business and Economic Statistics (1985) 3: 14-22. Similar negative findings for Canada are reported in David Springate, Regional Incentives and Private Investment (Montreal, P.Q.: C.D. Howe Research Institute, 1973). (I am indebted to Mark Macneill for the Springate reference and for other aid on the Canadian experience of location incentives; see footnote 9).

8 Harrison and Kanter, work cited.

9 Just to take a hypothetical example from Canadian location incentive practice: for an initial period of about two years the Cape Breton Investment Tax Credit actually cost about $23 million in federal tax expenditures to attract four off-island firms setting up new ventures. That same $23 million in directly appropriated funds could conceivably have been applied to the construction of badly needed affordable housing. Thus, at $50,000 per housing unit the opportunity costs were the construction of 460 units of family housing, which, spread over a ten-year construction period, could have provided the equivalent of 62 full-time year-around jobs, if one assumes that each housing unit represents about 2250 person hours of work. The assumption of labour hours per housing unit derives from computations made by the Cape Breton Labourer's Development Company. The tax credit costs come from Enterprise Cape Breton, the agency supervising the incentive program, as quoted in C. Mark Macneill, An Evaluation of the Prospects for Success or Failure of the Cape Breton Investment Tax Credit, M.B.A. Research Project, St. Mary's University, Nova Scotia, 1987.

10 See, for example, Marc Fried and Peggy Gleicher, "Some Sources of Residential Satisfaction in an Urban Slum," Journal of The American Institute of Planners (1961) 27: 305-315.

11 It is unfortunately also true that people in a community setting can hold each other back, fearful of the reflected humiliation that someone else's success may mean. Naturally, the community economic development strategy must overcome this potential hurdle. One sees it happen when the people of the community are convinced and eventually confirm that they will all rise together when they all work together. (This is not to say that community economic development ends invidious comparisons or differential success but that it offers a broader vision of more broadly-spread benefits.

12 The town that has grown up around a gold strike or oil find and is confronted in a few years with the depletion of the resource is a candidate for such persuasion. Traditions are

weak, history short, relationships tenuous.

13 In general terms, the social costs and benefits, perhaps more than the economic, have been the rationale in any case for national programs of regional development. The benefits range from the basic moral considerations of equity among citizens of the same country to the heightened self-respect of people who enjoy the independence of a good job instead of the dependency of transfer payments, and range on to the preservation of local cultural values and different ways of like that are destroyed by a deteriorating local economy. None of these are measurable in dollar terms, though their absence can be extrapolated into the dollar costs of increases in alcoholism, child abuse, mental hospital admissions, and the like. Cf. M. Harvey Brenner, Mental Illness and the Economy (Cambridge, MA: Harvard University Press, 1973).

14 See Making the Grade: The Development Report Card for the States (Washington, DC: Corporation for Enterprise Development, 1987). A theoretically and methodologically more sophisticated predecessor of this recent approach may be found in Paul R. Eberts and Frank W. Young, "Sociological Variables of Development: Their Range and Characteristics," in George M. Beal et al., eds., Sociological Determinants of Domestic Development (Ames, IA: Iowa State University Press, 1971). Their seminal work has not yet been adequately exploited.

15 My data here come from an unpublished monograph by Professor Raymond L. Russell, Department of Sociology, University of California at Riverside.

16 Book ROI is the accounting rate of return, differing from "economic rate of return" and from "internal rate of return." The point here is that analogously ROTI should not be depended upon as the one true way to measure the return on government investments in economic development. The number of jobs created and number of private investment dollars levered are other usual possibilities, though they do have some methodological problems. For other broader measures, see Eberts and Young, work cited.

17 It should be noted again that as a CDC, KHIC did more than merely invest in some new ventures. Thus, ROTI is a very conservative measure of the federal expense of grants to KHIC; it understates what the CDC contributes by all its programs.

18 The chart is derived from a brief report issued by the Institute for New Enterprise Development, Community Investment in Private Enterprise, INED Memorandum No. 3, Cambridge, Mai, 1980.

19 An Evaluation of the Special Impact Program: Final Report (Cambridge, MA: Abt Associates, Inc., 1973).

20 See Federal Assistance to Community Development Corporations: An Evaluation of Title VII of the Community Services Act of 1974 (Washington, DC: National Center for Economic Alternatives, 1981).

21 Evaluation of performance was indexed by a single measure that combined several indicators, such as wage improvement for the newly hired employee, number of jobs created by the CDC, and amount of capital levered. About 40 percent of the variation of that performance index could be accounted for by the community control factor alone. In short, whatever else was affecting the CDC performance, the community control factor could be said to determine about 40 percent of it, in a positive direction -- a powerful showing in any economic study.

22 Rita Mae Kelly, Community Control of Economic Development: Boards of Directors of Community Development Corporations (New York, NY: Praeger, 1977).

23 More detail and additional studies are included in chapter 12, "Evaluating Community Economic Development," in Perry, work cited.

24 The terminology of "core" and "periphery" is used by economists to refer to more highly developed areas (or nations) versus those outside that development.

25 Closely restricting the uses of the grant funds ends up essentially as interference in local program decisions, but that must be distinguished from program monitoring. Federal program administrators should, of course, make sure that the recipient grants are spent for the purposes for which the recipient requested them. The issue is how broadly those purposes may be drawn.

