Urban Revitalization and Community Finance: An Introduction

Peter R. Pitegoff
State University of New York at Buffalo

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In his 1933 poem *Burn the Cities*, Nathanael West, the iconoclastic American novelist and urban radical, portrays the city as a focal point of discontent and of anguish for the world's predicament.² From Jerusalem to Paris and finally to London, the poem winds through distressing urban imagery with scant opportunity for escape. The implicit modicum of hope is an overthrow of the present order. From older cities abroad, West imports an apocalyptic vision of cities at home.³

Nathanael West foreshadowed both the intensity of today's urban crisis and its ironic cross currents. Is the modern American city "tired" and desperate, resigned to abandonment for greenfields? Is a total overhaul in order? Or, is the city a source of vision and humanity, of ideas and energy, with potential for periodic renewal?

This Symposium Issue on revitalizing America's cities presents a range of perspectives and prescriptions. Henry Cisneros, Secretary of the U.S. Department of Housing and Urban Development (HUD), argues for aggressive targeting of federal...
programs to support local initiatives, explicitly confronting racial and economic segregation.\(^4\) Robert Bach, Director of the Institute for Research on Multiculturalism and International Labor at the State University of New York at Binghamton and Executive Associate Commissioner for Policy and Planning at the Immigration and Naturalization Service, underscores the diverse racial and ethnic fabric of urban America. He describes a new wave of immigrants to America's cities and the potential for legal services as a catalyst for building community among recent immigrants and others.\(^5\)

Jack Sommer, a professor of public policy at the University of North Carolina at Charlotte, questions the popular image of an urban crisis and argues against federal intervention in favor of reliance on market forces.\(^6\) In contrast, Benjamin Quinones, an attorney at the National Economic Development and Law Center, offers a critique of local redevelopment efforts and suggests a reallocation of federal funding in ways that reinforce community control.\(^7\)

Rochelle Lento, a clinical professor in community development at the University of Michigan Law School, examines a creative synthesis of public and private finance in socially responsible banking institutions, suggesting strategic market interventions for urban revitalization rather than laissez-faire public policy.\(^8\) Finally, Donald Hicks, a professor of political economy and Vice Chair of the Brutoon Center for Development Studies at the University of Texas at Dallas, echoes Sommer's free market perspective and builds upon it. He characterizes cities as vehicles for transition and posits a limited public policy challenge of broadening social access to an expanding and evolving private sector economy.\(^9\)

Urban critics left and right, in ironic overlap, see a need to link distressed city populations with regional and global

economic opportunities. One point of view calls for further integration of social and economic approaches at the public policy level \(^\text{10}\) coupled with development and finance initiatives driven locally by democratic institutions. \(^\text{11}\) Another perspective would displace many social services by elevating entrepreneurship and reliance on the private sector, decrying any activist state role in combatting urban blight. \(^\text{12}\) Fundamental disagreements persist over values, accountability, and the role of the state in a free market economy—indeed, over basic perceptions and assumptions about urban life. \(^\text{13}\) Yet, common to both of these perspectives is a rejection of undue reliance on social services and a recognition of the fundamental importance of economic development.

Does an urban crisis exist? Semantics aside, all the authors in this symposium acknowledge persistent poverty concentrated in urban areas, albeit with differing assessments of severity and solutions. \(^\text{14}\) With cruel dissonance, the economic "recovery" celebrated on Wall Street, in Washington, and in the media is irrelevant to large segments of the American populace. A litany of positive statistics regarding gross domestic product, economic growth, and employment fail to measure the experience of many unemployed and underemployed people. The overall number of unemployed individuals significantly exceeds available job openings, \(^\text{15}\) and underemployment includes a large contingent workforce caught in a web of part-time or temporary jobs with low pay and few benefits. \(^\text{16}\) Spatial isolation of the

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11. E.g., Lento, supra note 8; Quinones, supra note 7.

