ECONOMIC DEVELOPMENT
AND EMPLOYMENT CREATION

A REPORT TO THE
W.K. KELLOGG FOUNDATION

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INTRODUCTION

The heated discourse on welfare reform represents drastic changes to the nation's primary anti-poverty program. It proposes various mandates to drastically reduce welfare rolls by imposing time limitations on program participation, ending entitlement programs, freezing federal spending levels, and transferring responsibility to states in the form of block grants with no requirement to maintain support levels. Following changes resulting from the Family Support Act of 1988 that required states to implement "workfare" programs designed to make welfare a transitional program with compulsory work and training requirements for recipients, the current welfare reform proposals will force the debate to go beyond the symbolism associated with poverty to address structural economic issues associated with income, opportunity and work.

If current Congressional time-limitations proposals succeed, it is estimated that some two million welfare recipients will attempt to enter the labor force in the near future. This prospect raises very critical questions about the ability of labor markets to absorb these workers and to offer jobs of a quality high enough to keep people off welfare and lift them out of poverty. It also raises questions about the capacity of existing employment and training systems to accommodate this influx of new jobseekers, as well as about the disconnections between welfare reform, employment and training, job creation and economic development.

These questions are inextricably connected to the growing level of economic disparity and loss of economic opportunity affecting not only the very poor, but also working- and middle-class people as well, and in a time of overall economic growth and upward income redistribution in the form of soaring corporate profits. These questions challenge the ability of institutions and systems traditionally concerned with poverty alleviation and economic development to respond to the manifestations of structural shifts in the economy and the devolution of government, and to do so with aforethought and in partnership.

In this environment the historic tension that has existed between economic development as a capital investment vehicle and economic development as an anti-poverty strategy will coalesce around the need for jobs – an oft-touted but rarely pursued objective of the former and the explicitly-stated yet largely unrealized goal of the latter. Redirection is occurring on a number of fronts, from employers demanding skilled workers to employment training providers desperate for actual work opportunities for their clients to community development corporations focusing on business development. From those concerned with isolated rural communities to those concerned with distressed inner cities. From those concerned with the lack of economic opportunity for poor people with limited skills to those concerned with the declining real wages and advancement opportunity for all but the most highly educated professionals. From those who look at the undercurrent of social dislocation as a national security threat to those who understand the relationship between productive individuals, stable families, and sustainable communities.

As the connections between community well-being, individual self-sufficiency, and economic opportunity become more pronounced, and public sector sentiment toward restitching the safety net wanes, philanthropic entities will face increasing challenges. Perhaps the biggest challenge for foundations is to respond accordingly to community conditions resulting from the deep economic restructuring the country has undergone, and to respond with thoughtful investigation and well-formulated, interconnected policies that guide long-term programs.

As one of the nation's largest foundations, the W.K. Kellogg Foundation is one of a handful that does not have an explicit economic development program, although the Foundation has supported projects that fit within an economic development or community economic development framework through other program areas. The purpose of this paper is to provide the W.K. Kellogg Foundation (WKKF) with an overview of the field of economic development. This paper will be used to frame discussions at the staff and board levels about how the Foundation might integrate economic development into its existing programming.

OVERVIEW OF ECONOMIC DEVELOPMENT

Economic development is broadly defined as *those processes and activities undertaken by the public and private sectors that stimulate the creation of wealth by mobilizing resources (human, cultural, financial, capital, physical, and natural) for the production, distribution and consumption of good and services*. Implicit in the goals of economic development is the creation of employment opportunity, achieving economic stability, and building a diverse economic and employment base. Classical economic development is primarily concerned with the location and behavior of firms and investment-centered activity. Benefits are generally unevenly distributed in this type of development. An alternative perspective attempts to balance this view and focuses on economic development that is accountable and equitable. Often termed "community" economic development, it has an explicit focus on creating economic opportunity for distressed communities and disenfranchised people.

WKKF's vision statement succinctly captures the connection between individual and family self-sufficiency, community viability, and economic opportunity when it speaks about a "…common vision of a world in which each person has a sense of worth; accepts responsibility for self, family, community, and societal well-being; and has the capacity to be productive, and to help create nurturing families, responsive institutions, and healthy communities." Many of the values and principles that guide the Foundation's work are consistent with principles implicit in job-centered economic development, particularly the emphasis on opportunity for disenfranchised groups, racial and cultural diversity and community and institutional capacity building.

There is a long history of public sector involvement in economic development that began in the 1930s with attempts to industrialize the South based on an industrial recruitment model that relied on the use of public incentives to entice manufacturers to a particular region. By the 1950s, urban areas embraced pro-growth development – economic growth through the development of large-scale comprehensive plans that emphasize investing in downtown development and regional infrastructure. These efforts were part of a number of factors that led to the structural shift from a manufacturing-based economy to a service economy.

Economic development approaches broadened in the 1960s, largely due to increased public awareness of income inequality and poverty. Despite the overall trend toward economic growth, there were gaps in the distribution of employment and opportunity, particularly in isolated rural areas and densely populated low-income urban communities, and especially in areas inhabited by people of color. The widespread unemployment and poverty found in these communities at a time when the economy was booming was seen as a problem of locational disadvantage, inadequate skills training, discrimination, or some combination thereof, that kept poor people from competitively participating in mainstream labor markets.

Government programs under the "War on Poverty" attempted to redistribute economic benefits through subsidies to poor regions and depressed neighborhoods. These programs sought to broaden opportunity through programs in education, job training and placement, social services delivery, and community development. Nonprofit community-based organizations (CBOs) and community development corporations (CDCs) emerged during this period, and they continue to be the primary institutions conducting economic development in poor communities. CDCs often create for-profit organizations to acquire indigenous and outside resources and provide technical assistance to projects for the physical, economic and social development in these areas.

While job creation has been an implicit objective of economic development, there is a significant disconnection between the activity that is termed economic development and the policies and systems concerned with education and training and job placement. Only recently have there been substantive attempts to connect economic development, job creation, and employment and training; broaden the job creation discussion to substantively include private sector and nonprofit sector employment; and address troublesome problems such as income disparity and welfare-to-work transition.

MACROECONOMIC FACTORS AFFECTING ECONOMIC DEVELOPMENT

After several decades of economic growth, the U.S. economy is undergoing significant structural change that is raising new questions about the way in which resources are used and distributed and the degree to which all can achieve economic development. Structural changes in the U.S. economy have resulted from a shift from good-producing activity to a service-producing system. These changes are integrally linked to changes globally. After decades of being insulated from the international economy, the U.S. economy is now inextricably connected to global transactions and events. This has resulted in a widening income gap that concentrates more people at the very bottom of the income and opportunity scale.

Decline of Manufacturing. The decline of manufacturing (and other extraction-based, good-producing industries) has been affected by several factors, including the dispersal of the population away from central cities, changes in technology that reduced labor requirements, and the globalization of capital and labor markets that precipitated the offshore migration of U.S. firms. After reaching a national peak of 19.5 million manufacturing job in 1977, the sector's employment dropped to 18.9 million by 1987. New manufacturing technologies led to a reduction in the demand for labor overall, but an increase in the demand for high skilled workers.

Rise in the Service Sector. While the manufacturing sector continues to decline, the service sector has experienced steady, rapid growth over the last few decades. Service sector jobs account for nearly three-fourths of all U.S. employment. The sector is characterized by low-paying, low-benefit, deskilled jobs that offer few prospects for security and upward mobility. Women entering the labor force have taken many of these jobs. Seventy-five percent of the new jobs created by corporations between 1979 and 1994 were in the two lowest paying industries in the service sector – retail trade and health/business services.

Declines in Real Wages. The real wages of men have been declining since the early-1970s – a period marked by the escalation of women into the workforce. From 1973 to 1989, the median income of men dropped nearly 40 percent, an indication of the erosion of labor market opportunity for semi- and unskilled workers. By 1993, disparity in wage levels resulted in a wider separation between low- and middle-income families and those at the upper-middle end of the earnings scale.

This income inequality has segmented the country into four groups: the extremely wealthy; the extremely poor (those living at or below the poverty level – nearly 15 percent of the population by 1995); and a two-tier middle class made up a relatively small number of upper level, highly educated, highly skilled professionals; and a majority comprised of unskilled and semi-skilled workers who face falling wages, declining living standards, and limited economic opportunity. Some analysts question whether the term "middle class" still applies to this latter group.

Rising Corporate Profits. The declines in real wages have occurred at a time when profits and productivity have soared. At a level of 7.5 percent, 1994 after-tax nonfarm business profits were the highest of all business cycle peaks since 1973. However, this higher profitability is not associated with traditional forms of economic productivity, such as increased efficiencies or accelerated investment – activity generally associated with a increased societal benefits. Rather, increased profits have resulted from a combination of two factors: (1) lower corporate tax rates since 1980 that have resulted in higher after-tax profits and (2) the downward restructuring of costs, particularly labor costs. For example, from 1980 to 1994, the number of jobs provided by the top 500 corporations declined by 28 percent, while corporate profits grew by 127 percent. The ratio of corporate CEO compensation to the pay of the average worker rose from 34:1 in 1974 to 159:1 in 1994.

Increased Poverty and Unemployment. Levels of U.S. unemployment reached their highest level in 1982 – 9.5 percent. By 1993, unemployment dropped to 6.8 percent. This reflects a number of things, including the high number of workers who have accepted jobs in the service sector and an increase in the number of people who are outside of the formal labor market. The notion that low unemployment is a true indicator of widespread economic well being is challenged by the reality of the quality service sector jobs. Some of these jobs are so marginal that many people fall into the ranks of the working poor.

In 1995, 39.3 million people lived in poverty, representing nearly 15 percent of the U.S. population. Fifty-three percent of poor families are headed by females. Poverty is also skewed along racial lines. In 1990, 32 percent of African American in the U.S. and 28 percent of Latinos lived in poverty, compared with 10 percent of whites. Poverty rates in cities tend to be higher than the national average, particularly in those cities with "majority minority" populations. Integration and the exodus of the middle class and working people to better city neighborhoods and suburbs, coupled with disinvestment by industrial employers, have left these neighborhoods overwhelmingly inhabited by poor people. These communities are characterized by highly skewed incomes, low savings, little business activity or investments, consumptions of products purchased outside, people who are chronically outside of labor markets, and high concentrations of people dependent on public assistance.

Welfare Reform and the Devolution of Government. With the new Congress that was elected in November 1995, dramatic shifts have been proposed under the guise of balancing the budget and downsizing government, including the restructuring of the welfare system and the entry of millions of former welfare recipients into the labor market. Critical job training and education programs, including student loans, are targeted for cuts, despite the very compelling evidence that the nation's global competitiveness is directly tied to the quality of the workforce. The challenge is threefold: (1) How to integrate the vast numbers of welfare recipients into the formal economy? (2) How to increase the upward mobility of the working poor? (3) How to minimize the downward mobility of working- and middle-class people?

The conditions are critically linked to economic development and they are receiving increased attention from policy-makers interested in the nation's overall competitiveness, as well as from researchers and practitioners concerned with strengthening communities and alleviating poverty. These approaches are beginning to redirect the economic development discourse and practice towards its original intention as an employment generating vehicle.

ECONOMIC DEVELOPMENT PRACTICE

Practical applications designed to stimulate economic development may be categorized under several areas, including physical development, business development, capital access, education and training, and rural development. *Physical development* strategies include housing and community development initiatives, infrastructure development, community land trusts, and open space projects. These types of projects often stimulate further economic development activity.

Business development strategies are designed to stimulate the creation of new businesses, attract existing businesses to an areas, and retain and expand indigenous businesses in an area. A number of strategies fall in this area, including small business development, entrepreneurship, microenterprise development, women's economic development, minority business enterprise, and youth entrepreneurship. Initiatives designed to stimulate development within a specific sector or industry are included under business development, as are manufacturing modernization, high tech development, and alternative business ownership efforts.

Capital access strategies attempt to correct the shortfall of operating and investment capital available for economic development in low-income communities and to small businesses, minority-owned ventures and others unable to secure conventional financing. Many of the institutions supporting these investments are termed community development financial institutions (CDFIs), and include loan funds, credit unions, and community banks. Recent federal legislation created the Community Development Financial Institutions Fund to help support these efforts. Another important capital investment strategy is *program-related investments*, a tool used by foundations to underwrite development through long-term investments.

Many *education and employment training* initiatives capture the current about economic development, poverty alleviation, workforce development and job creation. These programs attempt to correct deficiencies in the existing federal employment training programs, as well as address labor market demand and supply issues affecting the country's global competitiveness. Included in this area are programs designed to reduce barriers to work faced by disadvantaged workers, including job brokering, mobility initiatives, open housing strategies, and one-stop career centers. Significant institutional capacity building is taking place at the community college level to facilitate local economic development, particularly in the fields of industrial modernization and workforce preparation. School-to-work initiatives offer communities new opportunities to direct local economic development by creating a well-trained workforce that make regions more competitive. Colleges and universities are also becoming more involved in economic development, particularly in urban areas.

Rural development strategies are designed to make rural economies less vulnerable to exogenous forces by creating employment and income generating opportunities and providing skills upgrading opportunities for rural workers. Rural economic development is also concerned with the management and utilization of natural resources and finding a balance between preserving and promoting sustainable ecological systems and exploiting natural resources for economic development. The latter approach falls under the umbrella of sustainable development, and has been widely applied to agriculture systems.

THE ROLE OF PHILANTHROPY IN ECONOMIC DEVELOPMENT

Foundations have supported economic development efforts for a number of decades. Enterprise development and jobs creation have been integral parts of community economic development, but much of this work has taken place quietly and on a smaller scale than the housing and community organizing components. The reemergence of employment creation as a prominent program component has been driven by a number of factors, including welfare reform, the widening income gap, nonprofit organizations seeking economic opportunities for their constituents, and a dissatisfaction with existing programs to alleviate poverty.

As current Congressional efforts to promote budget reform move forward, foundations will increasingly be expected to address shortfalls in a variety of areas, including human services, community development, education and training, health services and the environment. In an era of widening economic and social dislocation there is no guarantee that increases in charitable giving will necessarily support the poor. While philanthropy cannot fill the huge gap caused by federal cuts, many foundations have taken steps to better understand the current environment and design programs that are proactive and self-sustaining. Many foundations are reevaluating their approaches in the context on real and emerging needs and are finding creative ways to stimulate economic opportunity. Jobs creation has reemerged as the primary focus of economic development.

1. INTRODUCTION

The heated discourse on welfare reform represents drastic changes to the nation's primary anti-poverty program. It proposes various mandates to drastically reduce welfare rolls by imposing time limitations on program participation, ending entitlement programs, freezing federal spending levels, and transferring responsibility to states in the form of block grants with no requirement to maintain support levels. Following changes resulting from the Family Support Act of 1988 that required states to implement "workfare" programs designed to make welfare a transitional program with compulsory work and training requirements for recipients, the current welfare reform proposals will force the debate to go beyond the symbolism associated with poverty to address structural economic issues associated with income, opportunity and work.

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In this environment the historic tension that has existed between economic development as a capital investment vehicle and economic development as an anti-poverty strategy will coalesce around the need for jobs – an oft-touted but rarely pursued objective of the former and the explicitly-stated yet largely unrealized goal of the latter. Redirection is occurring on a number of fronts, from employers demanding skilled workers to employment training providers desperate for actual work opportunities for their clients to community development corporations focusing on business development. From those concerned with isolated rural communities to those concerned with distressed inner-cities. From those concerned with the lack of economic opportunity for poor people with limited skills to those concerned with the declining real wages and advancement opportunity for all but the most highly educated professionals. From those who look at the undercurrent of social dislocation as a national security threat to those who understand the relationship between productive individuals, stable families, and sustainable communities.

As the connections between community well-being, individual self-sufficiency, and economic opportunity become more pronounced, and public sector sentiment toward restitching the safety net wanes, philanthropic entities will face increasing challenges. Perhaps the biggest challenge for foundations is to respond accordingly to community conditions resulting from the deep economic restructuring the country has undergone, and to respond with thoughtful investigation and well-formulated, interconnected policies that guide long-term programs.

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1.1 Organization of this Paper

This paper was developed along three lines of inquiry. First, we were interested in understanding major trends that have influenced the economic development field, including salient issues related to the poverty alleviation, employment creation and sustainable communities, and how foundations have responded. Next, we wanted to have a better understanding of the types of economic development activity that WKKF has supported. This work involved loosely classifying WKKF grants according to a glossary of economic development terms. Finally, we were interested in identifying preliminary strategies that WKKF might use to incorporate economic development programming into its work.

This paper is organized to inform one's understanding about economic development thinking and activities. It is framed by a definition of economic development as a intervention for distressed communities and poverty alleviation, not only as a physical development, capital-generation investment strategy. Within this framework, the work proceeds with a discussion of the forces driving the current public discourse, including an overview of macroeconomic considerations that affect people's access to liveable wage jobs and the ability of communities to create and sustain viable development options. A historical overview of economic development programs as an outgrowth of anti-poverty policy is provided for context, accompanied by a brief discussion of economic development theory. This is followed by a discussion of the practical applications aimed at community and economic development, job creation, and workforce development.

The paper also includes a overview of the involvement of private, community and corporate foundations in economic development, including descriptions of current economic programming being supported by a sampling of 14 leading national and regional foundations. This section also attempts to capture the emerging issues that foundations are dealing with in this area, and highlights the limitations in the current array of strategies and models, as well as niches yet unfilled.

WKKF staff has conducted two sets of analyses of WKKF programming that supports economic development. A descriptive summary of programming from the Foundation's inception through 1990 is provided, followed by a set of illustrative examples of economic development-related programming from 1990-1995.