PAPER 2:

OPTIONS IN REGIONAL DEVELOPMENT POLICY

From the U.S. Experience with the Community-Based Approach

OPTIONS IN REGIONAL DEVELOPMENT POLICY

ABSTRACT

Both public and private initiatives in the U.S. practice of community economic development illustrate a range of options that can be used for a Canadian strategy of regional development. The provision or mobilization of capital is the most frequently used tool and is the main focus of the community-based initiatives here described.

Various forms of private capital have been key, even when government programs are also involved. Even when government capital has been important, mediating private structures (especially the so-called community development corporations or CDCs) are essential and lever the significant private capital, through the main source, the private banking system. Among the more prominent techniques are the revolving loan guarantee fund (a CDC uses its fund to encourage a bank to finance otherwise rejected ventures) and the linked deposit (the CDC's own funds or the dollars of allies are deposited if the bank will provide financing to targeted ventures).

Other major techniques for mobilizing private capital includes the "program related investment" of socially concerned institutions (such as churches or foundations) which use some portion of their endowment or pension funds to invest in practicable community-based ventures. A new industry of investment counsellors and analysts has arisen to serve socially concerned individuals and institutions ready to invest in community development. Also, a broad range of banks or their analogs have been created, bought, or adapted by CDCs or other community groups.

The level of private activity in this field (as well as state and municipal activity) probably can be traced to experimental federal programs. For a dozen years or so, financial support by federal agencies for community groups brought the concept and practice of community economic development to the point where it was taken up by other government levels or private auspices.

Chief among the states active in the field has been Massachusetts which, among other initiatives, launched a development bank for joint ventures with CDCs. Other states have established adaptable programs of state pension funds for targeted investments, grants for university/business research, linked deposits, etc. Some inventive municipalities have required private development in more attractive zones to be coupled with projects in distressed areas. Success in many of these public initiatives has depended upon CDCs or similar groups to provide the needed community base.

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OPTIONS IN REGIONAL DEVELOPMENT POLICY

Based on the experience of practitioners and policy-makers in the United States, this paper is designed to illustrate a range of options for a Canadian government strategy in support of community-based economic development. The paper assumes the cogency of the community-based approach for regional development and the empirical evidence for its effectiveness presented in Paper 1.[1] The aim here is to describe relevant private as well as public initiatives, since government can facilitate private activity as well as operate direct programs.

Programs at all levels of government, as well as private programs on both the national and local level, will be considered. State level government programs in Massachusetts will be especially highlighted, since they represent the most systematic use by government of the community economic development strategy. The main focus in the options illustrated will be on the provision or mobilization of financial capital.

MOBILIZING PRIVATE CAPITAL

From the experience in the United States and other nations, government certainly should not be assumed to be the sole or even major source of capital. Indeed, direct government provision of capital can be counterproductive.[2] It is safe to say that, ultimately, private capital is the key to community economic development. It is true that governments usually must be involved in making that capital available to communities, but when government seed capital has been most effective for local development purposes, it has been utilized through mediating private structures.[3] For the most part in the U.S., such structures have been the so-called community development corporations or CDCs.[4]

Other types of mediating structures, such as the Small Business Investment Corporations (SBICs), have been used to lever private funds with initial government financing. They have played an important role in their way and should not be ignored.[5] However, the kinds of investments SBICs were allowed to make were highly restricted, and the kinds of private money they had access to were also limited. CDCs, as the most broadly based private sector organizations using government funds as a major levering tool, became the most proficient in tapping many different parts of the private sector for other necessary capital. And CDCs had a wider range of potential investment targets open to them, including real estate development and housing, which were closed to SBICs.

The U.S. experience indicates that the most significant source of funds (for any of the intermediary institutions) has been the traditional banking system, as that source can be levered through other private and public funds. The trouble is that banks usually have not wanted to lend to community organizations, particularly in low-income, depressed communities. As a result, the CDCs, as the prime movers in most instances have had to construct a variety of techniques to overcome this reluctance -- depending on the banker's reasons -- in any particular situation.

Of course, one basic reason has been a general reluctance to lend to any non-profit group, because it is difficult for banks to make the organization's directors or officers responsible for repayment in the same way as they could with for-profit groups. To overcome this reluctance, CDCs (which are ordinarily non-profit) have sometimes used a for-profit subsidiary as the borrowing unit, especially one with some previous track record of bank borrowing as may be the case in a business that the CDC has bought or a holding company set up by the CDC. In fact, this technique has been used in Canada by the Human Resources Development Association of Halifax, which created a for-profit subsidiary, HRDA Enterprises Ltd., for its business development activities, including relations with banks.[6] While one might wonder why the profit-making status would make a difference since the owner of the for-profit firm is a non-profit organization, somehow it helps allay a bank's fears.

Another favourite mechanism for accessing bank capital on behalf of local development is the <u>revolving loan guarantee</u> fund, used to reduce a bank's aversion to loans promoted by the CDC.[7] Usually such a fund has been established by a CDC using grants from one or another federal department, although in some instances the seed capital has come from a private foundation. The fund serves local businesses that are in need of expansion or start-up capital, and are able to pay going loan rates, but are unable to convince a bank to offer credit. In effect, the CDC, through the fund, offers collateral to a bank if the bank will provide the needed credit to the local business. The CDC deposits an amount at the bank to guarantee a certain percentage of the business loan, under specified conditions, and receives back its deposit as the bank's loan is paid off.

This procedure has produced excellent results, and in fact the loan loss experience of these funds has probably been less than the experience of the banks themselves on their conventional loans.[8] That, incidentally, is one demonstration of the effectiveness and efficiency of the community-based development approach. Where decisions on economic development projects are made by local leaders with their naturally intimate knowledge of the local situation and the people involved, potential risks are easier to assess.