12. E.g., Hicks, supra note 9; Sommer, supra note 6.


14. This Introduction reflects and documents my assessment of severe urban problems that occur in part because of deindustrialization and selected disinvestment. I conclude the Introduction with an expanded discussion of urban finance strategies, including community development banking and targeted investment of pension funds. See infra Part III.


urban poor exacerbates their economic and social distress.\textsuperscript{17}

Is today's urban crisis any different from the past? Critics have bemoaned urban problems for centuries, and for as long, have disagreed over solutions. Extreme urban poverty and homelessness is widespread, with intensifying concentration within the nation's major cities and disproportionate impact in minority communities.\textsuperscript{18} Civic and political institutions are in a state of flux, weakening the social fabric of cities. Violence is more pronounced and concentrated in cities than in the past, even as the overall crime rate drops.\textsuperscript{19} On a wider stage, an enormous number of working poor and nominally middle-class people are left behind by our modern version of a "hollow" economic recovery.\textsuperscript{20} Technological change and global economic forces create new pressures on urban vitality, as private enterprise shifts capital elsewhere and fiscal and political limits constrain public institutions. After two decades of suburban expansion and "edge city" growth well removed from traditional downtowns, the industrial and commercial life of the United States is no longer dominated by big cities.\textsuperscript{21}

\textsuperscript{17} GREENBERG, CENTER FOR LAW & SOCIAL POLICY, STRIKING OUT: HOUSE REPUBLICANS OFFER A TROUBLING VISION OF WELFARE REFORM (1994) (critiquing H.R. 3500, a welfare reform bill introduced by House Republicans in November 1993).


\textsuperscript{21} Tom Redburn, In Search of a Vision for the City of the '90s, N.Y. TIMES, July 31, 1994, § 4, at 4; see also KENNETH T. JACKSON, CRABGRASS FRONTIER: THE SUBURBANIZATION OF THE UNITED STATES 266–71 (1985) (describing the post-World
We approach the turn of the century in a state of urban
transformation. Undeniably, cities at their core still hold a
unique place on the American landscape, as forums for con-
centrated trade, travel, and art; as dynamic vehicles for bring-
ing together diverse groups and cultures; and as the repository
of history and social traditions in countless neighborhoods. Moreover, constructive examples of community-based economic
development and public-private collaboration suggest a newer,
entrepreneurial approach by government and a wider base of
accountability than conventional private enterprise. Yet,
throughout their history, America's cities have witnessed
poverty, racism, and social dislocation. Today's cities are
shaped further by dramatic changes in their economy, demog-
raphy, and geography. It is in this fluid context that we re-
examine the challenge of revitalizing America's cities.

This Introduction draws from and expands upon the diverse
Articles that follow. Part I documents the need for urban
revitalization. Part II highlights the current academic and
policy debate about the role of government in urban affairs.
Part III examines community development finance and target-
ed pension investment as an affirmative and crucial strategy
for strengthening America's cities.

I. THE NEED FOR URBAN REVITALIZATION

Urban poverty has grown at a disturbing rate since 1980,
with almost three-quarters of the nation's poor now residing

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War II move of corporate offices from city downtowns to surrounding suburbs); DAVID RUSK, CITIES WITHOUT SUBURBS 7 (1993) (noting that the move of middle-class families to the suburbs was possible after World War II because of affordable mortgages and transportation, subsidized highways, and sustained economic growth). But see Charles Lockwood, Edge Cities on the Brink, WALL ST. J., Dec. 21, 1994, at A18 (describing the recent downturn of economic fortune for many "suburban downtowns" or "edge cities").


in cities. Even during periods of overall economic growth, America’s cities have been characterized by a high concentration of unemployment, extreme poverty, and deteriorated living conditions, which give rise to a social dimension of economic despair. Some commentators suggest that these are longstanding problems of the inner city, now simply intensified by further isolation. Yet, qualitative differences between past and present urban America, in combination with broader changes in the political economy, suggest the need for new approaches to urban revitalization.