2. DEFINITION AND OVERVIEW OF ECONOMIC DEVELOPMENT AND EMPLOYMENT

Economic development is broadly defined as *those processes and activities undertaken by the public and private sectors that stimulate the creation of wealth by mobilizing resources (human, cultural, financial, capital, physical, and natural) for the production, distribution and consumption of good and services.* Implicit in the goals of economic development is the creation of employment opportunity, achieving economic stability, and building a diverse economic and employment base.

Classical economic development is primarily concerned with the location and behavior of firms. This orientation has dominated the field of economic development from its early applications to industrialize the South in the 1930s to the pro-growth corporate coalitions that have steered development in most cities. Although the stated objectives of this type of economic development include job creation and the flow of benefits to all citizens, this activity is actually quite investment-centered, driven by narrow interests, with benefits unevenly distributed.

Although this perspective remains prevalent, attempts have been made to balance it with a view of economic development that is accountable and equitable. Referred to by a variety of terms, including "community economic development," "local economic development," "community-based development," "equity planning," and "job-centered development," these approaches attempt to broaden the economic development discussion. They offer an explicit focus on locally-focused and locally-driven development strategies that create opportunity for distressed communities and disenfranchised peoples.

Tension exists between these differing views, including: how best to accomplish economic development; how goals and objectives are determined; how resources are used and distributed; and how roles are defined. These are discussed in subsequent sections of this paper, as are emerging theories and practices that offer opportunities to minimize these tensions and find common ground.

A variety of different actors and stakeholders influence the economic development process, including public officials, policy makers, business, unions, community groups, educational institutions, and philanthropy. As a discipline it intersects a number of fields, including economics, business administration, regional science, city and regional planning, political science, public administration, and sociology. Economic development is inextricably linked to current policy discussions in the areas of welfare reform, workforce preparedness, global competitiveness, and government devolution.

While job creation has been an implicit objective of economic development, there is a significant disconnection between the activity that is termed economic development and the policies and systems concerned with education, and training, and job placement. Only recently have there been substantive attempts to: connect economic development, job creation, and employment and training; broaden the job creation discussion to substantively include private sector and nonprofit sector employment; and address troublesome problems such as income disparity and welfare-to-work transition.

3. MACROECONOMIC FACTORS AFFECTING ECONOMIC DEVELOPMENT

After several decades of economic growth, the U.S. economy is undergoing significant structural change that is raising new questions about the way in which resources are used and distributed and the degree to which all can achieve economic development. Structural changes in the U.S. economy have resulted from a shift from good-producing activity (manufacturing, construction, agriculture, mining, forestry, and fisheries) to a service-producing system. This restructuring has been influenced by technologies that promoted the widespread dispersal of settlement patterns, changes in manufacturing practices, and the transformation of information into an industry. Although the overall economy has expanded as a result of these shifts, the benefits of this growth are unevenly distributed throughout society.

These changes are integrally linked to changes globally. After decades of being insulated from the international economy, the U.S. economy is now inextricably connected to global transactions and events. Marked by the impact of the oil embargo of 1973, the globalization of trade, financial, and credit systems has resulted in a widening income gap that finds more people concentrated at the very bottom of the income and opportunity scale. This is beginning to challenge the meaning of the term "middle class" as well. Patterns of economic and social dislocation are spreading in ways more worrisome than the popular press would have us believe, and this strikes at the heart of the country's ability to competitively function in global economic markets. Internationally, emerging democracies are threatened by the chaos that results from a lack of economic opportunity.

The resurgence of "jobs" as the economic development rallying point is dovetailing with a massive effort to reform the country's premiere anti-poverty program and a concomitant effort to enhance the quality of the nation's future labor force – a prime determinant of effective global competition. These interrelationships are increasingly defining the direction of economic development. This section examines some of the impacts that economic restructuring has had on shaping the issues in the U.S.

3.1 The Decentralization of Manufacturing

The decline of manufacturing (and other extraction-based, good-producing industries) can be traced to several factors, including the dispersal of the population away from central cities and changes in technology that reduced labor requirements. The outmigration of people from the cities to the suburbs was precipitated by a combination of forces, including housing subsidies to war veterans, rising automobile use, and the highway construction program. It was exacerbated by the massive migration of Southern blacks to urban centers and the urban unrest resulting from worsening economic and social conditions in these communities.

Changes in the transportation industry, such as the development of the trucking industry, which reduced firms' dependence on rail and ports, and the decline in mass transit usage in favor of cars, made it possible for firms to leave the cities as well. Additionally, the need for more ground space to accommodate new assembly line production techniques and warehousing and distribution processes has made high-density urban manufacturing districts with their multi-story plants obsolete. Although the relocation of plants to suburban areas began prior to World War II, it wasn't until the 1960s that the pace quickened and combined with general economic expansion to produce a different industrial landscape.

For example, between 1948 and 1967 – a period of phenomenal economic growth – the distribution of manufacturing jobs within the six largest metropolitan regions in the North and East (New York, Chicago, Philadelphia, Detroit, Washington, D.C., and Boston) showed a 15.4 percent decline in jobs in cities and an 87 percent increase in areas outside cities. Of the six largest Southern and Western metropolitan areas (Los Angeles, San Francisco, Houston, Dallas, Seattle, and Anaheim), central city manufacturing jobs grew by 91 percent and jobs outside the city grew by 214 percent (Heilbrun, 1974, p. 42-43). From 1976 to 1986, manufacturing jobs in U.S. cities as a percentage of all manufacturing jobs declined from 46 percent to 39 percent (Hughes, 1992, tab. 3).

By 1987, the Northeast would hold 23 percent of all U.S. manufacturing jobs (down from 38 percent in 1947), the Midwest 29 percent (down from 36 percent), the South 31 percent (up from 19 percent), and the West 17 percent (up from 7 percent). After reaching a national peak of 19.5 million manufacturing job in 1977, the sector's employment dropped to 18.9 million in 1987 (Nelson, 1993, p. 27).

New production technologies, such as computer-aided design (CAD), computer-aided manufacturing (CAM), computer numerically controlled machines (CNC), robots, and shop floor microcomputers, were employed. Computer applications also facilitated the integration of the purchasing, inventory, distribution, marketing, finance, and engineering components. This modernized manufacturing environment has led to a reduction in the demand for labor overall, but an increase in the demand for high skilled workers.

The globalization of capital and labor markets also contributed to the decline of jobs in manufacturing. Increased U.S. foreign trade, combined with international competition and relaxed capital markets changed the face of transactions. The production and sale of goods no longer served as the primary means of producing income. Stock transaction, takeovers, and buyouts became an increasingly common means of earning higher short-term profits at lower risks. This, coupled with labor cost reductions associated with transferring primary production activity offshore, contributed to the decreasing allegiance of firms to local markets and local communities.

The difficulty U.S. firms had penetrating foreign markets and competition from other industrialized nations during the 1979-1989 business cycle spurred high levels of corporate downsizing. Firms began to outsource more of their operations, develop suppliers' networks and other outward linkages, and enhance information flows. These activities helped firms spread technology, gain access to specialized skills, and reduce costs. Although this facilitated certain operational efficiencies, most of the cost savings were derived from cutbacks in labor costs in terms of both lower wages and fewer jobs. This further bifurcated the labor market, creating a small number of jobs for highly paid, highly trained workers, and a large number of low paying, low skilled, dead end jobs.

The decline in the absolute number of manufacturing jobs, coupled with the relative loss of jobs in older urban centers and the declining need for semi- and unskilled workers, presented a significant loss of opportunity to minority workers. As found by Jacobs (1987, p. 6), "an inspection of where the new computer technology applications have been both the most successful and led to the most significant displacement of workers, finds it to be in the areas of repetitive production.... *These are jobs which historically have employed large proportions of black workers*."

While the manufacturing sector continues to decline, the service sector has experienced steady, rapid growth over the last few decades. The service sector includes wholesale and retail trade; finance, insurance and real estate (FIRE); other private services; and government. Much of the growth is a result of changing demographics associated with the expansion of suburbs, but it is increasingly fueled by consumer advertising and information technology. Service sector expansion has accounted for most of the job growth in cities as well.

In 1969, U.S. service sector employment represented 67 percent of all employment. By 1984, it accounted for nearly three-fourths. The service sector is characterized by low-paying, low-benefit, deskilled jobs that offer few prospects for security and upward mobility. Many of these jobs have been taken by women entering the labor force. Seventy-five percent of the new jobs created by corporations between 1979 and 1994 were in the two lowest paying industries in the service sector – retail trade and health/business services (Grossman and Morehouse, 1995).

3.2 Declines in Real Wages

The year 1973 marked the beginning of a decline in the real wages of men, as well as an escalation of women into the workforce. From 1973 to 1989, the median income of men dropped nearly 40 percent (from $24,000 to $14,439) – an indication of the erosion of labor market opportunity for semi- and unskilled workers. This absolute decline has been accompanied by a decline relative to more highly trained workers that has been exacerbated in recent years.

The period between 1989 and 1993 saw increasing disparity in wage levels, resulting in a wider separation between low- and middle-income families and those at the upper-middle end of the earnings scale. According to Baker and Mishel (1995), the bottom 80 percent of families saw their incomes decline by seven percent from 1993 to 1989, from an average of $39,696 to $36,959. The declines were more telling according to gender. In 20 years time, men's earnings decline 11 percent, but overall family incomes rose slowly because of women's contributions. This changed in 1989.

From 1989 to 1994, there was a steady drop in real wages for men in the bottom 80 percent of earners. In other words, wages have been declining for all men except the highest 10 percent of earners, whose wages remained stagnant. The biggest drop occurred among men in the 30th percentile, whose $8.04 per hour earnings in 1989 dropped to $7.99 in 1994 – a 7.2 percent decline. When looked at according to educational attainment levels, men without high school diplomas experienced an 11.2 percent decline in real wages during the same period, compared to a 0.4 percent decline for those with college degrees and a 4.2 percent increase for men with advanced degrees.

Women experienced a different pattern. Real wages for the bottom 70 percent of women have remained stagnant from 1989 to 1994, although women at the median (50th percentile) experienced a decline in wages from 1993 to 1995. However, unlike their male counterparts, women in upper income categories experienced a significant increase in income. Women in the 80th and 90th percentiles saw their earnings increase by 4.7 percent and 7.1 percent, respectively. Although the low wages earners (10th percentile) surprisingly saw their earnings increase in 1990 and 1991 to a high of $4.93 per hour, wages have continually declined since, to a level of $4.75 in 1994. Likewise, real wages of women without high school diplomas dropped by 1.6 percent from 1989 to 1994. Those with advanced degrees experienced a 10.9 percent rise in income from wages.

Cassidy (1995) suggests that income inequality has segmented the country into four groups, including the extremely wealthy, the extremely poor (those living at or below the poverty level – nearly 15 percent of the population by 1995), and a two-tier middle class made up of an upper level of highly educated, highly skilled professionals and a "vast swath of unskilled and semi-skilled workers who are experiencing falling wages, stagnant or declining living standards, and increased uncertainty." He suggests that the term "middle class" no longer applies to the latter group since it does not fit the definition of a group for which economic opportunity and upward mobility is the norm.

3.3 Rising Profits[1]

The declines in real wages have occurred amid reports of soaring profits and productivity. Indeed, at 7.5 percent, 1994 after-tax nonfarm business profits were the highest of all business cycle peaks since 1973, compared to an average of 3.8 percent from 1952 to 1979. However, this higher profitability is not associated with traditional forms of economic productivity, such as increased efficiencies or accelerated investment – activity generally associated with a increased societal benefits. Rather, increased profits have resulted from the following factors.

First, lower corporate tax rates since 1980 have resulted in higher after-tax profits. In the period 1952-1979, an average of 44 percent of corporate income went to taxes. Through the 1980s, the rate fell to 32 percent; it has held at about 31 percent for the current business cycle. Additionally, an increase in debt financing rather than financing through equity has contributed to profits since

[1] This section draws on Baker and Michel (1995).

interest paid on corporate debt is considered a business expense and is not taxable. For the period 1974-1979, interest payments accounted for nearly 15 percent of capital income in the corporate sector. From 1980 to 1989, this rose to 30 percent, and it currently sits at about 27 percent. As a percent of the total U.S. tax base, taxes paid by corporations comprised 10 percent, down from 20 percent in the 1970s (Grossman and Morehouse, 1995).

Secondly, downward cost restructuring, particularly of labor costs, significantly contributed to these historically high profits. As noted above, declines in real wages have occurred in all wage earning groups except the for highest earners. Corporate downsizing has also reduced labor costs. Grossman and Morehouse found, for example, that the number of jobs provided by the top 500 corporations declined from nearly 16 million in 1980 to 11.5 million in 1994, while corporate profits grew by 127 percent. They also observed that the ratio of corporate CEO compensation to the pay of the average worker rose from 34:1 in 1974 to 159:1 in 1994.

Deteriorating incomes due to real wage declines for the majority of workers, in the face of substantial income growth for the highest wage earners and soaring profits for the owners of capital, is contrary to previous periods of productivity. The redistribution of income from labor (in the form of real wage declines) to owners of capital (in the form of profits) has not only precipitated a decline in living standards of the middle class, but has moved many working families at the bottom of the income scale into the ranks of the working poor. This rising inequality has offset widespread gains from the economic growth that has occurred since the 1989. Moreover, the pattern has sustained through periods of rising unemployment (1989-1992) and periods of falling unemployment (1992-1993).

3.4 Unemployment and Poverty

Levels of U.S. unemployment reached their highest level in 1982, following an upward trend that began in the mid-1970s – from nearly 7 percent to 9.5 percent. Although there were annual variations within business cycles, by 1993, unemployment had dropped to 6.8 percent. This reflects a number of things, including the high number of workers who have accepted jobs in the service sector and an increase in the number of people who work outside the formal labor market. The reader is reminded that the figures kept for unemployment do not include those people who are chronically unemployed or who have been out of the formal labor market for some time. In 1990, for example, 43 percent of people living in urban concentrated poverty tracts[2] were employed and 9 percent were unemployed. Forty-eight percent did not formally participate in the labor force.

The notion that low unemployment is a true indicator of widespread economic well-being is challenged by the reality of the quality of service sector jobs – the sector in which most job growth has occurred. In addition to offering low wages, few benefits, and limited advancement opportunity, many service sector jobs are temporary and/or part-time jobs, making it very

[2] "Concentrated poverty tracts" are those census tracts in which 40 percent or more of the population lives below the poverty level.

difficult to support a family. By the early-1990s, 22 percent of U.S. workers were employed in temporary jobs – the highest level (Dewar and Scheie, 1995, p. 12). Some of these jobs are so marginal that many people fall into the ranks of the working poor. According to Nightingale (1995, p.4), "...over 2 million persons have incomes below the poverty level, even though someone in their family works full-time or nearly full-time, [which is] often insufficient to move families out of poverty."

In 1995, 39.3 million people lived in poverty, representing nearly 15 percent of the U.S. population. This is quickly approaching the 1983 peak of 15.2 percent. The threshold for a family of four is $13,300. Fifty-three percent of poor families are headed by females, compared to 13 percent of non-poor families. Women face disproportionately higher barriers to employment, including lower wages, segregation in low wage industries, lack of child care, and discrimination. These barriers have contributed to the "feminization of poverty." Poverty alleviation is emphatically tied to the development of women, including access to education, employment, and health care. Whether due to cultural biases that restrict the rights and development of women, as in much of the developing world, or due to governmental policies that promote the breakup of families, as in the U.S., poverty disproportionately affects women and their children more than men.

Poverty is also skewed along racial lines. In 1990, 32 percent of African Americans in the U.S. and 28 percent of Latinos lived in poverty, compared with 10 percent of whites. Similarly, the rate of unemployment for blacks historically has been higher than that for whites. In 1993, the rate for blacks, at 13 percent, was more than twice that for whites (Blank, 1995, p. 37). Poverty rates in cities tend to be higher than the national average, particularly in those cities with "majority minority" populations, such as Detroit (33 percent), Miami (31 percent), Atlanta (27 percent), Newark (26 percent), and Chicago (21.6 percent). Moreover, poverty has become more concentrated by race within certain census tracts. In Chicago, for example, five census tracts in which over 94 percent of the population was black had poverty rates over 58 percent (London and Puntenney, 1993).

Looking at the current low rate of unemployment alone to understand the persistence of poverty may lead the less scrupulous to assume that the fault for the persistence of poverty lies solely with those who are poor – that their behavior is to blame. Indeed, this perspective has been responsible for many of the regressive policies of the last decade. Without a doubt, the economic isolation of poor people has led to very troublesome levels of social dislocation that often preclude their easy entry into the mainstream of life and opportunity, but to obscure the impact of structural economic change suggests short-sightedness at best.

Wilson (1987), in describing the concentration of poverty and the emergence of a "heterogeneous grouping of inner-city families and individuals whose behavior contrasts sharply with that of mainstream America," saw the devastating social conditions in distressed communities as manifestations of structural economic change and public policies, not as inherent aberrant behavior. Kasarda's work has also shown that people of color living in inner cities are most severely affected by structural changes in the economy.

Trends toward increasing economic and social dislocation in poor communities is particularly disappointing when these communities are compared with urban, minority communities before the late-1960s. In black and Latino communities, low-, middle-, and even upper-income people lived in the same self-contained community. These were relatively stable communities with services, facilities, churches, schools, stores, and a professional class. The values mirrored those of the rest of the country. These communities exhibited nothing like the degree of social dislocation experienced now.

With integration and the exodus of the middle class and working people to better city neighborhoods and suburbs, coupled with disinvestment by industrial employers, these neighborhoods became overwhelmingly inhabited by poor people. These communities are now characterized by highly skewed incomes, low savings, little business activity or investments, the consumption of products purchased outside, people who are chronically disconnected from formal labor markets, and a high concentration of people dependent on public assistance.