In sum, government capitalization of local loan guarantee funds represents one of the more effective options for supporting community-based development. Decentralization of loan decisions from government bureaus to local intermediaries reduces financial risks, eliminates most of the difficult government administrative responsibilities connected with such decisions, reduces the opportunity for political interference, and offers substantial leverage of private funds available in the banking system.

Another technique used by CDCs to mobilize private capital has been the so-called linked deposit, in which a bank customer, either established or new, agrees to leave a specified amount in an account if the bank will lend money to the community economic development project. Sometimes this depositor may be the CDC itself; in other instances the CDC may be able to recruit a partner -- for example, a large locally-based corporation that stands to gain in public relations or obtain other advantages by cooperating with the CDC. The bank cooperates, of course, in order to receive or maintain the deposit assets, which it can then use to lend many times more than the deposit amount. In the U.S., government agencies have also used the linked-deposit technique to encourage banks to lend to small businesses, though not otherwise specifically for local economic development. It is a technique that could be used in Canada, as well.

Still another mechanism for increasing the availability of local capital is the purchase of a local bank or the establishment of a new bank by the CDC. The East Los Angeles Community Union, a CDC using a federal venture development grant and other funds, bought a savings and loan institution as an instrument to use in its revitalization of the heavily Hispanic district of several hundred thousand people. And Pyramid West, a CDC in a black inner-city district of Chicago, established its own bank, although only after a very difficult campaign with the Illinois state banking authorities.

A quite different solution is illustrated by Chicago's South Shore Bank. The owners of this bank wanted to move it from the deteriorating neighbourhood in which it was located to a downtown location. Moving it would have further contributed to the neighbourhood's deterioration. To forestall the move, the bank was bought out in 1973 by a group of private, socially concerned investors determined to use the bank for the renewal of its neighbourhood. Now, after many years, the bank continues to operate as a strong force in the improvement of housing resources and in the financing of local businesses. It has attracted many socially responsible investors and depositors (including a number of foundations and religious orders) throughout the country, who want to participate in its very sophisticated community banking activity.[9]

The Massachusetts Urban Reinvestment Advisory Group (MURAG) illustrates still another sophisticated use of the community base to influence bank behaviour.[10] MURAG, a non-profit Advocacy group organized in 1979, depends upon the force of two pieces of federal legislation -- the Home Mortgage Disclosure Act and the Community Reinvestment Act. These laws, incidentally, were unsuccessfully opposed by the banking industry but are now probably fairly well established despite that continued opposition. The laws permit community groups (and others) to use any negative record of bank behaviour in serving the neighbourhood in which a bank or branch office is located to effectively torpedo the bank's application for federal approval of new or changed operations. The current use of the authority offered by the law suggests that it is not as fearsome a piece of regulation on behalf of distressed communities as it might have seemed, and so indicates that similar legislation might be possible in Canada.

One case in MURAG's history shows how the organization actually benefitted the bank concerned as well as redirecting the bank's contribution to a needy community.[11] The bank in question had been in the process of reducing services at a branch it considered superfluous and unprofitable, with the announced plan of eventually closing the branch. In 1979, in conjunction with a neighbourhood organization and neighbourhood businesses, MURAG was able to document the fact that the branch had long since stopped offering standard and reasonable services and that this practice had led to its poor profit performance. The bank thereupon reversed its decision and beefed up its staff -- and soon discovered that the branch was becoming one of its more profitable sites.

In the same year, MURAG took a more adversarial role, successfully opposing the efforts of a bank to open a new site. It argued that the bank was not serving the depressed communities where it already had other branches. Such cases suggest that MURAG and similar organizations have been able to counter the practice of redlining (i.e., refusing financial services) for distressed areas. This particularly illustrates how government may play an essential role even without providing public funds.

The U.S. has also seen the creation of a special form of nationally chartered credit union, the Community Development Credit Union or CDCU.[12] The CDCU, as distinct from conventional credit unions, is not based upon a specialized membership, such as a union or specified employer of the like, but upon a specified geographical area designated as in need of new capital-providing structures and financial services. The CDCU is, by law, permitted to make business loans but not offer equity capital. In this, it is similar to the powerful form of credit union promoted by Quebec law, <u>caisse d'entraide économique</u> or CEE, offering entrepreneurial banking facilities for long-term commercial and industrial mortgages. Wherever legal restrictions or regulations hinder the capacity of credit union institutions elsewhere in Canada to participate in community renewal, obviously they need to be examined and changed.[13]

The CDCU raises substantial funds from its members, even when they are residents of a low-income community, and thus can play an important if limited role in the financing of local development. Low-income areas may not seem at first, to have capital resources, but it is important to recognize that community-based institutions like CDCUs can raise local capital -- even equity capital -- in their own depressed areas.

One of the most successful records in raising local equity was compiled by a non-profit community development corporation in Philadelphia, Zion Investment Associates.[14] Zion, based in a local Baptist church, created the so-called 10-36 plan, by which each CDC member committed to paying in $10 per month for 36 months. Eventually $200,000 was raised in this fashion, and over time Zion levered millions of dollars for commercial and housing development in the neighbourhood.

The Zion case illustrates the fact that every depressed area in need of economic development must depend in part on outside capital, even though it mobilizes its own local capital. Local organizations, however self-reliant, must make use of outside sources for various financing purposes. Of course, low-income area investments, whether in loan or equity form, do not usually attract conventional outside dollars. Ordinarily such funds come from institutions interested in assisting low-income districts. Of such institutions the Ford Foundation has been, by far, the most significant source of private capital grants, loans, and equity for community-based development.