Deindustrialization, in particular, has had a dramatic impact upon older cities where manufacturing provided a once solid economic base. The outflow of capital and industry has resulted in the loss of quality jobs for central-city residents, undermining the social foundations of city life and weakening the capacity of residents for productive work. Unlike earlier periods, when urban poverty appeared to coexist with job growth and opportunity for modest economic advancement, today’s urban poor are increasingly marginal participants in


27. See generally THE “UNDERCLASS” DEBATE, supra note 23 (placing the underclass debate in a historical context and demonstrating the broader need for revitalization of urban institutions).


the labor market with limited mobility and scant opportunity for more substantial economic integration. In a massive shift to high technology enterprise, information processing, and services, dominant economic activity has created jobs for which most urban residents are trained inadequately. Many new jobs within the practical reach of the inner-city poor tend to reinforce poverty with inadequate pay and benefits, part-time or contingent employment terms, and no career ladder to better conditions.

Coupled with economic restructuring has been a dramatic shift in demographic patterns, including widespread suburbanization and growing polarization—between suburb and city, between the professionals or upper middle class and the working poor, and between those connected to the information superhighway and everyone else. The current divisions are sadly reminiscent of those reported almost three decades ago by the Kerner Commission, appointed by President Johnson to explore links between racial discrimination and urban policy. The Commission reported in 1968 that the United States "is moving toward two societies, one black, one white—separate and unequal." Despite modest growth in the African-American middle class, the separation reported by the Kerner Commission persists. And, as Robert Bach reminds us, the polarization is now even more complex than at the time of the Kerner Commission, with the emergence of numerous other ethnic and


31. Cf. Lafer, supra note 15, at 354 ("[F]or large numbers of the poor, there are no decently paying jobs, no matter . . . what training programs they enroll in.").


33. See generally JACKSON, supra note 21, at 275–76 (explaining the historical emergence of suburbia, its impact on different classes of people, and the role of government in promoting suburbanization); M. Gottdiener & Chris G. Pickvance, Introduction to URBAN LIFE IN TRANSITION, supra note 19, at 1–4 (surveying literature discussing the new economic and demographic challenges of America's cities).

34. NATIONAL ADVISORY COMM'N ON CIVIL DISORDERS, REPORT OF THE NATIONAL ADVISORY COMMISSION ON CIVIL DISORDERS 1 (1968).
racial groups who also are caught in the downward spiral of urban disinvestment and related problems.\textsuperscript{35}

The economic and spatial isolation of distressed and minority neighborhoods in the inner city has given rise in recent years to extensive academic and policy dialogue about the urban “underclass.”\textsuperscript{36} The underclass imagery and debate has been important in understanding the physical dimension of urban blight and the policy implications of the social strains arising from such geographical concentration of poverty.\textsuperscript{37} The underclass metaphor, however, also has been used by some commentators as an excuse for public policy that turns its back on urban poverty and as a vehicle for value-laden attacks on the “undeserving” poor for their lifestyle choices.\textsuperscript{38} Arguably, underclass terminology is an ambiguous and, by now, exhausted metaphor for a fearsome urban wilderness abandoned by mainstream society.\textsuperscript{39} It is true that urban ghettos are witness to burgeoning social ills, from the AIDS epidemic to drug-related violence, from weak family structure to dependence on public subsidies.\textsuperscript{40} But, in the shadow of racism,\textsuperscript{41} the root problem is poverty and the lack of quality jobs.\textsuperscript{42}

\textsuperscript{35} Bach, supra note 5; see also Boger, supra note 18, at 1293 (“[T]he black-white racial divisions that dominated the Kerner Commission’s vision of urban life . . . have been complicated by the emergence of other ethnic groups . . . .”); cf. Yen Le Espiritu & Ivan Light, The Changing Ethnic Shape of Contemporary Urban America, in URBAN LIFE IN TRANSITION, supra note 19, at 35 (discussing assimilation responses of newer immigrants to the United States).