3.5 Welfare Reform, Devolution, and the Implications for Economic Development

In 1990, approximately 21 percent of the U.S. population received some form of means-tested assistance (AFDC, Food Stamps, SSI). Of course, in absolute numbers more whites receive public assistance than minorities, but a disproportionately higher percentage of all minorities are on welfare. Nearly 49 percent of all blacks and 43 percent of all Latinos receive some form of public aid, compared to 17 percent of all whites (London and Puntenney, 1993).

According to data compiled by Haveman (1995), the number of persons in official poverty increased from 26 million in 1979 to 36.8 million in 1992 – a 42 percent increase. By 1992, the total benefits paid by the federal government increased to $63.5 billion, up 44 percent since 1979. However, as more people entered the rolls between 1970 and 1990, average combined AFDC and Food Stamps payments to a woman with three children declined by 22 percent, from $900 to $700 a month (Blank et al., 1995). According to the U.S. Health and Human Services' Quality Control Division, only 1.4 percent of AFDC claims are fraudulent, contrary to the "welfare queen" myth popularized during the 1980s.[3] As a percentage of the gross domestic product, welfare benefits accounted for 0.92 percent in 1979, rising to 1.05 percent in 1992 (Haveman, 1995).

With the new Congress elected in November 1995, dramatic shifts have been proposed under the guise of balancing the budget and downsizing government, much of which will likely be at the expense of poor and working people. Following a pattern of continued social welfare cuts, reduced transfers to state governments, and the upward redistribution of income that began in 1981, the proposed welfare reforms are posed as the remedy for reducing the federal deficit, which rose precipitously during the 1980s.

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[3] This figure was compiled by World Hunger Year and appeared in *Poverty and Race, vol. 4, no. 4,* July/August 1995, p. 6.

As documented by the Center on Budget and Policy Priorities, Congressional proposals to reform welfare are based on freezing current AFDC spending levels, turning spending authority over to the states, and eliminating subsistence income guarantees for the poor. These measures are accompanied by severe cuts in other means-tested entitlement programs that serve poor people, such as Medicaid, Food Stamps, nutrition programs, public housing, education, job training and other social programs – all of which will effectively unravel the social safety net. Cuts and changes to legal assistance for the poor are proposed, including barring legal assistance attorneys from representing those accused of a crime, while the rampant pace new jail construction and disproportionate incarceration of the poor and people of color continues.[4]

Surprisingly, despite the emphasis on mandatory work and job training, Congressional proposals will significantly reduce many of the support programs that help ease the transition from welfare to work, such as the Earned Income Tax Credit (EITC); deductions for child care, travel, and work expenses; and Medicaid. The combined effect of proposed spending and tax cuts being offered by Congress to balance the budget will result in the poorest Americans losing nearly $2,500 in annual income (or 23 percent of their existing income), while the wealthiest gain $760 (Wise, 1995). Although the figures may have changed with the final proposal, the pattern remains and it continues to perpetuate an upward redistribution of income and resources.

Critical job training and education programs, including student loans, are also targeted, despite the very compelling evidence that the nation's global competitiveness is directly tied to the quality of the workforce. Further reductions in discretionary spending will affect the programs of nonprofit community-based organizations working on community and economic development, housing, energy conservation, and transportation. Ultimately, the loss of transfer payments to state governments and the lack of regulations will threaten local and regional economies. This is particularly troublesome for cities, which have seen their influence in state legislatures and Congress erode in the face of growing suburban interests.

Although the discourse is obfuscated by suggestions that the cause of our national problems and deficit spending is the welfare state, the reality is that many of the proposed budget cuts and legislative changes, when coupled with structural adjustments, will also adversely affect the middle class – a group that is becoming increasingly characterized by declining real wages, increased debt, and narrowing opportunity for advancement. During the last decade some federal human services programs have shifted emphasis away from the poor in order to accommodate the growing number of middle-class families that have been affected by deindustrialization. Another indicator of shifting emphasis toward the middle class is the many nonprofit organizations opting to offer services to those who can pay for them.

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[4] In addition to attacks on those already at the bottom, the Congressional proposals would significantly dismantle regulatory checks and balances in civil rights, banking and real estate, and the environment, Equal protection, anti-discrimination, and fair lending regulations are targeted, as well as air and water protections and hazardous waste safeguards. Other proposals will eliminate the possibility of bringing class action suits against governments and bar organizations receiving federal grants from any lobbying, public education, and political advocacy activity. This last item is particularly troublesome for the many nonprofit organizations that are beneficiaries of philanthropic support and providers of government funded services.

The challenge is threefold: (1) How to integrate the vast numbers of AFDC recipients into the formal economy? (2) How to increase the upward mobility of the working poor? (3) How to minimize the downward mobility of working- and middle-class people? With wages for unskilled and low-skilled workers falling for the past two decades and the low wage labor market struggling to absorb the inflow women and immigrant (both legal and illegal) workers, the assumption that this labor market can provide enough jobs for everyone and will be the route out of poverty appears dubious. It is doubtful that this labor market can absorb an additional two million low-skilled former welfare recipients without demand incentives as well as supply side interventions. But measures designed to stimulate employers' demand for low-skilled workers, such as tax credits, or efforts to make low-wage jobs more appealing, such as wage subsidies and support systems, are given less attention in the current public debate. Moreover, even with enough jobs, the likelihood that the quality and pay will be sufficient to keep, or raise, people out of poverty is another crucial question.

At the heart of the problem is the *skills mismatch* issue and the need for any skills-based poverty alleviation program to provide skills that can command a family-supporting, liveable wage job that offers upward mobility. Skill deficiencies can be categorized into two areas: "hard skills," such as mathematics, reading and analytic skills; and "soft skills," such as communications, work habits, and interpersonal relations. Inner city youth tend to exhibit lower skill levels than suburban youth. For example, a study of Philadelphia area eighth graders found that students from Philadelphia City schools scored 57 percent lower in math and 62 percent lower in reading and than students from suburban counties (Pouncy and Mincy, 1995). Similar deficiencies in soft skills are generally acknowledged to be the result of the social and economic dislocation of these communities from the mainstream.

Economic development, with its myriad of links, is getting increasing attention from policymakers interested in the nation's overall competitiveness, as well as from researchers and practitioners concerned with strengthening communities and alleviating poverty. These approaches are beginning to redirect the economic development discourse and practice towards its original intention as a job creation vehicle.

Issues concerning the quality of the nation's workforce have received considerable attention in recent years. Comparisons to industrialized European countries and Japan, which continue to dominate world markets, reveals that these countries place a high degree of importance on vocational education and training, the integration of economic development and community planning with industrial development and education, and the development of local and regional economic activity that is clustered around strategic industries. The emphasis has been on developing high performance firms and insuring that the future workforce can support the workplace of the future.

Although there are laudable examples, generally the U.S. does not follow this pattern. Moreover, the educational dimension of this is all the more complicated by the fact that today central city schools educate approximately one-third of the nation's youth. The concentration of minorities and recent immigrants into the cities continues to grow, while their level of basic preparedness and qualifications for advanced technical training remain deplorably low. According to National Assessment of Educational Progress data, 75 percent of 4th graders in inner city schools tested below the basic skill level, compared to 18 percent in more affluent districts.

The problems, however, are not confined to the inner cities. Many non-affluent suburban communities and isolated rural areas are experiencing the same declines in economic and educational quality and increases in social dislocation as is found in cities with high concentrations of poverty. Declining wages, increasing unemployment, eroding tax bases, reduced service delivery systems, infrastructure disrepair, low educational attainment level, delinquency, substance abuse, and other indicators of dislocation are more common than not.

The public cost associated with growing numbers of poor people and the subsidization of an idle workforce is borne by the entire society. High poverty areas have higher per capita costs for overall municipal services. Infrastructure goes without repairs – in many places the trains no longer run on time. High local tax rates, coupled with public perceptions about poor people, encourage the flight of taxpayers. For businesses and investors, the high costs of doing business and high risks force many to opt for areas with lower costs, such as the smaller cities that have emerged as leading economies in recent years.

4. HISTORICAL OVERVIEW OF ECONOMIC DEVELOPMENT IN THE U.S.

There is a long history of public sector involvement in economic development. During the 1930s, in an attempt to compete with (or catch up to) more advanced regions of the country, the South embarked on an effort to industrialize. Although Southern agricultural interests precluded the development of a viable industrial sector, it was through these early activities that the tools that would become standard economic development applications were first used. These early attempts at economic development were based on an industrial recruitment model that used public incentives to entice manufacturers to a particular region. Industrial development bonds (IDBs) were the primary means of underwriting this development, coupled with a variety of other incentives, such as corporate tax abatements and credits, loan packages, and land and infrastructure improvements. Industrial development was economic development, and it remained a common strategy for many decades, receiving significant federal and state level support. The emphasis on the recruitment of firms through development incentives is still found in many state economic development toolboxes.

In urban areas, the 1950s was the beginning of a trend toward achieving economic growth through the development of large-scale comprehensive plans that emphasized investing in downtown development and regional infrastructure. These efforts were steered by pro-growth coalitions, and they began the structural shift from a manufacturing-based economy to a service economy (Nyden and Wiewel, 1991). These coalitions, made up of corporate leaders from the commercial, real estate and financial sectors, shunned investments in low-income neighborhoods, and in some cases promoted developments that led to the demise of these communities. The emphasis was on central business district and middle-class housing development.

Although this focus continued into the 1960s, that period saw a broadening of economic development approaches that was largely influenced by the public's increasing awareness of income inequality and poverty. Post-World War II economic growth occurred at an unprecedented rate well into the early-1970s. Led by advances in the manufacturing sector, employment rose steadily in every sector except agriculture and natural resource extraction-based industries. The growth occurred in the professional and service sectors and in industries, which then offered decent wages and skills training to blue collar workers.

Despite the overall trend toward growth, there were gaps in the distribution of employment and opportunity, particularly in isolated rural areas and densely populated low-income urban communities, and especially in areas inhabited by people of color. The widespread unemployment and poverty found in these communities at a time when the economy was booming was seen as a problem of locational disadvantage, inadequate skills training, discrimination (or some combination thereof) that kept poor people from competitively participating in mainstream labor markets. Government programs attempted to redistribute economic benefits through subsidies to poor regions and depressed neighborhoods, and to broaden opportunity through programs in education, job training and placement, social services delivery, and community development.

Early domestic industrial development policies grew out of the same neoclassical economic theories and practices that were beginning to be applied to global development globally. These efforts stressed large-scale, centralized, macro-economic projects as the vehicle to lift developing nations out of underdevelopment. Here, too, the focus was on investment rather than job creation, with few benefits accruing to the poor. Moreover, these policies exploited and perpetuated conditions of dependency and reliance on outside capital to generate growth. Few of these efforts created a basis for sustainable, equitable development.

Community development grew as an alternative approach to neoclassical development models, here and abroad. This school emphasized the need to build the internal capacity of underdeveloped regions and disenfranchised constituencies so that they could participate in the development process in an influential and informed way. It was an attempt to reorder the priorities of the top-down development toward equity and inclusion. This model – "development from below" as contrasted with "development from above" – influenced domestic development activity. The approach was grounded on the premise of generative development, which focused on import substitution through the creation of small-scale, labor-intensive businesses and industries that could capture local capital that would otherwise leaks out. By continuously recycling that capital within the community, the effects were multiplied. Although the primary focus was on the region, the domestic unit of analysis was also reduced to the neighborhood level.

The use of partnerships as a catalyst for inclusive economic development took on greater importance. As underscored by Blakely (1989), local or community economic development represents a major shift from traditional economic development thinking. Its involves myriad partners – community-based organizations, local government, residents, academic and research institutions, business and others – in a development process designed to create jobs, stimulate economic activity and deliver community-wide benefits to disenfranchised groups and distressed areas. This sort of economic development attempts to build on and expand existing resources and indigenous capacity. It leads to planning and development strategies that, while grounded in an understanding of the external factors affecting economic viability, are locally oriented, locally directed, and locally accountable.[5]

In this approach to development, the process is often as important as the outcomes. At the same time, the progress may be slow. There is a distinction between economic development in which the various players have a common level of sophistication that allows the process to proceed smoothly, and those projects in which the participatory focus makes for a protracted process. The former model may in some instance preclude community-wide involvement and restrict decision making to a selective group. The latter model underscores the importance of community involvement and individual participation at whatever level a person or entity enters. Here, there is a commitment to raising the collective capacity of the group or community to make its own informed decisions.

In 1964, when President Johnson declared an "unconditional war on poverty in America," the country was experiencing a high level of economic growth, but inner city unemployment and rural poverty were on the upswing and receiving increasing attention. The research that undergirded the war on poverty did not view poverty as a problem of the economy, but rather of environment. That is, high levels of black joblessness were viewed as problems of discrimination and poverty. The antipoverty programs dovetailed with the Civil Rights Act of 1964 and focused on issues such as compensatory job training, education, and income distribution.

Although there was an explicit focus on job creation, the emphasis was on creating jobs within the public sector (including large infrastructure development jobs) and in nonprofit organizations. There is little indication that attempts were made to check the early outmigration of industrial jobs from central cities. This is consistent with the federal government's reluctance to formulate an industrial policy. The focus on creating jobs within the social service sector allowed the program to address the dearth of adequate services in poor communities.

Two primary agencies were responsible for administering the antipoverty programs: the Office of Economic Opportunity (OEO), which was created in 1964, and the Department of Housing and Urban Development (HUD), created in 1965. HUD's primary initiative was the Model Cities Program – urban renewal and physical development in poor communities. It had a strong self-help and citizens participation orientation. OEO supported a network of "community action

[5] The use of the term "local" is meant to represent a municipality, a neighborhood, a region, or a community that may be defined by geography, culture, race or ethnicity, gender, aspirations or other variables.

agencies (CAAs)," which focused on addressing the causes of poverty and lack of economic opportunity from a political, as well as economic, framework. Community action aimed to empower poor people to engage in the economic development process, with an emphasis on self-help and community-controlled organizations. Many CAAs became involved in service delivery because they were the only organizations in these distressed communities. Many of the original CAAs survive today.

There was much local political opposition to CAAs, which were mobilizing communities around civil rights and economic justice issues, organizing poor people of color, and directly challenging local government practices. This, coupled with the difficultly in measuring tangible outcomes, led to the transformation of "community action" into "community development" in the late-1960s. Despite the political problems associated with community action, the movement created the foundation for the major tenet of community development – the transformation of poor neighborhoods into stable, productive communities through physical development initiatives, business creation, and organizational capacity building.

The organizations that led this effort were community development corporations (CDCs), which, like CAAs, were community-based and -controlled, nonprofit or for-profit organizations. They were charged with acquiring indigenous and outside resources and providing technical assistance to projects for the physical, economic, and social development of poor communities. CDCs differ from CAAs in that they focus on activities with measurable outcomes. CDCs operate in some of the poorest areas in the country, many of which are communities of color. Politically, community development was much more palatable than community action because the activity was self-contained in inner city neighborhoods and did not challenge segregated white neighborhoods or voting districts. Despite the implication of these sentiments, community development was embraced as the new approach.

CDC activity can be divided into three primary areas: physical development, economic development, and social service. Many CDCs engage in all three areas. When community development was reorganized under the Community Services Act of 1974, it allowed CDCs to create for-profit subsidiaries as vehicles to create jobs for local residents and provide income to the parent organization. For example, physical developments that addressed housing, commercial development, and infrastructure improvements created small businesses to support these activities, such as rehabilitation and construction companies, fixture suppliers, and management services.

The early focus of the economic development component included minority business development, but these efforts were stymied by bureaucratic red tape and difficulty securing lending partners, which was exactly the sort of problem the programs were designed to correct. As a result, the emphasis was on creating "mom and pop" operations, many of which were run by CDCs. These entities had high failure rates due to high operating costs, overhead, high prices, and limited access to business assistance. They also provided few employment opportunities for residents.[6] Attempts to retain or attract industry never had much success because these areas could rarely assemble the types of incentive packages needed to compete with suburban areas. CDCs received limited cooperation from political and business leaders to stem the tide of industrial outmigration, and at times these relationships were adversarial.

CDCs received extensive support from federal agencies, including HUD, Health and Human Services/Community Services Administration, Small Business Administration, Economic Development Administration, U.S. Department of Agriculture/Farmers Home Administration, and others. State and local governments supported CDCs, as did private foundations, largely following the lead of the Ford Foundation, an early proponent of both CAAs and CDCs. Some CDCs received substantial support from resident shareholders and local churches.

By the mid-1970s, however, another evolution in community economic development occurred, sparked by the burgeoning boom in real estate markets and favorable federal subsidies that supported low-income housing and increased demands from investors for low-risk projects with measurable outcomes. With the introduction of Urban Development Action Grants (UGADs), the focus of CDCs shifted from business development to real estate development – projects that could provide tangible evidence of community improvement. This era also brought other players to the community development table, specifically banks and corporations. Increasingly, CDCs found themselves moving away from their antipoverty and job creation mission. They became experts in "doing the deals" associated with leveraged housing and commercial strip development.

During this period, several other changes resulted. The gap between CDCs involved in real estate and those providing human services delivery widened. Even in CDCs involved in both activities, there sometimes was little interaction between the two spheres, and almost no focus from either side on job creation. Secondly, the role of the "intermediary" organization's role became that of a buffer entity between smaller community organizations and larger CDCs and funders. While intermediaries fulfilled a useful role in research, technical assistance, advocacy and policy formulation, they reduced the direct connection to the grassroots. This disconnection also created an environment in which grantseekers often find themselves responding to the programmatic whims of grantmakers, even if it means steering the organization away from its primary mission because "that's where the funding is."

