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WORKING PAPER

An Asset-Based Community-Building Paradigm for Twenty-First Century Development

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BACKGROUND

One of the core results that the Annie E. Casey Foundation seeks to achieve through investments in our *Making Connections* communities is increased income for vulnerable families through stable jobs. Yet the rapidly increasing globalization of the workforce and the out-migration of employers to other countries present serious challenges to achieving this result.

This Working Paper confronts the challenge head-on by focusing on ways simultaneously to anchor jobs in local communities and promote community economic development. As such, it points to strategies worthy of consideration for any undertaking in which stable jobs is the goal.

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OVERVIEW

Few Americans are aware that there has been a steady and continuing build-up of new and "alternative" forms of economic activity throughout the United States over the last several decades. The various efforts differ from traditional corporations, on the one hand, and small individually owned businesses, on the other. All have implications for longer-term community change.

At one level are a variety of community-building neighborhood corporations and related efforts. At another level are enterprises largely or entirely owned by employees who live in, and are members of, the community. At still another are new non-profit efforts which undertake economic activity in order to support community service missions. Beyond this are numerous publicly owned enterprises, which both provide jobs and services and make money for cash-starved local municipalities. Still other new efforts include large numbers of little publicized cooperatives, community land trusts, and various "hybrid" community-oriented economic efforts. Beyond this are new public pension and other investment strategies, which either help non-profit efforts (particularly in connection with housing) or contribute to local community finances, and job and tax-base stabilizing efforts.

In a number of areas, more than thirty years of development have produced a powerful body of experience, expertise, support groups, and political backing. Taken together, it is fair to say that the foundations have now been established upon which much more extensive and potentially powerful "next stage" development might systematically build. If, as seems likely, the forces that have driven the process of institutional change to date continue to do so, a political-economic paradigm that has far-reaching implications for community building throughout the nation appears to be within reach.

The range of practical activity and its growing trend has rarely been appreciated even by experts working on such matters. Specialists in narrowly defined sectors are aware of developments in their own field of expertise, but because of what is sometimes termed the "silo" effect, often do not know of experience in other areas. Still less do many practitioners realize they might plausibly achieve important gains by making common cause with others working in parallel fields. Even a cursory review of the key sectors involved, however, reveals the extent of "across-the-board" development and an understanding of some of the forces which have driven—and in the emerging new political economic context are likely to continue to drive—the ongoing trends to new levels of significance.

EMPLOYEE-OWNED FIRMS

One of the most important but least understood developmental trajectories involves employee-owned firms; institutions which by definition are deeply anchored in local communities by virtue of their ownership structure, and which provide jobs and strengthen the local tax base. The fact is, however, more Americans are now involved in firms, which are partly or wholly, owned by those who work in them than are members of unions in the private sector!

Moreover, the developmental trend is striking. The most common form of enterprises are structured as an Employee Stock Ownership Plan (ESOP), a legal arrangement which since 1974 has received favorable tax treatment by the Federal Government. In the 1960s, very few, perhaps two or three hundred, such firms existed. Over the last decades, however, ESOPs have grown from 1,600 in 1975 to 4,000 in 1980, to 8,080 in 1990 and to more than 11,000 today.[1] The number of worker owners involved has risen, correspondingly, from a mere 248,000 in 1975 to 8,800,000 in 2002.[2] Such firms can, in fact, be found in virtually every American community of any significant size.

Appleton Co. a world leader in specialty paper production based in Appleton, Wisconsin became employee-owned when the company was put up for sale by Arjo Wiggins Appleton, the multi-national corporation that owned it. The 2,500 employees decided they had just as much right to buy it as anyone else.[3] Reflexite, an optics company based in New Avon Connecticut, became employee-owned in 1985 after 3M made a strong bid for the company and the founding owners, loyal to their workers and the town, preferred to sell to the employees instead.[4] In the case of Science Applications International Corporation, (SAIC) the founder, Dr. J. Robert Beyster, has for more than thirty years simply believed that people "involved in the company should share in its success."[5]

A 1998 survey of Washington state firms found that median hourly pay in ESOP firms was 12 percent higher than pay for comparable work in non-ESOP firms. Worker-owners of ESOPs also ended their careers with almost three times the retirement benefits of others with similar jobs. A 1990 study by the National Center for Employee Ownership (NCEO) found that an employee making $20,000 a year in a typical ESOP would accumulate $31,000 in stock over 10 years; no small feat considering that median financial wealth was just $11,700 during this period. A 2000 Massachusetts survey found ESOP accounts averaging just under $40,000.[i/6]

It is also clear that ESOPs, specifically, and worker ownership in general, have broad political appeal for both practical and philosophical reasons. The ESOP concept has been endorsed by (among others): Ronald Reagan, Ralph Nader, Mario Cuomo, William F. Buckley, William Greider, Jack Kemp, Richard Gephardt, Mikhail Gorbachev, and Coretta Scott King. Both political parties backed the tax legislation, which now provides over $2 billion in annual support to ESOPs. Other forms of Federal help include loan guarantees and the financing of worker-ownership feasibility studies in the event of plant closures or major layoffs.[7]

[i] The United Airlines bankruptcy is sometimes mistakenly attributed to the airline's significant ownership by employees. Aside from the fact that most airlines have experienced extraordinary difficulties in the wake of September 11, 2001, and that most ESOPs have been organized in (and work best in) small and medium-sized non-publicly traded community-based firms, most experts judge that United's failure to deal with participation and related organizational issues (not its ownership structure) was the key factor in its poor performance. Southwest, which also has significant worker-ownership and a strong participatory culture is one of the few profitable bright spots in the airline industry.

