Community Development Policy Paper:
Structural Disinvestment
A Problem in Search of a Policy

by

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PREFACE

The following policy paper is a working document in the true sense. It is the systematic collection of many reflections, ideas, insights and experiences drawn from the authors by their exposure to community development literature and the ongoing activities of hundreds of individuals and community organizations across the country. We have had individual experiences where we have seen that the activities and accomplishments of a community development effort stood as an immovable object against the current of common opinion and bodies of literature about the path of decline and limited potential of the older, racially integrated or minority occupied, moderate- and lower-income, and diversely developed communities which typify our nation's inner-cities. We have found many organizations which have unique and creative insights concerning the causes and problems of neighborhood deterioration. We have seen similar creativity and ingenuity in the interventions these organizations developed. While the growing level of decay in our older neighborhoods reminds us not to underestimate the obstacles to successful community revitalization, so, too, the experiences of many community development activities warn us not to underestimate the potential and resources which can be tapped in inner-city communities.

Second, we have a substantial literature which describes the history and stages of decline of the existing blighted and heavily abandoned communities. There is a wealth of information and technical expertise relating to the means of producing new communities through the continuing
development of vacant land on the urban fringe. But our understanding and knowledge of the economic and organizational relationships which support existing neighborhoods and which are essential for successful revitalization of older, inner-city areas is in an embryonic form. Existing research is particularly mute on the definition of these operating organizational relationships, and economic structures.

Lacking a sound base of research and experimentation, the formulation of public policy options for community development arises largely out of the perceptions and models one uses to define the problems and potentials of community development. The essential force of this working policy paper is to present a perspective, an attitude, a frame of reference about the nature of the issues involved and the potentials and limits for public interventions in community development. This is not a review of existing literature nor a theoretical discussion, nor a case study. It is an attempt to collect and organize a series of observations and perspectives which have been informed by the experiences of community efforts and past policies and which have attempted to look critically at the conventional wisdom of the past.

This is a working policy paper in that its purpose is to stimulate responses from those who are enthusiastic, discouraged, pleased or provoked by its contents. In particular, we are seeking responses from those who are engaged in actual community development efforts who might comment on how our perspective compares to their own experiences. In addition, we are eager to share experiences and information with those who feel that their experiences or research contributes to our understanding of the sets of formal and informal relationships at the community level which effect the
flows of investments and other resources available within a community as part of a redevelopment and maintenance process.

Finally, this is a working document in that the authors intend that it will be used as part of the public process and effort to articulate to the government exactly what the direction, shape and eventual content of its neighborhood and community development policy should be.
I. The Vacuum of Neighborhood Economic Policy

A neighborhood is more than the sum of its parts. It is not just a locus of disparate problems and activities. Rather it is a setting which can be defined by a series of formal and informal, visible and invisible sets of structures and organizational relationships through which people can act to deal with problems and fulfill potentials. The better this neighborhood framework functions, the more successful the residents will be in solving their problems and reaching their potentials.

For example, it is possible to bring in from outside a neighborhood the skills, materials, capital, technical expertise, loans, legal authority and administrative capabilities necessary to rehabilitate some properties or to set up a commercial enterprise. But the continued maintenance of these properties and enterprises and the ability of the community to spawn new enterprises and adapt to changing circumstances depends upon the functioning of an internal set of relationships which produces a continuing supply of locally available skills, capital, credit, legal capacity and administrative capabilities. The social institutions, property owners and business interests must be able to depend upon sets of local relationships, contacts and institutions which supply access to these resources in order to continue to invest in the future of the neighborhood. Those who provide these resources and the means through which they provide them - their physical locations, formal and informal relationships, the mechanisms,
institutions or processes through which they interact - make up the essential economic framework of the neighborhood.

A neighborhood policy needs to recognize this framework and work to keep it functioning and in place. In a general sense, every neighborhood or community (we shall use the words interchangeably in this paper) has physical resources, economic resources, technical resources and resources drawn from its social fabric. The social fabric and social cohesion of a community may have a major impact on its other facets, as in the obvious cases of the Mormon Church in Salt Lake City or the Chinese cultures in the several China Towns across the country. However, building the social fabric is not a reasonable focus of public policy. The social fabric of a community may be strengthened by access to the physical, economic and technical resources which public policy may help to provide. But direct intervention in the social activities of a community seems to go beyond the scope of essential public policy. Often such attempts lead to the designation of alleged social deficiencies and various forms of victim blaming.

In some past community development efforts there have been assumptions that one of the causes of decline has been the disintegration of the social fabric and cohesion of a community. It is true that rapid change tortures existing social structures and decline often is associated with this kind of upheaval. However, there seems to be much mythology about the social interaction and common social bonds which are assumed to be necessary in healthy neighborhoods. Many high income neighborhoods seem to survive with almost no direct contact among the individual households. True, such higher
income persons are more likely to belong to voluntary associations than are lower income persons. However, community organizations, based on memberships defined by those sharing a common geographic neighborhood boundary and dealing with issues directly related to those boundaries are more common and more active in the very communities which are most often seen as declining and in need of a strengthened social fabric.

It is our observation that the high level of formal community organizations in our nation's inner-city neighborhoods and their increasingly active role in local, state and even national issues suggests that social organization is not their critical need. The economic, technical and physical resources which these organizations are focusing their attention on are in fact the more critical public policy issues. Public policy might be more concerned with how to avoid damaging the social fabric of a community and less concerned with directly trying to build it and manage it. One could define a situation where a community with adequate levels of economic, technical and physical resources could prosper without any formal social fabric at all. For example, some studies of high rise living among upper income groups suggests this very situation. It is hard to isolate a situation where a community with only a strong social fabric can continue to serve the needs of its residents if cut off from access to essential economic resources.

Large bodies of research on health, crime, family dissolution and housing point to lack of income as an underlying cause. The growing national neighborhood movement concerned with redlining and disinvestment is leading us to expand that underlying variable to include the other economic resources of capital and credit. The social and political institutions may be the
heart and soul of a community, but these economic resources supply the essential blood. Income represents the basic plasma while capital and credit act like the iron, without which the whole body becomes anemic and loses its resistance to disease.

There is a Community Development Act with a Community Development Block Grant Program, there has been a New Communities Act and there is even a Community Reinvestment Act. In spite of these acts and programs there is still no neighborhood policy. Many of these programs, past and present, involved detailed planning requirements and data analysis. But, they typically used census data and special surveys to identify levels of need, (e.g. number of substandard housing units, number of unemployed adult males, percentage of households falling below a set poverty line) as the basis for planning designed to provide services or programs to a target population (e.g. goals for numbers of new or rehabilitated housing units, numbers of persons in job training or counseling programs, numbers of persons receiving housing subsidy or allowance programs).