The successes of CDCs, as varied and widespread as they may be, have generally not kept up with the structural changes in the economy. Affordable housing development has not kept pace with rates of housing abandonment and the rise in homelessness. The number of jobs created by CDC projects is still marginal, as is the ability to attract and recycle capital within distressed communities. Projects tend to be time- and capital-intensive compared to the return on the

[6] Minority business development was also popular under the Nixon Administration, which created the Office of Minority Business Enterprise. However, it was premised on the notion of creating black millionaires who presumably would be inclined to share opportunity with others. This was quite a divergence from the Kennedy and Johnson administrations' focuses on antipoverty focus through inclusive CED.

investment, and the social objectives are often obscured. Despite these problems, however, CDCs remain the best vehicle for stimulating economic development in distressed regions.

5. THEORIES OF ECONOMIC DEVEOPMENT

There is no one theory to explain and guide economic development activity, but several economic theories have influenced the direction of the field.

Neoclassical Theory assumes that economic systems will achieve a natural balance as long as there is unrestricted capital flow. In other words, capital and benefits will trickle down throughout society. Government deregulation is based on this premise, as is opposition to attempts by communities to monitor and influence the behavior of businesses. Adherents are not sympathetic to workers' rights and the implications of worker displacement. The theory advocates creating competitive markets and a good business environment. While not opposed to supporting efforts to help disenfranchised communities become equal to competing areas, these applications have generally been limited.

Location Theory emphasizes the importance of geographic siting decisions in the location of firms in the marketplace in order to minimize the cost of doing business. Prior to the development of the telecommunications industry, for example, manufacturers' siting decisions emphasized proximity to rails and ports. Labor is a big cost factor, as is accessibility to markets, suppliers, and an educated workforce. With advances in telecommunications and lower transportation costs, however, location-based siting has become more flexible.

Economic Base Theory suggests that economic growth depends on the demand for goods and services by outside areas – a function of trade and export. Areas that use indigenous resources in the production of goods and services, and add value to these products before exporting them, are more apt to grow and create jobs. In application, the emphasis would be on developing businesses that are linked to national and international markets, not necessarily to cultivate local markets, though local suppliers could be developed to support these industries. For example, some of the emerging practices in advanced manufacturing attempt to stimulate local supplier networks. However, systems based on economic base models are susceptible to external changes and may be unstable.

Central Place Theory is based on the notion of a hierarchy of settlement, with urban cores supported by surrounding areas, all contributing to a region's overall competitiveness. Implicit in this approach is the appropriate utilization and allocation of regional resources to strengthen the center. This theory has also been applied in rural areas as a way to stimulate regional development around central nodes of economic activity.

Product Cycle Theory suggests that firms will advance in the absence of agglomerated economies because they do not require direct proximity to markets, suppliers, or competitors, nor do they need access to a highly skilled workforce. This model is the basis many manufacturing-based economies found in rural areas. Many such firms are externally linked and have corporate headquarters that are located elsewhere. Often the firm is the only employer in the region. Specialization, if any, comes from the headquarters. This model, however, subjects the region to the threat of corporate pullout, leaving the workforce with no options and no enhanced skills to attract other industry.

Cumulative Causation Theory suggests that decisions of major economic entities have repercussions throughout the economy. The expansion of a major firm, for example, will attract further growth and development. Likewise, the negative effect of a firm's closure or relocation will ripple throughout the economy. This effect can be widespread and severe in undiversified economies, forcing more closures, restricting capital access for remaining firms, and prompting an outmigration of skilled workers. This further undermines the tax base and perpetuates disinvestment. The decline of urban neighborhoods resulting from the departure of manufacturers and businesses is a good example. These neighborhoods have little internal capacity to revitalize.

Attraction Theory holds that the success of a region is linked to its ability to attract economic activity. In theory, this involves capitalizing on existing resources – labor, land, infrastructure, capital, and natural resources – to attract businesses. In practice, however, it has involved extensive public outlays to develop resources to attract firms, usually with marginal results when it comes to recouping the public's investment. The region has no guarantee that a firm will remain in the areas. Moreover, the luring of firms from one area to another does not actually result in net job gains. This approach is the basis of many state and regional economic development plans, but it is increasingly being replaced or augmented by efforts to retain and expand existing businesses.

These are the main theories that have guided economic development. Some experts (Wiewel, Teitz, and Giloth, 1993) suggest that these theories are insufficient to understand the conditions of neighborhoods, particularly distressed neighborhoods. The mainstream theories do not adequately take into account an analysis of labor and class, nor do they acknowledge the influence of the political process on economic growth, or the dynamics race, gender, income, and other characteristics.

5.1 Integrated Economic and Sociopolitical Theory

Integrated Economic and Sociopolitical Theory is offered as an alternative to mainstream economic development theory. It is a comprehensive theory that supports a range of economic development practices designed to make neighborhoods socially stable, economically competitive, and integrated into the larger regional economy. In some ways, the approach attempts to mitigate against adverse conditions and patterns resulting from misdirected applications of mainstream economic theory. Borrowing from Wiewel et al., eight forms of neighborhood economic development practice are identified. Although the context of their presentation is the "neighborhood," these practices may be applied in any community, locale, or region interested in approaches that borrow the best from the mainstream economic theories while integrating a comprehensive, community-oriented perspective.

This theoretical framework is proactive in that it attempts to guide action, as opposed to simply explaining behavior. It is applied to much of the community economic development (CED) work conducted by community development corporations (CDCs), but it places less emphasis on the participatory objectives of community organizing (which has sometimes precluded effective partnerships between the various entities that make up the local economy). To be clear, participatory development is not ignored, but the emphasis is more focused on the objectives than on the process. The theory assumes that economic development results from productivity and assets accumulation from economic transactions, not solely from redistributive transfer. An understanding of and integration with markets as well as with the political environment is required, thus moving the engagement beyond broad community organizing. The eight key practices identified in Integrated Economic and Sociopolitical Theory are presented here as a backdrop to the subsequent discussion of economic development practices.

1. **Business Retention** involves stabilizing existing businesses and industries, as well as the districts in which they are located. The strategy is useful against threats of firm closings, outmigration, or downsizing. It assumes that there are beneficial relationships resulting from the proximity between neighborhood industries, residents, and retail businesses. These social benefits, combined with market factors, help drive industrial location decisions that take infrastructure, transportation, access to markets and suppliers, and labor force into account. Neighborhoods offer a manageable level for organizing businesses around common purposes. When supported by other entities such as banks, real estate developers, and industrial development districts, networks are created that can strengthen ties to regional markets. Supporting activity may include technical and business assistance, loan funds, business incubators, market analyses, and policy advocacy.

2. **Commercial Revitalization** attempts to stem the outflow or leakages of neighborhood capital to other areas by creating viable shopping districts that reflect the preferences of neighborhood consumers and attract consumers from other areas. It assumes that the neighborhood is part of a market-based hierarchy defined by the types of goods available, level of family income, and transportation access. It understands that neighborhood shopping districts are connected to a regional hierarchy that changes in response to the decline of cities and the growth of suburbs, just as they respond to neighborhood-level changes in income, demographics, consumer preferences, and transportation. In order for commercial revitalization to be successful, the neighborhood should have modest levels of income, controllable change, and few competitors. Supporting activities may include market campaigns, special service (taxing) districts, commercial strip management, business attraction/retention, and real estate development.

3. **Business Venture** is undertaken to develop new business ventures in a location that lacks indigenous entrepreneurs and is unable to attract market-driven actors. This approach is driven by a very important underlying assumption: that businesses tend to hire locally and spend locally. As a strategy, increasing neighborhood entrepreneurs is a way of reducing, income leaks, stimulating undervalued markets often associated with racial prejudice, and increasing the rates of return for neighborhood businesses, which tend to have high operating costs. Access to capital for businesses as well as to other investment opportunities is an important component of

this strategy. Start-up businesses are often difficult for neighborhood organizations to manage, but common ventures have included construction companies, cooperatives, property management firms, and recycling businesses.

4. **Entrepreneurialism** is a variation of the business venture strategy that underscores the importance of locally-owned and -managed business ventures in enhancing overall employment and development. Entrepreneurialism differs from the business venture strategy in that the emphasis is on nurturing and supporting entrepreneurs, and tapping underused human resources. This strategy, which includes self-employment and microenterprise development, has gained momentum with the drive to reduce the welfare rolls in the absence of alternative work opportunities. Despite the evidence that most small businesses fail, people who become involved in these endeavors are reported to become more self-reliant. This approach requires significant support services and technical assistance.

5. **Neighborhood Capital Accumulation** involves using community-based organizations as enterprises for increased neighborhood ownership and control over land, capital, businesses, investments, and financial resources in an effort to reduce abandonment and disinvestment by outside institutions. The strategy requires creating new institutions, such as CDCs, land trusts, community development credit unions (CDCUs), or loan funds that invest resource in development ventures and attract investments from other financial institutions within the region. It also helps fill a niche of services often absent in declining neighborhoods. These community development financial institutions (CDFIs) provide a nice complement to the housing and real estate development components of many CDCs.

6. **Education, training, and placement** strategies are concerned with effectively utilizing the human capital in neighborhoods and connecting residents with job opportunities. These strategies attempt to address the issues of skills mismatch and spatial mismatch. These barriers prevent neighborhood residents from participating in labor markets. These strategies address this by providing basic skills and job readiness training, employment training, transportation, job readiness, job linkages, and ongoing OTJ supports. They also attempt to address racial and other discriminatory barriers. Many of these programs are a response to businesses and employers who lack of access to trained workers. These approaches may stimulate efforts that address formal educational systems as well. From a community development standpoint, these strategies view the neighborhood's labor force as a key economic asset – perhaps the only one. Strong relationships with area and regional employers and economic development planners are key ingredients to success. Methods designed to keep successfully trained people in neighborhood are equally important.

7. **Labor-based development** is related to education and training strategies, but emphasizes developing the specific employment skills of neighborhood residents (especially those who are unemployed and displaced from their jobs) and matching those workers with industries that require similar skills. In this strategy – sometimes referred to as s*ectoral intervention* – a neighborhood or clusters of neighborhoods targets specific industries or sectors that are experiencing regional growth. Sectors that offer skilled jobs and are comprised of smaller, family-owned firms are typically targeted. Manufacturing is a particularly appealing

sector, especially if there are appropriate linkages to manufacturing networks and/or original equipment manufacturers (OEMs). Labor-based development strategies attempt to mitigate against plant shutdowns and the rippling affect that can cause massive displacement of skilled workers. Retraining is a less desirable option, as opposed to strategies based than refining existing skills or attracting a network of firms in the same sector. Support services, technical and business assistance, and other incentives are generally provided to help attract firms.

8. **Community organizing and planning** strategies are used to influence to power relationships that constrain the flow of resources and opportunities to neighborhoods, such as the inequities found in public budgets, public incentive programs, and public subsidies for large development projects that have little public benefit. This strategy broadens the community organizing approach by including business and other institutions, as well as residents and community organizations. It may also involve partnering with other neighborhood coalitions. Effective partnerships may naturally coalesce, or neighborhoods may have to take a stronger advocacy stance. The strategy has been effectively been applied to the Community Reinvestment Act (CRA) to challenge publicly funded projects. It is less effective in challenging private sector efforts, though more partnerships between large businesses and neighborhood groups are observed.

6. ECONOMIC DEVELOPMENT PRACTICE

This section describes a variety of practical applications designed to stimulate economic development. Many of these applications are interrelated; commonly a number of strategies will be applied to an economic development project or plan. For the purposes of this paper, entries are organized under Physical Development, Business Development, Capital Access, and Employment Connections, Education and Training, and Rural Development. These entries follow a brief discussion about emerging trends and applications in economic development, as well as important programs supporting these efforts. Key themes that emerge in many of the current approaches are the connection of economic development and poverty alleviation, the use of partnerships, and regional development (with region being defined as anything from a neighborhood to larger geographic areas).

Increasingly, workforce development and job creation are emerging as integral components of economic development and antipoverty work. The emphasis is on working through community networks that offer cooperation, partnerships, and advancement opportunities. Community building and strengthening civic infrastructures are common approaches to building the foundation for sustained development. Model programs tend to involve CDCs that have strong connections to a range of employment training and economic development institutions, such as service providers, other community based organizations and intermediaries, JTPA agencies and private industry councils, proprietary training firms, public schools and community colleges, governmental agencies, philanthropic organizations, institutions and, perhaps most importantly, employers (See Harrison, 1995, and Stillman, 1994).

Partnerships are not new; public-private initiatives have been responsible for many large scale economic development efforts. What is unique about the current discourse and applications is the increasing involvement of the nonprofit sector, including community-based organizations and community development corporations. Additionally, community foundations are becoming a vital force in these efforts, indicating a willingness to move beyond their history as charitable giving entities to address economic development.

Comprehensive Community Initiatives is the term used for a partnership model aimed at poverty alleviation. Recently, the has been embraced by many private and community foundations. The focus is on individual, family, and community development through integrated, cross-disciplinary planning and programming. CCIs tend to be neighborhood focused and participatory, and address the variety of social, economic, and physical conditions affecting life in disenfranchised communities. Several models have yielded considerable improvements in the areas of education, community outreach, information dissemination, human services delivery, leadership development, and physical development. Few, however, are reported to have strong job creation and workforce development components, although this is a growing concern. Several CCIs that have had an explicitly stated emphasis on employment are The Atlanta Project, Committee on Strategies to Reduce Chronic Poverty (Washington-based, Rockefeller Foundation-funded), New Futures Initiative (Annie E. Casey Foundation), and West Philadelphia Improvement Corporation.

Empowerment Zones/Enterprise Communities (EZ/EC) is the premiere federal initiative, and the largest anti-poverty and economic development program to be sponsored by the federal government since the 1960s. The U.S. Department of Housing and Urban Development has designated 105 poor urban and rural areas to receive special federal grants and preferential regulatory and tax treatment over a ten-year period. The program seeks to leverage considerable private investment, stimulate community involvement and foundation support, and coordinate federal agency programming. Built on the British enterprise zone model, local incentives via tax codes, zoning and building codes, and wage rules will be extended to enterprises that create or relocate businesses in EZ/ECs and employ area residents. The objective is to build a sustainable base of capital to stimulate community and economic development and stabilize these communities. However, the EZ/EC model also emphasizes the importance of providing region-wide opportunities for residents of severely distressed communities that may have difficulty attracting new business.

There is some concern that practitioners are viewing EZ/EC simply as replacement funds for lost programs. Additionally, language in some of the early papers circulated by foundations focused on their role in supporting community participation, program administration, interdisciplinary networking, and other standard community development approaches – areas familiar to many foundations. Important as these components may be, they are reminiscent of past comprehensive initiatives. More focus is needed on the most challenging intent of the legislation – getting viable businesses that are capable of employing significant numbers of people to locate in severely depressed communities. The fear by some is that community development will overshadow the business development component. Foundations can play a key role in helping EZ/EC communities find a balance.

With the increasing attention being paid to the country's ability to compete in a global marketplace, more emphasis is being placed on strategies designed to make regions and localities globally competitive. This means understanding and capitalizing on indigenous strengths and resources, as well as understanding and anticipating changes in the global environment and insulating the regions from the shockwaves. A growing emphasis is also placed on partnering with other locals or regions, and applying a variety of complementary strategies to enhance the region's comparative advantage. These approaches are used in isolated rural communities, inner city neighborhoods, as well as in more stable regions.

6.1 Physical Development

Capital inputs such as land are critical to economic development, as is the wise management and stewardship of land. The ability to affect decisions about how land is used is crucial to the viability of a community. In distressed areas, land tends to be held by absentee owners who generally do not have a stake in the community. Residents may not appreciate a blighted physical environment. Strategies that increase home ownership, improve the physical condition of distressed communities, and capitalize on unique natural resources can stimulate economic development.

Inner cities usually contain vast tracts of vacant and abandoned land, which contributes to the sense of isolation and despair found in urban communities. More effort to enhance the productive capacity of this valuable resource is needed, but it takes political as well as financial will to do so. A distinction is made between "neighborhood revitalization" and "neighborhood stabilization." Neighborhood revitalization strategies seek to revitalize areas that have undergone economic, social, and/or physical decline. Generally these areas have experienced a disinvestment of public and private resources, which results in the loss of commercial operations, the exodus of middle- and working-class families, and a further reduction of public services delivered to the areas. Neighborhood stabilization attempts to stabilize neighborhoods before they begin to decline by helping working- and middle-class areas anticipate and adjust to externally driven change. Community organizing is an important component of this strategy. These projects are often anchored by physical development. Several land-centered development strategies are listed below.

Housing has long been a component of community economic development, but the rate of affordable housing development obviously has not kept up with the increasing need. Projects designed to stabilize communities have generally included a mix of housing that encourages home ownership by middle-class families and makes affordable rental housing available to those at lower income levels. Businesses are often created to support housing construction and rehabilitation, as well as property management and building/grounds.

Infrastructure Development refers to capital-intensive investment projects that are usually underwritten by public agencies, such as water and sewer systems, roads, transportation networks, ports, communications, utilities, and other physical development efforts. Infrastructure development projects are often included as part of incentive packages to attract business and industry and encourage further economic development. The extent to which local and regional governments should rely on these strategies continues to be debated.

Community Land Trusts are democratically structured nonprofit corporations designed to hold land in the public interest. The land, which is acquired through purchase or donation, is held in perpetuity and cannot be sold for private profit. It can be rented for private enterprises that are compatible with the values of the community that establishes the land trust. CLTs provide public guidelines for land use without government controls. They have been used as vehicles to stop gentrification and profit-driven speculation. CLTs have been particularly effective in building affordable housing, stabilizing housing markets, minimizing displacement, and preserving historic communities of low-income people and people of color. CLTs have also been employed in rural communities to help preserve family farms and stop exurban sprawl. CLTs often work in tandem with CDCs, cooperatives, and worker-managed businesses to achieve broader community economic development objectives. The Institute for Community Economics in Massachusetts has provided technical assistance to many organizations around the country interested in developing land trusts.