A number of programs funded by various states also provide support for worker ownership. One of the most widely recognized, the Ohio Employee Ownership Center, conducts feasibility studies for potential independent worker buy-outs and for transition buy-outs from retiring owners. The Michigan Workforce Transition Unit offers feasibility assessment assistance to employee ownership efforts. Massachusetts funds the quasi-governmental Commonwealth Corporation, which provides technical and financial assistance to firms seeking to establish an ESOP.[8]

W. L. Gore, the maker of Gore-Tex apparel, is one of the most impressive modern examples of what can be achieved by ESOPs. The company, owned since 1974 by (currently 6,000) worker-owners in 45 locations around the world, has no 'bosses' or formal titles. To ensure communication and innovation those working at any one site number no more than 200. Depending on their particular skills, workers may lead one task one week and follow other leaders the next week; teams disband after projects are completed, with team members moving on to other teams. W. L. Gore revenues totaled $1.4 billion in 2001 and the firm regularly ranks on Fortune Magazine's "Best Companies to Work For" list.[9]

Critics of ESOPs commonly decry the lack of democratic control offered to workers in most trust arrangements. Several considerations, however, suggest that greater democratic control of ESOPs is likely to develop as time goes on opening the way for broader support. First, a significant share of ESOP companies (some 3,000 or roughly 30 percent of ESOPs in privately-held companies) are already majority-owned by workers. Of these, 40 to 50 percent already pass voting rights through to plan participants. Second, as workers within specific firms accumulate stock they commonly become majority owners as time goes on. NCEO surveys reveal that the proportion of privately held ESOPs that are majority-owned increased approximately 50 percent in the past decade.[10] It is conceivable that as more and more ESOPs become majority-owned, workers will simply ignore the fact that some have little power. On the other hand, the more likely probability—as *Business Week* observed in 1991—is that ultimately workers "who own a significant share of their companies will want a voice in corporate governance."[11]

The third and perhaps most important reason to expect change is that greater participation commonly leads to greater productivity, and thus greater competitiveness in the marketplace. Studies undertaken by NCEO, by several teams of economists, and by the U.S. General Accounting Office all confirm that combining worker ownership with employee participation produces greater productivity gains, in some cases over 50 percent.[12]

Likely directions for next stage development have been suggested by comprehensive proposals put forward on both left and right. During the Clinton Administration, one expert, Joseph Blasi developed an integrated package, which included tax and other benefits, and substantial support for state-based technical assistance efforts. The Blasi plan also proposed restructuring tax benefits to redress the greater concentration of ownership among higher paid employees as a result of awarding stock in amounts related to salary and wage levels.[13]

One of the most conservative Republican members of Congress, Dana Rohrbacher, has gone further. Rohrbacher has introduced legislation, the Employee Ownership Act of 2001, the goal of which is to have "30 percent of all United States corporations... owned and controlled by employees of the corporations" by 2010. The proposed legislation would define a new entity, the "Employee Owned and Controlled Corporation" (EOCC, which Rohrbacher calls "ESOP-plus-plus"), in which over 50 percent of stock is held by employees, 90 percent of regular employees are enrolled in the plan, and all employees vote their stock on a one person, one vote basis. Various tax benefits would encourage adoption of the ESOP-plus-plus form.[14]

One factor which has contributed to the rise of employee-owned firms is that multi-national corporations often must seek the very highest profit they can make on invested capital whereas workers living in a community are happy with substantial profits (rather than the highest possible) since the other benefits of keeping a plant in town far outweigh differences in profit rates. (Often, of course, when employees take ownership, the change produces greater efficiency—and greater profits than those that the multi-national registered.)

Most importantly, enterprises owned by the employees are powerfully anchored in their communities. They are far less likely to move under one or another form of economic pressure—a fact of extreme relevance as the United States moves deeper into the era of globalization.

Traditional cooperatives have also long been based on community building ideas. It is rarely realized that there are more than 48,000 co-ops operating in the United States and that 115 million Americans are co-op members. Roughly 10,000 credit unions (with total assets over $500 billion) supply financial services to 82 million members; 26 million Americans purchase their electricity from rural electric cooperatives; cooperatively-owned (or affiliated) insurance companies serve 50 million policy holders; and approximately 30 percent of farm products are marketed through cooperatives.[15]

Next stage co-op development is likely to draw upon the experience of successful modern models like Recreational Equipment, Inc. (REI), an outdoor equipment retailer and producer, which employs 6,000 people, operates sixty stores, and had revenues of $735 million in 2002. REI is owned by its two million members, each of whom receives a refund of about 10 percent on purchases at the end of the year. Named one of the "100 Best Companies to Work for in America" by *Fortune* magazine from 1997 to 2002, REI offers employees a substantial profit-sharing plan and has taken part in numerous joint ventures with local environmental groups.[16]

COMMUNITY DEVELOPMENT CORPORATIONS

If employee-owned firms are the least conventionally discussed form of community-building economic activity, than community development corporations (CDCs) are perhaps the most well known. The longer-term trend again offers a starting point for reflection on stages of past, present, and possible future development.