In the development of new communities through suburban development or major urban land clearance and redevelopment, federal, state and local policies have tended to deal more with the essential flows of economic resources essential to maintain the community. Developers look at the employment base in the community, or the location of employment centers outside the community which will serve as income providers for potential community residents. State and local governments and developers orchestrate the location and sequencing of essential capital infrastructure investments. Investors, lenders, developers and government agencies all participate in activities, relationships and programs which support and respond to each
others' investments and actions so that all are willing to take the risks of placing their resources in the new community. At the outset, each participant in this process requires some assurance, through legal contracts or through an acceptable analysis of the economic viability of the project, that the resources (income of the residents, supply of services and public infrastructure, return in the investments and future access to credit) will all be supplied in order to keep the economy and profitability of the community functioning.

Although not formally articulated as a neighborhood policy for new communities, individual tax programs, investments in the capital infrastructure, public planning requirements, lending practices, market studies, government regulations, land use controls, and private sector lending and capital investment analysis and underwriting policies are intended to insure that the sets of formal and informal, visible and invisible organizational relationships exist to insure that the flows of resources will be adequate to produce a viable neighborhood. Due to the public review processes associated with new construction, the sets of relationships which work to establish the flow of economic and technical resources for new development are reasonably visible.

In response to their own economic self interest, governments, lenders, investors and developers, as well as those private organizations and businesses which may benefit or be harmed by a particular project, tend to probe some of the basic issues of the relationships among the employment base inside the development, the sources of employment and income of those who will reside there, the viability and impact of the commercial and consumer
businesses proposed and the ability of the community to generate taxes (or resources) sufficient to compensate for, and repay, government capital expenditures and service costs. The processes of public review by planning, zoning and building agencies tends to force an articulation of much of the essential framework of a viable community economy. But after a community has been built, this framework, the mutual agreements and responses, the investment and counter investment processes become less visible. We have developed no policy aimed at tracking the state and condition of this framework and these processes as communities age. In particular, we have devised no policy for intervening when changes in the original composition, character or economic profile of the community may effect the status of the original framework and investment and credit flows. That is, if the employment base and employment centers which provided income to the residents change, if the income of the residents declines, if the racial composition of the population changes, if the land use patterns change and if the physical structures show signs of age and need for improvement, we have no mechanisms in public policy to review and monitor the response of the framework and structural relationships which control supply of capital investment and credit flows required to adjust to any impacts which result from some of these changing conditions.

By and large, public policy has concentrated on the analysis and delivery of services and programs to the individuals and properties within a declining community without larger policies aimed at interventions in the processes which support the neighborhood level economic framework which establishes and defines the rates and conditions under which economic,
physical and technical resources flow into the community. The essential process of investment and counterinvestment breaks down in declining neighborhoods. It is not likely to be re-established through programs and policies which do not consider the relationships between individual job training or counseling and the employment base of the neighborhood, individual housing rehabilitation projects and the neighborhood housing market, or individual support of small businesses and the development of the local commercial, industrial and service economies. Existing programs and policies are even less attuned to the critical relationships among the commercial, residential and employment sectors of a community in themselves. Presently, public policy relating to neighborhoods does not even seem to recognize that such a neighborhood level economic framework and set of essential structures for providing a flow resources exists.

Once a neighborhood framework has broken down, the investment process no longer functions. An investment made in this or that project or a service delivered to this or that particular individual within the neighborhood fails to spur the redevelopment of the neighborhood. Basic processes and frameworks which normally function to facilitate, organize and stimulate cycles where one investment produces counter investment no longer exist in that community. We have what we call a structurally disinvested community. Failure to deal with the problem of this structural disinvestment is at the heart of the federal governments inability to develop a neighborhood policy.
II. Counterproductive Myths

Many planners and policymakers in the public sector and investors, lenders and other members of the private sector have operated on the basis of at least five myths about the potentials and limitations of revitalizing our older, inner-city neighborhoods. Some aspects of these myths are in direct contradiction to non-discrimination laws, but are applied in practice anyway. Other elements of these myths undoubtedly do, or did at one time, rest on fact, though their overall validity is not supported with a sound body of research. In most cases, they have little or no basis in fact or empirical research, are based on fragmented, dated, or poorly designed research or have a limited application which is all too frequently ignored. Finally, since these myths both make assumptions about decline and effect the decisions to supply economic resources essential to avoid decline, they have the potential of becoming self-fulfilling prophecies when actually practiced. In this case, the decline which may result from the application of these myths becomes transformed into examples to justify their future application. Like breeder reactors, they create their own fuel, and have the potential for enormous destruction.

Simply stated, the five myths are that: (1) older neighborhoods, either through natural forces or the competition of the market place, tend to decline and move toward blight as they filter into the hands of poorer residents; (2) racial change is a precursur of decline; (3) mixed land uses or the introduction of commercial or industrial uses into residential areas indicates and contributes to decline; (4) a neighborhood is basically a residential unit physically separated from the employment base and commercial
enterprises of its residents; and (5) the economic base of a city or region is, and should be, concentrated in centralized areas of intense commercial and industrial activity. While all five myths develop from a common history, the first three myths all stem from the same roots and can be treated under a single discussion.

A. Filtering, Racial Change and Diversity

From the inception of the filtering theory in the early 1930's the federal government played a major role in the development and legitimation of the filtering theory, the belief that racial change was detrimental to neighborhood viability and the notion that healthy neighborhoods are defined by homogeneous land uses and populations. As part of the federal response to the Depression, the Federal Housing Administration (FHA) was created and given the job of developing a sound and uniform housing policy. FHA drew heavily on theories and emerging studies developing at the University of Chicago. Homer Hoyt, a professor of real estate at the University, first introduced the filtering theory in a study funded and published by the FHA.¹ His theory held that as individual properties and neighborhoods aged, they filtered down from viable higher income neighborhoods to squalid slums.

In other works, Homer Hoyt and another colleague in real estate, Frederick Babcock, added to this theory of decline the notion that racial change has adverse effects on neighborhood viability and contributes to this decline. For his part, Hoyt produced a ranking of the ethnic groups which one local real estate broker told him had the most adverse effects on
a neighborhood. Babcock joined the filtering model and the assumptions about the effects of racial change stating:

The process can be described as inevitable in all residential districts. Given time, all such areas become decadent districts or slums occupied by the poorest, most incompetent and least desirable groups in the city. Ragged urchins play on marquetry floors.

Two pages later he comments:

Most of the variations and differences between people are slight and value declines are, as a result, gradual. But there is one difference in people, namely race, which can result in a very rapid decline. Usually such declines can be partially avoided by segregation and this device has always been in common usage in the South where white and Negro populations have been separated.

Within the University of Chicago's sociology department the developing School of Human Ecology provided the formal theoretical background which merged the filtering model with formal descriptions of the processes of neighborhood decline linked to changes in the social composition and land use patterns in a community.