\textsuperscript{36} For a discussion of the origins of the underclass debate, see Michael B. Katz, The Urban “Underclass” as a Metaphor of Social Transformation, Introduction to The “UNDERCLASS” DEBATE, supra note 23, at 3, 3–6. One of the leading texts that rekindled the underclass debate in recent years is Wilson, supra note 17, followed by a host of other books and articles including: THE URBAN UNDERCLASS (Christopher Jencks & Paul E. Peterson eds., 1991); Special Volume, The Ghetto Underclass: Social Science Perspectives, 501 ANNALS AM. ACAD. POL. & SOC. SCI. (William J. Wilson spec. ed., 1993) [hereinafter The Ghetto Underclass]; Katz, supra.


\textsuperscript{39} JENCKS, supra note 37, at 143; Katz, supra note 36, at 3–4.

\textsuperscript{40} See generally DAVID T. ELLWOOD, POOR SUPPORT: POVERTY IN THE AMERICAN FAMILY 189–230 (1988) (discussing ghetto culture and responses to it); The Ghetto Underclass, supra note 36 (a collection of articles on various aspects of the underclass debate).

\textsuperscript{41} QUIET RIOTS: RACE AND POVERTY IN THE UNITED STATES (Fred R. Harris & Roger Wilkins eds., 1988) (a collection of essays drawn from the national conference entitled “The Kerner Report Twenty Years Later”); Robert D. Bullard & Joe R. Feagin, Racism and the City, in URBAN LIFE IN TRANSITION, supra note 19, at 55–73.

\textsuperscript{42} Joel Handler, “Ending Welfare As We Know It”—Wrong for Welfare, Wrong for Poverty 2 GEO. J. ON FIGHTING POVERTY (forthcoming March 1995) (manuscript at 22–30, on file with the University of Michigan Journal of Law Reform).
Should urban revitalization be framed in spacial terms, with place-based policies and strategies? Or, as Donald Hicks suggests, should efforts be shifted to revitalizing prospects of individuals "left behind" by economic change or "held back by personal circumstances?" Academics and policymakers have conducted this place-based versus people-based policy debate since the 1960s. Some justify place-based policies as supporting fixed assets, such as urban infrastructure, economies of scale in employment patterns and public services, and strengths of community that improve the social environment, housing values, and information flow. Others believe that policies aimed particularly at inner cities or depressed rural areas are an inefficient way to reach worthy individuals and even a barrier to productive interaction among people and institutions. A corollary of this latter perspective often is posited as a demand for less government intervention in urban affairs.

II. URBAN REVITALIZATION: WITH MORE OR LESS GOVERNMENT

Drawing in part from his experience as a senior advisor at HUD during the Bush Presidency, Jack Sommer paints a bleak picture of bureaucratic gridlock in federal urban policy. This institutional critique, combined with his analysis of a free market "system" of urban economic transformation, leads Sommer to call for scaling back federal urban initiatives. He sees federal government intervention as an artificial barrier

43. See, e.g., JOHN R. LOGAN & HARVEY L. MOLOTCH, URBAN FORTUNES: THE POLITICAL ECONOMY OF PLACE 17-49 (1987) (examining the social phenomena of the market economy and the inherent conflicts among participants in the shaping of metropolitan communities).
44. Hicks, supra note 9, at 814.
45. See Fainstein & Markusen, supra note 10, at 1464-68 (reviewing the debate and literature regarding place-based versus people-based urban policies).
46. SIMPSON, supra note 25, at 116-51; Fainstein & Markusen, supra note 10, at 1465 (citing, inter alia, GORDON L. CLARK, INTERREGIONAL MIGRATION, NATIONAL POLICY, AND SOCIAL JUSTICE (1983)).
48. Sommer, supra note 6.
to market changes and favors reliance on private sector and voluntary efforts. Instead of a national urban crisis, he sees most of the worst instances of poverty primarily in a handful of major cities with their constituent functions out of step with the global marketplace. Thus, beyond limited federal action such as protecting urban residents from crime,\footnote{49} the thrust of his federal policy agenda would facilitate privatization and personal freedom, "supporting the aspirations of individuals, not urban places."\footnote{50}