Ford has made funds available not only through conventional grants for operational costs and local projects but also through an increasingly more widely adopted mechanism called the program related investment or PRI. PRIs are recoverable investments by a foundation (or other socially concerned organization, such as a religious order) of some part of its endowment or pension funds in community business ventures or other revenue-generating activities that will promote the basic philanthropic purposes of the organization. Churches, for example, instead of investing their pension and endowment funds in conventional revenue-generating instruments such as government bonds, are beginning to discover that they can make their dollars do double service: earn a dollar return and also contribute to specific philanthropic social goals, such as promoting low-income housing.[15]

Ford's PRI concept has been generalized in recent years into a national trend of alternative investment in community-based or other socially targeted ventures.[16] This has actually become a new industry, with specialized investment counsellors and technicians catering to the requirements of the socially concerned individual or institutional investor who seeks to provide financial assistance to the revitalization of depressed communities.[17] Here, the pathbreaker has been Affirmative

Investments, Inc., a Boston firm capitalized in 1983 by a group of small foundations and a bank which has long had an interest in socially responsible investment counselling.

Affirmative Investments (AI) began as a registered investment advisor to a small number of individuals and organizations. It differs from almost all other social investment advisors in that it does not deal in publicly traded stocks and bonds (however "clean"). It has instead handled so-called private offerings, those designed to avoid the complications and considerable expense of selling stock publicly, by restricting the offer to a limited number of potential investors (who by law must be financially knowledgeable).

Since community projects are rarely, if ever, strong enough to justify a public offering, they must use the private offering technique. AI's clients depend upon AI to analyze on technical as well as social grounds potential investments like low-income elderly housing developments or cooperative business ventures, and to tell them whether to invest in the project and what sorts of risks and returns are involved. AI has recently evolved a new investment structure which specializes in marketing equities in limited partnerships for low-income housing, taking advantage of tax shelter provisions in recent federal revenue legislation.

Conceptually related to the aims of AI is a new, rapidly growing alternative finance technique known as the Community Loan Fund. This concept was pioneered by the sponsors of the Institute for Community Economics (Greenfield, Mass.).[18] Each Community Loan Fund (CLF) solicits investment capital from socially concerned individuals and institutions at concessionary rates and conditions in order to re-lend the funds (usually at below market rates) for community-sponsored business ventures, affordable housing, and other community projects focusing on the needs of low-income residents. CLFs provide debt capital for projects that would not qualify for conventional financing, yet the record of CLF loans has been outstanding. Technical analysis of CLF loans shows that they have rarely been in default and that CLFs in fact probably have at least as good if not a better loan loss ratio as most commercial or savings banks.[19]

For instance, the Boston Community Loan Fund, a relatively new institution founded in 1986, has made over two million dollars in loans without a loss or default.[20] Its work has created or preserved about 650 units of affordable housing for low-income, handicapped, and other hard-to-serve residents in the Boston metropolitan area. Its loans have been exclusively to non-profit community-based groups. It is able to do its work more effectively because it works closely with housing development support programs sponsored by the Boston City government, generally filling financing gaps for relatively short-term loans (for so-called bridge loans, construction loans, and so on) that no other financial institution will take on for such housing projects. Thus, although the initiative here is totally private, its success depends partly on the levering potential of government activity -- in this instance, the housing support programs of the city of Boston. Of course, the success of the city programs conversely depends upon the work of community-based groups such as the Boston CLF and the community housing developers, including many CDCs.

FEDERAL GOVERNMENT CAPITAL AND SUPPORT

In the 1980s, partly due to the Reagan administration's budget cuts, techniques for private mobilization of capital for community economic development have been at a premium and have increased in number and kind. Yet it should be emphasized that such private activity would not have been possible without some dovetailing with federal, state, and municipal government programs and policies supporting community-based development.

First of all, it is probably safe to say that the momentum in the United States for community-based development could not have arisen without substantial federal support in the <u>previous</u> decade or so. That is, a variety of federal programs, mostly not now available, were used in that period by community groups for their own local purposes. And assets, sophisticated skills, and significant financial relationships (for example, with local banks) were developed with that help.[21] Moreover, the visibility given to the concept of community economic development on the federal level encouraged individual states to consider instituting their own programs of support.[22]

Second, there remains today a continuing, though very small, program of grant support for community economic development. A $20-30 million program of grant support is still being administered through the U.S. Department of Health and Human Services. (Despite annual opposition by the executive branch over the past eight years, Congress has continued this program.) Thus venture capital grants, sometimes in conjunction with funds for general administrative expenses, reach a few promising community development groups. In line with the recommendations of program evaluation research,[23] grants are not usually provided to well-established groups but rather to relatively newer CDCs which have not as yet developed the capacity to tap the wider range of capital that the more established organizations have developed. (Incidentally, the Ford Foundation, generally speaking, follows the same policy today, also on the rationale that more impact can be achieved with the limited dollars available by aiding newer CDCs.)

Finally, there are still some limited federal programs of support for economic development in a variety of fields (such as education, agriculture, and conventional economic development through local physical infrastructure and other similar grants) that could be significant for a community group with a comprehensive approach to local development. The most specific programs remain those in the Economic Development Administration, even though most of these are designed for local governments.