The Human Ecology Model was formulated in the work of Robert Park, Roderick McKenzie and Ernest Burgess. It became the dominant social model of urban development. This model stems from a strong social Darwinistic tradition, where not only animals, but people were seen to survive and reach positions of power and status because they were innately the strongest species. This school was also heavily influenced by plant biology, particularly studies of how various plants would take over a piece of land previously occupied by different species. It was believed that the "invading" plant, as it was called, drove out the original inhabitants because the invaders were better suited to the particular environment.
When applied to human society and the neighborhood development patterns of urban areas, in particular, this model held that different groups of people "infiltrated" and "invaded" territory held by others, and that through a process of "competition" — which was a kind of war of survival — the group most suited to that environment would win out and eventually take over completely. Neighborhoods and communities, therefore, were seen not so much as conscious man-made environments, but rather as natural phenomena subject to the laws "of all nature."

As the level of industrial technology in the society advanced, certain areas were seen as best suited to that level of technology, and thus become the location of the most successful businesses and residents. Areas less suited to advanced technology become inhabited by the businesses and residents least suited for survival at that state in the evolution of society and technology. Thus, areas, neighborhoods and communities were identified as going through natural life-cycles where they grow to a point of success, but then as the technology of the society develops and favors different locations, the community is invaded and taken over by lower class people in continuing waves of invasion, competition and succession.

There are temporary plateaus of stability when the area is occupied by a homogeneous population or land use, analogous to a single species of plant taking over its most beneficial location. When this homogeneity is interrupted by the "invasion" of a different type of land use, property or class of persons, however, this starts the downward cycle. According to the literature based on the human ecology model, therefore, the process continues until the area reaches its inevitable place as a slum. This
model represents a social theory of filtering. 4

The FHA incorporated these models in their underwriting and appraising manuals which influenced the entire real estate and lending industries. These models were incorporated into the official training programs of the major real estate appraisal and real estate counseling institutes. Neighborhoods were defined essentially by the fact that they represented homogeneous groupings of individuals or land uses. One of the fundamental principles of value, the principle of conformity, has been held as an essential factor in estimating value by the major real estate appraisal organizations. The principle holds that in order to maintain maximum value, an area must have a reasonable level of similarity (conformity or homogeneity) in terms of the age, uses, type of structures and the social and economic composition of the population. In 1977, under pressure from a federal lawsuit filed by the Justice Department against both major appraisal organizations and two trade organizations of lenders, one of the appraisal organizations finally dropped this language from its official texts and training materials. 5

For its part, FHA not only sponsored the development of the filtering theory and incorporated racially discriminatory practices in its official guidelines but its successor agency, the Department of Housing and Urban Development (HUD) funded and printed in 1975 a document, "The Dynamics of Neighborhood Change" which re-affirms the cycle of decline model (as the general rule) and defines five stages of neighborhood decline. 6 This model, which we find commonly cited by members of the financial profession, defines a healthy neighborhood as composed of "moderate to upper income levels" and having "ethnic homogeneity." The modal lists as an indicator of the movement
perspective which defines a neighborhood as a residential unit. One of the fundamental patterns which has characterized our urban society has been the separation of the place of work from the place of residence. The founders of the School of Human Ecology who developed the model of urban spatial location which have dominated planning models saw how the increased mobility made possible by modern transportation allowed higher income groups to move to areas which were farther from their place of work.

At the time this model was developing, in the 1920's, most of the major cities where research on urbanization was being done were heavily industrialized. These industries produced intense levels of air pollution, noise and other hazards which made these locations generally undesirable locations for living. Modern technology, especially the mass production of the automobile, made it possible for many to live great distances from these central places of employment.

Seeing both the physical and social composition of an area as a natural phenomenon, the members of the Human Ecology School saw this separation as a natural process. As formal zoning requirements became more common and as the planning of cities and zoning regulations developed from spatial models stemming from the Human Ecology School, the strict separation of land uses and the separation of residential and business uses became mandatory. The building of a vast highway system and the mass production of the automobile coupled with the emerging zoning practices served to intensify this separation of place of residence and place of work. The separation was not simply the result of people's natural desire, but it had become an enforced requirement of the development process.
One of the impacts of this process has been that we have lost our understanding of the relationships between the residential and commercial sectors at the community level. We have tended to view neighborhoods and communities as residential units whose viability is determined by the income and capabilities of the residents who live there. But we have generally not considered the sources of the income and economic resources of a neighborhoods residents as part of the neighborhood itself. Nonetheless, even the most suburban and purely residential, higher income areas can be defined by economic maps which link them to the places of employment or income upon which their individual occupants and residential structures depend.

A geographic map of the economic structure of a higher-income, bedroom community would include not only the location of the homes, but one or more thin paths of highways and mass transit lines and the employment and commercial centers at the ends of these transportation lines. The transportation lines act like ischmuses connecting the places of work and residence. The individual maps of several different neighborhoods would each include their own residential areas, but might well share common transportation paths and commercial and employment areas. The complexity of these relationships between individual residential areas and the several and overlapping commercial and employment centers which comprise the basic economic framework of the neighborhood seems to have led us to concentrate on the residential components of a neighborhood.

The reconsideration of the total economic structure of a neighborhood is critical to successful community redevelopment efforts. Moreover, it should help us purge ourselves of the assumptions that neighborhoods represent
only homogeneous settings and that diversity of populations or land uses somehow represents a troubled situation. The expanding use of Planned Unit Developments techniques and the increasing tendency for new suburban development to include with its housing development employment centers and other commercial uses represents an opportunity for us to see, in the patterns of new development, the advantages of mixed and balanced redevelopment in older areas as well. The merging of the place of residence and place of work is increasingly the theme of much suburban and urban fringe development. One of the reasons why many of the businesses have moved from central city locations to suburban locations in the same metropolitan area is so that the higher paid employees, who have themselves moved to the suburbs, can be closer to their place of work.

Even higher income employees and executives are recognizing that the separation of place of work and residence is becoming too costly in time and money. The impacts of the separation of residence and employment are much more critical for lower-income households and families trying to move up the economic ladder. The ability to find local employment, with minimal losses due to travel expenses is a major advantage to a family trying to increase its income. The larger the pool of full-time and part-time, semi- and unskilled jobs in the local area, the greater the opportunities for immediate employment of household members. One of the primary reasons that there has been a real growth in family income over the last decade is that more and more households have two or more wage earners. When more than one of these wage earners have specialized skills and professions, then their combined incomes may allow them the luxury of rather high transportation costs to and from their places of employment. When only one, or no, member
of the household has specialized skills of a professional career, then the costs of the separation of place of work and residence are more important in calculating the impact of additional jobs on the overall gains in family income. For those who gain access to those who typically can provide them with domestic services and can work in the local consumer economy base, who have recently been trained and begun to enter the job market as skilled workers, the time and expense of a lengthy commute to work put additional strains on their potential for developing a successful career.