Speaking from inside the Clinton administration today, Secretary of HUD Henry Cisneros posits a more affirmative role for federal urban policy.\footnote{51} Unlike Sommer, he observes a worsening problem of racial and social isolation of the inner-city poor. Cisneros maintains that today's American cities no longer play their historical role as an effective vehicle for transition out of poverty. He, too, calls for expanding economic opportunities for inner-city residents, and he relies on private enterprise to a degree as well. He sees the need, however, for channeling further resources, public and private, into urban America, hardly trusting the market alone to provide adequate opportunity in the absence of government incentives.\footnote{52}

A highly political debate parallels the academic dialogue—urban crisis or constructive transformation, place-based solutions or enhancing individual choice, national urban policy or not.\footnote{53} The 1994 congressional election added fuel to the burning debate, with new Republican majorities in the Senate


\footnote{50. Sommer, \textit{supra} note 6, at 686.}

\footnote{51. Cisneros, \textit{supra} note 4; see also Henry G. Cisneros, \textit{Introduction} to Symposium, \textit{Focus on: Urban America}, 12 \textit{Yale L. & Pol'y Rev.} 1 (1994) (presenting an overview of urban policies promoted by the Clinton administration).}

\footnote{52. Cisneros, \textit{supra} note 4; cf. Fainstein & Markusen, \textit{supra} note 10, at 1482–86 (positing a thorough revamping of federal urban policy, blending place-based approaches in the inner city with general economic stimuli, in addition to social and economic policies at the federal level that support creative local initiatives).}

\footnote{53. Cf. Peter Dreier, \textit{America's Urban Crisis: Symptoms, Causes, Solutions}, 71 N.C. L. REV. 1351 (1993) (analyzing the political and ideological obstacles to solving the nation's urban problems).}
and House of Representatives and rhetoric that favors dismantling much of the federal urban policy machinery.\textsuperscript{54} As with many political debates, the reality is more subtle and complex. Benjamin Quinones, for instance, criticizes both federal and local efforts at urban redevelopment, not for stifling private initiative, but for ceding control and ultimate benefit to local elites.\textsuperscript{55} The result, he maintains, has been misguided emphasis on downtown development and missed opportunity for revitalizing distressed communities through community-based development.\textsuperscript{56}

With or without an explicit and activist federal role in urban revitalization, the impact of federal law and government policy on urban life is substantial.\textsuperscript{57} Even in the event of a partial dismantling of HUD and national urban initiatives, state and local governments will continue to play a huge role in urban affairs, offering crucial ingredients from education to housing assistance.\textsuperscript{58} But across the political spectrum, a common theme of entrepreneurship appears as a counterpoint to conventional public policy—not simply faith in laissez-faire government and an unfettered market, but also government emulation of the private sector\textsuperscript{59} and non-governmental institu-


\textsuperscript{55} Quinones, \textit{supra} note 7.

\textsuperscript{56} Cf. Nicholas Lemann, \textit{The Myth of Community Development}, N.Y. TIMES, Jan. 9, 1994, § 6 (Magazine), at 26 (recounting what he perceives to be failed federal efforts at supporting community development over the past several decades, claiming that these failed programs continue because the notion of urban revitalization is more acceptable politically than funding direct social services to the poor).

\textsuperscript{57} See, e.g., Bach, \textit{supra} note 5 (contrasting increased federal participation in urban renewal during the Johnson administration with cutbacks during the Reagan years and discussing the impact of these policies on the urban poor); Robert H. Freilich et al., \textit{Urban Problems Regenerated: A Twenty-Year View}, 22 URB. LAW. 537 (1990) (recounting judicial intervention in a wide range of urban affairs over the past two decades).

