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Gene -

My copy of this report is a little faded, but workable I hope. The list of attendees is at the back and the reference to "trade missions" is on page 19. Looking through it again I'm reminded of the tremendous power in some of the phrasing. At any rate.... FYI.

Great to talk with you today!

Cathy

B.O.A.

COMMUNITY CAPITALISM:

REDISCOVERING THE MARKETS OF AMERICA'S URBAN NEIGHBORHOODS

[illegible] American Assembly

April [illegible] 26, [illegible]

Arden House

Harriman, New York

The American Assembly

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PREFACE

On April 17, 1997, sixty-five men and women representing government, business, academia, nongovernmental organizations, the faith community, labor, and the media gathered at Arden House, Harriman, New York, for the Ninety-first American Assembly entitled "Improving the Economic Health of America's Distressed Communities." For three days the participants examined policies, approaches, and actions that need to be taken by the business community—in partnership with government, community and religious institutions, and nonprofit organizations—to make capitalism work in this nation's distressed urban communities.

This project was chaired by the chairman and chief executive officer of NationsBank, Hugh L. McColl, Jr. It was directed by Paul C. Brophy, principal of Paul C. Brophy & Associates, and former president of the Enterprise Foundation.

In preparation for this American Assembly, two local meetings were cosponsored prior to this meeting to help to inform the participants from local perspectives. The first meeting took place in Louisville, Kentucky, February 27–28, with the Downtown Development Corporation and the Greater Louisville Economic Development Partnership, and was chaired by Mayor Jerry E. Abramson. The second was in St. Louis, Missouri, with the St. Louis Regional Commerce and Growth Association and was chaired by Richard C.D. Fleming, president and chief executive officer of the Association. Reports from these meetings are available from The American Assembly. The participants in the Arden House meeting were also provided with a set of articles and essays as background reading, which was compiled by Paul Brophy, Vickie Tassan, senior vice president, NationsBank, and Deborah Maher, president, Institute for Community Development.

During the Assembly, participants heard formal addresses by Kenneth D. Lewis, president of the NationsBank Corporation, and Michael E. Porter, C. Roland Christensen Professor of Business Administration, Harvard Business School. There were also panel discussions on "Doing Business in Distressed Communities: Exploring the Private Sector Tool Kit," moderated by Mark Willis, with Elliot Hoffman, Roderick B. Mitchell, Gary

G. Mulhair, Wesley Ratcliff, Paula Singer, and Enid Winn; and "The Role of Government: Paths to New Approaches," moderated by Michael A. Stegman, which included Richard D. Baron, Awilda R. Marquez, Bruce A. Morrison, and Deborah C. Wright, as panelists.

Following their discussions, the participants issued this report on April 20, 1997. It contains both their findings and recommendations.

The text of this report is available on The American Assembly's home page on the World Wide Web (*www.columbia.edu/cu/amassembly/*), along with information about the principal speakers at this Assembly, and about other Assembly programs.

We gratefully acknowledge major funding support for this program by NationsBank, The Chase Manhattan Corporation, and The Ford Foundation.

The American Assembly takes no position on any subjects presented here for public discussion. In addition, it should be noted that the participants took part in this meeting as individuals and spoke for themselves rather than for the organizations and institutions with which they are affiliated.

We would like to express special appreciation for the fine work of the discussion leaders, rapporteurs, and advisors in helping to prepare the first draft of this report: Catherine P. Bessant, Henry Flores, Anne Habiby, Bruce Katz, George Latimer, Deborah Maher, Joseph Stillman, Vickie Tassan, John Weiser, and Barry Zigas.

David H. Mortimer
The American Assembly

FINAL REPORT of the NINETY-FIRST AMERICAN ASSEMBLY

At the close of their discussions, the participants in the Ninety-first American Assembly, on "Improving the Economic Health of America's Distressed Communities," at Arden House, Harriman, New York, April 17–20, 1997, reviewed as a group the following statement. This statement represents general agreement; however, no one was asked to sign it. Furthermore, it should be understood that not everyone agreed with all of it.

Community Capitalism:
Rediscovering the Markets of America's Urban Neighborhoods

INTRODUCTION

At the end of the twentieth century, one system defines the global economy—capitalism. In many parts of America's urban areas, capitalism is the great unrealized ideal. National corporations and local entrepreneurs have an unprecedented opportunity to create new markets, new profits, and new communities, because these areas are a major untapped domestic market and business opportunity.

In communities across the country, capitalism—community capitalism—can be made to work.

By community capitalism we mean a for-profit, business-driven expansion of investment, job creation, and economic opportunities in distressed communities, with government and the community sectors playing key supportive roles. These supportive roles include, among others, rationalizing the regulatory environment, investing in public infrastructure and services that are normally available in nondistressed

...community capitalism...can be made to work.

areas, improving the business environment, and assisting in developing a willing and work-ready labor force.

The genius behind the success of American capitalism has been its ability to be profitable while creating an American society that is of broad benefit to its citizens. This history of collective genius and entrepreneurship, when applied to these areas, can again succeed and accomplish the two-fold goal of profitable growth and improved societal conditions.

It is surprising to many that there are a large number of competitive businesses thriving today in areas labeled distressed. These areas represent market frontiers for the wider private sector as a result of the large, untapped, and growing consumer markets, a strategic location adjacent to urban and transportation nodes, and a large, diverse labor force. The many years of work by community-based development groups, the perseverance of neighborhood entrepreneurs, and the efforts of local governments to reduce crime and remove the blighting effects of obsolete public housing have set the stage for successful, targeted business investment.

The opportunity is here and now. If the opportunity is missed, the United States runs the continued risk of becoming polarized—the haves and the have nots—with one portion of society carrying the burden of the other. Economic segregation has grown throughout the 1990s—and the societal and economic costs of continuing on this path will weaken the ability of metropolitan regions and the nation to compete in the global marketplace.

> The opportunity of community capitalism is enormous...

The opportunity of community capitalism is enormous, and so are the challenges. Sustained, visionary leadership is needed to seize the opportunity and realize its full potential.

Community Partnerships—A Major Resource

There are many examples of the private sector investing successfully in urban neighborhoods and doing what it does best: developing markets, making profits, and creating jobs. The private sector can also use its expertise to help build local business and to assist government and community groups to enhance these communities by identifying strategies to develop competitive advantages, tackling obstacles to investment, strengthening existing business clusters, identifying market opportunities, and marketing these communities as places to do business.

In many metropolitan areas, community capitalism is most powerful when it is framed within a regional strategy. In these areas, the region is the economic engine and the interests of regional competitiveness must override jurisdictional boundaries. We must encourage, support, and celebrate risk-taking and business success throughout the region, with special emphasis on historically underdeveloped, minority-owned enterprises.

> ...the private sector cannot be alone in community capitalism.

But the private sector cannot be alone in community capitalism. Government must be a key partner in creating a favorable environment for business to flourish in integrating these communities into a regional, national, and global economy.