Thus, despite the budgetary cutbacks of 1981-88, aggressive and sophisticated CDCs can gain direct access to limited federal dollars for their local purposes. This is in addition to the federal monies (for example, the Community Development Block Grants and the Urban Development Action Grants, administered from the Department of Housing and Urban Development) that are channelled to states and cities and can often be reached by local community groups through their state and local governments.

To recapitulate, the U.S. experience demonstrates the power of federal money directly and indirectly for stimulating state and local support for community-based development efforts. A continuation of that federal support, albeit in a limited fashion, is probably the key to continued state and local support.

STATE PROGRAMS

Massachusetts

Among the states, Massachusetts has most systematically exploited the concept of community economic development.[24] That does not mean that the record in Massachusetts is peerless, but the efforts are worth close attention. Massachusetts' prominence in the field resulted from a convergence of leadership in different sectors in the early 1970s.

Within the state legislature a representative (Mel King, now teaching at Massachusetts Institute of Technology), elected from a depressed black neighbourhood in Boston, had long studied and promoted the concept of community economic development. As a leader of the caucus of black legislators, he was able to gain attention for that concept.

Before becoming governor, Michael Dukakis and his law firm had provided legal services for a black economic development group, and so he was already acquainted with the concept of community economic development. As governor, he chose as a central focus of his administration the mobilization of state energy for general economic development goals; and the corporate business and finance sectors were pulled into his plans. Community-based approaches were only one interest in an activist administration, but they represented significant innovations.

Moreover, Boston neighbourhoods, including an Italian-American neighbourhood, had already created a number of CDCs for their renewal activities. Thus there was already a base of community organizations that could promote a program for the entire state. And finally there was a well-established tradition of expert service groups and specialized consultants working with the neighbourhoods on their development problems, especially in relation to state and federal programs. There was in fact a national, federally-funded Centre for Community Economic Development in Massachusetts, which acted as an advocate and research service particularly on policy problems. Thus ideas could evolve, receive technical attention and be developed, and then be effectively promoted through the state government.

In the late 1970s, all these factors led to an innovative state venture capital institution, directed solely to financing private joint ventures with CDCs. Funded initially by a state bond issue of $10 million, the Community Development Finance Corporation (CDFC) was established as an independent state entity -- much like a Canadian crown corporation. Although its board is appointed by the governor and must include representatives from the state offices for economic affairs, for development, and for administrative finance, other board member are drawn from labour and from the CDCs around the state. In short, the institution is deliberately rooted in the constituency for community-based development and thus helps to maintain political pressure for local control of development activity.

However, the provision of capital was recognized from the first as only one element in furthering community-based development. A parallel organization, the Community Economic Development Assistance Corporation, also an independent state agency but without bond funding, was soon established to offer the outside technical advice that most CDCs need and seek for their projects. Later, an annual program (Community Enterprise and Economic Development or CEED) within the state development department was established to provide small-scale grants for operational expenses and technical assistance, especially for the newest CDCs. This program of annual appropriations is intended as a complement to CDFC and CEDAC.

Although Massachusetts has been used as a model by other states, its performance has been spotty. CDFC has suffered from personnel turnover and from the appointment of chief officers who were not experienced in community economic development; its investment record is quite mixed. CEDAC has been relatively stable, but it has strayed from its mission. It was conceived originally as technical support for CDCs in their venture proposals to CDFC. The founders of the state's community economic development programs recognized that any development banking must be paired with a vigorous technical assistance function to support the bank's clients. The idea of CEDAC was to free CDFC from any responsibility for technical assistance. This was to allow CDFC to make investment decisions without having a psychological or other commitment to the project by having helped to set it up. But because of bureaucratic and other competitiveness between the two agencies, CEDAC never entered into that relationship of technical support for potential CDFC investment projects. In fact, it now offers no technical assistance to CDCs for venture development, restricting its aid to CDC housing projects.

Instead, CDFC itself offers technical aid to CDCs in structuring their deals with their potential private partners. It does this, however, for deals proposed to it by private entrepreneurs which CDFC has reviewed and found generally attractive and worth recommending to a CDC. That approach tends to blur its basic commitment to fostering the CDCs' own venture development efforts, for then it must persuade a CDC to accept the prospective deal and then analyze how the deal might be structured and what the CDC's dollar position in the investment should be in relation to CDFC's and to the entrepreneurs'. It is true that fully independent venture development assistance to CDCs is potentially available from the state CEED program, but CEED's annual timetable of grants does not adapt well to the investment analysis and design task. Indeed CEED aid is most often invoked for such matters as strategic planning, fiscal management procedures, and staff and board training.

In the same general period, in the 1970s, when CEED, CDFC, and CEDAC were established, a variety of other state initiatives for economic development were launched in Massachusetts. Even though they were not designed for community organizations, they undoubtedly contributed to the opportunities available to CDCs. These programs were intended to promote economic development, in general, throughout the state, and they avoided the usual location incentive strategies or the so-called smoke-stack chasing approach.

Probably the most intriguing was a deal with the state's major national insurance companies, which were given tax and deregulation advantages upon condition that they establish a consortium for investments within Massachusetts. The result was the Capital Resource Corporation, a private venture capital organization that offers significant financial backing for new and expanding companies located in Massachusetts.