Not only are there advantages in having housing which is located close to places of employment, but there are advantages to both higher and lower-income households in living close to each other. Higher-income households gain increased access to a pool of workers for the service and consumer economies developed to serve them. Lower income persons not only gain by an increased potential to secure employment in these economies but they benefit from the more diverse set of amenities and consumer goods which can be supported when the overall population of the community has a reasonable level of middle and higher income residents. Thus, reducing the separation of work and residence also implies the development of a more economically and socially diverse population within the community.

Policies which attempt to supply a diverse commercial and employment base to residential areas which are reserved for higher income residents alone will aggravate the problems of unemployment, job turnover and the problems associated with the concentrations of poor in areas segregated from the economic and social institutions which provide essential resources for stabilizing and increasing the household income. On the other hand,
a reasonably large level of residents who were employed at regional centers outside of the community itself. Finally, one must accept the fact that the proximity of industry and residential locations does not guarantee that the people who choose to live in the housing will also be employed in the adjacent businesses.

The important factor to consider in the analysis of the framework of the neighborhood economy is not the necessity for a perfect match between local residents and locally generated jobs. This match is most critical to second wage earners in lower-income households. What is important is the overall set of resources which can be supplied to community residents from its local economy and its social structure.

The potential scale of a neighborhood economy has generally been perceived as quite small and limited. The major sources of employment and commercial activity which form the basis of the city (regional or sub-regional) economic activity are called the base economy. This base economy has been seen as being located at central or regional locations outside of local communities. In part, the perception of a community as a primarily residential area has developed out of the models of base and service economies which see the heart of the regional economy located in large commercial and industrial centers outside of residential neighborhoods. The service economy is defined as that part of the economy which arises to provide goods and services to the base economy and those employed in the base economy. Much of this service economy (or secondary economy) is also seen as being located at central locations. Only a small part of the overall consumer and service economies (represented by such things as the local hardware store, drug
store, food store, plumber or doctor's office) are seen as part of the neighborhood structure.

Like the models of urban spatial patterns in general, this model of the base and service economies grew up in a period of intense industrialization.

Most students of industrialization and the resulting urbanization agree that the particular locations of major cities and the industries within those cities were determined by the existing levels of technology and the means of production. That is, there was a direct relationship between what was produced, how it was produced and where the employment center was located. Our present economy, on the contrary, is increasingly defined by employment centers which are not necessarily related to the physical environment in which they are located. A paper factory may have to be located on a large river or lake or a wholesale food distribution center may have to be located at a major highway interchange. There is no such essential relationship between the product or service produced and the locations of many of the office centers and commercial operations, research and development complexes or administrative offices which represent the growing sector of the commercial economy. The service providers which represent the greatest growth sector of our economy, often have incentives to decentralize their distribution points.

Zoning patterns, the conventional wisdom about the centralized locations of the base economy and the rise of large scale commercial development projects have all contributed to the continued concentration of the employment centers even though the shape of the base economies of many areas has shifted quite far from industrial or commercial enterprises which need to be located at specified or centralized locations. Thus, the base economies of our urban
regions are concentrated in regional centers, but is not as clear as it
might have been during the periods of rapid industrial growth that this
concentration is essential, or even advantageous, to their operations.
In many respects centralization creates development which itself encourages
further centralization, as when the concentration of commercial offices
produces the concentration of hotels to serve those offices.

Ironically, many of the neighborhoods which comprise our major cities
were originally developed around a major industrial or commercial base.
When they were new neighborhoods, their local neighborhood economy included
a sector of the regional base economy. Changes over time have eroded this
local economic structure and shifted much of the base economy into regional
centers. The dispersion of this economic base throughout many industrial
and commercial parks amid the newly developing suburban communities stands
as a testament to the mobility of many of the present industries and enterprises
which comprise the modern base economy of our major urban regions. Among
the businesses located in these scattered commercial and industrial parks,
it is not clear that even this level of concentration is necessary for
their profitable operation.

Modern technology has reduced the need for constant
face-to-face contact between different business sectors or individual
corporations. Businesses primarily engaged in such activities as research
and development or various forms of administration of processing of the paper
work may have no necessity for centralized locations. Their work could be
carried out in a range of different local settings. Moreover, many of the
so-called white collar jobs have been so standardized that they can be easily
performed by persons with limited training and skills.
The potential for the distribution of the service economy and many of the enterprises which make up the base economy has hardly been tapped. More often than not, neighborhoods are seen as poor locations because they are not suited to large scale industrial development. However, we have not seriously explored the extent to which the overall economy of many urban areas is comprised of smaller offices and complexes, branch offices, and separate operations which could be located at many different locations. Furthermore, we have not attempted to utilize technological development in communications and management to explore this potential. Many of the developers and managers of industrial and commercial parks do have experience in locating and serving the needs of the many small operations which often occupy these parks. Typically, these skills have not been used to build the economic base of older neighborhoods.

The continued belief that the major sources of employment must be located in centralized commercial and industrial centers, even in the face of the intensive patterns of decentralization some newly developing areas, places severe constraint on our abilities to define the potentials for revitalizing older, inner-city communities. Most efforts at revitalizing the economies of older cities have focused on large-scale development of industrial parks or even business districts. This has been done in the hopes that there will be spillover effects which will somehow improve the neighborhoods. There is no necessary linkage between these major investments and neighborhood economies. When major industrial cites are developed in a city, they frequently take the form of capital intensive, rather than labor intensive, operations. Partly this is encouraged by federal tax incentives
for expansion of capital facilities. Development of the central business district, especially when oriented toward office development, too frequently serves simply as the economic extension of suburban neighborhood economies. The upgrading and development of transportation systems to serve these major developments subsidizes the costs of separation of work and residence for the non-city residents who represent the bulk of the employees in many such projects.

Finally, by placing even the less skilled jobs associated with these developments at centralized locations those in low income neighborhoods must bear increased travel costs and must compete with all other workers who have access to these locations. If smaller scale developments were placed in local neighborhoods, the higher level and professional jobs would still be easily marketed through the extensive communications systems of trade organizations, professional organizations and employment services. The less skilled jobs which are not typically marketed through such extensive channels would have more chance of reaching local residents, thus further aiding the local economy.

The extent to which the general economic base of a region can be distributed in small nodes throughout many of the communities in that region cannot be answered at this time. We are not suggesting such an answer, but attempting to identify some of the myths and assumptions which have prevented us from asking it. We would not expect, even under the best of circumstances, that all neighborhoods would become economically and socially diverse. We would not recommend that a solid working class neighborhood is necessarily deficient if it did not have a reasonably large higher income population or
if it lacked its own industrial base. Our purpose is not to replace the old myths about homogeneous neighborhoods with new ones which view only diversity as sound. Rather, it is our purpose to remove any set of a priori assumptions about the proper structure of neighborhoods in order to allow for the creative exploration of the potential of each individual neighborhood.