The nonprofit sector also must continue to be a partner. Community-based organizations and other nonprofit entities have a critical role to play in linking investment with community resources so that partnerships can create a fertile environment for community capitalism.. They are a critical component to the success of economic growth in distressed areas by identifying market opportunities, leveraging public and philanthropic dollars, creating healthy communities, and facilitating business investment. Labor unions must participate by opening up good job opportunities for people living in urban neighborhoods.

Community capitalism's goal must be to create healthy economies that produce jobs, income, and wealth for community residents at rates that are at or near national norms. This will provide the economic foundation on which business, government, nonprofit organizations, and individual residents can join together to build decent homes, good schools, cultural and recreational opportunities—all the ingredients of livable, sustainable communities.

Community capitalism is the key for the twenty-first century of America. There are serious, deep-seated problems that restrain investment in these communities. Racial prejudice, crime and fear of crime, and poor public education continue to play a major role in discouraging investment. Yet, despite these obstacles, we can and have identified successful approaches that can and do work. This report contains twenty-four recommendations and action steps that can be taken by the business sector to seize these business opportunities and forty-four aimed at the government and nonprofit sectors.

WORKABLE APPROACHES: GROWING EXISTING BUSINESSES AND ENTREPRENEURSHIP

Growing local business is the most important component of energizing community capitalism. There are opportunities to expand existing businesses and foster the development of new enterprises by local entrepreneurs. Companies, large or small, that derive a business advantage from their location and have a stake in the area are more likely to weather geographic or customer cyclicality. Local companies and their workforce are a stabilizing force just as homeowners are, and local business owners provide the added benefit of supporting local improvement efforts.

In order to invigorate the growth of entrepreneurship, successful strategies of scale must be undertaken that link local businesses to capital, expertise, and information. Of most importance are actions in two key areas.

Capital

Access to certain kinds of capital is widely regarded as the greatest impediment to the growth of entrepreneurship. It is clear that access to that capital in these areas is limited, inconsistent, and unpredictable. In particular, while debt is generally available, equity capital and early predevelopment funding are generally not available. Strong anecdotal evidence indicates that early-stage capital is often the most important yet the most difficult to secure. Action must be taken to improve access to equity and early-stage capital. Recommended strategies include:

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- *Develop more community-based financial institutions that house specific expertise in community development and microenterprise equity investment.* Successful models can be found among targeted venture capital funds, minority-owned banks, community development credit unions, and community development banks. Funding for this effort should come from both the public and private sector. Models for this type of community venture capital can be found in the Detroit Investment Fund and similar funds in Philadelphia, New York, and other cities. A new, national model by Fannie Mae is the American Communities Fund, established to make equity investments in inner city communities.

- *The appropriate federal agencies, in collaboration with the private sector, should institute a research and development process and pilot programs to determine the value of a secondary market for commercial lending.* Such a market would aid in risk reduction, enhance rates of return, and facilitate balance sheet management for financial institutions in a manner consistent with virtually all other types of lending. There are initial ventures in this process already underway, and these should be studied and nurtured.

- *Expand the scope of government credit enhancement to support a wider range of lending activity and to provide credit enhancement and/or incentives for equity investment.* Critical to expanding access to capital is the recognition that there is a legitimate gap between what financial markets can reasonably fund and what is needed by entrepreneurs in distressed areas. It is an appropriate role for government credit enhancement and incentive programs to reduce lender and investor risk, to provide a vehicle for lenders and investors to move beyond traditional financing structures, and to provide the opportunity for market rates of return. Specifically, aggressive credit enhancement programs should be targeted geographically and expanded to more widely address the need for early-stage business capital.

- *Encourage the philanthropic sector to expand its role as a source of capital for economic development.* Barriers to reasonable investment in such initiatives exist presently in the tax code and should be removed in order to expand the potential sources of economic development capital.

- *Develop investment strategies for pension funds and trust assets.* Public sector, corporate, labor pension fund, and trust assets under management are important sources of investment capital for vibrant communities, and can be potential sources of capital for urban communities. In order fully to leverage this potential, it is necessary to develop financial instruments and products that can be understood easily and purchased by fund managers or individuals directing investment of their own retirement funds. The Department of Labor should convene government agencies and investment professionals to develop strategies for risk mitigation.

- *Continue to enforce existing laws such as the Community Reinvestment Act (CRA) and those covering fair lending that support community development.*

Technical Assistance

Fostering the growth of entrepreneurship is a challenging proposition. Small to medium-sized businesses, characterized by strong creativity, charismatic leadership, and a strong grasp of product and customer, are often constrained by the lack of capital, management depth, and the ability to devote resources to specialized business management expertise. Further, growing local business brings with it far less glamour or public attention than does attracting a new plant or corporate headquarters.

Technical assistance is essential to expanding entrepreneurship. Types of assistance needed vary by company, industry, and geographic region. In general, needs center around business planning, market analysis, technology, and capital formation expertise. More systematic and predictable availability of technical assistance will greatly increase the likelihood of business survival and further leverage efforts to improve access to capital. There are numerous examples of successful technical assistance efforts; recommendations to build on these initiatives include:

> Technical assistance is essential to expanding entrepreneurship.

- *Encourage businesses to accept technical assistance as a key part of their participation in capital access programs.* This could be accomplished in a manner similar to that which has institutionalized home ownership counseling, and would offer the benefits of risk reduction for capital providers as well as enhanced profit opportunity for participating businesses. This could be accomplished administratively through the various capital access programs.

- *Rationalize and expand public funding strategies for supporting technical assistance. Program fragmentation and duplication are widespread.* The rationalization of present efforts at all levels would create immediate expansion of funds available and would increase access to technical assistance. This is an interagency governmental responsibility.

- *Expand investment in business incubators.* The success rate for businesses supported initially by business incubators is significantly higher than the success rate for those initiated outside of the incubator environment. Expansion should emphasize both the number of centers and the partners engaged in the technical assistance process (Chambers of Commerce, trade associations, secondary educational institutions, etc.). Funding for expansion should be derived from a broad-based coalition of the public sector, private sector, business trade associations, and the participating businesses.

> Expand investment in business incubators.

ENCOURAGE COMPANIES TO LOCATE AND INVEST IN URBAN COMMUNITIES

Over the past twenty years, urban communities have endured significant disinvestment by the private sector, triggered in part by federal and state policy, and by changing markets and demographics. While local businesses have been and are the backbone of the economies in these communities, it is critical to regain the investment of companies now located outside these areas. Investment by major corporations in distressed communities has a "marquee value"—it draws favorable public attention to the communities and sends positive signals to the business community as a whole—as do large-scale job creation, capital investment and other institutional resources, and mainstream goods and services. Major corporations should be encouraged to make pilot investments in these communities so that they learn how to tap into these emerging and potentially profitable markets. Specific activities to be undertaken include the following:

Make Urban Area Real Estate More Able to Compete

A concerted strategy is needed.