Community Gardening Projects are excellent vehicles to stimulate community involvement in an activity that improves the physical appearance of an area. Abandoned properties or publicly held land are prime candidates for these projects. Urban gardening programs have been linked with entrepreneurship programs to create small food-related businesses. They have also been the anchors for larger farmers' markets. The U.S. Department of Agriculture Cooperative Extension Service, which has offices at the county and city level, assists people and organizations interested in establishing community gardens. There are many community nonprofit organizations that do this work as well. Efforts are hindered, however, by the presence of toxic lands poisoned by industrial processes. These *brown fields* account for a significant portion of industrial land in poor communities.

6.2 Business Development

Business development strategies are designed to stimulate the creation of new businesses, attract existing businesses, and retain and expand indigenous businesses in an area. As discussed in the Historical Overview section, community development corporations (CDCs) have been involved in creating, owning, and managing businesses as a part of their ongoing activities. They have built and revitalized commercial strips, mini-malls, and industrial parks. CDCs have purchased stock, made or guaranteed loans to for-profit subsidiary operations, and sometimes operated businesses as internal divisions of their organizations. There are examples of CDC-owned or sponsored businesses in retail services, commercial services, manufacturing, natural resource-based businesses, and human services.

With the renewed emphasis place on jobs creation, CDCs are going beyond simply creating business. They are interested in not only in creating jobs and businesses, but in, but preserving existing jobs – either through buyouts or by finding new owners for key firms. They facilitate communication between employers in need of skilled workers and organizations providing the training. They also advocate the inclusion of job creation components, in large-scale economic developments.

CDCs are also working to create jobs for residents within the housing components of their programs. These programs emphasize skills training, linking trainees and workers with mainstream employers, and opening the construction and building trades to local residents. CDCs are targeting other sectors, such as health care institutions and universities – anchors in many distressed communities – to develop intensive job creation and training programs, often accompanied with placement and advancement commitments.

Small Business Development is concerned with creating and supporting businesses with 500 employees or less. (Many small businesses have fewer than 25 employees.) A wide range of activities fall under the heading of small business development, including entrepreneurship, microenterprise, business incubators, business finance programs, loan funds, venture capital, manufacturing modernization programs, and technology centers. Small Business Development Centers provide free and low-cost technical assistance to small businesses. They are generally housed within a university or community college and are supported by the U.S. Small Business Administration. Community colleges tend to offer more services that support small businesses than do universities. This is particularly the case within the manufacturing sector, where Manufacturing Technology Centers and Advanced Technology Centers usually include business management as a part of their technical assistance packages.

Small Business Incubators serve new firms during the sensitive start-up phase. The objective is to help them minimize operating expenses and promote the long-term success of the venture. Incubators offer ways for businesses to reduce operating and capital costs by sharing facilities, equipment, services, and other resources. Incubators often benefit from close ties to universities and community colleges, many of which have good industry relations and are sources of information, technology, and trained workers. Incubators have been developed for a variety of sectors.

Entrepreneurship programs provide support and assistance for individuals interested in starting their own businesses. Included under this heading are self-employment and microenterprise programs. Successful entrepreneurship programs depend on identifying individuals who can overcome the risks associated with starting and managing a small business. Certain skill sets are critical, including decision making ability, analytical ability, and self-direction, as well as work experience, technical expertise, communications skills, and marketing skills. Successful entrepreneurs also have access to capital to underwrite their operations, since conventional and venture capital are difficult to secure.

Traditionally, entrepreneurship was the domain of highly educated professionals in the business services, finance, insurance, and real estate sectors, but this is no longer the case. Increasingly, programs have been created for particular segments of the population, such as women, racial/ethnic groups, and low-income groups (discussed below). These programs typically supplement business and technical assistance with esteem building and personal/time management training, but they are costly.

Microenterprise Development promotes economic independence for low-income people by providing grants, and more frequently, loans for the creation small businesses. Many of these are home-based ,self-employment operations – enterprises that typically have difficulty accessing traditional sources of start-up capital, credit, and technical support. Financing is usually combined with extensive technical assistance and business training. Microenterprise strategies have been widely employed in developing countries, where they help low-income people move into the formal economy. They are a growing force in U.S. job creation efforts, particularly in the current welfare reform climate. These programs often have a strong self-sufficiency and empowerment orientation, though many microenterprise operations fail to create significant numbers of jobs. Some studies suggest that the percentage of welfare recipients able to succeed in self-employment is small (less than 10 percent).

Microenterprise Loan Funds make small, market and below-market rate loans that are unregulated, offer favorable terms, and are often secured by a community development financial institution. These micro-loans have also been awarded to small businesses and manufacturers, used to stabilize and update local operations, and have utilized interest rebates and other incentives to encourage the hiring of local residents. Program-Related Investments (discussed below) have been used to underwrite micro-lending programs.

Women's Economic Development attempts to address the economic and social inequities faced by women. Programs focus on a range of concerns, including entrepreneurship, access to capital and credit, pay equity, and childcare. Women's economic development proponents have advanced the concepts of microenterprise and self-employment as strategies for women leaving welfare. The Charles Stewart Mott Foundation has been a long time supporter of microenterprise, as have other foundations. The Ms. Foundation for Women has also supported a range of business development and microenterprise efforts, including development loan funds. These strategies are integrally linked to poverty alleviation efforts.

Minority Business Enterprise Development refers to a range of entrepreneurship, enterprise, and small business development strategies aimed at increasing the number, types, and viability of firms owned and operated by people of color. According to some studies, these firms are more apt to hire people of color and disenfranchised groups, but less apt to have access to capital, markets, and other supports compared to mainstream businesses. MBE programs that target the procurement process have been sponsored by the public sector, including the U.S. Commerce Department's Minority Business Development Agency, but these programs have come under increasing attack as governments downsize. There are other programs that serve smaller businesses, facilitate networking to better access markets and suppliers, and target specific sectors or industries for intervention.

Youth Development programs typically focus on issues related to education, dropout prevention, substance abuse, self-esteem, and recreation. Increasingly, however, the linkages between youth programs and issues of community development are merging. Many comprehensive community initiatives that address problems of education, employment, housing, health, and safety usually include a youth component in each of the respective areas. Many programs focus on early childhood intervention for at-risk youth. Issues of global competitiveness and economic opportunity are often couched in the context of youth development. The emergence of the school-to-work initiative as a national priority is one result of this connection. Youth entrepreneurship programs are also emerging as viable components of youth development programs.

Sectoral Initiatives refers to strategies that provide targeted job opportunities for people in low-income communities or distressed regions by stimulating industry or sectoral development that captures an unoccupied niche and/or strategically harnesses local/regional resources. Rural communities have applied sectoral intervention strategies to create natural resource-based industries. Interventions in the manufacturing sector attempt to stabilize small, locally-based firms, and health sector models have created home health care cooperatives and targeted hospital employment. Other sectoral intervention strategies have been applied in telecommunications, construction and building trades, and human service delivery fields. Successful sectoral strategies tend to integrate business and industrial development with education and training, attempt to use scale- and resource-appropriate technologies, and strive to place people in liveable wage jobs.

Industrial Modernization refers to strategies and practices designed to improve the production methods of small- and medium-sized manufacturing enterprises. These strategies include technology development and transfer, training, business assistance, market development, capital access, and demonstrations of new technology. Modernization efforts and other strategies aimed at retaining and rejuvenating existing enterprises have begun to take precedence over industrial recruitment strategies.

High Tech Development refers to firms that engaged in technically sophisticated activities that lead to product or process innovation. States and regional governments typically develop strategies aimed at: recruiting high tech firms to their regions; modernizing the process technologies of existing production operations; creating incubators for new "homegrown" high tech operations; and stimulating innovations throughout a region. The region is then marketed as a high tech center, such as Route 128 in Boston and Research Triangle Park in North Carolina. *Technology transfer* is a common component of high tech development. It focuses on diffusing knowledge from government research labs to the private sector. Programs to stimulate the commercialization of this activity resemble – and are sometimes one and the same as – high tech development efforts.

Community Cooperatives are alternative forms of business ownership that are organized according to democratic management principles. They are generally labor-intensive, so adequate training is crucial to the their success. Cooperatives have been created to address community needs such as child care and other human services delivery areas. The cooperative structure has also been used by workers as a vehicle to collectively market their labor. (See employee ownership models below.)

Employee/Worker Ownership integrates worker-owner and worker participation in the management of a firm. These arrangements are often developed in response to massive plant shutdowns such as those that have occurred in recent years. In *worker cooperatives*, employees become joint owners in the enterprise, holding non-transferrable voting and profits rights determined by their employee status. *Employee stock ownership plans* (ESOPs) are vehicles by which employees purchase shares of stock in a firm through actual cash purchase, wage reductions, or borrowing. The majority ownership of the ESOP is generally held by employees, and the governing structure is democratic. Worker ownership models have generally succeeded when there is a good understanding of the macroeconomic forces affecting their operations, mixed with a collective commitment to the principles of cooperative economics.

6.3 Capital Access

Closely related to issues affecting business development opportunities is the issue of access to capital. Although small businesses make up the majority of business enterprises, they have the most difficulty securing financing from traditional lenders. This is especially true for minority business owners. A number of strategies have been employed to get more capital in the hands of small businesses, community development corporations, and other ventures that serve disenfranchised communities and create jobs. Critical to community economic development in distressed areas, however, is the need to provide capital in tandem with technical, business management, and financial assistance.

Community Development Financial Institutions (CDFI) include a range of institutions, such as community development banks, credit unions, loan funds, and socially conscious investment funds. They assist business ventures operating in low-income communities that ordinarily would not have access to traditional forms of capital. CDFIs help retain capital in these communities and leverage capital that might otherwise be invested elsewhere. They also provide convenient banking and lending services to residents. CDFIs are a way to compensate for the deficiencies in finance and investment policies that preclude access to capital by minority-owned, inner-city, and/or small-scale firms (the ones most apt to hire poor and low-skilled people). CDFIs often offer technical assistance to businesses, influence hiring decisions in favor of area residents, and stimulate targeted sectoral development. A national network of CDFIs is staffed by the Coalition for Community Development Financial Institutions in Philadelphia.

In 1994, the Community Development Banking and Financial Institutions Act authorized the creation of the Community Development Financial Institutions Fund and the Bank Enterprise Award Program, to be administered by the U.S. Department of the Treasury. The CDFI Fund is a wholly-owned government corporation formed to facilitate the flow of lending and investment to distressed communities and to individuals unable to take full advantage of the financial services industry. A principle aim is to rebuild high poverty areas and reduce the risk of decline in transitional communities. The Fund was created to develop new CDFIs and expand existing ones. To qualify for CDFI funding, projects must secure a one-to-one match, for which philanthropic support is encouraged. $31 million was authorized for CDFI.

The Bank Enterprise Award Program (BEA) has its roots in the Federal Deposit Insurance Corporation Improvement Act of 1991, but was modified to complement the CDFI Fund. BEA is an incentive program that encourages insured depository institutions to increase loans services and technical assistance to distressed communities, and to make equity investments in CDFIs. It rewards institutions for increasing their activities.

Community Reinvestment Act defines the responsibilities of banks and lending institutions to communities, including low-income communities, which have historically been subjected to low lending and investment patterns, or redlining. CRA offers community organizations a tool for accessing capital for mortgages, home improvements, small businesses, economic development, and other job creating opportunities that help stabilize low and moderate income communities.

Program Related Investments are vehicles used by private foundations to provide long term support to grantseeking organizations in specific program areas through investments that yield a return to the foundation over a specified period of time. Program Related Investments (PRIs) are generally carried out through a business or enterprise that promotes social objectives while generating revenue. PRIs include loans, loan guarantees, equity investments, and other investment vehicles. They are mainly used for community development, housing, education, and health initiatives. Forty percent of PRIs directly benefit disenfranchised and minority communities. PRIs support capital investment projects and sometimes provide bridge or gap financing. Most PRIs support individual projects undertaken by a specific organization, but some PRIs support intermediary organizations that operate CDFIs. The size of PRIs range from $10,000 to over $1 million.

According to Foundation Center data of cumulative PRI activity from 1990-1992 (Renz and Massarsky, 1995), the Ford Foundation ranked first in the level of PRI activity, investing $44.4 million in 26 PRIs, followed by the MacArthur Foundation with 33 PRIs totaling $26.5 million. Five other foundations had PRIs over $10 million each, including Pew Charitable Trusts ($26.1 million), Richard King Mellon Foundation ($25 million), Metropolitan Life Foundation ($16.4 million), Meadows Foundation ($15.4 million), and the Robert Wood Johnson Foundation ($11.6 million).

Community development, which includes housing and physical development as well as business development activity, represented the largest field of PRIs. Within this category, 50 percent of PRIs were for urban development, 20 percent for economic development, 11 percent for rural development, 9 percent for community improvement, 7 percent for small business development, and 3 percent for technical assistance. Community development PRIs constituted 29 percent of all PRI moneys – approximately $85 million. PRIs are also made in support of health, human services, education, the environment, and the arts.

The Foundation Center guide listed only three major foundations that made PRIs for employment and jobs.: The were the MacArthur Foundation (IL), Charles Stewart Mott Foundation (MI), and Irvine Foundation (CA). Several community foundations are also noted as making PRIs for employment and jobs, including the California Community Trust, San Francisco Foundation, El Paso Community Foundation, and the Community Foundation for Southeastern Michigan. PRIs are more commonly used for community economic development, some of which crosses employment and jobs. Caution is suggested in relying on the Foundation

Center's broad categorizations, as the community development projects could include employment and jobs.

There is not a large demand for PRIs reported by foundations, but approximately 75 percent of those organizations applying for PRIs received them. Default rates were under six percent. Foundations noted that the key barriers to providing more PRIs were a preference for making grants and/or having an asset base perceived to be too small to support PRIs.

6.4 EMPLOYMENT CONNECTIONS

Employment Training Programs attempt to improve job opportunities for low-income people by providing them with skills and other training. This approach has been used in the federal/state jobs programs from the old Comprehensive Employment and Training Act (CETA) to the current Jobs Training Partnership Act (JTPA). JTPA is administered by the U.S. Department of Labor and includes programs for youth, migrant and seasonal farmworkers, and Native Americans. The programs are governed and administered through Private Industry Councils (PICs) – local and regional bodies largely comprised of private sector business leaders from large companies.

A variety of entities are involved in the employment training system, including public schools, community colleges, proprietary training firms, service providers (including transportation, child care, housing, health care, counseling, financial management, etc.), referral agencies, firms, and public agencies. The focus of JTPA is on job opportunities in the private sector, with a strong push for on-the-job training (OJT). However, opportunities are generally limited to lower paying jobs with little advancement potential. Recent efforts have encouraged more industry-specific training, coordination with local/regional economic development efforts, microenterprise grants, and stronger support services programs.

The primary problem with traditional employment and training programs is that they are more focused on getting people into the referral system than into employment. Connections between the training component and economic development efforts designed to create jobs are very weak. If the intention of emerging programs is to keep welfare bound youth from joining the welfare ranks, there is general consensus that large-scale JTPA-type training programs offer little of hope of lessening poverty unless they are coupled with efforts to connect the respective systems. There are a number of creative approaches to building these connections, as well as to reducing the barriers and strengthening the connections between disadvantaged job seekers and employers.

Job Brokering is an approach designed to close the information and access gaps between those looking for work and those looking for workers. They do so by augmenting the traditional methods that firms use to recruit, screen, hire, and train workers. Emphasis is placed on: understanding employers' needs; making it easier for employers to identify and recruit workers, especially within low-income communities; and designing training programs that prepare workers with the baseline skills most employers are looking for. Brokering initiatives have been effective in minimizing the barriers to work (including discrimination) and facilitating employer networks to help ensure that jobs stay in local areas.

Mobility Initiatives attempt to correct the spatial mismatch that exists between where most poor and underemployed people live (urban inner-cities) and where many of the firms that might employ them are located (outlying suburban areas or areas of cities inaccessible by public transportation). Community based organizations and occasionally transit authorities sponsor programs that provide transportation to take workers to jobs, and/or lobby for expanded public transportation routes. There have been some attempts to make mobility programs a built-in part of skills training programs. Public/Private Ventures in Philadelphia has supported national demonstrations in this area.

Open Housing Strategies attempt to correct the spatial mismatch that exists between where most poor and underemployed people live (urban inner-cities) and where many of the firms that might employ them are located (outlying suburban areas or areas of cities inaccessible by public transportation) by encouraging low-income people to move to suburban areas. Model efforts include the Gautreaux Assisted Housing Program in Chicago that provides housing vouchers for public housing in suburban communities, coupled with job referral, counseling, and other supports to make these transitions successful.

One-Stop Career Centers are local and regional hubs for the coordinated delivery of the variety of workforce development programs and related support services. They attempt to reduce the fragmentation found in traditional programs that affect both job seekers and employers. One-stops offer training referral, placement assistance, career counseling, and other supports to job seekers. They also customized training packages, provide recruiting and hiring assistance, develop economic forecasts and labor market analyses, and provide regulatory compliance assistance for employers. One-stops are a central component of federal block grant legislation.

6.5 Education and Training

Federal support of vocational and technical education has recently led to a number of provisions designed to address the mismatch between skills required by employers and skills held by potential workers. The conceptual framework for many of these programs is the connection between poor educational outcomes, the declining global competitiveness of U.S. industries, and domestic economic viability. Although there are specific provisions aimed at distressed communities and disadvantaged learners and job seekers, questions remain regarding the ability of the various system components to effectively live up to the intent.

For example, training and skills upgrading has traditionally fallen under the umbrella of human capital. Although training is included as a component of many state and local economic development programs and is offered as an incentive to firms, these programs tend to fall short in their efforts to include those at the bottom of the skills ladder and the unemployed. Evidence suggests that this reluctance to include low-skilled workers and the unemployed is due to the perspective of many economic development administrators that this type of training is the domain of social welfare, not economic development (Fitzgerald, 1993).