III. The Framework of the Neighborhood Development Process and Structural Disinvestment

Without an understanding of the structures and functions of neighborhood institutions and their relationship to the components of the neighborhood economy, neighborhood development policy has little substance or direction. In a general sense, no public policy can attempt to define exactly what institutions and structures ought to exist in a neighborhood or what the neighborhood economy should be. What public policy can do is attempt to consider the sets of relationships and processes which must exist to involve the residents, the government, the private business sector and the financial and investment institutions in an ongoing participation in the development and maintenance of the neighborhood. The sets of formal and informal relationships through which these different participants interact form the framework of the neighborhood development process.

Once this framework has broken down and the development process no longer functions on its own, the essential structures necessary for individual investments to effect the course of the neighborhood economy or to contribute to the maintenance of the overall housing stock or commercial sector disappear. The neighborhood becomes structurally disinvested. Individual programs, investments, services or projects which do not contribute to restoring this
framework cannot be expected to contribute to the redevelopment of the community. Like an individual who is structurally unemployed because he or she lacks the prerequisites of employment, so structurally disinvested communities lack the prerequisites of a development process.

A. The Basic Framework

Traditional views of a neighborhood concentrate on the people within the neighborhood and their local activities. Under this view, the basic structure of the neighborhood is made up of the families and individuals who live there, the private economy which serves their local needs and the public, or quasi-public economy which provides basic services. The private economy includes houses, churches or other associations, convenience shopping such as food, drug, or hardware stores and comparison shopping such as appliance, clothing, or department stores, and a range of services. The public or quasi-public economy includes institutions such as hospitals, schools, libraries, public offices, parks, and the physical infrastructure including sewers, water and roads. These components of the neighborhood structure are represented in Figure 1.

In order to understand the economic framework which sustains these components, we must expand our analysis to include the relationships between these first three components and the employment centers, governments, and financial institutions which provide resources for the local population. Those who live in the neighborhood provide the work force for employment centers located at regional centers and within the neighborhood. Their work provides earnings for the individuals and families in the neighborhood.
FIGURE 1
Families and Neighborhood Activities

Families and Individuals

Private Economy

Housing
Churches
Convenience
Comparison
Services

Public or Quasi-Public Economy

Hospitals
Schools
Public Offices
Libraries
Parks
Roads, W.& S.
This income then goes back into the economy in three ways. Some of the income goes into taxes used to provide local services and to pay for some forms of public capital expenditures. Another part of this income is spent in the local private economy, which in turn creates local jobs in this sector. For those who have additional income after these expenditures, earnings are invested through the activities of financial institutions in the form of time and demand accounts. All this becomes the basis for a set of relationships where financial institutions and capital investors provide additional investments in the community in the form of commercial loans, real estate loans, consumer loans, capital expenditures and investments in the public infrastructure or in the local or regional businesses which provide the employment base of the community. This set of relationships is depicted in Figure 2.

Under normal circumstances members of the community, governments making public capital investments, those with private capital to invest and lenders find it to their mutual advantage to risk their investments for an anticipated return. The private sector and the financial institutions seek direct profits and financial returns on their investments, the government hopes to encourage private investment at levels which produce taxes and revenues to offset public expenditures, and residents invest in their own properties in order to participate in the growing values of their properties.

The behavior of the individuals and institutions who participate in this process is shaped and controlled by the individual and institutional networks of contacts and communications through which they are brought together and through which they channel attitudes, information, experiences,
FIGURE 2
Neighborhood Economic Relationship

Unemployed
Neighborhood Employment
Regionally Employed

Labor → Earnings

Labor

Regional Employment

Financial Institution

Savings Deposits

Equity

Loans

Housing

Churches

Convenience

Comparison

Services

Families and Individuals

Disposable Income

Local jobs

Government

Taxes

Stable Neighborhood

Landbase

Maintenace

Hospitals

Schools

Public Offices

Libraries

Parks

Roads, W.S.

State

Local

Federal
rumors and myths about the neighborhood, its problems and its prospects. Some of these relationships are rather obvious, such as the formal relationships which often exist between lenders and real estate companies. Others are less formal, such as the personal contacts and social interactions of the local business people. Some forms of communication about the problems and prospects of the community are also formal, such as a market study for a local development project. Others are less systematic, such as the coverage and attention which the neighborhood receives through the news media.

Some of the networks on contacts and communications are completely internal to the neighborhood, such as the informal relationships among neighboring residents or businesses. Others act as conduits to the larger institutions and resources outside the community at the city-wide, state, regional or national levels. These different networks can act to circulate resources within the community and to draw resources in from outside the community. A local bank may have a correspondent relationship with a large regional money center bank and be able to draw on the larger bank's resources for lines of credit and sources of capital. Local business may be subsidiaries of larger corporations which can tap large or critical money markets. A local community organization may act to shape the form and content of federal investments in the community. Or, a local community development corporation may act as a formal legal entity which can make contractual commitments with private sector actors as part of a joint program for community investments.

When these networks of contacts and communications function to keep the participants in mutually supportive and responsive relationship, they
form a process of investment and response patterns which becomes the supportive framework of the community's economy. The interaction of the citizens, the private sector, government and financial institutions, once it becomes mutually a supportive cycle, creates an environment of security and confidence. The different participants have confidence that their individual investment will produce counter-investments by the other participants.

Each performs a limited but essential role in the overall cycle. Their mutual activity adds to the overall value and investment potential of the neighborhood. This overall neighborhood value produces its own stimulating effect on each individual participant, thus reinforcing the cycle of mutual responses. When the framework is strong, the different actors may make special efforts to tailor their behavior toward the needs and requirements of the other participants in the process. Lenders, for example may develop special loan programs or underwriting standards especially suited to the needs and characteristics of the local residents, properties or businesses.

When these networks of contacts and communications begin to carry and reinforce negative messages about the neighborhood, its problems and its prospects, then the underlying economic framework is likely to be weakened and the process will eventually begin to break down. If one or more of the participants withdraws from this process, or severely restricts the terms of their participation, structural disinvestment may occur. Both the public sector and the private sector depend upon access to sources of capital and credit for their investments. Individuals and families also depend upon access to capital and especially access to credit for the purchase, maintenance and improvement of their residences. Even the social and
religious organizations often rely on access to capital or credit to finance or improve their property or to fund some aspect of their operations. This makes access to a flow of capital and credit especially important to the overall neighborhood development framework. Once public and private capital investors will no longer invest and financial institutions will no longer supply credit to a neighborhood on reasonable terms, an essential link in the process has been broken and structural disinvestment replaces the cycle of investment and development.

As structural disinvestment proceeds, several important changes start to occur in the neighborhood economy. Jobs disappear, and with them the income for families whose members held those jobs. An example of this phenomena occurred in one area of 80,000 people in Chicago where it has been estimated that a loss of 300–400 jobs occurred in housing maintenance alone when the area was disinvested. Jobs are lost from the commercial and service sectors. And the housing values start to drop, so that even those families who have an investment in a house find that the value of the house is declining faster than their equity is building up. Taxes start to decline, and government is likely to cut back some of the normal maintenance.