The most obvious and most important fact is the similarity in the longer-term trajectory of growth: During the early 1960s only a very few organizations which might be considered neighborhood corporations existed. Furthermore, the idea that non-profit developers might be able to produce viable housing projects was commonly derided by most professional observers. Slowly but steadily, however, the number of CDCs expanded: There are now almost 4,000 operating in most communities around the nation, and we are long past the time when skeptics could decry the idea of non-profit housing development.[17]

The "first generation" of CDCs began with a broad strategic conception, which often included a range of economic activities (including ESOP-like connections). Initially the goal was comprehensive community building including the provision of services, the ownership of productive enterprise, and advocacy on behalf of local residents. In its initial ten years of operation, for instance, one of the first large CDCs, Bedford-Stuyvesant Restoration Corporation (BSRC) provided start-up capital and other assistance to 116 new businesses, helped create 3,300 jobs, arranged training programs or new jobs for 7,000 local residents, and renovated or built some 650 new housing units. One early success involved attracting a 400-employee IBM manufacturing plant, a facility that is still in operation and is now worker-owned and managed.[18] The CDC also launched and still owns a major commercial development (Restoration Plaza), a property management company, and a construction firm. It is two-thirds owner of a Pathmark supermarket, which had over $28 million in annual sales by 2001.[19]

The advent of the Nixon Administration, decisions by the Ford Foundation, and generally reduced funding in the Reagan years forced many CDCs to alter the initial approach. Two important ideas of the early period, direct ownership of assets beyond housing, and community organizing and advocacy, were often abandoned or reduced to minor functions. Instead, most CDCs concentrated primarily on an important but narrow form of asset-ownership (the development of low-income housing), and secondarily on technical assistance and small business loans to individual entrepreneurs.[20]

CDC housing efforts were strongly assisted by special tax incentives for investors who helped neighborhood corporations and others build low-income housing. More than a thousand new CDCs emerged during the Reagan era alone. CDCs also developed a number of new strategies, which added to their strength during this period. Former Local Initiatives Support Corporation (LISC) CEO and President Paul Grogan and coauthor Tony Proscio point out:

> The lack of federal support meant there was no federal bureaucracy prescribing what was supposed to happen. CDCs were free to develop and pursue their local agendas. And as they scrounged for dollars and technical help, they were building a web of relationships and a diversified funding base that would be with them for the long term, not for the short cycle of the latest federal program… CDCs in city after city are now raising capital both for projects and for overhead from a wide range of charities, banks and other financial institutions, private corporations, city governments, and increasingly, state governments. This support base now constitutes a formidable constellation of stakeholders, investing, monitoring and generating results together…[21]

Some critics charge that in turning primarily to housing production during the second phase of development, many CDCs lost touch with the local community. Urban studies professor Robert Fisher writes that most "avoided political controversy, were dominated by professionals with a technical orientation, had narrow memberships bases, and rejected social action activity." On the other hand, another close observer, Andy Mott (at the time Executive Director of the Center for Community Change), concluded in 2000 that an "increasing number of CDC coalitions are offering community organizing training to their members, and CDC associations... have taken on—and won—major policy battles on jobs, housing and reinvestment."[22]

Although housing production remains central to CDC efforts, in recent years a growing number have also begun to explore and return to the broader ownership ideas envisioned in the early years of development. Importantly, LISC established The Retail Initiative (TRI) in 1994 to help CDCs develop shopping centers anchored by supermarkets or other large retailers in their neighborhoods. By 2002, TRI had committed over $20 million to ten major projects in New Haven, North Philadelphia, Chicago and other cities.[23]

A 1998 survey found 40 percent of urban CDCs reported owning and/or operating a business (34 percent of rural CDCs did so). Over half also reported some form of business lending activity with a total of nearly $2 billion in outstanding loans.[24] Given the developmental trajectory and growing problems of economic instability, an important question for the next decades of development is the degree to which some of the earlier strategies may be incorporated into next stage CDC development.