In effect, this was a state wrinkle on the similar federal legislation directed toward banks to end redlining policies or face sanctions. Massachusetts told the insurance companies to make investments in the state or face sanctions for their policies of investing outside the region. While not every region will have a corporate headquarters resource like Massachusetts' Prudential or John Hancock insurance companies, trading regulatory advantages for an agreement by regional financial actors to improve their investment behavior remains an interesting possibility.[25]

More recently, Massachusetts has established a Cooperative Regional Industrial Laboratory program (CRIL) for sub-regions of the state. CRIL is intended to support local coalitions of labour, business, and county and municipal governments, which address the specific economic problems of their own area. The CRILs specialize in particular issues, depending upon the existing local economic situation. For example, in one part of the state a highly developed tradition of machining is in decline, with many very skilled workers underemployed or unemployed. The CRIL there linked a CDC with the machinists' labour unions, business representatives, and others to research new ventures which might utilize the area's unused skill base. The CDC and its collaborators also hope to increase the market for existing machine trade companies and retrain some of the workers who have already been displaced.

In sum, the state mapped a new terrain for regional development efforts on a community by community base. Despite the criticisms that I have levelled at the innovative institutions created by the joint efforts of many in the state, those institutions offer inventive techniques to insulate local development activities from state government administrative or political interference. Moreover, the model provided by Massachusetts has been emulated, at least in part, by other states.

OTHER STATE PROGRAMS

Florida, Wisconsin, Minnesota, and Ohio are states which, in one way or another, have used the Massachusetts experience to evolve their own community economic development programs.[26] However, only Wisconsin has established an independent capital resource unit on the order of CDFC. The others depend upon annual appropriations, which of course makes their programs more susceptible to political influence and more vulnerable to the vicissitudes of budgetary fluctuations. More insulated from political intervention is the technique used in Pennsylvania and Missouri, among others, of offering state tax benefits for corporations that support community development projects. This technique has the advantage of administrative simplicity. A community designs a project and (by a fairly easy process) gets it certified by the state tax department as eligible for assistance. Then the community sponsors can seek financial aid from a state corporate taxpayer. If the corporation finances the project to any extent, it merely enters its record of financial aid to the project in its annual tax return in order to receive the credit.

A number of other states have instituted innovative economic development programs that could be relevant for the work of community groups in their business creation projects, even though the innovations are not directed at community-based activities. Only a few such programs will be given brief mention here.[27]

One innovation of considerable interest is Maine's "net new funds" requirement for banks seeking state permits. The bank must demonstrate that it will be bringing into the state more investment resources than it will send out through its new state operations. To take another example, Michigan established legislation allocating 5 per cent of its state pension fund investments for venture capital. Also, Ohio has a state linked-deposit program by which it accepts 3 per cent less than the market rate for its certificates of deposit in banks that agree to make small business loans at 3 per cent lower than the market rate. A number of states have recognized the essential relationship between new business and the stimulation and innovations growing out of higher educational institutions and thus encourage business-university collaboration in technology by offering matching or other grants for research and development.[28]

As regional development initiations, state-level programs are entering into a new phase that departs from the conventional location incentives. Simply keeping track of the innovative techniques and programs sponsored by state action has become a more challenging task than it has been for decades. And the growing emphasis on community-based efforts will change the ways we assess what makes for economic growth on the state or provincial level, by among other things, forcing us to consider different kinds of data.

For example, until very recently, conventional wisdom fastened on the state tax rates and programs of location incentives to construct an index to measure the state environment for business growth.[29] But in the last couple of years, more and more critiques of this approach have been issued.[30] A new index that has received a good deal of press attention includes the presence or absence of specific programs in the field of community economic development. The authors argue that this and other new measures in their index can more powerfully describe the states that are benefiting from higher private investment rates and lower unemployment rates.[31] Building on this work but using a simpler methodology, other analysts have designed a way to index development differences among smaller regions within a larger one.[32]

MUNICIPAL ACTION

As the states have come to recognize the potential of community organizations for economic development, so too city governments have devised techniques to revitalize their depressed neighbourhoods through neighbourhood-based organizations. Perhaps the most ambitious and innovative of the municipal approaches to neighbourhood redevelopment is the so-called development linkage technique, first used by San Francisco. In this measure, development permits and other city regulation and encouragement of development in highly attractive areas of the city are dependent upon the private developers' contributing to the revitalization of a depressed area of the city that would not otherwise get development attention.

Linkage may be as simple as a special tax on the development project that will go to a fund to be used for capital in a depressed neighbourhood. In other cases it may require that the developer actually construct new affordable housing in that neighbourhood, or it may take a still more ambitious form as in Boston's so-called parcel-to-parcel linkage program.

In the initial Boston case, the development of a "hot" downtown area on the edge of the financial district has been joined with the development of an area abutting one of the city's most distressed districts, Roxbury. In both locations, development will involve the construction or rehabilitation of commercial, retail, and other business properties, including hotels as well as housing, on what is now city-owned land. Minority and other residents of both areas (the downtown site is adjacent to Boston's Chinatown and the Roxbury area is mostly black and Hispanic) will have a voice through citizen advisory groups in the ultimate design of the development. Also, there are requirements for affordable housing and for hiring Boston residents in the construction and other phases, requirements for placing women and minorities in jobs, and requirements for opportunities for minority businesses in construction and in the ultimate use of the office of commercial space. Participation is guaranteed for CDCs operating in the two neighbourhoods. Key to this whole project is the city's allocation of public lands in the two parcels. Thus it is more than permits, zoning regulations, and other such municipal actions that the developers will benefit from as they carry out this dual site project.