\textsuperscript{58} See, e.g., Peter W. Salsich, Jr., \textit{Urban Housing: A Strategic Role for the States}, 12 YALE L. & POL'Y REV. 93 (1994) (arguing that states have the capacity and opportunity for a leading role in revitalizing national housing policy); cf. \textit{QUIET RIOTS: RACE AND POVERTY IN THE UNITED STATES}, \textit{supra} note 41, at 174–75 (documenting decreases in federal spending for education, housing, job training, and other social programs).

\textsuperscript{59} See, e.g., James A. Kushner, \textit{Growth Management and the City}, 12 YALE L. & POL'Y REV. 68 (1994) (arguing the need for more disciplined and accountable growth management strategies for cities); Ed Schwartz, \textit{Reviving Community Development}, 19 AM. PROSPECT 82 (1994) (describing federal initiatives which have the promise of empowering local efforts and urban revitalization); cf. Joseph Hornack & Staughton Lynd, \textit{The Steel Valley Authority}, 15 N.Y.U. REV. L. & SOC. CHANGE 113 (1987) (recounting the formation of a public authority in the Pittsburgh region created to acquire abandoned industrial facilities by eminent domain, and to operate them or arrange to sell them to other owners).
tions engaging in a democratic form of economic development.\textsuperscript{60}

Notwithstanding sharp and continued disagreements about the proper level of government subsidies for urban revitalization, policymakers are acknowledging the strength of community-based approaches to economic development and urban revitalization, and the distinction of such approaches from conventional economic development policies.\textsuperscript{61} Economic development traditionally has focused on creation or expansion of business activity, and efforts to increase productivity, improve housing and infrastructure, and create jobs. Success has been measured by overall economic growth measured in numbers of jobs, total income, and tax base. This approach tends to rely on business profits trickling down to solve local economic problems, with government playing at most a catalyst role with infrastructure support and financing incentives.\textsuperscript{62}

Community economic development shifts the focus to goals of democratic influence over local economies and equitable allocation of costs and benefits. Concerned with social goals as well as growth, a community-based approach to economic development directly supports an infrastructure of local institutions, helping to build their capacity for economic activity rather than assuming that business profits will benefit the locale. Rather than relying passively on the beneficence of government or private enterprise, local economies attempt to change their relationship to external market and political forces and thereby capture broader opportunities.\textsuperscript{63}

Thus, for instance, Cooperative Home Care Associates, Inc. (CHCA) operates a home health care enterprise in Bronx, New York, and evidences a successful model for community economic

\textsuperscript{60} See, e.g., John P. Elwood, Rethinking Government Participation in Urban Renewal: Neighborhood Revitalization in New Haven, 12 Yale L. & Pol'y Rev. 138 (1994) (examining two neighborhood revitalization projects in the City of New Haven, Connecticut which demonstrate the benefits of a redevelopment project which strategically relies on several independent developers within a single project area).

\textsuperscript{61} David Osborne, Laboratories of Democracy 13–17 (1988); Robert McNulty, From Lessons to Actions, in The State of the American Community: Empowerment for Local Action 139, 150–52 (Robert H. McNulty & Clinton A. Page eds., 1994). But cf. Lemann, supra note 56, at 27–28 (describing policymaker doubt and lack of enthusiasm over President Clinton’s “new” renewal program, while suggesting that Empowerment Zones will not revitalize the ghettos but only contribute to a “cycle of despair” begun by previous administrations).

\textsuperscript{62} Richard Schramm, Local, Regional, and National Strategies, in Beyond the Market and the State: New Directions in Community Development 152, 157 (Severyn T. Bruyn & James Meehan eds., 1987).