An example of the possibilities offered by broader strategies is New Community Corporation (NCC) in Newark, New Jersey that was established after urban riots during the sixties left many dead and over a thousand injured. NCC now owns an estimated $500 million in real estate and other ventures, including a shopping center, a supermarket, and 3,000 units of housing. New Community Corporation enterprises employ 2,300 neighborhood residents and create roughly $200 million in economic activity each year. Profits help operate day-care and after-school programs, a nursing home, and four medical day-care center for seniors. Proceeds from business activities support job training, educational, health and other programs. NCC also runs a Youth Automotive Training Center; young people who complete its courses are guaranteed jobs offering $20,000-plus starting salaries.[25]

Many states and local municipalities now directly and indirectly support CDC activity. In cities with a large number of cooperating CDCs, local governments have often become active development partners, making tax foreclosed properties available to them or earmarking Community Development Block Grant funds for housing subsidies. Particularly innovative state programs include New York's Neighborhood Preservation Companies (NPC), the North Carolina Community Development Initiative, and two efforts in the Commonwealth of Massachusetts: The Community Economic Development Assistance Corporation (CEDAC) and the Community Enterprise Economic Development Program (CEED), which provides both financial and technical assistance to CDCs in economically depressed communities.[26]

Federal programs also provide significant support to CDCs including: Community Development Block Grants (CDBG), the HOME Program, the Low Income Housing Tax Credit, and Empowerment Zone/Enterprise Communities tax credits. One of the last pieces of legislation of the Clinton Administration, the Community Renewal Tax Relief Act of 2000, provides additional New Market Tax Credits and other assistance. The 2000 Act, which began with the broad backing of Republican leaders in the House of Representatives, also suggests the potential for expanding the base of political support for housing and other asset-ownership principles at the community and neighborhood level.[27] Also, during the Clinton years, Federal support for Community Development Financial Institutions (CDFIs), which provide loan and other assistance, gave CDCs a significant boost.

An important perspective on past, present and possible future development is that of Louis Winnick of the Institute for Public Administration. Winnick suggests that the "meteoric growth of CDCs and related grassroots initiatives owes much to their appeal across the political spectrum." The anti-statist Right saluted community development as a proxy for government, which might shield the succored poor from the dead hand of bureaucracy... On the opposite end of the ideological spectrum, radical activists envisioned community-based organizations as weapons of political empowerment, instruments to liberate the poor from chronic neglect.[28]

NON-PROFITS IN BUSINESS

A recent *Chronicle of Philanthropy* study estimates that over $60 billion was earned from business activities by the 14,000 largest nonprofits in 1998. Income from fees, charges, and related business activities are estimated in other studies to have grown from 13 percent of non-profit social service organization revenues in 1977 to 43 percent in 1996. Fiscal pressures have set the contextual terms of reference for this development and are likely to continue to do so. "The major reason" this is happening, observes philanthropy expert Dwight F. Burlingame, "is because the government withdrew its funds for a wide variety of nonprofit organizations."[29]

The trend also has powerful implications, locally—and it can be seen in the development of diverse forms of new hybrid economic activity. A case in point is Esperanza Unida, Inc. (EU) in Milwaukee, Wisconsin, an organization which initially focused on helping Hispanic workers deal with workplace issues and file unemployment and worker's compensation claims.

In the early 1980s, EU began running businesses with a dual mission; raising funds for other operations and training. In what came to be called the "Training Business Model," EU now employs local citizens in enterprises involved in auto repair, construction, printing, childcare, customer service skills, and welding. It also runs a coffeehouse/bookstore, "¿Que Pasa?," which hosts community events and offers books and periodicals in both Spanish and English. Roughly 50 to 70 percent of EU's annual revenues come from its business activities.[30]

Pioneer Human Services (PHS), in Seattle, Washington, initially established with donations and grants, is now almost entirely self-supporting. PHS provides drug-and-alcohol-free housing, employment, job training, counseling, and education to recovering alcoholics and drug addicts. Its annual operating budget is $54 million over 99 percent of which is earned through fees for services or sales of products.

PHS and its subsidiaries own and manage a light metal fabricator which has contracts from Boeing, Xantrex, Leviton, and others; a Food Buying Service which distributes roughly seven million pounds of food to non-profit organizations in 20 states; the 132-room St. Regis Hotel which offers drug-and alcohol-free housing for tourists and low-income individuals; and the 150-seat Mezza Café, its satellite, Pronto, and two smaller Mezza Cafés.[31]

The Roberts Enterprise Development Fund in the San Francisco Bay Area works with nonprofit umbrella organizations. These, in turn, have operated roughly twenty businesses from thrift stores and janitorial services, to a bakery and a furniture manufacturer. These businesses both make money and help specific groups in the community. Revenues grew from $10 million in 1997 to $20 million in 2000, with profits increasing from $230,000 to $630,000. Enterprises target specific employee/trainee populations such as landscaping and packaging and shipping services provide jobs for individuals with developmental disabilities; bike repair training for young people; and a cleaning service, café, and temporary employment agency, which provide jobs for individuals with psychiatric disabilities.[32]

The Dudley Street Neighborhood Initiative (DSNI) in Boston, Massachusetts is a nonprofit community-based institution similar to typical CDCs except that it has been granted the right of eminent domain to acquire abandoned parcels of land, a unique development in modern urban policy.[33]

Some analysts who have studied “hybrid” non-profits have raised serious questions about whether important service missions may be compromised by their economic activities; and several have suggested guidelines to maintain institutional integrity. Conversely, others point out that by reducing the reliance of organizations on public (often politically influenced) funding, and from foundation and individual donor support, new sources of revenue can produce offsetting advantages in terms of institutional independence.[34]

Such questions are certain to take on increasing urgency as time goes on. Given the intense fiscal pressures driving change and the growing support the strategies are beginning to attract the trend is unlikely to be reversed. The real question is how the conflict between organizational goals can be managed intelligently and whether those concerned with critical public missions organize to insure the integrity of the various efforts.[ii/35]

[ii] Another increasingly debated issue is the degree to which “related” and “unrelated” business activity should be taxed. For a review of the questions involved, see Evelyn Brody and Joseph J. Cordes, “The Unrelated Business Income Tax: All Bark and No Bite?” Emerging Issues in Philanthropy Series Seminar No. 3, Urban-Brookings Tax Policy Center, March 01, 2001, http://www.urban.org/UploadedPDF/philanthropy_3.pdf [09/26/03].