CONCLUDING COMMENTS

Because more and more states and cities are rethinking their economic development practices and trying out new ways to engage the energies and ideas of community-based organizations in the regions and neighbourhoods requiring revitalization, it will be necessary for any strategy of regional development to include a continuing survey of the use of new techniques and their successes, failures, and limits.[33] This paper can only give some sense of the ongoing change in the field and alert the reader to the potential that lies in examining the U.S. community economic development experience.

While the emphasis here has been on the mobilization and use of capital resources, it is necessary to stress again that capital is not the foundation of the new strategies. What is truly critical is the encouragement of indigenous institutions for development. Economic development at the local or at the regional level is not the deployment of capital so much as it is the building of institutions. That is, the key feature of the community-based approach is the continuing deployment of ideas and energy inherent in institutions like CDCs; and so those institutional forms need to be promoted and supported. Strengthening such institutions enables them to be the sophisticated, sturdy, and independent intermediaries that are essential in order that any outside capital can be efficiently and effectively utilized.

The energies and ideas can be effective when they are guided by the sense of a necessary comprehensive network of efforts, as contrasted to mere business development. Thus it is that CDCs concern themselves with schools, daycare centres, and other social infrastructure, with housing, parks, and other physical infrastructure, and with self-reliance, advocacy, and other cultural infrastructure -- all of which can under-gird industrial and business development for the renewal of the distressed communities. Only under such circumstances can the distressed community rise from being an impediment to regional development and instead participate in the renewal of its region.

NOTES

1 See also Perry, Communities on the Way: Rebuilding Local Economies in the United States and Canada (Albany, NY: State University of New York Press, 1987).

2 See, for example, Dale W. Adams et al., eds., Undermining Rural Development with Cheap Credit (Boulder, CO: Westview Press, Frederick A. Praeger, 1984).

3 A cross-agency comparative evaluation of community impact from federal economic development investments demonstrated the significance of strong community-based intermediaries in contrast to direct government programs of business assistance. See Evaluation of the Special Impact Program, a report of the Westinghouse Learning Corporation under Contract #B89-4532 with the U.S. Office of Economic Opportunity, July 1970.

4 A CDC is a social invention of the 1960s. It arose more or less spontaneously in both rural and urban communities experiencing severe economic distress. Coalitions of local leaders in such a community would typically establish a private non-profit organization to carry out a comprehensive revitalization program, using a variety of local and governmental resources to improve the whole round of community life. In short, the CDCs were not concerned solely with business development and jobs but also with quality of life issues, with facilities for education and training, with housing, transportation, police protection, etc., as each of these factors appeared differentially important at the local level. See Perry, book cited, passim. See also Robert Zdenek, "Community Development Corporations," Chapter 7 in: Severyn T. Bruyn and James Meehan, Beyond the Market and the State (Philadelphia, Pennsylvania: Temple University Press, 1987).

5 U.S. federal statutory authorization and description is found in the Small Business Investment Act (Public Law 85-699, as amended). Performance data are reported in the SBIC Digest, published semi-annually by the U.S. Small Business Administration, Washington, D.C. 20416. See also discussion of small business investment in Economic Development Financing (New York, N.Y.: National Development Council, 1981).

6 See Suzanne Strickland, HRDA Enterprises Ltd.: A Case Study in Productive Alternatives for Public Transfer Payments (Cambridge, Mass.: Institute for New Enterprise Development, 1982). See also Elizabeth J. Beale, Regional Development in Atlantic Canada An Overview and a Case Study of the Human

Resources Development Association, Halifax, N.S.," (Ottawa: Economic Council of Canada Local Development Paper #3, 1989).

7 For one example, see Revolving Loan Fund Technical Manual (Washington, D.C.: Economic Development Administration, 1980). The guarantee technique has not been used by community groups in Canada to any appreciable extent, although there is a federal program that makes grants to community-based business loan funds as a means for economic development. See Lloyd Baron and Noel Watson, "Loan Funds for Small Business: Lessons for Canadian Policy Makers. A Case Study of Colville Investment Corporation, Nanaimo, B.C.," paper prepared for the Economic Council of Canada, 1989.

8 I am not aware of any systematic research to document this, but it remains my own impression based upon interviews with federal program administrators and local fund administrators, such as at the East Boston Community Development Corporation.

9 See Richard Taub, Community Capitalism (Boston, Massachusetts: Harvard Business School Press, 1988).

10 See Kirk Scharfenburg, "The Community As Bank Examiner," Working Papers (September/October 1980) Vol. 7, No. 5, pp. 30-35.

11 Personal interview with Mary O'Hara, President, MURAG. See also item on State Street Bank and Trust Company in a MURAG report summarizing activity from 1979 to 1983.

12 The National Federation of Community Development Credit Unions, a trade association represents this specialized group. See Michael Swack, "Community Finance Institutions," Chapter 5 in: Severyn T. Bruyn and James Meehan, eds., Beyond the Market and the State (Philadelphia, Pennsylvania: Temple University Press, 1987).

13 I will not here review federal and provincial regulations relevant to the credit union role in local economic development in Canada. Note, however, that in Nova Scotia the credit union system is currently undergoing a rigorous self-study to determine how it can take a more significant part in business financing and local economic development, especially with respect to worker cooperatives.

14 See Nels J. Ackerson, Lawrence H. Sharf, and Robert M. Hager, "Community Development Corporations: Operations and Financing," Harvard Law Review (1970) 83: 1558-1671.

15 For an overall view of church economic development activity, see Religious Institutions as Actors in Community-Based Economic Development (Washington, D.C.: Religious Philanthropy Program, Council on Foundations, 1988).