Although the connection between education and training and economic development seems axiomatic, in practice it is elusive when it comes to disenfranchised populations and distressed communities. Community colleges are the vanguard institutions in the march toward economic competitiveness and industrial modernization, but their reach into distressed communities, connection to inner-city schools, and inclusion of minorities in high skill, high wage fields is generally weak (with the exception of those colleges serving minority constituencies). Universities are also emerging as new partners in economic development in distressed urban communities. They are broadening their missions to include community service, but they battle internal resistance and external perceptions of insulation and aloofness. This section examines some of these issues and includes a few examples of programs attempting to address the deficiencies.

6.5.1 Two-Year Technical and Community Colleges

For decades two-year technical and community colleges were viewed as under-resourced stepchildren of four-year colleges and universities. The community college system appeared to be confused about its identity: was it a provider of vocational and technical training or a transfer institution for students passing through to four-year colleges? Technical curricula tended to emphasized narrow training as opposed to flexible, broadly applicable skills. Economic development-related activity historically focused on promoting the smokestack-chasing industrial recruitment packages offered by states and localities. In recent years, however, these institutions have emerged as a major force in industrial competitiveness and modernization.

Historical Context.[7] During the late-1950s and early-1960s, there was much concern about the implications of technological change on the labor force displacement, and that vocational education programs were not keeping pace with technological advancement. Several federal programs were created during that period, which laid the foundation for vocational education's enhanced role in economic development. The National Defense Education Act of 1958 supported occupational training in scientific fields. The Area Redevelopment Act of 1961, which was aimed at assisting depressed regions, supported worker training that was customized to employers' specifications. This Act opened the door to include vocational education and customized training in industrial recruitment packages. The Manpower Development and Training Act (MDTA) of 1962 was originally conceived to retrain workers displaced by automation. As it evolved, it shifted its focus from school-based programs to the workplace and technology skills centers, and contributed funding for federal vocational education programs. For the most part, however, training was focused on specific occupations.

By the mid-1960s, MDTA had become a staple in the arsenal of activity under the War on Poverty, and as such was redirected from addressing technologically-driven displacement to the training needs of disadvantaged job seekers. Other economic development programs were created that included provisions for vocational education (mainly for the construction of educational facilities), including the Economic Development Administration and the

[7] This sections draws on Rosenfeld (1993).

Appalachian Regional Commission, both of which focused on distressed regions. Additionally, policy makers at the time squarely identified vocational education as an upward ladder for disadvantaged people.

In the early-1970s, vocational education policy research undertaken by then-HEW's Work in America Task Force identified technological change as the cause of displacement of workers into lower-skilled service sector jobs. Program emphasis shifted to address retraining and mobility needs and mid-career opportunities. The economic development connection remained untapped until the early 1980s, when several studies by the National Institute of Education and the National Academy of Sciences elaborated on the technology explanation to underscore the impact of economic restructuring. These studies identified the shift from a good-producing economy to a service economy as one that would not only reduce employment levels in manufacturing, but would required enhanced, flexible skills for those who remained in that sector. The studies underscored the implications for youth and minorities and the need to reorient secondary school systems, develop closer linkages to employers, and create apprenticeship programs.

These reports dovetailed with other findings that suggested that the decline in U.S. test scores and basic competencies threatened the country's global competitiveness; that educational performance is undeniably linked to economic outcome. Business was vitally involved in this discourse, though most interest came from large corporations. Unfortunately, while the connection between skills and economic opportunity was stressed and the structural influences acknowledged, vocational education received only brief reference, behind the role of secondary schools. In 1984, many of the recommendations of these studies found their way into the Carl D. Perkins Vocational Education Act, which regulates federal vocational education funding to high schools and two-year colleges. Through Perkins, economic development became an explicit vocational education policy objective, as did providing assistance to economically depressed regions.

Recent Activity. Employers have been the primary drivers behind community colleges' enhanced role in economic development and industrial competitiveness, including a refocusing on the needs of local employers. Particularly in isolated regions, two-year colleges are often the only source of technical assistance and avenue of access to trained workers for firms. This is especially true for small- and medium-sized manufacturing enterprises (SMEs), which generally have found limited access to, and little support from universities. Changes to federal programs under the Economic Development Administration and Carl Perkins have built in disincentives to using funds for industrial relocation and recruitment. Many local programs have followed suit, attempting to stem job loss by instead emphasizing the retention and expansion of existing businesses and industries. This has also helped bolster the role of community colleges.

Activities undertaken by two-year colleges that support economic development and industrial modernization include customized training for specific firms; workplace-based skills upgrade training; technology transfer and information diffusion; demonstrations; operation of advance technology and manufacturing technology centers; operation of small business development centers and business incubators; brokering services; technology extension services; inter-firm cooperation and suppliers networks; procurement services; operation of revolving loan funds; and more. Community colleges often take the lead in initiating comprehensive economic development planning, facilitated by their extensive partnerships with employers, business leaders, schools, colleges, universities, community-based organizations, service providers, and unions.

A key challenge for community colleges, particularly in the area of technical skills training and advanced technology fields, is diversity. Minorities, women, and low-income students tend to be disproportionately under-represented in these programs. Even at predominantly-minority community colleges, the demand for industrial technology training is low, due to a variety of reasons including poor recruitment, lack of support of technical training by high school counselors serving some minority groups, and perceived weak labor markets (Rosenfeld and Kingslow, 1995).

Community colleges generally are attempting to development more inclusive programs, but demand for these efforts is not necessarily being driven by employers. Negative perceptions about people of color and women on the part of many employers still influence hiring decisions, despite hiring incentives that promote jobs for disadvantaged workers, such as the federal Targeted Jobs Tax Credit (Dewar and Scheie, 1994). However, this and recent changes to federal vocational and technical training programs offer some encouragement.

Tech Prep. In 1990, Perkins was reauthorized and renamed the Carl D. Perkins Vocational and Applied Technology Education Act, and with it Tech Prep was instituted. This program is focused on technical training that supports industrial competitiveness and manufacturing modernization. During a student's four-year high school tenure, two years are spent in high school training and two years in community college training and apprenticeship. It is sometimes referred to as the "2 + 2" program. Tech-Prep is more comprehensive that traditional vocational education programs, which tend to focus on narrowly applicable job skills. Tech Prep emphasizes the full array of components that make up an industry. Curricula stress academic as well as vocational competencies. Students learn technical and production skills as well as management, planning, financial principles, and occupational safety, and environmental considerations. Curricula development is designed to reflects actual workplace needs and regional economic development directions.

There are several components of Tech Prep that are important to economic development. The program emphasizes community involvement in the program design and implementation, mandating that teams of educators, employers, and community and union representatives work in partnership. It also still redirects resources to distressed areas. Increasingly, CDCs and other community organizations are using these partnership opportunities to become more involved in influencing economic development, job creation, and workforce development decisions in their regions (Harrison, 1995).

6.5.2 Secondary Level Initiatives

High on the list of failures of public school systems is the poor transition it offers to non-college bound students from the classroom to the world of work. Vocational programs in many public schools have been downgraded to near token status. Counselors offer limited vocational and technical career guidance and generally have weak connections to two-year college systems. This is especially troublesome for inner city schools, many of which caved under pressure from black civil rights advocates to abandon vocational programs because they were pejoratively viewed as vehicles for tracking minority students away from the opportunities associated with academic training. For many students exiting inner city schools, transition options are fast becoming almost non-existent. Those few who are fortunate to find work are more apt to be consigned to low-wage jobs with few benefits, limited upward mobility, and little security.

The problem is not only limited to under-resourced urban schools. Reports by the U.S. Labor Secretary's Commission on Achieving Necessary Skills (1991) cited the need to not only improve technical training, but also to improve workplace competencies beyond basic literacy and computational skills. This is essential if the country is to have a high-performance economy with high wages and high skills jobs. This and similar analyses use the decline in U.S. competitiveness as a backdrop, citing the relationship between a strong, globally competitive economy and a commitment to vocational and technical training, such as found in many European countries. The case was bolstered by an awareness that approximately one-third of all U.S. student are educated in inner city public schools.

The **School-to-Work** Opportunities Act of 1994 is generally recognized as a vehicle to support the new wave of training strategies. The program focuses on building academic and occupational competencies and beginning the process early in a student's life. Key components include workplace exposure through youth apprenticeships and programmatic linkages with employers and development planners. School-to-Work initiatives have shown promise for average non-college bound youth. However, without significant assistance to inner-city school districts, it is questionable whether STW programs can effectively move inner-city youth into high wage, high skill jobs, particularly given the range of barriers these youth encounter, such as spatial dislocation from work sites and the lack of math, science, and reading, skills and social/workplace conduct skills. (Pouncy and Mincy, 1995).

The Youth Enterprise Network (YEN), a Chicago-based collaborative between area high schools and community-based organizations, is an example of a community driven effort to use schools as vehicles for community economic development in distressed neighborhoods. Typically, schools in such communities remain detached from any efforts to improve economic conditions. YEN's approach is to develop a vocational program in business ownership and entrepreneurship that provides students with the academic and technical training needed to own and manage a business. Emphasis is placed on serving local business development needs. YEN has high parent and community involvement and linkages to existing businesses. Students also participate in university-sponsored seminars on community economic development concepts (after Fitzgerald, 1993).

Baltimoreans United in Leadership Development (BUILD), a predominantly black, multi-denominational coalition of churches, has effectively used coalition building and partnerships to extract explicit commitments from educators and employers to move people out of poverty. BUILD successfully negotiated a pact between the Baltimore Public Schools and major employers in which employers guarantee liveable wage jobs with upward mobility to high school students who uphold a promise to achieve certain academic and social goals. Curricula are designed to meet anticipated needs of employers. BUILD is part of the Industrial Areas Foundation (IAF) network, which uses community organizing and coalition building to accomplish economic development and job creation objectives.

6.5.3 University Involvement in Economic Development

Outside of the land grant university system, with its history of locally-focused extension services, the involvement of four-year colleges and universities (referred to as higher education institutions, or HEIs) in economic development has been varied. HEIs clearly contribute to the economic viability of their communities. They provide a significant number of jobs, and in some areas are the largest employer. As partners in economic development projects, HEIs have been criticized for tending to support large-scale, high-tech research and development, much of which has directly or indirectly promoted deindustrialization and the expansion of an increasingly polarized service sector.

In many cities, universities sit in or on the fringe of poor communities. They may be the only anchor of stability in these areas, but the degree to which benefits accrue to those outside the university community is sometimes marginal. The relationship between HEIs and the community organizations in these areas is at times weak and at others adversarial since HEIs' agenda often conflict with community goals. Some HEIs are perceived as culprits in the disinvestment in poor areas and as having amassed large land holdings at the expense of area residents and small businesses.

Recently, there have been more examples of sustained HEI involvement in poor communities. More universities have broadened their orientation beyond research, adding community service to their mission statements and developing strategies for direct involvement in the economic development of distressed communities. There is an increasing acceptance of interdisciplinary work and the applied sciences, and incentives are offered to faculty and students to become more involved in community development. Universities are also being encouraged to direct more of their purchasing power to local suppliers and stimulate job creation by helping commercialize new technologies and applications.

Programs that encourage partnerships between HEIs and community-based organizations are showing a good deal of promise. These sorts of partnerships are being encouraged by a number of foundations and federal agencies. The U.S. Department of Education, through its Urban Community Service Program, is explicitly trying to stimulate the involvement of HEIs in poor areas by underwriting partnerships between HEIs and public, private, and nonprofit organizations. HUD has created a similar program under the Office of University Partnership. These types of partnerships are proving to be effective capacity building levers for poorly resourced areas and organizations. Unfortunately, these programs are new, and likely to be targets for cuts or eliminations. Efforts to leverage additional support for these partnerships is needed.

6.6 Rural Development

Economic development also includes the area of rural development. Rural economies are typically centered around a primary industry, such as agriculture, extraction, manufacturing, tourism, and government. Paralleling the decline in primary production experienced in urban-based manufacturing, structural change also affected rural economies. During the 1970s and 1980s, rural economic activity shifted from a dependence on natural resource extraction-based industries to low-wage, low-skilled manufacturing and service industries. By the mid-1980s, manufacturing accounted for nearly a quarter of rural employment, and the service sector two-thirds, compared to eight percent from farming. Many rural counties are dependent on federal and state transfer payments.

Today, rural economies are inextricably linked to metropolitan regions and global economic forces, such as the offshore displacement of steel production and declines in the U.S. auto industry, burgeoning third world textile production markets, and the impact of trade agreements on counties dependent on agricultural subsidies. Economic dislocation in rural areas tends to have hard hitting consequences. Because rural economies lack diversity, the loss of a major employer or the collapse of a major market or industry leaves few alternatives for rural workers, and has a rippling effect throughout the community. Many rural industries purposefully locate in areas of low wage levels. Workers are rarely provided with upgradeable skills. This undermines their ability to command decent wages, as well as the region's ability to attract advanced industries, should the original employer abandon the community.

Nor have rural communities benefitted from information technology and advances in telecommunications, which were once touted as solutions to the problems of rural isolation and inferior systems. With the exception of a few upscale rural communities that have established themselves as telecommuter havens, most rural areas remain without the infrastructure and skilled workforce needed to enter the telecommunications market. Moreover, those areas that have been able to apply telecommunications technologies and distance learning tend to experience an outmigration of trained and educated workers because of the lack of labor market opportunities.

Many rural counties exhibit high levels of persistent poverty. By the 1990s, the poverty rate in nonmetro counties exceeded rates for metro areas. The characteristics of rural poverty are often overlooked because of the bucolic setting, but the conditions are different and often more severe than urban poverty. Rural poverty continues to be highest in the South.

Rural development initiatives have been concerned with strategies that make rural economies less vulnerable to exogenous forces, create employment and income generating opportunities, and provide skills upgrading opportunities for rural workers. Rural economic development is also concerned with the management and utilization of natural resources, and finding a balance between preserving and promoting sustainable ecological systems and exploiting natural resources for economic development. This latter approach falls under the umbrella of *sustainable development*, and has been widely applied to agriculture systems.

Another critical rural development issue is the anticipated impact of federal devolution on local governments. As mentioned above, many rural communities depend on intergovernmental transfer payments to supplement the tax base. As these payments are reduced, and declining economic opportunities preclude raising additional tax revenues, rural economies will face hard spending and taxation choices as they attempt to provide local services. Reducing spending by cutting social programs and infrastructure development will adversely affect the quality of life as well as the viability of the region to support economic development and maintain a quality workforce. This is particularly problematic for regions already experiencing population declines.

Healthy Communities is an offshoot of rural development that is increasingly being applied in urban areas as well. Approaches designed to stimulate the development of healthy communities generally place a strong emphasis on community involvement and the participatory development of holistic, diverse, complex economic systems. These systems are designed to engender the good health of the community and its individuals. These values underlie many of the comprehensive community initiatives operating in underserved urban and rural areas. The health care systems operating within this framework are accessible, responsive, and oriented toward prevention. They are integrally linked to other community services and operations, and consequently become targets for jobs creation intervention.

7. THE ROLE OF PHILANTHROPY IN ECONOMIC DEVELOPMENT

Foundations have supported economic development efforts for a number of decades. The Ford Foundation's Gray Areas Project in the early 1960s was one of the first attempts to address the economic conditions in urban communities. Although the program primarily focused on providing education and job training, many of these projects included service delivery components. Additionally, many of the projects had a strong community organizing thrust designed to empower poor communities and challenge the structural causes of poverty and joblessness. These approaches were applied in rural areas as well, often dovetailing with civil rights initiatives in predominantly black areas of the South and other poverty alleviation efforts elsewhere.

As discussed in previous sections of this report, enterprise development and jobs creation has been an ongoing part of community economic development, but much of this work has taken place quietly and on a smaller scale than the housing and community organizing components. The reemergence of jobs development as a prominent program component has been driven by a number of factors, including welfare reform, the widening income gap, nonprofit organizations seeking economic opportunities for their constituents, and a dissatisfaction with existing programs to alleviate poverty.

As current Congressional budget reform efforts move forward, foundations will increasingly be expected to address shortfalls in a variety of areas, including human services, community development, education and training, health services and the environment. In an era of widening economic and social dislocation, there is no guarantee that increases in charitable giving will necessarily support the poor. While philanthropy cannot fill the huge gap caused by federal cuts, many foundations have taken steps to better understand the current environment and design programs that are proactive and self-sustaining.

One of the difficulties in stimulating greater foundation support for job-centered economic development is that this is quite different from typical charitable giving. Government programs and policies do not drive economic development and jobs creation, contrary to social services, housing or public health. It is hard for some in the philanthropic sector to understand the connection of economic development to the social service safety net, which foundations have supported. It is also difficult to change the mindset toward philanthropic intervention in the free enterprise system.

Today, however, foundations are reevaluating their approaches in the context of real and emerging needs and are finding creative ways to stimulate economic opportunity. Jobs creation has reemerged as the primary focus of economic development. Within philanthropic circles, several affinity groups are taking the lead in exploring new directions, including the Neighborhood Funders Group and Grantmakers Income Security Task Force.

Foundation officials and others interviewed for this report identified a number of areas needing further attention. Despite there being many promising demonstration projects, no strong policy pieces have emerged. Given the ever changing regulatory and policy environment, foundations can play a greater role in policy research and advocacy. Foundations can play a role in narrowing the gap between policy development and program implementation. This is becoming more crucial as state governments accept more responsibility for implementing programs, but with little experience to draw on. Information dissemination, documentation of best practices, and program evaluation are also needed.

Research on low-wage labor markets and other workforce development issues is needed. On the demand side, the primary unanswered questions are whether there are enough jobs to support a diverse workforce and, if not, where jobs will be created. On the supply side, issues of skills mismatch and job readiness are complicated by the imminent entry of former welfare recipients into the labor market, women and immigrants workers, and the growing number of white collar lay-offs. Linkages between economic development, workforce development, and human services need to be strengthened, and community-based business development must increase the scale of operations if substantial job creation is to occur.