While the residents, the members of the private business sector, and the financial institutions and investors may no longer be willing to risk making investment in the neighborhood, the government may find its expenditures increasing. In particular, the levels of expenditures for direct financial support will increase. Families and individuals who have lost some or all of their income base become dependent upon welfare and unemployment support. While the government may be locked into increasing levels of expenditures in these categories, they are not likely to have any
impact on the neighborhood development process. Even individual government investments and loans may fail to have an impact unless they are part of an effort to rebuild the broken framework of the neighborhood development process. Lacking this quality, government expenditures will continue to rise while the job base erodes and financial institutions divert money out of, rather than into, the community. This form of structural disinvestment is displayed in Figure 4.

C. Building New Communities

At the same time the process of structural disinvestment is going on in some neighborhoods, the framework of the neighborhood development process is being established in new communities. In newly developing areas, the sets of relationships among the various components of the neighborhood economy are similar to those we have defined for existing neighborhoods except that the process of new development includes unusually large expenditures of government funds. Unlike the expenditures of government funds for income maintenance in structurally disinvested neighborhoods, these unusually large expenditures in new areas are typically in the form of capital investments in the public improvements essential to draw the private sector into participation in the development process. Figure 5 represents this process.

Newly developing areas are benefited by a set of policies and programs which set in motion or stimulate a process of investment and counter-investment. Public funds in capital expenditures often pay for roads, sewers, water systems, parks, and the like, reducing the costs of private development, improving the accessability and desirability of the land, and helping to
Figure 3

Participants in the Investment Cycle
FIGURE 5
New Neighborhood

Unemployed
Neighborhood Employment
Regionally Employed

Labor

Earnings

Regional Employment

Labor

Earnings

Financial institution

Loans in

Savings
Deposits

Individuals + Families

Disposable Income

Housing

Churches

Convenience

Comparison

Services

Hospitals

Schools

Public Offices

Libraries

Parks

Roads, W.S.S.

Land base

Capital Improvements

Government

Local

State

Federal

New Neighborhood
insure that development will take place at reasonable costs to the developer, by transferring many of the infrastructure costs to the government and the general taxpayers. Developers are encouraged to participate by these public investments and by the potential for profits on future developments. Developers are also encouraged by federal tax policies which favor new development. Lenders are encouraged both by the potential value of these investments and the support provided by public capital investments and federal taxing policies.

Finally, the future business owners and residents are encouraged by tax shelters, for property ownership, and the potential for increased property values and profits, which is enhanced by public investment in the infrastructure, the investments of developers and the availability of credit. All these incentives and activities work together to create a process of interaction which results in investments and counter-investments eventually leading to the development of a new community where none existed before.

This process involves no formal government program which regulates and orchestrates the behavior of all the participants. What has happened is that public policy has provided a range of discreet and individual supports and incentives which help to establish the framework which brings the participants together and encourages their continued involvement with the development of the new neighborhood.

D. Regional Flows and the Costs of Disinvestment

On a larger scale, if one looks at the flows of funds in a region, what one sees is some stable neighborhoods in which the funds are being recycled. Money goes into banks and flows back as credit. Money is paid
as taxes and comes back as job-generating services. But there are some disinvested neighborhoods, where the money is flowing out through the financial institutions. Local banks lend to the regional or money center banks, and they, in turn, lend the funds in other parts of the region. As the disinvestment effects proceed, the neighborhood deteriorates. The financial institutions shrink, or may even abandon the area. The maintenance costs of government start to rise.

In the new community, funds are flowing in, creating jobs which in turn strengthen the demand for housing and other facilities. Public capital expenditures rise, accompanied by increased bonded indebtedness. This regional flow is depicted in Figure 6.

New communities are likely to be mortgaged to the hilt, both in terms of family and public budgets. Failure of a new neighborhood to grow at the projected rate creates serious problems. The very large losses which banks took on Real Estate Investment Trusts in recent years are in large measure a result of the failure of population growth in suburban areas to meet the projections on which their lending had been based.

The regional pattern of new community construction in the suburbs and a demolition derby among city neighborhoods can be viewed as a simultaneous boom-bust cycle, and the faster it goes, the higher the costs to the taxpayer.

The public costs of supporting a neighborhood from disinvestment to demolition are enormous. In one Chicago neighborhood, calculations were made of several subsidies which were poured into the neighborhood in an effort to sustain families after the private economy had collapsed. This
neighborhood is one of about 70,000 people. It had recently changed from a white to a predominantly black population. By 1976, our estimated annual cost of welfare payments was approximately $3 million, the cost of Medicaid about $15 million, and unemployment compensation about $10 million. In addition, we estimated that about one-half the school expenses, $10 million, were wasted because of transiency and other conditions of instability. The expense of added police and criminal justice costs seems to have increased by about $8 million as a result of the continued decline of community conditions. One could add other cost categories, such as special programs in alcohol and drug abuse, housing subsidies, etc., but the total is already up to $74 million per year (or $1057 per person). Overall, it seems reasonable to suggest that the cost to the public budgets of supporting a neighborhood of this size from disinvestment to abandonment is well in excess of $500 million, even if this process takes as few as six or seven years.

At the same time, the public is footing the bill for many of the costs of new suburban construction. For example, our continuing studies suggest that in the same Chicago metropolitan area, the public costs of new development for a community of 75,000 people is well in excess of another $400 million. An investment of approximately $2 billion of private funds is also required to build the new community, and these costs are rising rapidly.

What does this mean in terms of the actual dollar costs of disinvestment? If the simultaneous boom and bust cycles continue, the public must pay for both the half billion or so dollars for participating in the management of decline in one neighborhood of 75,000 while spending about another half
billion for the basic capital costs of building a new community of similar size. Yet, in the older neighborhood which we have been using in this example, extended research and working meetings which community residents and institutional leaders suggest that the physical structures of the commercial district, the basic needs of the residential structures, the potential for development of valuable recreational amenities, and the commercial lending needs of the businesses and social institutions could all be satisfied for about $120 million; or about ten to fifteen percent of the total billion dollar cost of maintaining the boom/bust cycle. Ironically, this is about the level of deposits which the local financial institutions receive from this community. Were the locally generated money simply held and reinvested in the community, it should be possible to restore the physical structures and commercial economy to a "like new" condition.

Policies which provide flows of capital expenditures from governments and capital and credit from financial institutions and investors should be able to use limited resources to intervene to return the neighborhood economy to a stable condition before structural disinvestment leads to abandonment. This should reduce later expenditures as the neighborhood declined and also avoid the need to build a new neighborhood, by holding on to the existing one. This process is defined in Figure 7.