MUNICIPAL ENTERPRISE

A decade ago, David Osborne and Ted Gaebler devoted a chapter of their classic book, *Reinventing Government*, to the emergence of new forms of municipal businesses. The chapter's title is indicative both of the trend and of the driving force behind it: "Enterprising Government: Earning Rather Than Spending." As they observed: "Pressed hard by the tax revolts of the 1970s and 1980s and the fiscal crisis of the early 1990s, entrepreneurial governments are increasingly… searching for non-tax revenues."[36]

The trend Osborne and Gaebler spotted has continued to develop and though few have paid close attention, the fact is an extraordinary and expanding range of local municipal efforts which have major community-building implications now exist. Moreover, the massive Bush era cutbacks in Federal funding now hitting the cities and states have dramatically increased pressures to explore new sources of funding for public services.

One of the most important areas of activity is real estate. As early as 1970 the city of Boston embarked on a joint venture with the Rouse Company to develop the Fanueil Hall Marketplace, a downtown retail complex. Boston kept the property under municipal ownership and negotiated a lease agreement through which the city secured a portion of the development's profits in lieu of property taxes. By the mid-1980s Boston was collecting some $2.5 million per year from the Marketplace. One expert estimate is that Boston took "in 40 percent more revenue than it would have collected through conventional property tax channels."[37]

Entrepreneurial "participating lease" arrangements for the use of publicly-owned property are now common in many parts of the country including, New York, San Diego, Los Angeles, and Washington, D.C. Under such leases, a developer pays the public landlord both a yearly base rent and an additional amount pegged to project performance (e.g., private profits or gross income). The principle at work is similar to that which private developers commonly use in shopping center leasing: The more money the developer makes, the higher the rent.[38]

Alhambra, California earns approximately $1 million a year in rent revenues from a six-acre holding it leases to commercial tenants. Additionally, it requires tenant businesses to reserve a majority of jobs for low and moderate-income community residents. Cincinnati, Ohio, San Antonio, Texas, and Louisville, Kentucky, have all acted as partners in commercial developments, reaping a share (e.g., 10 to 15 percent of net cash flow) of revenues from hotels and other commercial developments. In 2002, Louisville announced plans to build a new downtown hotel on a similar basis. San Diego holds almost 700 leases including Mission Bay Park, Sea World, and other retail, agricultural and commercial sites. Annual revenues to the City are more than $40 million.[39]

Land development is "old economy." A fast growing arena of new activity involves high-tech internet and related services. In Glasgow, Kentucky the municipally owned utility offers residents electricity, cable, telephone services, and high speed Internet access all at costs lower than private competitors. The city also has access to an Intranet which links local government, businesses, libraries, schools and neighbors. Residents can choose their cable TV provider: the municipality offers a package of 80 digital cable channels for under $15.95 a month (in 2003).[40]

Tacoma, Washington's broadband network "Click!" also offers individuals and private companies internet and cable service; as does Cedar Falls, Iowa. Approximately two hundred communities as of this writing had built or were actively planning networks like those operating in Glasgow, Tacoma, and Cedar Falls.[41]

Municipalities have also been active in the venture capital area, offering start-up investments and retaining stock in businesses, which hold promise for the city's economy. In 1987, a survey of 322 cities found that only 32 (9.9 percent) used venture capital investments as an economic development tool. A similar survey roughly a decade later found more than a third of responding city governments reporting venture capital efforts of one kind or another. Working with the New York Power Authority and two private companies, a New York City agency, for instance, put together an initial investment pool of $60 million. All profits and other gains were reinvested, yielding a fund worth $175 million at the end of the first five years of operation.[42]

Hundreds of municipalities also generate revenues through landfill gas recovery strategies, which turn the greenhouse gas methane, a by-product of waste storage, into energy. Riverview, Michigan, one of the largest such recovery operations, illustrates the trend: In the mid-1980s Riverview contracted with DTE Biomass to build a gas recovery facility at its Riverview Land Preserve. More than 4 million cubic feet of methane gas are now recovered daily. In turn, the sale of gas for power production helps produce over 40,000 megawatt hours of electricity per year. Riverview's royalties covered initial costs of the effort in the first two years of operation and now add to the city's cash flows. Among the many other innovative and successful methane recovery operations are those run by the Illinois Department of Commerce and Community Affairs, the South Carolina Energy Office, Los Angles County and Portland, Oregon.[43]