- *The federal government should subsidize cleanup, clarify and remove liability for redevelopment for those environmentally stressed areas known as brownfields by certifying remediation plans, and help redevelop former industrial sites.*
- *City governments should work with business associations to reduce or eliminate regulations that impose costly and unreasonable barriers to business development in distressed communities.*
- *City economic development agencies or nonprofit intermediaries should assemble tracts of land for potential investment or development.* The federal government should provide long-term, low-cost funding for acquiring this land, with the funding to be repaid when the land is sold to the ultimate user. For example, Cleveland's experience over the last fifteen years demonstrates how a focused land-banking strategy can stimulate business development.
- *Local business leadership should work with city development agencies or community-based organizations to determine the type of incubator or industrial space that is most in need in the region, and then build industrial parks within distressed areas that meet this need.*
- *Federal and state policies need to level the playing field between urban and exurban locations by providing the same level and quality of investment and services to the inner city as is provided to exurban locations.* Federal transportation reform legislation should strengthen the ability of metropolitan entities to set strategic plans and allocate resources among highway expansion, road preservation, and public transit. States should examine the examples of Maryland (which recently passed "Smart Growth" legislation) and Portland, Oregon (where development is discouraged beyond an established growth boundary).

Federal and state policies need to level the playing field between urban and exurban locations...

Build Community Alliances Supportive of Entrepreneurship and Friendly to Business

Capital goes where it is invited and stays where it is welcome. Elected political leaders, community leaders, local business leadership, labor representatives, and local government agencies should work together with residents to develop a consensus about what types of business investment would succeed in their community, and which are desired, and communicate this consensus to brokers, trade associations, and potential investors.

Capital goes where it is invited and stays where it is welcome.

Community groups should also create, where possible, a single partnership that can represent all interests of the community when new businesses are considering investing in the community. The entity should, where possible, have the ability and appropriate authority to facilitate the welcoming of businesses on behalf of the community.

Identify Industries with Strategic Business Interest and Support Industry-Specific Investment Strategies

There are businesses that have strong strategic reasons to make investments in distressed communities. These include businesses that are tied to the community because they cannot easily move their facilities (such as hospitals and universities); that are regulated by state or local entities (such as utilities and insurance companies); that want to increase their sales to the urban ethnic market (such as auto, food, and sportswear); that need proximity to urban centers (such as distribution, printing, and food processing); or that need a large low-skilled work force. National community development organizations, industry associations, and economic development agencies should work together to identify and promote industry-specific strategies for increasing investment by these industries in these communities. There are two examples of this industry-specific strategy in the retail sector. One is emerging in the work being done by the International Council of Shopping Centers in its efforts to expand retail activity in distressed areas. Another is The Retail Initiative, created by the Local Initiatives Support Corporation (LISC), which has capitalized an equity fund for supporting investments by supermarkets in inner city locations.

Disseminate Market Information

Government, industry associations, and nonprofits should conduct research to determine best practices, successful strategies, and the profitability of investments that have already been made in distressed urban communities. This research should be disseminated widely through trade associations, business groups, business schools, the print media with a wide audience of business executives, Wall Street analysts, and real estate professionals.

Targeted Sourcing

Encourage businesses to voluntarily purchase from companies located in or employing residents from these areas. This should be done by peer-to-peer contact, in which business leaders make the case to their peers that purchasing a portion of their supplies from such communities is in their own long-term self-interest. One model of this type of arrangement (in the field of minority procurement) is the Southern Dallas Covenant, a group of 300 businesses that have voluntarily agreed to report on their procurement, hiring, and promotion of minorities. This type of peer accountability could be invaluable if extended from minority purchasing to targeted purchasing from distressed areas as well. Federal research and development support could assist business in developing broader tools to measure their own efforts in procurement and hiring. Local business leadership could also broker relationships between businesses that are outsourcing or rightsizing and local entrepreneurs, with the goal of moving some of that work to the businesses in these communities.

Build on Empowerment Zone Experience

Government should build upon the important lessons learned from the implementation of empowerment zones within targeted neighborhoods. This model provides a current example of the

positive enabling role that the government can play in stimulating business investment. The combination of locally determined strategies, performance accountability, substantial flexibility, and federal investment should be explored by federal and state agencies for other initiatives that are targeted to urban communities.

DEVELOPING THE WORKFORCE

Community capitalism must acknowledge and address the fact that workforce development is a central component of strengthening neighborhoods. A new commitment is needed to enable residents of urban communities to meet the needs of employers, and to link residents to employment that meets their needs.

> ...workforce development is a central component of strengthening neighborhoods.

- *There are productive workers in distressed communities now.* Companies that have seen the opportunity and tapped this resource are benefitting from this fact. Major national corporations like UPS, Marriott Hotels, and PepBoys, medical centers in cities across the country, and thousands of smaller employers like Rachel's Bus Company in Chicago, Just Desserts in San Francisco, and Pioneer Human Services in Seattle, have succeeded as businesses by developing a strong, neighborhood-based workforce.
- *Put federal employment training programs in local hands.* The federal government should reform and consolidate programs to devolve design and implementation to local and regional collaboratives of business, government, community colleges, labor unions, and nonprofits.
- *Workforce development programs need to give special emphasis to basic job readiness and getting people into jobs.* The precise mix and level of skill training needed should be decided by local collaboratives. Research and experience show that many companies want job candidates with "soft skills"—attendance, punctuality, basic ability to communicate, and a willingness to learn on the job. Often, the

companies themselves will provide the needed technical skills training on the job, or on contract to a local community college.

- *A number of organizations have demonstrated solid training and job placement capacity and more should be encouraged—by business, government, and philanthropies.* For example, community-based organizations in Seattle, San Jose, Detroit, Cleveland, San Antonio, Newark, New York, and elsewhere have developed nationally recognized expertise in recruiting, screening, training, placing, and providing post-placement support for trainees from their neighborhoods. Other organizations provide temporary and permanent employment, and contract with corporations or government. Many companies value these organizations because they have credibility with, and access to, populations with which the companies may have historically had less experience. The existing expertise of such community-based organizations as the San Jose-based Center for Employment Training should be tapped wherever possible. Business, government, and philanthropies should be encouraged to invest in building the capacity of other organizations across the country to be able to function as productive members of local and metropolitan-wide work force development collaboratives.

- *Business needs to be involved at all stages.* While the public sector provides the dollars, only the active and sustained engagement of business leaders and middle managers can provide the expertise and direction that training organizations need. Employers need to provide the leadership in partnerships and consortiums with community colleges, local nonprofits, branches of national nonprofits, for-profit entrepreneurs, local government, labor unions, and others who are committed to preparing a workforce that meets employers' demands. To better link "supply" with "demand" in workforce development, rigorous discipline should be utilized in calibrating as clearly as possible the precise skills needed by employers in the marketplace. Important new products and technologies could provide a unique framework for this supply/demand calibration. Training and job placement organizations then need to design programs responsive to those requirements. Partnerships with organized labor should be encouraged in training, job upgrading, and workforce development.

- *All partners need to emphasize sustained effort for sustained results.* Workforce investments need to produce not only short-term successes but also long-term results. Employers should define the work skills that workers need not just to get a job, but to stay productive and employed. Government, working directly or through community-based organizations, should invest in providing needed services and supports (e.g., child care, health care, transportation), in-service training and support, as well as the opportunity to develop necessary life skills. Training organizations and workers themselves should invest in skills upgrading and other job retention strategies that will support economic self-sufficiency over the long term. Finally, all partners need to recognize that workforce development requires a long-term vision or strategy for a sustained and difficult effort.