IV. **Summary of the Scope and Orientation of Our Position**

Instead of a pattern of divergence, in which public policies and private practices contribute to upward spirals of development in some neighborhoods, and to downward spirals of deterioration in others, policies and practices are needed which tend to move neighborhoods toward an
equilibrium in which their economies stay balanced and working.

The keys to the successful creation of a neighborhood economic development policy can be summarized in a set of basic propositions. These propositions set out a context for policy development along the lines of government policy toward the private sector. The overall focus is the development of policies which view neighborhood economic development as an industry which must be cared for in ways analogous to the ways the government provides for critical components of the private sector economy. In this area, we seem to have been able to develop policies which have a major impact but which have a maximum amount of flexibility and diversity in their application to any given industry or corporation.

The policies which have provided support and encouragement for the industries involved in building new communities represent reasonably successful examples of these private sector policies in the area of local level economic development. However, these policies and programs cannot necessarily be transferred to older, existing neighborhoods.

The major difference between the process which creates new development and a process for the re-investment and maintenance of existing neighborhoods is that there are existing residents who must have the same status and the same potential for return on their personal or financial commitments as the other participants in the process. This necessitates an interaction with existing residents which does not take place when existing governments, financial institutions, and members of the private sector are developing new land.

The fundamental role which the range of capital investment programs, regulatory policies and tax incentives play in the process of building new communities can, however, be applied to community development needs in
existing neighborhoods. The basic role they play is to act as magnets both to attract investments by individual participants and to bring the different participants together in collective activities which reinforce their confidence in the security of their investments and the future of the community. A policy for neighborhood economic development must produce a similar set of magnets both to attract each individual participant to the development process and to draw them into cooperative efforts and continual interaction.

Public policy must also deal directly with the existing myths of the value of homogeneous populations and land uses, the locational needs of employment centers, and the nature and requirements of the economic base of urban centers. Above all, public policy must establish a posture which intervenes without casting the stigma of decline and unusual risks on older neighborhoods, as is implicit in the acceptance of the filtering policy. The government can contribute significantly to destroying these myths if its own actions and policies reflect clearly different sets of assumptions and perceptions of older neighborhoods. For example, government incentives to business to locate in older areas cannot be excessive and must be very sensitive to avoiding windfall profits in the name of essential redevelopment. Such practices are not only wasteful of critical resources, but they reaffirm the belief that the risks to investment are so great that only extremely high levels of subsidy and tax shelters can save them. The assumption should be that the potential for investment is sound, placing the burden of proof on the lenders and investors to defend any restrictive practices in a community.

Therefore, based on our analysis of the underlying problems of community development, we suggest that a neighborhood economic development policy
designed to address the problems of structural disinvestment should be based on the following propositions:

1. The central focus of such a policy must be on the creation of a process which acts as a magnet to bring together elements of the existing community, the private corporate structure, the lenders and the governments.

2. The existing residents of a community, and not the physical condition or appearance of the community per se ought to be the main beneficiaries of the community development process. Rather than assuming that a community is the reflection of the well being of its residents, this approach assumes that the community is also a contributing factor to that well being.

3. The policy must include mechanisms which allow existing residents, especially lower-income residents, to share in the appreciation in values and rights of ownership in those communities which are successfully rejuvenated. That is, we must help people develop stakes in, and benefits from, the community development process.

4. The sets of incentives, rewards, and punishments involved in the policy must provide enough resources to each individual set of participants (residents, the private business sector, financial institutions and investors, and governments) so that any one of them can take the first step in regenerating the neighborhood framework and investment process. There should be added benefits when these individual participants make a cooperative effort, though this should not restrict the ability of each set of participants to act on their own.

5. The one limitation which should be placed on the activities of the private business sector, financial institutions and investors and governments
is that they should not benefit from the neighborhood policy if they act without the involvement of the existing residents. The existing residents must be protected against individual or cooperative efforts to redevelop their neighborhood in ways which they do not consider beneficial to them. In particular, they must be protected from efforts which attempt to redevelop the neighborhood by replacing the people.

6. The policy should provide maximum flexibility and diversity in the ways in which different incentives, resources and supports are selected, combined, and hand-tailored to the unique needs of a particular neighborhood economy.

7. The policy must face squarely that local neighborhood economies cannot be expected to function on their own without a neighborhood level decision-making and development process. This means that public policy must come to terms with the problems of existing programs and policies which vest controls and authority in various government institutions at the city-wide, state or even federal levels. This means that neighborhood development policy must serve to nurture and respond to local level institutions, such as community development corporations, which can provide both a symbolic and corporate representation of the community's commitment and participation in the control of the development process.

8. In order to build a neighborhood employment base, policies aimed at encouraging business expansion and development as well as policies aimed at job creation, training, and placement must concentrate on a scale of operations appropriate for neighborhood locations. This means that more efforts have to be placed into small scale operations rather than the "big fix" mentality which has so often characterized efforts to rebuild the
urban economy.

9. In order to develop the full potential for developing local economies, a significant share of the technical funds spent on research and development must be allocated to neighborhood level technologies. These technologies would include management systems, communications systems, and the development of tools and hardware which would facilitate the local control and management of physical resources, services and businesses and which would assist in diversifying the locations of the employment centers which comprise the regional economy.

10. The policy must avoid placing the government in the role of the essential prime mover, in order to allow all of the sets of participants in the development process to act freely and creatively. Tax policies, for example, act in this way. The government sets the taxing policy, but the individuals and corporations initiate its use and actual application.

11. The policy must consider the ways in which to build the sets of contacts and communications networks which facilitate the development process by informing the different participants about their individual behavior. Facilitating this information process increases the likelihood that one investment will produce a counter response and thus become part of an ongoing process of investment.

12. The policy must include prohibitions against the arbitrary withdrawal of investments, services, financial and technical resources from a community due to unsubstantiated beliefs about its future decline.

13. The policy must include provisions for generating the types of information which can be used to assess the flows of economic resources within
a neighborhood. We cannot monitor the functioning of the supportive framework of the neighborhood development process if we do not have information which can easily be assembled at that level.

14. Finally, the policy cannot be isolated from the policies which help to shape the patterns of regional growth which are so essential to the vitality of older neighborhoods. One cannot expect individual neighborhood level interventions to have a lasting effect if the larger regional forces of growth and flows of resources continue to work against them.

V. Short Run Recommendations

The final development of the components of a neighborhood policy will take a considerable amount of time and debate to develop. However, there are several recommendations which we think can be made in the short run to insure that existing programs and policies are not counter productive.

1. The first action which the government could take would be to develop a set of information about the economies of neighborhoods. No policy could function without having some set of information which relates to its goals, processes, inputs and outputs. A neighborhood economic development policy must have a set of information about neighborhood economies, especially those neighborhood economies which appear to be structurally disinvested.