It is often held that public ownership must be inefficient. Studies of municipal electric utilities, however, belie this view. One out of seven Americans (a total of roughly 40 million people) relies on power from the 2,000 public utilities currently operating in urban and rural settings. Although the majority of power systems are located in smaller communities, publicly owned systems are also found in large urban areas such as Los Angeles, San Antonio, Sacramento, Nashville, Jacksonville, and Memphis.[44]

Residential customers of investor-owned utilities (IOUs) commonly pay electricity rates roughly 20 percent higher than those paid by public power customers. Commercial IOU customers pay rates 11 percent higher. Industry studies establish that much of public power's price advantage is due to the fact of public ownership itself; locally-controlled public utilities can often be especially responsive to customers' needs and do not need to pay dividends to private shareholders. At the same time, through payments in lieu of taxes and payments to municipal general funds, public utilities contribute substantially more to state and local governments than do private utilities through taxes. During the 2000 California electricity crisis, municipally owned utilities were also able to maintain lower costs and provide secure, ongoing service.[iii/45]

The basic principle at work in municipally owned real estate development is that appreciation of land should be turned to public advantage. In many communities Community Land Trusts (CLTs) following this principle also use ownership strategies to help produce stable and affordable housing for low- and moderate-income residents. One of the earliest and most influential is the Burlington (Vermont) Community Land Trust (BCLT), organized with bipartisan support when an early 1980s economic boom caused housing costs to spiral out of reach for many long-term residents.[46] Land is owned by BCLT and leased to homeowners. Member-residents devote no more than 30 percent of their income to rents or mortgages. Those benefiting from the resulting low costs sign contracts agreeing that future housing resale prices will not increase beyond a certain percentage, thereby allowing other low and moderate income families to continue to benefit from the Trust's ongoing efforts.

[iii] A typical residential customer of Sacramento's public utility paid about $70 a year; in Los Angeles, residential power might cost $78 a year (May 2002 data). The same customer paid $114.38 to PG&E, $114.17 to SDG&E, or $122.62 to Southern California Edison, the three largest private utilities, 40 to 50 percent more. Sacramento Municipal Utility District, "Rate Comparison," http://www.smud.org/rates/res_comparison.html (May 2002) [06/12/2003].

A recent report by PolicyLink in Oakland, California, observes that CLTs are also reaching out to other groups and constituencies:

> [T]he community land trust in Concord, New Hampshire, is working with the Neighborhood Reinvestment Corporation on an IDA program to help families save for home ownership. North Camden CLT in New Jersey has spearheaded a comprehensive community planning initiative. Durham Community Land Trust in North Carolina provides construction job training for community residents. The Burlington Community Land Trust has been a mainstay of the city's Enterprise Community, cleaning brownfield sites, developing community facilities for various social service organizations, and redeveloping abandoned commercial buildings.[47]

Various groups are also beginning to extend the CLT concept in new directions. In 2001, the Nehemiah Corporation announced a multi-million dollar urban trust to purchase land and provide below-market leases to community service organizations. Nehemiah is making its initial land purchases in Atlanta, Baltimore, Charlotte, N.C., and Indianapolis. A similar approach has been adopted by the New Columbia CLT in Washington, D.C., which is purchasing land to help support low-income residents who, in turn, are also developing cooperatives.[iv/48]

[iv] Support for CLT development is also increasing from both private and public sources. The Institute for Community Economics (ICE), founded in 1967, operates a Revolving Loan Fund and provides technical assistance to community groups interested in establishing CLTs. Federal support is also available through CDBG and HOME programs aimed at developing affordable housing. Vermont, Massachusetts, and other states have also provided assistance to CLTs, and cities like Burlington, Vermont; Portland, Oregon; and San Francisco, California, offer important examples of various ways municipalities can help CLTs.

BIPARTISAN SUPPORT AND POLICY DEVELOPMENT

It is important to note that the various institutional strategies described in this paper have enjoyed unusual bipartisan support, transcending traditional left-right political divisions. ESOPs have received broad backing ranging from Ronald Reagan to Jesse Jackson. CDCs have received backing from both parties and, locally, from both Democratic and Republican mayors. Mayors of both parties have abandoned ideological rhetoric to embrace public enterprise strategies that offer answers to growing fiscal problems. And the various nonprofits, co-ops, land trusts and "hybrid" forms have a demonstrable appeal to individuals of diverse political views who appreciate innovation and efforts to help local communities.

There is also evidence of very significant national political and policy support for such institutional efforts and for strategies, which enhance local economic development in general. ESOPs, as we have noted, receive very large scale Federal tax-related assistance. CDCs have put together major backing for a mix of local, state and Federal policies amounting to billions of dollars. "[S]ometime after the mid-1970s," observes urban policy expert Peter K. Eisinger, especially on the state and local level, there emerged "an intense preoccupation with economic development that has been marked by a level of consensus and expectation unusual in American politics."[49]

IDAs and other forms of individual asset-based strategies have also received considerable support and have begun to be utilized in connection with community-based low-income housing and other efforts. IDA initiatives providing Federal funding have been supported by both the Clinton and Bush Administrations.[50]

A related development, which also centers on utilizing asset-based strategies for public purposes, is also of importance: Public pension funds now regularly seek ways to enhance local economic health. More than half the states have established Economically Targeted Investment (ETI) programs to target investment to help communities. A number of independent labor-backed programs such as the Landmark Growth Capital Fund and the Pittsburgh Regional Heartland Fund also involve geographically targeted community-oriented investment.[iv/51]

[iv] For a comprehensive review of local, state, Federal and international policies aimed at local economic stability, see Thad Williamson, David Imbroscio, and Gar Alperovitz, Making a Place for Community. New York: Routledge 2002.