All partners need to emphasize sustained effort for sustained results.

- *Local employment intermediaries can provide business with good service and people with good jobs.* In an increasing number of communities, employers can turn to for-profit or nonprofit vendors who offer outsourcing and contingent labor services that are not only competitive in quality and price with the mainstream industry, but that also provide training, needed assistance, transitional employment, and even permanent good jobs for community residents. Where such organizations do not exist, corporations should encourage the public, nonprofit, and philanthropic sectors to explore this option, and should provide their expertise and guidance in the effort.

- *Business, nonprofits, and government need to press for innovative and diverse strategies.* There is no one "model" that meets the needs of all industries, all regions, or all job seekers, and federal and local funding needs to support and encourage strategies that respond to diverse local needs and opportunities. Funders and program operators must build strategies that respond to critical differences in need and capacity among regions, among industries, and between large and small businesses. Finally, there is no program—however effective—that innovation cannot improve. Partnerships should constantly challenge themselves to refine and adapt program design.

- *The final product is not people prepared to work, it is working people.* In workforce development, the central task and challenge for government, nonprofits, and business is to make the connection between people and jobs. Effective strategies must address job skills, life skills, support services, geographic barriers, and labor market efficiency. They must ultimately be measured, however, only by their ability to improve the economic lives of individual workers. In many cities, as jobs and members of the middle class have moved to the suburbs, many people of color have been left landlocked and job-locked. Business and government should partner in the creation of transportation strategies that eliminate these barriers.

> ...the central task...is to make the connection between people and jobs.

OVERCOMING CRITICAL BARRIERS

Succeeding at community capitalism can be achieved through a multi-sector approach focused on nurturing local entrepreneurship, attracting capital investment and workforce development. Yet, this Assembly accepted the hard reality that this effort is impeded by several fundamental, deep-seated conditions of American life.

Racism and Economic Segregation

Discrimination has diminished hope and opportunity for many racial and ethnic groups concentrated in distressed communities, and has been especially pernicious and persistent with respect to

people of color. For example, over the last twenty years, the number of persons living in areas of high poverty has doubled from four to eight million, with three-fourths of all poor African-Americans living in such neighborhoods. The ravages of racism have destroyed families and lives and our sense of national community. Racism continues to play an inappropriate role in strategic decision-making regarding business location and capital investment. Simply put: opportunities for solid business investment in these areas are often ignored due to the race or class of the people living in the area.

> The ravages of racism have destroyed families and lives and our sense of national community.

Address Public Safety Concerns

Business leaders consistently identify concerns about urban crime—its costs, its potential effect on employees—as the major impediment to location in the inner cities. Although urban crime rates have been reduced substantially in recent years, they remain relatively high. Public sector officials need to address these legitimate concerns as well and work aggressively to dispel misperceptions where progress has been made. Successful approaches to reducing crime—by building and site design and community intervention in particular—should be embraced by more entrepreneurs. Crime is a reality everywhere, but one that can, in part, be managed like any other risk of business. For example, Business Improvement Districts have been particularly effective in organizing local merchants to address quality-of-life issues, including security and sanitation.

Public Education

Perhaps most onerous of all is our seeming inability to educate large numbers of our children. The failure by the public school system in urban areas has imprisoned a generation in low-paying, low-skill jobs. Improving our public schools to meet the needs of all our citizens is imperative. The federal government has established national goals. We need to create high educational standards of excellence and develop tools of assessment to ensure that we meet those goals.

THE LEADERSHIP CHALLENGE

One of the enduring strengths of American capitalism has been the consistent engagement of business in civic leadership. Above all, today's challenge to restore economic vitality to America's distressed communities will require leadership by champions who will aggressively seek opportunities, willingly take appropriate risks, and unequivocally commit resources and "go the distance." Over the past decade, many American business leaders have successfully reengineered and repositioned their companies to compete effectively in the global marketplace. These leaders clearly have much to offer in helping urban communities better utilize their resources and compete more effectively in the national economy. America needs a sustained, persistent conversation at the highest levels of business, government, foundations, nonprofits, labor, and elected officials about these communities and their economic vitality. In short, about community capitalism.

There are concrete, immediate steps that these key partners can take to assert and exercise leadership.

Nonprofits

Many nonprofit groups, especially faith-based organizations, have beaten the odds in their communities through tenacious cultivation of grassroots capacity. These groups bear a responsibility to mesh social and business objectives, and to be able to relate these in business terms. There also are other significant continuing opportunities for nonprofit leadership through

- consensus building and clear prioritization of community strengths and needs;
- linking residents of distressed communities with jobs, both within the community and outside it;
- providing the social capital on which success so often depends, through job readiness training, community organizing, and leadership; and
- providing effective links between businesses, local opportunities, and players.

Government

Government leadership should focus on removing basic, fundamental barriers to community capitalism. This includes leveling

the playing field to encourage investment in distressed areas and reducing current incentives to invest elsewhere; enacting transportation policies that support, rather than hinder, economic development in distressed areas; expediting partnerships; and eliminating regulatory and tax barriers that hinder community capitalism. All federal agencies should examine major programs and their impact on distressed urban areas and design improvements. For example, the Department of Housing and Urban Development should increase efforts to integrate expanded business activity into its large-scale public and assisted housing revitalization and home ownership programs.

We recommend that the Secretary of Commerce take the unprecedented step of organizing and leading "trade missions" to distressed areas, in partnership with business leaders, nonprofits, and entrepreneurs. These historic visits would highlight in an unmistakable way these communities' untapped market potential. They would demonstrate government leadership at the highest level to promote these markets and the opportunities they represent.

..."trade missions" to distressed areas...

Business

Business leadership should promote the goal of community capitalism by

- Collecting and disseminating business "best practices" in distressed communities through business networks and peer-to-peer contacts;
- Actively developing working relationships with nonprofit partners: neighborhood groups, faith-based groups, and others;
- Relentlessly seeking out genuine business opportunities in distressed communities by doing what business does best—developing markets and selling products; and,
- Creating ongoing mentoring relationships between successful enterprises and entrepreneurs in distressed communities to build skills, competencies, and networks of relationships in the larger business community.

Business leadership can and should be celebrated. We recommend the establishment of a national award that recognizes the importance of champions and leaders and celebrates the development of community capitalism through private sector investment, modeled on the coveted Malcolm Baldridge Award. The proposed award would recognize the achievement of measurable, replicable results that can be modeled by others, that demonstrate how the activities add real value to the winner's bottom line, and that is reviewed by peers. This award should celebrate small entrepreneurship as well as large, Fortune 500 accomplishments.

* * * * *

The Berlin Wall crumbles and Eastern Europe becomes a new market for business opportunity. China negotiates trade agreements with non-traditional business partners in the United States and beyond. There are huge new international opportunities for business development and, true to form, U.S. companies are seizing them, often with the encouragement and assistance of our federal government. In this global marketplace, this Assembly concludes that there is an enormous opportunity to make capitalism work more fully in all our communities at home as well.