What follows is a summary of the economic development programs of selected foundations, many of which are part of a network of foundations that are on the cutting edge of economic development programming and policy support. The activities described are provided as examples, and are not meant to reflect all that foundations are doing. Moreover, each of the foundations cited has broad programming, some of which may tangentially support economic development. For the purposes of this paper, however, program descriptions are primarily limited to activities that explicitly support enterprise development, job creation, and workforce development.

Many of the examples are urban based, but a number of these foundations focus on rural development as well, including the Ford Foundation, Northwest Area Foundation, Joyce Foundation, and Pew Charitable Trusts. The examples include foundations that are interested in informing the theoretical framework of economic development, those interested in policy reform, those that are strategically investing in particular models and limited demonstrations, and those that are building institutional and community capacity around specific projects.

Most have used community development corporations (CDCs) and development intermediaries as vehicles for carrying out economic development projects. Technical assistance is a common component of most successful economic development initiatives. Many foundations have supported efforts that encourage community partnerships, such as the Casey Foundation's Jobs Initiative and Ford's Neighborhood and Family Initiative. These comprehensive community initiatives emphasize institutional capacity building and the strengthening of indigenous resources. The geographic targeting of economic development resources has been applied by many foundations, including MacArthur's focus on Chicago and Palm Beach County, Florida, and Pew's focus on the Delta region of the South.

Program-related investments (PRIs) are popular applications widely used by the Ford and MacArthur foundations, and by other foundations to a lesser degree. PRIs have been used for small- and minority business development, guarantee loan funds, and housing and physical development projects. Many foundations have supported a variety of community banking initiatives, including credit unions and loan funds, and have encouraged the use of other capital funds for community development purposes. Several foundations have supported sectoral intervention strategies, including the Joyce, Northwest Area, and Mott foundations.

Policy research and advocacy are recognized by most foundations as key components to long-term systemic change. Many foundations have conducted studies to understand the implications of structural change on various communities and sectors. Documentation, evaluation, and information dissemination are important components of this work, though most interviewees acknowledged that more effort is needed in these areas. The Joyce, Rockefeller and other foundations have supported advocacy work aimed at policy reform.

Most, if not all, foundations contacted for this informal survey of activities were encouraged to hear that WKKF is exploring the area of economic development, and welcomes its involvement in a field needing ever more resources. Many foundations routinely or periodically collaborate with other foundations. Interviewees suggested that WKKF might benefit from collaborations. Many people were particularly concerned that current efforts to reduce government programs will place burdens on foundations that can only be met effectively if there is more partnership within philanthropy. Many of the foundations that have been addressing economic development issues for a sustained period of time warned against not investing substantial time and resources in the preliminary development work to gain a thorough understanding of all the issues.

7.1 ECONOMIC DEVELOPMENT PROGRAMS OF LEADING FOUNDATIONS

Bankers Trust **Type: Corporate**
New York, NY
Bankers Trust (BT) is not a retail bank, so it does not have an automatic presence in neighborhoods. Despite this, it is committed to improving low-income communities. BT has several special initiatives. The Working Capital Program works with 10 CDCs to provide grants and interest free loans for community economic development projects in low-income areas. Projects have included housing development as well as the creation of neighborhood business and social services. The program is designed to stimulate CDC intervention in the marketplace. BT commits $1.5 million per cycle.

The Neighborhood Franchise Project assists CDCs and local entrepreneurs in acquiring business franchises. With the dearth of retail outlets in poor neighborhoods, the objective of NFP is to recapture revenues that flow out of low-income communities, and to make franchise opportunities available to minority entrepreneurs. Partnering with the Ford Foundation, which made a $1.5 million program-related investment, BT provides $1.5 million in conventional financing. Entrepreneurship and local hiring are key components, as is the geographic targeting of resources. The project includes a technical assistance component for franchise owners. BT also has a Venture Capital Group to finance high risk economic development projects. The BT Foundation provides technical assistance grants for business planning and development. All of these programs are undertaken in low-income communities of color. BT's matching gift program also leverages support for community development organizations.

Annie E. Casey Foundation **Type: Private**
Baltimore, MD
The Annie E. Casey Foundation's primary focus is disadvantaged children, youth and families, but in recent years it has come to understand the limits of these efforts if there is no explicit long-term focus on income security and job opportunities. To this end, the Foundation began the Jobs Initiative, an eight-year, six-site, $25 million demonstration designed to increase access to employment opportunities for disadvantaged job seekers through a series of multi-disciplinary interventions and policy initiatives. The Jobs Initiative, which formally gets underway in January 1996, incorporates many of the best practices of the workforce development field. It will also support multiple job creation strategies; use a civic infrastructure framework with public/private connections; strengthen the connections between community development, human services, and workforce development; and reform jobs policies.

The Jobs Initiative will support local and regional partnerships that are convened through sponsoring organizations. The partnerships build on existing capacity of development intermediaries and neighborhood organizations, and include government, business, colleges and universities, and others to develop jobs projects for disadvantaged people and communities. A specific focus is on projects that address structural problems associated with skills mismatch, spatial mismatch, hiring networks, access to capital and markets, and support services. Sectoral intervention strategies, including job creation within the human services sector, are key components. In each site, the eight-year effort will include a formal planning process, a three-year capacity building/implementation phase, and full implementation in year five. Casey funds will support administration, operations and planning, as well as provide equity financing for business development, loan fund guarantees, and underwriting the policy and advocacy components. The Jobs Initiative funds are expected to leverage considerable public and private resources.

The Casey Foundation is also concerned about issues of income security and workforce development as they relate to welfare reform. It is designing a multi-year, multi-site program similar to the Jobs Initiative to examine the income requirements and skill development needs of the poor. The foundation is also taking the lead to bring foundations together to address HUD's Empowerment Zones/Enterprise Communities (EZ/EC) initiative. This group has collected and shared their experiences within the EZ/ECs and has o identified specific ways in which foundations can enhance the EZ/EC initiatives.

Community Foundation of Southeastern Michigan **Type: Community**
Detroit, MI
The Community Foundation of Southeastern Michigan (CFSEM) supports economic development activities through a number of projects. It has provided technical assistance grants to small and emerging neighborhood organizations; leveraged bank funds to create an endowed fund for pre-development housing activities of CDCs; and made direct grants to churches for housing, and more recently for economic and neighborhood business development. The foundation is one of four participating in the Ford Foundation's Neighborhood and Family Initiative, a collaborative model to stimulate community improvement in distressed communities. WKKF made a $1 million grant to the CFSEM, which it used as a program-related investment in support of BIDCO, a state authorized development bank that supports small businesses unable to get financing through traditional sources. As a community foundation, CFSEM feels it can provide foundations and donors with the local insights and connections necessary to ensure wise social and economic investments.

Ford Foundation **Type: Private**
New York, NY
The Ford Foundation has a long history of supporting community development corporations (CDCs) and intermediary organizations that undertake revitalization in low-income and distressed communities. It has also been involved in improving the conditions that affect disenfranchised people's ability to secure decent, stable employment. The foundation has supported research and projects that examine the structural shifts in the manufacturing and service sectors, skills mismatch, sectoral intervention, job accessibility and worker mobility, as well as partnerships between economic development, education, business and workforce development sectors. Ford has supported several studies to inform public understanding about workforce development, including the Social Science Research Council's examination of employment and labor markets and the Economic Development Assistance Consortium's case studies of model job training and placement programs.

Other noteworthy efforts include the Neighborhood and Family Initiative (NFI), a series of partnerships between the Ford, community foundations, and community leaders that was created in 1991 as a comprehensive community initiative to address problems in low-income neighborhoods. NFI attempts to integrate the social, economic, physical, and cultural components of community improvement, though the economic development and job creation components appear to be less developed than other NFI components. Employment generation is a key area of Ford's Rural Poverty and Resources Program, which emphasizes small-scale enterprises and self-employment. These strategies are applied to the foundation's domestic and international programs.

The Ford Foundation has the oldest and largest Program-Related Investment (PRI) portfolio of any foundation, through which it has leveraged considerable capital for low-income communities. Its PRIs have financed housing and physical revitalization projects, community banking institutions, job creation efforts, and other projects that support the foundation's grantmaking objectives. Most PRIs are made to CDCs or to intermediary organizations that provide capital and technical assistance to development projects.

Joyce Foundation **Type: Private**
Chicago, IL
The Joyce Foundation focuses on policy rather than direct service, and makes grants primarily in the Midwest. Its economic development program emphasizes the sectoral targeting of industries that stimulate opportunities for workers. Programming is informed by an understanding about the structural changes in the economy and the changing workplace. It has funded research and demonstrations in such areas as industrial restructuring, competitiveness, manufacturing networks, and advanced technology applications, and workforce preparation. Income security and the integration of former welfare recipients into the world of work are also supported. The foundation recently changed the name of its economic development program to emphasize "employment." Joyce is one of few foundations that actively funds policy and advocacy work.

Kauffman Foundation **Type: Private**
Kansas City, MO
The Kauffman Foundation's economic development programming is focused on entrepreneurship, which it sees as the route to self-sufficiency for individuals and communities. The foundation has created and supported the Center for Entrepreneurship, which has programs for adults and youth. The Center conducts research and training and provides seed grants and venture capital nationally.

John D. and Catherine T. MacArthur Foundation **Type: Private**
Chicago, IL
The MacArthur Foundation emphasizes a blending of economic development and employment generation in low-income communities, although it does not have any special initiatives. Much of this work falls under its Community Initiatives Program (CIP), which restricts its grants to efforts in Chicago and Palm Beach County, Florida. The foundation has been concerned with issues of quality employment for low-income area residents, the flow of capital into such neighborhoods, and opportunities to create businesses. For example, in addressing the accessibility issue, it has underwritten mobility projects to provide transportation for inner city residents to jobs in suburban areas. It has also supported job brokering projects that strengthen

the networks through which job seekers learn about opportunities. It has supported microenterprise, industrial modernization, the Empowerment Zone initiative and other collaborative models, in addition to capacity building and direct services. It has been active in the redevelopment of declining manufacturing hubs in Chicago, supporting an array of capital development, training, and community building projects.

MacArthur also has one of the largest Program-Related Investment (PRI) portfolios of any foundation. PRIs are low-interest loans made to organizations whose work supports the foundation's program objectives. Many of MacArthur's PRIs are made in conjunction with grants from other program areas, including CIP, which makes most economic development grants. Most PRIs have an employment generating focus. For example, one PRI helped defense-oriented companies convert to civilian applications, while another helped develop new education and training programs for small- and medium-sized enterprises. MacArthur has made PRIs to a variety of organizations, including Southern Development Bank Corporation, Shorebank, Coastal Enterprises, and the Center for Community Self Help.

Milwaukee Foundation **Type: Community**
Milwaukee, WI
This community foundation has been involved in economic development for the last nine years. It had early support from several board members who believe that stimulating business development in disenfranchised communities is consistent with the foundation's community development mission. The Foundation has undertaken sectoral development projects, invested in business incubators, and supported women's economic development. It also conducts comprehensive community initiatives, including those funded by the Ford Foundation (The Neighborhood and Family Initiative), Pew Charitable Trusts (Neighborhood Preservation Initiative), and Annie E. Casey Foundation (Jobs Initiative), the latter of which has the most explicit economic development and employment creation objectives. The Milwaukee Foundation has leveraged other moneys to form a nonprofit management fund that supports technical and development assistance for nonprofit organizations.

Charles Stewart Mott Foundation **Type: Private**
Flint, MI
The Mott Foundation's economic development program has four components aimed at stimulating employment opportunities for low-income people: (1) Enterprise Development, which focuses on strengthening intermediary organizations involved in self-employment and microenterprise; (2) Sectoral Employment, which examines structural changes in the labor market and attempts to stimulate development in specific industries; (3) Targeted Economic Investments, which involves opening capital markets (such as credit unions, and pension funds, etc.) for community economic development; and (4) Income Security, which addresses welfare reform and minimum wage issues.

Perhaps more than any other foundation, Mott has supported research and projects concerned with microenterprise and low-income entrepreneurship for AFDC recipients, the working poor, and moderate income people who face barriers to traditional sources of credit and lack many of the prerequisite skills to run an independent operation. Mott has also supported programs that specifically target women, minorities, and non-traditional entrepreneurs. The foundation has been committed to this area long enough to begin to see trends and to document what works.

In the area of sectoral investments Mott grants have stimulated the development of quality jobs for low-income people by targeting specific industries for intervention and employing a variety of business structures, such as cooperatives. Here, too, capitalization and technical assistance go hand in hand, with emphasis placed on cost effective education and training components that are developed with employers and in tandem with economic development planning. Mott's programs tend to target growth sectors (advanced manufacturing, for example) and unexploited service niches (such as home health care).

Mott's community developing banking effort is designed to provides financial and technical resources to enterprises located in low-income communities. They have supported four institutions that provide a range of business services and loan packages (including government loans) to small, minority- and women-owned businesses, with loans ranging from $50,000 to $225,000.

New York Community Trust **Type: Community**
New York, NY
NYCT has a long standing economic development focus, supporting a variety of local development groups that emphasize job creation and retention in commercial and industrial sectors. It has capitalized loan funds, supported microenterprise projects and cooperatives, and stressed the jobs component of comprehensive community initiatives. In 1994, it started the Neighborhood Strategies Project (NSP) in three New York communities to address employment and training systems. These projects are collaboratives that have strong community building components that help strengthen the civic infrastructure. They emphasize the connection of economic and business development (targeting specific sectors when feasible) with workforce development. The project attempts to improve the pathways to work and support systems available to low-income residents. The foundation has committed $9 million over six years to NSP, and has leveraged additional support from the Clark and Mott foundations.

Northwest Area Foundation **Type: Private**
St. Paul, MN
Northwest Area Foundation (NAF) concentrates on eight upper-tier Midwest and Northwest states. The focus of its economic development work is on workforce development and issues of accessibility to high-wage, high-skilled jobs; connections and partnerships between business, government, economic development practitioners, and employment and training providers; demand-stimulating activities to increase the number of employers and jobs; and supply-side initiatives to enhance the quality, quantity and mobility of the workforce. It has supported sectoral development projects in a number of industries, including natural resource-based industries, food systems, and health care. NAF has supported manufacturing modernization, minority business development, model employment and training programs, strategies aimed at dislocated workers, and reverse commuting projects.

Because of its geographic focus and the land use patterns of its target area, regionalism, which looks at the connections and economic interdependencies within regions, is another important theme in the Foundation's work. Rural economic development is also a central focus of its work. NAF prefers to fund demonstrations and applied research. It supports learning, evaluation, and documentation to understand what works. The foundation also has a public policy orientation aimed at informing the workforce development debate at the state and federal levels.

Pew Charitable Trusts **Type: Private**
Philadelphia, PA
In 1995, Pew spun off its urban programs to the newly-created Fund for Urban Neighborhood Development, which will include a workforce development component. At the time of this report, the Fund's proposed program portfolio was under review by its board, and the details were not available for citation. Besides the activities of the Fund, Pew's education programming includes a focus on school-to-work transition and building better linkages between schools, colleges and the workplace. It supports community development efforts -- primarily housing and physical development -- as part of its health and human services program.

Pew has a special initiative aimed at economic development in rural areas. Undertaken in 1992, it is a five-year, $6.6 million initiative to stimulate economic development in poor Mississippi River communities in Arkansas, Mississippi, and Louisiana. Known as the Delta Partnership, and operated under the auspices of the Foundation for the Mid-South, the project has three components: (1) Delta Enterprise Corporation (DEC) is a development bank that provides capital and technical assistance to new and expanding operations in partnership with other development entities such as CDCs, community colleges and universities, and Small Business Development Centers. It also brokers deals between businesses and other lenders. Pew made a $1.3 million operating grant and a $1.5 million grant to challenge local banks to invest in the region in exchange for credit toward their Community Reinvestment Act obligations. DEC was modeled after Shorebank Corporation in Chicago, and its lending niche is the manufacturing sector, though other enterprises are supported.

(2) The Private Sector Initiative attempts to stimulate market opportunities for local suppliers. It is targeting Walmart and regional utility companies. (3) The Delta Workforce Alliance has created task forces in seven communities aimed at restructuring the employment and training systems in these communities. The task forces are comprised of community, education, and business people, and each receives leadership development assistance. Central to the mission is the reduction of racial barriers.

Rockefeller Foundation **Type: Private**
New York, NY
The Rockefeller Foundation's domestic program is a small part of its overall portfolio, and as a result it has tried to be very strategic in its economic development focus, which comes under the purview of the foundation's Equal Opportunity division. The division is concerned that the current approach, while rightfully focused on getting people into jobs, does not give adequate consideration as to the actual availability of jobs. In fact, there is a severe shortage of jobs in inner city communities, and where jobs are available the skill level of area residents is often

incompatible with existing jobs. The foundation's poverty alleviation strategy supports work that connects urban residents with job opportunities. It is interested in promoting systemic change more than simply supporting model projects, and is partially driven by welfare reform issues.

Rockefeller's program is grounded in an understanding of the barriers to equal participation, including the decline in the low-wage labor markets, inadequate and disconnected education and training programs, racism and discrimination. The foundation supports research and policy initiatives to understand how globalization and macro changes in the economy affect poor communities and their residents. It supports job creation by developing enterprises in low-income areas. It is also interested in narrowing the divide between employment and training and economic development sectors and improving training curricula. The Foundation collaborates with other foundations and government agencies. It has a large project with HUD to privatize public housing projects. It includes job creation component focusing on building maintenance trades and property management. This project takes advantage of HUD regulations that encourage developers and contractors to hire area residents.