ACROSS-THE-BOARD POSSIBILITIES AND THE NEW GLOBAL AND FISCAL CONTEXT

Several points stand out when these various developments, taken together, are understood in longer term, larger historical perspective. First and foremost, the seemingly diverse institutional strategies share certain key principles: These efforts in different ways (1) change the nature of asset and wealth ownership in a manner which serves the community; and (2) offer new ways to provide and anchor local jobs and to finance services (either directly through profit flows or indirectly through tax base implications).

At present, only a few of those working in different "sectors" of development focus on the fact that what they are doing involves specific applications of general principles which they share with others. Nor do most imagine that attempting to build common cause with others working on similar trajectories might potentially increase support across-the-board for new approaches and for a paradigm that involves institutions based on the shared principles of community-serving asset-ownership and community stabilizing job-anchoring.

Two major developments, however, suggest that a systematic effort to build understanding of the importance of the paradigm hold great opportunity the coming period. The first we have already noted: The last several decades have established solid foundations upon which something much more far-reaching might now be built. A major quantum jump in activity and in public support would not be feasible in the absence of the accumulated experience, knowledge, and human capital which has been developed through years of hard work and trial and error learning in thousands of American communities. That foundation for the most part now exists. It offers a platform from which next stage of major institutional and policy advances might well be launched.

The second important development involves powerful political-economic contextual trajectories, which are likely to make the principles of community-serving asset-ownership and job anchoring of ever-greater importance as time goes on. The striking "coming-of-age" of the various developments coincides with:

- The steadily increasing insecurities of the global economic era, which, in turn, are generating a demand for new approaches to local economic instability, along with growing sophistication and openness to new ways of dealing with problems of local economic life in general;
- The dramatic and rapidly expanding fiscal crisis at all levels of government, which is systematically forcing consideration of new alternatives that promise new ways to achieve service-supporting revenues throughout the system.

It is widely understood that strategies that help keep jobs in communities are of increasing importance. And, as we have noted, in virtually all of the new institution-building work economic activity is, in fact, much more anchored to specific localities. Unlike major corporations owned by outsiders, the various institutions do not and cannot easily get up and leave. An effort to dramatize this truth and to build support for institutions based on this principle is likely to receive increasing political backing on both left and right, and at the local, state and national levels as the importance of such strategies in the global era becomes increasingly obvious.

What is less well understood is that most of the new forms, as we have seen, also contribute to helping produce local economic resources of importance to the communities involved. Anchoring jobs not only helps thousands of individuals, it helps sustain the local tax-base thereby helping provide support for local service needs. Many of the efforts, as we have also seen, directly provide funding for services to low-income and other groups either, for example, in the form of housing provided by CDCs or by paying for services from profit-making activity.

Taxation in support of public services, of course, remains critical at all levels. However, it is already clear that a radically new and unrelenting fiscal environment is forcing ever greater attention to innovative approaches that promise ways to produce additional resources at all levels and is all but certain to continue to do so for the foreseeable future. Current projections for the coming decade suggest a combined Federal fiscal deficit, which could easily reach more than $5 trillion—indeed, $7.5 trillion if Social Security Trust Fund reserves are left aside.[52] Nor is it likely, as many hope, that some major shift in the political winds will produce a significant reversal of the growing fiscal problems. For one thing, the ongoing occupation of Iraq is likely to demand continuing large-scale financial support. Much more important is that the Bush tax cuts, though particularly dramatic, are by no means unique. Indeed, quite fundamental and long developing political-economic trends have been moving in this direction for some time.

Thus, taxation of individuals in top brackets has been reduced repeatedly in the last several decades—from 91 percent in the Eisenhower, Kennedy and early Johnson eras to a mere 35 percent today. Corporate taxes have been reduced from 35 percent of Federal receipts in 1945 to 8 percent today. And long before the Bush era reductions, domestic discretionary spending by the Federal Government has trended down: from 4.7 percent of G.D.P. a quarter century ago to 3.5 percent now, a drop during this period alone of roughly 25 percent.[53]

But, clearly, this is only the beginning: A much greater “fiscal squeeze” is likely for the kinds of funds, which currently support community building and service activities. Critically, spending on Social Security benefits and Medicare will continue to rise as the baby-boomers retire. So will spending on Medicaid. Ultimately, these three programs alone are projected to consume a larger share of G.D.P. than all of the money the federal government currently collects in taxes.[54]

The bottom line is that the traditional tax-and-spend solutions to community problems are all but certain to come under steadily growing pressure. A radically new context is being shaped which is already forcing very difficult choices: Either there will be no solution to many problems, or something new will have to be tried. The growing global and fiscal pressures are, in fact, producing a political-economic environment in which alternatives of the kind we have reviewed may well become the only feasible way forward in many areas.