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Gene -

My copy of this report is a little faded, but workable I hope. The list of attendees is at the back and the reference to "trade missions" is on page 19. Looking through it again I'm reminded of the tremendous power in some of the phrasing. At any rate .... FYI.

Great to talk with you today!

Cathy

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COMMUNITY CAPITALISM:

REDISCOVERING THE MARKETS OF AMERICA'S URBAN NEIGHBORHOODS

The Ninety-First American Assembly

April 17 – 20, 1997

Arden House
Harriman, New York

The American Assembly
Columbia University

PREFACE

On April 17, 1997, sixty-five men and women representing government, business, academia, nongovernmental organizations, the faith community, labor, and the media gathered at Arden House, Harriman, New York, for the Ninety-first American Assembly entitled "Improving the Economic Health of America's Distressed Communities." For three days the participants examined policies, approaches, and actions that need to be taken by the business community—in partnership with government, community and religious institutions, and nonprofit organizations—to make capitalism work in this nation's distressed urban communities.

This project was chaired by the chairman and chief executive officer of NationsBank, Hugh L. McColl, Jr. It was directed by Paul C. Brophy, principal of Paul C. Brophy & Associates, and former president of the Enterprise Foundation.

In preparation for this American Assembly, two local meetings were cosponsored prior to this meeting to help to inform the participants from local perspectives. The first meeting took place in Louisville, Kentucky, February 27–28, with the Downtown Development Corporation and the Greater Louisville Economic Development Partnership, and was chaired by Mayor Jerry E. Abramson. The second was in St. Louis, Missouri, with the St. Louis Regional Commerce and Growth Association and was chaired by Richard C.D. Fleming, president and chief executive officer of the Association. Reports from these meetings are available from The American Assembly. The participants in the Arden House meeting were also provided with a set of articles and essays as background reading, which was compiled by Paul Brophy, Vickie Tassan, senior vice president, NationsBank, and Deborah Maher, president, Institute for Community Development.

During the Assembly, participants heard formal addresses by Kenneth D. Lewis, president of the NationsBank Corporation, and Michael E. Porter, C. Roland Christensen Professor of Business Administration, Harvard Business School. There were also panel discussions on "Doing Business in Distressed Communities: Exploring the Private Sector Tool Kit," moderated by Mark Willis, with Elliot Hoffman, Roderick B. Mitchell, Gary

G. Mulhair, Wesley Ratcliff, Paula Singer, and Enid Winn; and "The Role of Government: Paths to New Approaches," moderated by Michael A. Stegman, which included Richard D. Baron, Awilda R. Marquez, Bruce A. Morrison, and Deborah C. Wright, as panelists.

Following their discussions, the participants issued this report on April 20, 1997. It contains both their findings and recommendations.

The text of this report is available on The American Assembly's home page on the World Wide Web (*www.columbia.edu/cu/amassembly/*), along with information about the principal speakers at this Assembly, and about other Assembly programs.

We gratefully acknowledge major funding support for this program by NationsBank, The Chase Manhattan Corporation, and The Ford Foundation.

The American Assembly takes no position on any subjects presented here for public discussion. In addition, it should be noted that the participants took part in this meeting as individuals and spoke for themselves rather than for the organizations and institutions with which they are affiliated.

We would like to express special appreciation for the fine work of the discussion leaders, rapporteurs, and advisors in helping to prepare the first draft of this report: Catherine P. Bessant, Henry Flores, Anne Habiby, Bruce Katz, George Latimer, Deborah Maher, Joseph Stillman, Vickie Tassan, John Weiser, and Barry Zigas.

David H. Mortimer
The American Assembly

FINAL REPORT
of the
NINETY-FIRST AMERICAN ASSEMBLY

At the close of their discussions, the participants in the Ninety-first American Assembly, on "Improving the Economic Health of America's Distressed Communities," at Arden House, Harriman, New York, April 17–20, 1997, reviewed as a group the following statement. This statement represents general agreement; however, no one was asked to sign it. Furthermore, it should be understood that not everyone agreed with all of it.

Community Capitalism:
Rediscovering the Markets of America's Urban Neighborhoods

INTRODUCTION

At the end of the twentieth century, one system defines the global economy—capitalism. In many parts of America's urban areas, capitalism is the great unrealized ideal. National corporations and local entrepreneurs have an unprecedented opportunity to create new markets, new profits, and new communities, because these areas are a major untapped domestic market and business opportunity.

In communities across the country, capitalism—community capitalism—can be made to work.

> ...community capitalism...can be made to work.

By community capitalism we mean a for-profit, business-driven expansion of investment, job creation, and economic opportunities in distressed communities, with government and the community sectors playing key supportive roles. These supportive roles include, among others, rationalizing the regulatory environment, investing in public infrastructure and services that are normally available in nondistressed areas, improving the business environment, and assisting in developing a willing and work-ready labor force.

The genius behind the success of American capitalism has been its ability to be profitable while creating an American society that is of broad benefit to its citizens. This history of collective genius and entrepreneurship, when applied to these areas, can again succeed and accomplish the two-fold goal of profitable growth and improved societal conditions.

It is surprising to many that there are a large number of competitive businesses thriving today in areas labeled distressed. These areas represent market frontiers for the wider private sector as a result of the large, untapped, and growing consumer markets, a strategic location adjacent to urban and transportation nodes, and a large, diverse labor force. The many years of work by community-based development groups, the perseverance of neighborhood entrepreneurs, and the efforts of local governments to reduce crime and remove the blighting effects of obsolete public housing have set the stage for successful, targeted business investment.

The opportunity is here and now. If the opportunity is missed, the United States runs the continued risk of becoming polarized—the haves and the have nots—with one portion of society carrying the burden of the other. Economic segregation has grown throughout the 1990s—and the societal and economic costs of continuing on this path will weaken the ability of metropolitan regions and the nation to compete in the global marketplace.

> The opportunity of community capitalism is enormous...

The opportunity of community capitalism is enormous, and so are the challenges. Sustained, visionary leadership is needed to seize the opportunity and realize its full potential.

Community Partnerships—A Major Resource

There are many examples of the private sector investing successfully in urban neighborhoods and doing what it does best: developing markets, making profits, and creating jobs. The private sector can also use its expertise to help build local business and to assist government and community groups to enhance these communities by identifying strategies to develop competitive advantages, tackling obstacles to investment, strengthening existing business clusters, identifying market opportunities, and marketing these communities as places to do business.

In many metropolitan areas, community capitalism is most powerful when it is framed within a regional strategy. In these areas, the region is the economic engine and the interests of regional competitiveness must override jurisdictional boundaries. We must encourage, support, and celebrate risk-taking and business success throughout the region, with special emphasis on historically underdeveloped, minority-owned enterprises.

> ...the private sector cannot be alone in community capitalism.

But the private sector cannot be alone in community capitalism. Government must be a key partner in creating a favorable environment for business to flourish in integrating these communities into a regional, national, and global economy.

The nonprofit sector also must continue to be a partner. Community-based organizations and other nonprofit entities have a critical role to play in linking investment with community resources so that partnerships can create a fertile environment for community capitalism.. They are a critical component to the success of economic growth in distressed areas by identifying market opportunities, leveraging public and philanthropic dollars, creating healthy communities, and facilitating business investment. Labor unions must participate by opening up good job opportunities for people living in urban neighborhoods.