16 Also under the stimulation of Ford, a major new private capital supplier for community-based development has made a significant impact: the Local Initiatives Support Corporation (LISC). LISC is capitalized only in part by Ford and mainly by some of the largest insurance companies and other national corporations, explicitly to make loan and equity investments in community projects in distressed neighbourhoods.

17 See Alice Shabecoff, Alternative Investing in Community Development (1987), a technical bulletin published by the Community Information Exchange (an activity of the National Urban Coalition, Washington, D.C.). See also Severyn Bruyn, The Field of Social Investment; The Rose Monograph Series of the American Sociological Association (New York, N.Y.: Cambridge University Press, 1987).

18 The publication of the Institute, Community Economics, has regularly reported the growth and performance of this finance technique.

19 For information on performance of CLFs, consult Charles Matthei (Institute for Community Economics, 151 Montague City Road, Greenfield, Massachusetts 01301). The Institute sponsors a national association of CLFs providing self-policing and certification services. See Michael Swack, work cited.

20 For information on the Boston Community Loan Fund, consult Dick Jones, executive director, BCLF, 30 Germania Street, Boston, Massachusetts 02130.

21 For example, a research sample of 15 CDCs which had participated in the major federal program of support for community economic development had by 1980 amassed an asset base of about $183 million and has gross annual revenues of about $153 million. See Federal Assistance to Community Development Corporation: An Evaluation of Title VII of the Community Services Act of 1974 (Washington, DC: National Centre for Economic Alternatives, 1981). See also Lawrence F. Parachini, Jr., A Political History of the Special Impact Program (Cambridge, MA: Centre for Community Economic Development, 1980.)

22 For example, beginning in 1969 the federal government gave grant support to a Centre for Community Economic Development in Cambridge, Massachusetts, as a national research and advocacy centre. With that Centre located in the state, it may not be surprising then that Massachusetts was the first and remains the leading state in strength and variety of programs for community economic development. In fact, the initial legislative research for Massachusetts' community development bank was undertaken through the Centre's financial support when the state legislature did not vote study funds.

The apparent impact of this Centre suggests that a similar pay-off may possibly be obtained from the funding of the (Sydney, Nova Scotia) Centre for Community Economic Development by the Canada Employment and Immigration Commission. That is, provincial government efforts may be expected to be shored up and encouraged by the Centre's presence and work.

23 See Federal Assistance to Community Development Corporations: An Evaluation of Title VII of the Community Services Act of 1974 (Washington, D.C.: National Centre for Economic Alternatives, 1981).

24 A detailed examination of the recent history of Massachusetts (and other states) in economic development may be found in an excellent book by David Osborne, Laboratories of Democracy (Boston, Massachusetts: Harvard Business School Press, 1988). See also his Economic Competitiveness: The States Take the Lead (Washington, D.C.: Economic Policy Institute, 1987), on which some parts of the Laboratories book is based.

25 The aim, at least on the part of the state officials, of instituting the Capital Resource Corporation was to have capital available for private Massachusetts ventures that might not otherwise receive support. It is not clear that this, in fact, was the result of CRC's financing operations, although it is clear that the investments by the new institution were significant for the companies aided. See David Osborne, references cited.

26 Cf. Benson F. Roberts et al., Community Development Corporations and State Development Policy: Potential for Partnership (Washington, D.C.: National Congress for Community Economic Development, 1980), esp. pp. 63-72.

27 For a more extensive treatment, see Osborne's reports, already cited.

28 The American Association of State Colleges and Universities has emphasized the connection between economic development and higher education. See Allies for Enterprise: Highlights of the 1987-88 National Conferences on Higher Education and Economic Development (Washington, D.C.: AASCU, 1988). Programs are described in Directory of Economic Development Programs at State Colleges and Universities (Washington, D.C.: AASCU, 1988).

29 See especially the standard Annual Study of General Manufacturing Climates of the Forty-Eight Contiguous States of America (chicago, Ill.: Grant Thornton, published annually). This report is based upon analyzing 22 factors that have been singled out by manufacturing firms as important to their success.

30 See especially Taken for Granted: How Grant Thornton's Business Climate Index Leads States Astray (Washington, D.C.: Corporation for Enterprise Development, 1986). See also Perry, works cited.

31 See Corporation for Enterprise Development et al., Making the Grade: The Development Report Card for the States (Washington, DC: Corporation for Enterprise Development, 1987).

32 François Lamontagne and Christyne Tremblay, "Development Indices: A Quebec Regional Comparison," (Ottawa: Economic Council of Canada Local Development Paper, 1989). Compare the Vulnerability Checklist developed by the Canadian Industry of Single-Industry Towns. See Michael Decter, "What We Can Do for Ourselves: Diversification and Single Industry Communities: The Implications of an Economic Development Approach," and the Canadian Association of Single-Industry Towns' "The Vulnerability Checklist: A Tool for Community Self-Assessment," (Ottawa: Economic Council of Canada Local Development Paper, 1989).

33 For example, one approach, not dealt within this paper but in rather widespread use, is the so-called enterprise zone -- a district selected for special treatment in taxes, regulation, and other assistance to newly locating (or expanding) businesses. While all the evidence is not in on this area development technique, it has the basic form of the location incentive strategy and thus has all the disadvantages and the dubious advantages of this conventional view of what makes economic development. Where it may have had a documentable success, in Baltimore, for example, it has apparently depended upon the mediating structure of a neighbourhood CDC. See Perry, book cited, pp. 210-11, 230, and 245.

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