Such an information system would have to include data on the flows of capital and credit within a neighborhood, the level of the grants economy, and the sources and levels of investments, improvements, and reinvestment activities. Such a system, while developed for individual neighborhoods, would have components which examined the flows within urban areas (i.e. between cities, suburban areas and rural areas) and components which examined
the regional flows of funds nationally. This would create sets of data appropriate for use both to balance regional flows and assess the impact of regional impacts of government expenditures and policies and to assess the health of the investment cycles within specific neighborhoods.

The need for such a neighborhood economic information system is evident already in HUD's attempts to set out a research design to evaluate the neighborhood impacts of the CD program. HUD will be making an allocation of several millions of dollars over the next few years to attempt to create just the kinds of neighborhood data we are suggesting. The fact that no such data systems presently exist, seriously threatens HUD's attempt to make reasonable estimates of the impact of the CD program.

A functioning neighborhood accountancy system would create, at the neighborhood level, the kind of system we have at the national level to assess the condition of our economy. As an analogy, the information systems used to estimate our balance of payments situation not only provide a bottom line figure on the economy, but the subsets of data involved can be used to pinpoint exactly where the problem in the balance of payments is and to provide for some direction in developing interventions to correct the situation.

A functioning neighborhood accountancy system would provide the kind of constant flow of information which would allow for a constant monitoring of the economic health of a neighborhood and its supportive framework. Having such data on a continual basis would create a pool of information which would exist for different neighborhoods, at the disposal of all interested parties. Such a system should reduce the need for many, expensive, one shot evaluations. It would produce a feedback system which could be used by the participants in
the investment cycle to examine their own actions and investments and to
develop their own strategies, in direct response to the unique conditions
within their neighborhoods.

2. The government should begin a process of having the executive
agencies develop detailed statements of how their existing policies and
programs impact the investment cycles in existing neighborhoods. Each agency
should develop this impact statement in response to the type of neighborhood
investment cycle and neighborhood structure which we have defined in this
paper as being most beneficial to the economic development of its residents.
These impact statements should provide a focus for the long range development
of the neighborhood economic development policy. They will provide information
and stimulate discussion around a particular set of goals.

3. A review should be made of the tax code to provide a similar
statement about their impact on the development of stable neighborhood
economies and neighborhood reinvestment processes. The income tax provisions
are the single most effective and powerful economic policy tools. No
neighborhood economic policy can be effective unless it is supported by the
income tax code.

4. In order to allow those involved in neighborhood economic development
to benefit from the interventions which are already being attempted around
the country, a clearinghouse should be established which will supply information
and contacts about existing strategies, interventions, programs and state
and local policies. The key to such a clearinghouse would be to put people
in contact with each other so that those working in one neighborhood can make
their own evaluations about the applicability and usefulness of a strategy
developed in another neighborhood. The clearinghouse should not be set up simply as a depository and distribution system for government and privately initiated reports and evaluations of programs and policies.

5. In its own CD and UDAG programs, HUD could begin to set the tone for an investment oriented approach to neighborhood level economies by revising the way it reviews and evaluates proposals and performance reports for these programs. While it is true that HUD has praised the use of CD monies to leverage private funds, and while it is true that this represents an investment concept, the development, administration and review of funds under the CD program (and those proposed under the UDAG program) do not deal with the internal economic structure of neighborhoods. In their present form they act much like the old mortgage subsidy programs. They leverage funds for individual, isolated developments, but fail to deal with the underlying processes of structural disinvestment. These programs tend to see outputs in terms of the production of new or rehabilitated units, capital expenditures, and the delivery of so many units of service. But no accounting is made of the ways in which these expenditures and investments function to establish and maintain investment cycles in declining neighborhoods.

HUD should revise its guidelines for the CD and UDAG programs so that proposals and performance reports are evaluated in terms of their ability to bring together the citizen, government, private sector, and lending members of the investment cycle. Proposals and performance reports should be evaluated in terms of their ability to establish diverse neighborhoods which produce local employment and provide opportunities for moderate- and lower-income residents to participate in the appreciation of property values
in neighborhoods where significant investments are producing an upward spiral.

6. Finally, each major set of government policies tends to produce one or more types of professionals who prosper because they are able to act as intermediaries who can translate the government policies and programs into products which are beneficial to the corporate structure and client groups. During the OEO programs, a cadre of professionals developed who had mastered the art of writing grant proposals. Their careers were tied to their ability to bring in high levels of federal funds to local governments or community agencies. On the private sector side, corporate tax lawyers and accountants act to develop from the income tax codes those sets of strategies and activities which will most benefit the corporations they work for. Their careers depend upon their creativity in interpreting and applying the provisions of the tax code.

On the development side there are also tax accountants and lawyers who play a significant role in real estate development. But in addition, there are intermediaries, such as commercial mortgage bankers, who must act to bring together investors and developers. Their careers depend upon their ability to match the needs of investors with the capabilities of developers in ways which are compatible with the market conditions in their local areas.

If there is one professional role which is sadly lacking in the reinvestment process, it is a role analogous to those we have defined. We have developed experts on corporate finance and economies, new development economies, and (in the OEO proposal writers) experts in the grants economies. We lack experts in the neighborhood economy who can use the tax code, existing programs, and capital and credit flows to re-establish an investment cycle
by developing investment packages which involve the citizens, lenders, the government and the private sector in the types of mutually rewarding projects which can initiate a continued interaction.

The government should establish special research and development programs to develop these skills. Fellowship programs should be developed not just to provide for formal education in tax and financial skills, but also for direct participation and on the job training in existing reinvestment processes. There is a growing demand for such neighborhood investment experts in financial institutions, with local and state governments, and with local community development corporations. What is lacking is the research and development funds to develop the skills necessary for such careers. Presently those most involved in neighborhood redevelopment do not have the surplus funds to invest in developing such skills.
Footnotes


2 This ranking is printed in Hoyt's book *One Hundred Years of Real Estate Values in Chicago* (Chicago: University of Chicago Press, 1933) and reads, in descending order from those most beneficial to those most harmful to property values: "1. English, Germans, Scotch, Irish, Scandinavians; 2. North Italians; 3. Bohemians or Czechs; 4. Poles; 5. Lithuanians; 6. Greeks; 7. Russians, Jews (lower class); 8. South Italians; 9. Negroes; 10. Mexicans. (p. 316)."


4 This model is developed in Robert Park, Ernest W. Burgess, and Roderick McKenzie, *The City* (Chicago: University of Chicago Press, 1925).

5 The American Institute of Real Estate Appraisers made extensive revisions in its training materials and codes as a result of an out-of-court settlement agreement resulting from the suit: *U.S. v American Institute of Real Estate Appraisers, Society of Real Estate Appraisers, American Mortgage Banker's Association, and the U.S. League of Savings Associations, C.A. No. 76 C 1448* (N.D. Illinois, 1976) The settlement was reached on November 23, 1977. The suit is still pending against the other defendants.


8 The graphics and parts of the text of this section are used by permission of Stanley Ballett from work previously copyrighted.