Community capitalism's goal must be to create healthy economies that produce jobs, income, and wealth for community residents at rates that are at or near national norms. This will provide the economic foundation on which business, government, nonprofit organizations, and individual residents can join together to build decent homes, good schools, cultural and recreational opportunities—all the ingredients of livable, sustainable communities.

Community capitalism is the key for the twenty-first century of America. There are serious, deep-seated problems that restrain investment in these communities. Racial prejudice, crime and fear of crime, and poor public education continue to play a major role in discouraging investment. Yet, despite these obstacles, we can and have identified successful approaches that can and do work. This report contains twenty-four recommendations and action steps that can be taken by the business sector to seize these business opportunities and forty-four aimed at the government and nonprofit sectors.

WORKABLE APPROACHES: GROWING EXISTING BUSINESSES AND ENTREPRENEURSHIP

Growing local business is the most important component of energizing community capitalism. There are opportunities to expand existing businesses and foster the development of new enterprises by local entrepreneurs. Companies, large or small, that derive a business advantage from their location and have a stake in the area are more likely to weather geographic or customer cyclicality. Local companies and their workforce are a stabilizing force just as homeowners are, and local business owners provide the added benefit of supporting local improvement efforts.

In order to invigorate the growth of entrepreneurship, successful strategies of scale must be undertaken that link local businesses to capital, expertise, and information. Of most importance are actions in two key areas.

Capital

Access to certain kinds of capital is widely regarded as the greatest impediment to the growth of entrepreneurship. It is clear that access to that capital in these areas is limited, inconsistent, and unpredictable. In particular, while debt is generally available, equity capital and early predevelopment funding are generally not available. Strong anecdotal evidence indicates that early-stage capital is often the most important yet the most difficult to secure. Action must be taken to improve access to equity and early-stage capital. Recommended strategies include:

> Action must be taken to improve access to equity and early-stage capital.

- *Develop more community-based financial institutions that house specific expertise in community development and microenterprise equity investment.* Successful models can be found among targeted venture capital funds, minority-owned banks, community development credit unions, and community development banks. Funding for this effort should come from both the public and private sector. Models for this type of community venture capital can be found in the Detroit Investment Fund and similar funds in Philadelphia, New York, and other cities. A new, national model by Fannie Mae is the American Communities Fund, established to make equity investments in inner city communities.

- *The appropriate federal agencies, in collaboration with the private sector, should institute a research and development process and pilot programs to determine the value of a secondary market for commercial lending.* Such a market would aid in risk reduction, enhance rates of return, and facilitate balance sheet management for financial institutions in a manner consistent with virtually all other types of lending. There are initial ventures in this process already underway, and these should be studied and nurtured.

- *Expand the scope of government credit enhancement to support a wider range of lending activity and to provide credit enhancement and/or incentives for equity investment.* Critical to expanding access to capital is the recognition that there is a legitimate gap between what financial markets can reasonably fund and what is needed by entrepreneurs in distressed areas. It is an appropriate role for government credit enhancement and incentive programs to reduce lender and investor risk, to provide a vehicle for lenders and investors to move beyond traditional financing structures, and to provide the opportunity for market rates of return. Specifically, aggressive credit enhancement programs should be targeted geographically and expanded to more widely address the need for early-stage business capital.

- *Encourage the philanthropic sector to expand its role as a source of capital for economic development.* Barriers to reasonable investment in such initiatives exist presently in the tax code and should be removed in order to expand the potential sources of economic development capital.

- *Develop investment strategies for pension funds and trust assets.* Public sector, corporate, labor pension fund, and trust assets under management are important sources of investment capital for vibrant communities, and can be potential sources of capital for urban communities. In order fully to leverage this potential, it is necessary to develop financial instruments and products that can be understood easily and purchased by fund managers or individuals directing investment of their own retirement funds. The Department of Labor should convene government agencies and investment professionals to develop strategies for risk mitigation.

- *Continue to enforce existing laws such as the Community Reinvestment Act (CRA) and those covering fair lending that support community development.*

Technical Assistance

Fostering the growth of entrepreneurship is a challenging proposition. Small to medium-sized businesses, characterized by strong creativity, charismatic leadership, and a strong grasp of product and customer, are often constrained by the lack of capital, management depth, and the ability to devote resources to specialized business management expertise. Further, growing local business brings with it far less glamour or public attention than does attracting a new plant or corporate headquarters.

Technical assistance is essential to expanding entrepreneurship. Types of assistance needed vary by company, industry, and geographic region. In general, needs center around business planning, market analysis, technology, and capital formation expertise. More systematic and predictable availability of technical assistance will greatly increase the likelihood of business survival and further leverage efforts to improve access to capital. There are numerous examples of successful technical assistance efforts; recommendations to build on these initiatives include:

Technical assistance is essential to expanding entrepreneurship.

- *Encourage businesses to accept technical assistance as a key part of their participation in capital access programs.* This could be accomplished in a manner similar to that which has institutionalized home ownership counseling, and would

offer the benefits of risk reduction for capital providers as well as enhanced profit opportunity for participating businesses. This could be accomplished administratively through the various capital access programs.

- *Rationalize and expand public funding strategies for supporting technical assistance. Program fragmentation and duplication are widespread.* The rationalization of present efforts at all levels would create immediate expansion of funds available and would increase access to technical assistance. This is an interagency governmental responsibility.

- *Expand investment in business incubators.* The success rate for businesses supported initially by business incubators is significantly higher than the success rate for those initiated outside of the incubator environment. Expansion should emphasize both the number of centers and the partners engaged in the technical assistance process (Chambers of Commerce, trade associations, secondary educational institutions, etc.). Funding for expansion should be derived from a broad-based coalition of the public sector, private sector, business trade associations, and the participating businesses.

Expand investment in business incubators.

ENCOURAGE COMPANIES TO LOCATE AND INVEST IN URBAN COMMUNITIES

Over the past twenty years, urban communities have endured significant disinvestment by the private sector, triggered in part by federal and state policy, and by changing markets and demographics. While local businesses have been and are the backbone of the economies in these communities, it is critical to regain the investment of companies now located outside these areas. Investment by major corporations in distressed communities has a "marquee value"—it draws favorable public attention to the communities and sends positive signals to the business community as a whole—as do large-scale job creation, capital investment and other institutional resources, and mainstream goods and services. Major corporations should be encouraged to make pilot investments in these communities so that they learn how to tap into these emerging and potentially profitable markets. Specific activities to be undertaken include the following:

Make Urban Area Real Estate More Able to Compete

A concerted strategy is needed.