CLARIFYING A NEW PARADIGM

It is quite reasonable for the various groups now pursuing their separate trajectories of development to continue to do so. However, given the foundations that have now been established, and the dramatically new context, an obvious question is whether those concerned with these matters might gain by finding ways to make common cause around common principles and a common paradigm.

Put differently, across-the-board necessity has been by far the most important mother of invention in connection with most of the strategies we have been considering. Necessity is likely to be a continuing reality forcing ever-greater attention to such alternatives. It is not, however, the only ongoing or potentially expanding source of support for new forms of development of importance to local communities.

As we have noted, the fact is considerable bipartisan agreement has already been developed in connection with most of the efforts. Moreover, themes of "community" and local economic health have very broad political and public appeal. Such realities suggest that the time may be ripe for a systematic and self-conscious effort to build new and expanded support for an across-the-board paradigm based on the emerging principles. At the heart the new paradigm is the judgment that, whenever possible, economic development and asset ownership should be lodged in institutions which (1) translate economic gains more directly into public benefits; and which (2) anchor jobs more firmly in local communities both to achieve direct benefits and to strengthen the local tax base so that public services can also thereby be sustained.

A comprehensive, several-year effort to put such a paradigm and the key principles on the map might include:

- A major series of national and regional conferences designed to highlight the importance of the "across-the-board" developments.
- The preparation of a range of reports, articles, pamphlets, and electronic web-based communication vehicles designed to underscore and illuminate the 'across-the-board' nature of the efforts and the basic principles of the new paradigm.
- Carefully designed press briefings with the same goal.
- An ongoing research effort to clarify problems, solutions, innovations, and the implications of the various developments for community-based strategies.
- Systematic efforts to identify, further develop, and publicize innovative policies in support of such developments, which can be implemented at the local, state and national level. There is also need for a major series of convenings designed to help build networks of understanding and support which reach "across-the-board" in different ways.

Strikingly, groups working on one or another of the developments often are not aware of groups working in other areas or of developments beyond their own sector. Bringing together representatives of different sectors of activity at the local, state, regional and national level in carefully organized convenings is one obvious step, which could help foster understanding of common interests and of common possible projects

Related to this is the importance of developing and explicating across-the-board policies, which might help solve problems common to all so that the various groups might join together to build public and political support for such policies. The most obvious areas of concern are credit, loans and loan guarantees, training, public procurement, pension fund investment, and urban development support.

A different form of convening around the emerging paradigm would involve diverse politically concerned groups oriented to metropolitan, urban development, and central-city development. Here the challenge is to build a common front of support for a paradigm that holds much promise to labor, minority, anti-sprawl, and metropolitan and municipal constituencies that often do not work closely together.

A new and potentially important area involves universities—especially public universities that have a historic (though often unfulfilled) mandate to help communities in their respective states. Collectively, U.S. urban-based universities represent more than $136 billion in annual spending. This is nine times more than the federal government spends annually on direct funding for urban business and job development. Moreover, universities are place-based institutions unlikely to leave their communities. The Agricultural Extension service once systematically leveraged university resources in ways designed to help achieve economic and social development. There are signs of a new awakening of modern universities to the need to contribute more directly to their states and localities. More than 860 college and university presidents have signed Campus Compact's challenge to "higher education to become engaged, through actions and teaching, with its communities." Helping universities do this in general is important. Helping them understand the potential of a new paradigm and how they might help further it could be of extraordinary significance.[vi] In this regard a clearinghouse designed to identify innovative and best practices, and a public education effort to disseminate information, would also be highly useful.

[vi] For a useful introduction to some of the most important strategies see: Colleges and Universities as Economic Anchors: Profiles of Promising Practices, by Andrew Hahn with Casey Coonerty and Lili Peaslee. Working Paper #3. The Annie E. Casey Foundation.

THE ROLE OF FOUNDATIONS

The central arguments of this paper may be briefly summarized:

1. It is no accident that new strategies of economic development involving various public or quasi-public forms of ownership have developed over the last several decades;
2. There is every reason to believe that the forces which have produced such change not only will continue to intensify, but that traditional strategies which depend ultimately on public redistribution of one kind or another are likely to be continually narrowed and restricted;
3. A new stage of development has been reached and the foundation established which, with proper understanding and backing, could open the way to a major ongoing effort to expand the new forms so that, with purpose and direction, the coming decades might achieve a quantum jump forward in public gains;
4. The new forms offer the possibility of generating a broad range of new political support across left-right divisions, emerging sector silos, and different political constituencies in diverse communities;
5. To achieve the next stage requires purposeful activity and a systematic effort designed to increase understanding, to stimulate and catalyze new networks of common concern, and in general to mobilize support for the central principles involved.

Given the nature of the issues, and the challenge, it seems obvious that one of the most important—perhaps the only—institution which might undertake such an effort is the American foundation. A minimal step in this direction would be to begin a systematic effort to consider various possible forms of activity, and of possible stages of development, which might lead to a large order qualitative, change in public support over time.

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