About five years ago the foundation formed the National Community Development Initiative (NCDI), an effort to improve the civic infrastructure and build capacity in poor neighborhoods through partnerships between community development corporations, businesses, philanthropy, and government. NCDI is active in over 20 communities, with funds managed by Local Initiative Support Corporation (LISC) and the Enterprise Foundation. The foundation also supports the Urban Strategies Council in Oakland, which does research, policy analyses, and project funding in the area of children, youth and family.

San Francisco Foundation **Type: Community**
San Francisco, CA
The San Francisco Foundation is interested in the broad issues of workforce development and the fragmentation in employment and training systems. It has supported projects to connect educators and trainers with employers; promote employer-driven skill standards; create job opportunities; expand professional development and information systems in workforce and economic development; and promote linkages between employment and training providers, human service providers, and community development organizations. The foundation has informed its work with in-depth analyses of the regional workforce development system, and has been instrumental in convening a group of regional funders to address the systemic problems of the existing system. Referred to as the System Approaches for Employment Security (SAFES) Initiative, it has sponsored forums, policy luncheons and other vehicles to share information with funders and has developed strategic grantmaking programs that promote linkages between workforce development, human services and economic development.

8. WKKF PROGRAMMING THAT SUPPORTS ECONOMIC DEVELOPMENT

[EMBARGOED: This section is restricted to internal use.]

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APPENDIX A: GLOSSARY OF TERMS

Community Development Corporations (CDC) are a diverse collection of nonprofit organizations established in low-income communities to stimulate community and economic development through a variety of approaches, including housing development, business development, job creation, service delivery, institutional capacity building, and community organizing. The CDC concept generally stresses the importance of local indigenous involvement, though many CDCs have evolved into large intermediary organizations staffed by non-residents. Some observers suggest that there is a significant disconnect between the business development, job creation, and service provision components of many CDCs, while others suggest that the focus of some CDCs on housing and real estate development has overshadowed other business development needs. There are, however, notable examples of CDCs using an integrated, cross-disciplinary approach to community and business development.

Community Development Financial Institutions (CDFI) include a range of institutions, such as community development banks, credit unions, loan funds, and socially conscious investment funds, that assist business ventures in low-income communities that ordinarily would not have access to traditional forms of capital. CDFIs are vehicles for retaining capital in these communities, and leveraging capital that might otherwise be invested elsewhere, as well as providing convenient banking and lending services to residents. CDFIs compensate for deficiencies in finance and investment policies that preclude access to capital by minority-owned, inner-city, and/or small-scale firms' (the ones most apt to hire poor and low-skilled people) access to capital. CDFIs often offer technical assistance to businesses, influence hiring decisions in favor of area residents, and stimulate targeted sectoral development.

Community Land Trusts (CLT) are democratically structured nonprofit corporations designed to hold land in the public interest. The land, which is acquired through purchase or donation, is held in perpetuity and cannot be sold for private profit, but can be rented for private enterprises that are compatible with the values of the community that establishes the land trust. CLTs provide public guidelines for land use without government controls, and have been used as vehicles to stop gentrification and profit-driven speculation. CLTs have been particularly effective in building affordable housing, stabilizing housing markets, minimizing displacement, and preserving historic communities of low-income people and people of color. CLTs have also been employed in rural communities to help preserve family farms and stop exurban sprawl. CLTs often work in tandem with CDCs, cooperatives, and worker-managed businesses to achieve broader community economic development objectives.

Community Loan Funds (CLF) are not-for-profit corporations that accept loans from institutions and individuals and use the capital to underwrite community economic development ventures. CLFs typically borrow and lend at below market rates and target borrowers and ventures that have difficulty accessing traditional financing.

Community Organizing (CO) refers to a range of strategies used by groups of local residents in poor communities to exert control and influence in decisions affecting their local lives and communities. Approaches have generally involve efforts to empower local residents and distressed communities, develop local leaders, stimulate social and economic development, and increase public accountability. Mobilization can be issue-driven, but often evolves into broad action, including the creation of national networks. Many CO efforts have led to the creation of Community Development Corporations (CDC, above). CO has been used effectively by various communities of color and other disenfranchised groups to advance their interests. CO themes are found in many Comprehensive Community Initiatives (CCI, below).

Community Reinvestment Act (CRA) defines the responsibilities of banks and lending institutions to communities that have historically been subjected to low lending and investment patterns, or "redlining." CRA offers community organizations a tool for accessing capital for mortgages, home improvements, small business start-ups, economic development, and other job creating opportunities that help stabilize low and moderate income communities.

Comprehensive Community Initiatives (CCI) is the term used for poverty alleviation strategies currently being encouraged by many private and community foundations. They focus on individual, family, and community development through integrated, cross-disciplinary planning and programming. CCIs tend to be neighborhood focused and participatory. They address a variety of social, economic, and physical conditions affecting life in disenfranchised communities. Several models have yielded considerable success in the areas of education, community outreach, human services delivery, and physical development. Few, however, are reported to have strong job creation and workforce development components.

Defense Conversion Projects address the economic implications of military downsizing by redirecting production activities for civilian applications. Some projects have addressed the impact on communities where the defense industry has historically employed high numbers of people of color.

Employee/Worker Ownership integrates worker-owner and worker participation in the management of a firm. These arrangements are often a reaction to the massive plant shutdowns that have occurred in recent years. In Worker Cooperatives, employees become joint owners in the enterprise, holding non-transferrable voting and profits rights determined by their employee status. An Employee Stock Ownership Plan (ESOP) is a vehicle by which employees purchase shares of stock in a firm through actual cash purchase, wage reductions, or borrowing. The majority ownership of ESOPs is generally held by employees, and the governing structure is democratic. Worker ownership models have generally succeeded when there is a good understanding of the macroeconomic forces affecting their operations, mixed with a collective commitment to principles of cooperative economics.

Employment and Training Programs (E&T) attempt to improve job opportunities for low-income people by providing them with skills and other training. This approach has been used in the federal/state jobs programs from the Comprehensive Employment and Training Act (CETA) to the current Jobs Training Partnership Act (JTPA). A variety of entities are involved in the E&T system, including public schools, community colleges, proprietary training firms, service providers (including transportation, child care, housing, health care, counseling, financial management, etc.), referral agencies, firms, private industry councils (PICs, below), and public agencies.

Empowerment Zones/Enterprise Communities (EZ/EC) is the largest anti-poverty and economic development program to be sponsored by the federal government since the 1960s. The U.S. Department of Housing and Urban Development has designated 105 poor urban and rural areas to receive special federal grants and preferential regulatory and tax treatment over a ten-year period. The program leverages considerable private investment, stimulates community involvement and foundation support, and coordinates federal agency programming. Built on the British enterprise zone model, local incentives in the way of tax codes, zoning and building codes, and wage rules will be extended to enterprises creating or relocating businesses in the EZ/EC and employing area residents. The objective is to build a sustainable base of capital to stimulate community and economic development and stabilize these communities. The EZ/EC model also emphasizes the importance of providing region-wide opportunities for residents of severely distressed communities since these areas often have difficulty attracting new business.

Economic Development broadly refers to the processes used by individuals and organizations to create wealth by mobilizing human, capital, financial, and/or natural resources for the production, distribution, and consumption of goods and services. Implicit in the broad concept of economic development is the notion that of these activities create jobs. In low-income areas, *community economic development* (CED) strategies attempt to attract and mobilize resources that will improve the physical, social, and economic conditions of these areas. In theory, CED is as concerned with the investment in human capital as it is with the financial return on investment; this is not necessarily the case with traditional economic development initiatives.

Enterprise Development broadly refers to a range of efforts to stimulate and support business creation and expansion. They may include technical assistance in management, finance, operations, etc.; training; access to capital and markets; and/or infrastructure planning.

Entrepreneurship is related to enterprise development strategies but is especially aimed at individuals interested in starting their own businesses. The programs often supplement typical business and technical assistance with esteem building and personal/time management training. Entrepreneurship programs have been created for certain segments of the population, such as women, racial/ethnic groups, and low-income groups. (See Microenterprise and Minority Business Enterprise Development, below.)

Industrial Modernization refers to strategies and practices designed to improve the production methods of small- and medium-sized manufacturing enterprises. These strategies may include technology development and transfer, training, business assistance, market development, capital access, and demonstrations of new technology. Modernization efforts and other strategies aimed at retaining and rejuvenating existing enterprises have begun to take precedence over industrial recruitment strategies.

Infrastructure Development refers to capital-intensive investment projects that are usually underwritten by public agencies, such as water and sewer systems, roads, transportation networks, ports, communications, utilities, and other physical development efforts. Infrastructure development projects are often provided as part of incentive packages to attract business and industry and encourage further economic development.

Job Brokering is an approach designed to close the information and access gaps between those looking for work and those looking for workers by augmenting the traditional methods that firms use to recruit, screen, hire, and train workers. Emphasis is placed on understanding employers' needs, making it easier for employers to identify and recruit workers, (especially within low-income communities), and designing training programs that prepare workers with the baseline skills most employers are looking for. Brokering initiatives have been effective in minimizing the barriers to work (including discrimination) and facilitating employer networks to help ensure that jobs stay in local areas.

Jobs Training Partnership Act (JTPA) is administered by the U.S. Department of Labor and replaced the Comprehensive Employment and Training Act (CETA). It makes the states responsible for implementing employment and training programs for disadvantaged workers. JTPA programs serve youth, migrant and seasonal farmworkers, and Native Americans. The programs are administered locally/regionally through Private Industry Councils (PIC, below). The focus is on job opportunities in the private sector. There is a strong emphasis on on-the-job training, but opportunities are generally limited to lower paying jobs with little advancement potential. Recent efforts have encouraged more industry-specific training, coordination with local/regional economic development efforts, microenterprise grants, and stronger support services programs.

Microenterprise Development promotes economic independence for low-income people by providing grants and, more frequently, loans (Micro-Lending, below) for the creation small businesses. Many microenterprises are home-based, self-employment operations and are -- operations that typically have difficulty accessing traditional sources of start-up capital, credit, and technical support. Financing is almost always combined with extensive technical assistance and business training. Microenterprise strategies have been widely employed in less developed countries, where they supplement gaps experienced by low-income people in the formal economy. Their appeal in the U.S. is growing, particularly in the current welfare reform climate. These programs often have a strong self-sufficiency and empowerment orientation, though many microenterprise operations fail to create significant numbers of jobs.

Micro-Lending often occurs through microenterprise loan funds that make small, market and below-market rate loans. These loans are unregulated, offer favorable terms, and are frequently secured by a community development financial institution (CDFI, above). Micro-loans have also been targeted to small manufacturers and used to stabilize and update local operations. Interest rebates and other incentives that encourage the hiring of local residents are also utilized.

Minority Business Enterprise Development (MBE) refers to a range of entrepreneurship, enterprise, and small business development strategies aimed at increasing the number, types, and viability of firms owned and operated by people of color. According to some studies, minority-owned companies are more apt to hire people of color and disenfranchised groups, but less apt to have access to capital, markets, and other supports compared to mainstream businesses. The public sector has sponsored MBE programs that target the procurement process (including the U.S. Commerce Department's Minority Business Development Agency), but these programs have come under increasing attack recently as governments downsize. There are other programs that serve smaller businesses, facilitate networking to better access markets and suppliers, and target specific sectors or industries for intervention.

Mobility Initiatives attempt to correct the spatial mismatch that exists between where most poor and underemployed people live (urban inner-cities) and where many of the firms that might employ them are located (outlying suburban areas or areas of cities inaccessible by public transportation). Community based organizations (and occasionally transit authorities) sponsor programs that provide transportation for workers to get to jobs and/or lobby for expanded public transportation routes. There have been some attempts to make mobility programs a built-in part of some skills training programs.

Neighborhood Based Development (see Comprehensive Community Initiatives CCIs).

One-Stop Career Centers are local and regional hubs that coordinate delivery of a variety of workforce development programs and related support services. They attempt to reduce the fragmentation found in traditional programs for both job seekers and employers. One-stops offer training referral, placement assistance, career counseling, and other supports for job seekers, and customized training packages, recruiting and hiring assistance, economic forecasts, labor market analyses, and regulatory compliance assistance for employers. One-stops are a central component of federal block grant legislation.

Open Housing Strategies attempt to correct the spatial mismatch that exists between where most poor and underemployed people live (urban inner-cities) and where many of the firms that might employ them are located (outlying suburban areas or areas of cities inaccessible by public transportation) by encouraging low-income people to move to suburban areas. Model efforts include the Gautreaux Assisted Housing Program in Chicago that provides housing vouchers for public housing in suburban communities, coupled with job referral, counseling, and other supports to make these transitions successful.

Private Industry Councils (PIC) are local and regional bodies established to govern the Jobs Training and Partnership Act (JTPA, above). They are largely comprised of private sector business leaders from larger companies. PICs influence the structure and policies of local JTPA efforts.

Program-Related Investments (PRIs) s are used by private foundations to provide long term support to grantseeking organizations in specific program areas through investments that yield a return to the foundation over a specified period of time. PRIs are generally carried out through a business or enterprise that promotes the social objectives while generating revenue. PRIs include loans, loan guarantees, equity investments, and other investment vehicles. PRIs are used most for community development, housing, education, and health initiatives, and many benefit disenfranchised communities and organizations.

Rural Economic Development concerns itself with the dynamics of rural communities and isolated regions in the pursuit of economic growth. Constraints peculiar to economic development in rural areas include the shift from natural resource-based industries (agriculture, mining) to manufacturing and service industries, much of which offers only low wage/low skill jobs; poor infrastructure development, including information and communications; marginal education and training systems; outmigration of the population; and geographic isolation.

School-to-Work Transition Programs provide career pathways for young people beginning at the secondary school level (and sometimes before) through specialized training and work experience, including apprenticeship programs. The focus is on establishing an effective linkage between schools and employers, targeting curricula to the specific needs of employers, and providing students with flexible, marketable skills.

Sectoral Intervention refers to strategies that provide targeted job opportunities for people from low-income communities or distressed regions by stimulating industry or sectoral development that captures an unoccupied niche and/or strategically harnesses local/regional resources. Rural communities have applied sectoral intervention strategies to the create natural resource-based industries. Manufacturing sector interventions have attempted to stabilize small, locally-based firms, while health sector models have included creating home health care cooperatives and targeted hospital employment. Other sectoral intervention strategies have been applied in telecommunications, construction and building trades, and human service delivery fields. Successful sectoral strategies tend to integrate business and industrial development with education and training, attempt to used scale- and resource-appropriate technologies, and strive to place people in liveable wage jobs.

Small Business Incubators are facilities where new firms are housed during the sensitive start-up phase in an attempt to minimize operating expenses and promote the long-term success of the venture. Incubators offer ways for businesses to reduce operating and capital costs by sharing facilities, equipment, services, and other resources between like enterprises. Incubators often benefit from close ties to universities and community colleges, many of which have good industry relations and are sources of information, technology, and trained workers. Incubators have been developed for a variety of sectors.

Tech Prep Programs (also known as the "2 + 2") are vocational education and training programs, supported by the Carl Perkins Vocational and Applied Technology Education Act and the Jobs Training Partnership Act (JTPA, above). They specifically target high school students interested in entering technical fields. Students supplemented their academic training with part-time employment during the last two years of high school. This is followed by specific but flexible pathways to technology training programs in community colleges or universities. The latest Perkins reauthorization emphasizes greater community involvement in program design, "flexible" skills training and instruction on all aspects of an industry, and community wide planning.

Welfare-to-Work Programs (also known as "workfare" programs) stem from the 1988 Family Support Act, which mandates that states provide opportunities for welfare recipients to make the transition from assistance to work. These programs combine a variety of support services, training, and referral assistance, and often work in tandem with other education, employment, and microenterprise efforts. They will undoubtedly take on greater importance as welfare reform moves into a higher gear. Issues around job quality, liveable wage jobs, accessibility, and supporting benefits are key concerns.

Women's Economic Development attempts to address the economic and social inequities faced by women. Programs focus on a range of issues, including entrepreneurship, access to capital and credit, pay equity, and child care. Women's economic development proponents have helped to advance the concepts of microenterprise and self-employment as strategies for women seeking to get off welfare.

Workforce Development broadly refers to policy and programming designed to provide training and employment opportunities to low-income adults. Some of the more progressive programs are aimed at reversing the declining wages of low-income people through high-skilled, high-wage jobs, and using partnerships between community organizations, government, business, service providers, education, and labor.

APPENDIX B: LIST OF INTERVIEWEES

Sarah Babson
Urban Community Services Program
U.S. Department of Education

Joe Brooks
San Francisco Foundation

Jane Caradbil
Office of Policy Development
U.S. Department of Housing and Urban Development

James Carlton
Joyce Foundation

Mark Elliot
Ford Foundation

Sarah Ford
Milwaukee Foundation

John Foster-Bey
Northwest Area Foundation

Robert Giloth
Annie E. Casey Foundation

Gary Hattam
Bankers Trust Foundation

James Hyman
Annie E. Casey Foundation

Patricia Jenny
New York Community Trust

Meriwhether Jones
The Aspen Institute

Charlotte Khan
The Boston Foundation

Paul Lingenfelter
The MacArthur Foundation

Jack Litzenberg
Charles Stewart Mott Foundation

Julia Lopez
Rockefeller Foundation

Jim Marks
Milwaukee Foundation

Freeman McKindra
Winthrop Rockefeller Foundation

Kirsten Moi
Community Development Financial Institutions Fund
U.S. Department of the Treasury

John Mote
Pew Charitable Trusts

Mariam Nolan
Community Foundation of Southeastern Michigan

Sharon O'Connell
Committee for Economic Development

Loren Renz
The Foundation Center

Michael Rubinger
Fund for Urban Neighborhood Development
Pew Charitable Trusts

Raymond Smilor
Kauffman Foundation

Joseph Stillman
The Conservation Company

Connie Walker
Neighborhood Funders Group

Spruill White
The MacArthur Foundation