- *The federal government should subsidize cleanup, clarify and remove liability for redevelopment for those environmentally stressed areas known as brownfields by certifying remediation plans, and help redevelop former industrial sites.*
- *City governments should work with business associations to reduce or eliminate regulations that impose costly and unreasonable barriers to business development in distressed communities.*
- *City economic development agencies or nonprofit intermediaries should assemble tracts of land for potential investment or development.* The federal government should provide long-term, low-cost funding for acquiring this land, with the funding to be repaid when the land is sold to the ultimate user. For example, Cleveland's experience over the last fifteen years demonstrates how a focused land-banking strategy can stimulate business development.
- *Local business leadership should work with city development agencies or community-based organizations to determine the type of incubator or industrial space that is most in need in the region, and then build industrial parks within distressed areas that meet this need.*
- *Federal and state policies need to level the playing field between urban and exurban locations by providing the same level and quality of investment and services to the inner city as is provided to exurban locations.* Federal transportation reform legislation should strengthen the ability of metropolitan entities to set strategic plans and allocate resources among highway expansion, road preservation, and public transit. States should examine the examples of Maryland (which recently passed "Smart Growth" legislation) and Portland, Oregon (where development is discouraged beyond an established growth boundary).

> Federal and state policies need to level the playing field between urban and exurban locations...

Build Community Alliances Supportive of Entrepreneurship and Friendly to Business

Capital goes where it is invited and stays where it is welcome. Elected political leaders, community leaders, local business leadership, labor representatives, and local government agencies should work together with residents to develop a consensus about what types of business investment would succeed in their community, and which are desired, and communicate this consensus to brokers, trade associations, and potential investors.

> Capital goes where it is invited and stays where it is welcome.

Community groups should also create, where possible, a single partnership that can represent all interests of the community when new businesses are considering investing in the community. The entity should, where possible, have the ability and appropriate authority to facilitate the welcoming of businesses on behalf of the community.

Identify Industries with Strategic Business Interest and Support Industry-Specific Investment Strategies

There are businesses that have strong strategic reasons to make investments in distressed communities. These include businesses that are tied to the community because they cannot easily move their facilities (such as hospitals and universities); that are regulated by state or local entities (such as utilities and insurance companies); that want to increase their sales to the urban ethnic market (such as auto, food, and sportswear); that need proximity to urban centers (such as distribution, printing, and food processing); or that need a large low-skilled work force. National community development organizations, industry associations, and economic development agencies should work together to identify and promote industry-specific strategies for increasing investment by these industries in these communities. There are two examples of this industry-specific strategy in the retail sector. One is emerging in the work being done by the International Council of Shopping Centers in its efforts to expand retail activity in distressed areas. Another is The Retail Initiative, created by the Local Initiatives Support Corporation (LISC), which has capitalized an equity fund for supporting investments by supermarkets in inner city locations.

Disseminate Market Information

Government, industry associations, and nonprofits should conduct research to determine best practices, successful strategies, and the profitability of investments that have already been made in distressed urban communities. This research should be disseminated widely through trade associations, business groups, business schools, the print media with a wide audience of business executives, Wall Street analysts, and real estate professionals.

Targeted Sourcing

Encourage businesses to voluntarily purchase from companies located in or employing residents from these areas. This should be done by peer-to-peer contact, in which business leaders make the case to their peers that purchasing a portion of their supplies from such communities is in their own long-term self-interest. One model of this type of arrangement (in the field of minority procurement) is the Southern Dallas Covenant, a group of 300 businesses that have voluntarily agreed to report on their procurement, hiring, and promotion of minorities. This type of peer accountability could be invaluable if extended from minority purchasing to targeted purchasing from distressed areas as well. Federal research and development support could assist business in developing broader tools to measure their own efforts in procurement and hiring. Local business leadership could also broker relationships between businesses that are outsourcing or rightsizing and local entrepreneurs, with the goal of moving some of that work to the businesses in these communities.

Build on Empowerment Zone Experience

Government should build upon the important lessons learned from the implementation of empowerment zones within targeted neighborhoods. This model provides a current example of the

positive enabling role that the government can play in stimulating business investment. The combination of locally determined strategies, performance accountability, substantial flexibility, and federal investment should be explored by federal and state agencies for other initiatives that are targeted to urban communities.

DEVELOPING THE WORKFORCE

Community capitalism must acknowledge and address the fact that workforce development is a central component of strengthening neighborhoods. A new commitment is needed to enable residents of urban communities to meet the needs of employers, and to link residents to employment that meets their needs.

> ...workforce development is a central component of strengthening neighborhoods.

- *There are productive workers in distressed communities now.* Companies that have seen the opportunity and tapped this resource are benefitting from this fact. Major national corporations like UPS, Marriott Hotels, and PepBoys, medical centers in cities across the country, and thousands of smaller employers like Rachel's Bus Company in Chicago, Just Desserts in San Francisco, and Pioneer Human Services in Seattle, have succeeded as businesses by developing a strong, neighborhood-based workforce.

- *Put federal employment training programs in local hands.* The federal government should reform and consolidate programs to devolve design and implementation to local and regional collaboratives of business, government, community colleges, labor unions, and nonprofits.

- *Workforce development programs need to give special emphasis to basic job readiness and getting people into jobs.* The precise mix and level of skill training needed should be decided by local collaboratives. Research and experience show that many companies want job candidates with "soft skills"—attendance, punctuality, basic ability to communicate, and a willingness to learn on the job. Often, the companies themselves will provide the needed technical skills training on the job, or on contract to a local community college.

- *A number of organizations have demonstrated solid training and job placement capacity and more should be encouraged—by business, government, and philanthropies.* For example, community-based organizations in Seattle, San Jose, Detroit, Cleveland, San Antonio, Newark, New York, and elsewhere have developed nationally recognized expertise in recruiting, screening, training, placing, and providing post-placement support for trainees from their neighborhoods. Other organizations provide temporary and permanent employment, and contract with corporations or government. Many companies value these organizations because they have credibility with, and access to, populations with which the companies may have historically had less experience. The existing expertise of such community-based organizations as the San Jose-based Center for Employment Training should be tapped wherever possible. Business, government, and philanthropies should be encouraged to invest in building the capacity of other organizations across the country to be able to function as productive members of local and metropolitan-wide work force development collaboratives.

- *Business needs to be involved at all stages.* While the public sector provides the dollars, only the active and sustained engagement of business leaders and middle managers can provide the expertise and direction that training organizations need. Employers need to provide the leadership in partnerships and consortiums with community colleges, local nonprofits, branches of national nonprofits, for-profit entrepreneurs, local government, labor unions, and others who are committed to preparing a workforce that meets employers' demands. To better link "supply" with "demand" in workforce development, rigorous discipline should be utilized in calibrating as clearly as possible the precise skills needed by employers in the marketplace. Important new products and technologies could provide a unique framework for this supply/demand calibration. Training and job placement organizations then need to design programs responsive to those requirements. Partnerships with organized labor should be encouraged in training, job upgrading, and workforce development.

- *All partners need to emphasize sustained effort for sustained results.* Workforce investments need to produce not only short-term successes but also long-term results. Employers should define the work skills that workers need not just to get a job, but to stay productive and employed. Government, working directly or through community-based organizations, should invest in providing needed services and supports (e.g., child care, health care, transportation), in-service training and support, as well as the opportunity to develop necessary life skills. Training organizations and workers themselves should invest in skills upgrading and other job retention strategies that will support economic self-sufficiency over the long term. Finally, all partners need to recognize that workforce development requires a long-term vision or strategy for a sustained and difficult effort.

All partners need to emphasize sustained effort for sustained results.

- *Local employment intermediaries can provide business with good service and people with good jobs.* In an increasing number of communities, employers can turn to for-profit or nonprofit vendors who offer outsourcing and contingent labor services that are not only competitive in quality and price with the mainstream industry, but that also provide training, needed assistance, transitional employment, and even permanent good jobs for community residents. Where such organizations do not exist, corporations should encourage the public, nonprofit, and philanthropic sectors to explore this option, and should provide their expertise and guidance in the effort.

- *Business, nonprofits, and government need to press for innovative and diverse strategies.* There is no one "model" that meets the needs of all industries, all regions, or all job seekers, and federal and local funding needs to support and encourage strategies that respond to diverse local needs and opportunities. Funders and program operators must build strategies that respond to critical differences in need and capacity among regions, among industries, and between large and small businesses. Finally, there is no program—however effective—that innovation cannot improve. Partnerships should constantly challenge themselves to refine and adapt program design.

- *The final product is not people prepared to work, it is working people.* In workforce development, the central task and challenge for government, nonprofits, and business is to make the connection between people and jobs. Effective strategies must address job skills, life skills, support services, geographic barriers, and labor market efficiency. They must ultimately be measured, however, only by their ability to improve the economic lives of individual workers. In many cities, as jobs and members of the middle class have moved to the suburbs, many people of color have been left landlocked and job-locked. Business and government should partner in the creation of transportation strategies that eliminate these barriers.

> ...the central task...is to make the connection between people and jobs.

OVERCOMING CRITICAL BARRIERS

Succeeding at community capitalism can be achieved through a multi-sector approach focused on nurturing local entrepreneurship, attracting capital investment and workforce development. Yet, this Assembly accepted the hard reality that this effort is impeded by several fundamental, deep-seated conditions of American life.

Racism and Economic Segregation

Discrimination has diminished hope and opportunity for many racial and ethnic groups concentrated in distressed communities, and has been especially pernicious and persistent with respect to

people of color. For example, over the last twenty years, the number of persons living in areas of high poverty has doubled from four to eight million, with three-fourths of all poor African-Americans living in such neighborhoods. The ravages of racism have destroyed families and lives and our sense of national community. Racism continues to play an inappropriate role in strategic decision-making regarding business location and capital investment. Simply put: opportunities for solid business investment in these areas are often ignored due to the race or class of the people living in the area.

> The ravages of racism have destroyed families and lives and our sense of national community.

Address Public Safety Concerns

Business leaders consistently identify concerns about urban crime—its costs, its potential effect on employees—as the major impediment to location in the inner cities. Although urban crime rates have been reduced substantially in recent years, they remain relatively high. Public sector officials need to address these legitimate concerns as well and work aggressively to dispel misperceptions where progress has been made. Successful approaches to reducing crime—by building and site design and community intervention in particular—should be embraced by more entrepreneurs. Crime is a reality everywhere, but one that can, in part, be managed like any other risk of business. For example, Business Improvement Districts have been particularly effective in organizing local merchants to address quality-of-life issues, including security and sanitation.

Public Education

Perhaps most onerous of all is our seeming inability to educate large numbers of our children. The failure by the public school system in urban areas has imprisoned a generation in low-paying, low-skill jobs. Improving our public schools to meet the needs of all our citizens is imperative. The federal government has established national goals. We need to create high educational standards of excellence and develop tools of assessment to ensure that we meet those goals.

THE LEADERSHIP CHALLENGE

One of the enduring strengths of American capitalism has been the consistent engagement of business in civic leadership. Above all, today's challenge to restore economic vitality to America's distressed communities will require leadership by champions who will aggressively seek opportunities, willingly take appropriate risks, and unequivocally commit resources and "go the distance." Over the past decade, many American business leaders have successfully reengineered and repositioned their companies to compete effectively in the global marketplace. These leaders clearly have much to offer in helping urban communities better utilize their resources and compete more effectively in the national economy. America needs a sustained, persistent conversation at the highest levels of business, government, foundations, nonprofits, labor, and elected officials about these communities and their economic vitality. In short, about community capitalism.

There are concrete, immediate steps that these key partners can take to assert and exercise leadership.

Nonprofits

Many nonprofit groups, especially faith-based organizations, have beaten the odds in their communities through tenacious cultivation of grassroots capacity. These groups bear a responsibility to mesh social and business objectives, and to be able to relate these in business terms. There also are other significant continuing opportunities for nonprofit leadership through

- consensus building and clear prioritization of community strengths and needs;
- linking residents of distressed communities with jobs, both within the community and outside it;
- providing the social capital on which success so often depends, through job readiness training, community organizing, and leadership; and
- providing effective links between businesses, local opportunities, and players.

Government

Government leadership should focus on removing basic, fundamental barriers to community capitalism. This includes leveling

the playing field to encourage investment in distressed areas and reducing current incentives to invest elsewhere; enacting transportation policies that support, rather than hinder, economic development in distressed areas; expediting partnerships; and eliminating regulatory and tax barriers that hinder community capitalism. All federal agencies should examine major programs and their impact on distressed urban areas and design improvements. For example, the Department of Housing and Urban Development should increase efforts to integrate expanded business activity into its large-scale public and assisted housing revitalization and home ownership programs.

We recommend that the Secretary of Commerce take the unprecedented step of organizing and leading "trade missions" to distressed areas, in partnership with business leaders, nonprofits, and entrepreneurs. These historic visits would highlight in an unmistakable way these communities' untapped market potential. They would demonstrate government leadership at the highest level to promote these markets and the opportunities they represent.

> ..."trade missions" to distressed areas...

Business

Business leadership should promote the goal of community capitalism by

- Collecting and disseminating business "best practices" in distressed communities through business networks and peer-to-peer contacts;
- Actively developing working relationships with nonprofit partners: neighborhood groups, faith-based groups, and others;
- Relentlessly seeking out genuine business opportunities in distressed communities by doing what business does best—developing markets and selling products; and,
- Creating ongoing mentoring relationships between successful enterprises and entrepreneurs in distressed communities to build skills, competencies, and networks of relationships in the larger business community.

Business leadership can and should be celebrated. We recommend the establishment of a national award that recognizes the importance of champions and leaders and celebrates the development of community capitalism through private sector investment, modeled on the coveted Malcolm Baldridge Award. The proposed award would recognize the achievement of measurable, replicable results that can be modeled by others, that demonstrate how the activities add real value to the winner's bottom line, and that is reviewed by peers. This award should celebrate small entrepreneurship as well as large, Fortune 500 accomplishments.

* * * * *

The Berlin Wall crumbles and Eastern Europe becomes a new market for business opportunity. China negotiates trade agreements with non-traditional business partners in the United States and beyond. There are huge new international opportunities for business development and, true to form, U.S. companies are seizing them, often with the encouragement and assistance of our federal government. In this global marketplace, this Assembly concludes that there is an enormous opportunity to make capitalism work more fully in all our communities at home as well.

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