\textsuperscript{63} Pitegoff, supra note 13, at 1915–16.
development. Since its start-up almost a decade ago, CHCA has built a business and a corporate culture that values quality of employment for its workers as well as the quality of care for clients. It is owned and controlled by its workforce, consisting primarily of approximately 300 Latina and African-American women. Targeted in a growing market sector, CHCA has served as a bridge from public assistance to stable jobs and stands as a measure for improving wages, benefits, working conditions, and service in its regional home care market. Through its affiliate, the Home Care Associates Training Institute, a replication project has helped sponsor similar enterprises in Philadelphia, Boston, and elsewhere. The CHCA effort combines key elements of community economic development—education and empowerment with a low-income constituency, strategic planning, local job and enterprise creation, regional impact and broader replication, sophisticated finance and business expertise, democratic values, and selective use of public subsidies to build local capacity.

III. COMMUNITY DEVELOPMENT FINANCE

Rochelle Lento illustrates a crucial component of community economic development in an array of sophisticated financial institutions and activities. Her analysis identifies disinvestment and capital outflows as central to the demise of urban communities, and hence the centrality of finance in any efforts to revitalize local economies and neighborhoods. The

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66. Martin, supra note 65, at 26; Dawson & Surpin, supra note 65.
Shorebank Corporation, Lento posits, is a hopeful model for community development banking with the capacity to transform market dynamics in targeted geographical areas. Shorebank is a bank holding company that includes, in addition to the South Shore Bank in Chicago, a real estate development firm, a tax-exempt neighborhood development institute, a small business investment company, and a community development consulting arm. Its impact, particularly in its home base of Chicago but elsewhere as well, has been effective community economic development, combining private enterprise initiative with selective public subsidies and social goals.\footnote{Lento, supra note 8; cf. Richard Marsico, \textit{A Guide to Enforcing the Community Reinvestment Act}, 20 \textit{Fordham Urb. L.J.} 165 (1993) (exploring potential techniques for complying with the Community Reinvestment Act's mandate requiring banks to improve lending and services in low-income communities).}

Given Lento's analysis of the need for capital infusion, and in light of increasing pressure on government at all levels to limit spending, urban reinvestment requires additional sources of finance. Some governments in pursuit of capital have become entrepreneurial to a fault, as witnessed in the 1994 bankruptcy filing in federal court by Orange County, California. The county lost roughly $2 billion after investing a large portion of its bond sale proceeds and tax revenue in high risk securities. Orange County had been a darling of Wall Street brokers, building an investment fund that substantially leveraged its available capital. Over 180 county and municipal agencies placed some of their operating budgets in the fund. Orange County was able to build an investment portfolio far beyond its bond sale proceeds and baseline tax revenues. Unfortunately, many of its investments were extremely sensitive to changes in interest rates. When interest rates continued to rise sharply in 1993 and 1994, the value of the county's investment fund plummeted, and the gamble, which had paid off handsomely for a number of years, ultimately was lost.\footnote{Andy Pasztor & Frederick Rose, \textit{Agencies Scrap over How to Ease Losses Following Orange County Fund Debacle}, \textit{Wall St. J.}, Dec. 15, 1994, at A2; Mark Platte et al., \textit{$1-Billion Auction of Bonds to Launch O.C. Restructuring}, \textit{L.A. Times}, Dec. 15, 1994, at A1; cf. Sarah Lubman & John R. Emshwiller, \textit{Before the Fall: Hubris and Ambition in Orange County: Robert Citron's Story}, \textit{Wall St. J.}, Jan. 18, 1995, at A1 (recounting the role of Robert Citron, the deposed treasurer of Orange County, and reporting on divergent views of how he related to Merrill Lynch & Co. and to other financial advisors).}

Orange County pursued risky investment solely for the potential of high return. In contrast to the Orange County gamble in high risk securities, government investment can be
targeted with caution and a modicum of reasonable risk for social goals such as urban revitalization. Shorebank illustrates such targeted investment from the private sector. In the quasi-public realm, a compelling source of capital for potential urban investment is the massive pension fund regime.

Assets of pension funds, essentially deferred compensation of millions of workers, total almost $3 trillion in the United States. At that scale, pension funds hold the potential for enormous influence over the economy and its impact on urban communities. In practice, pensions are administered by trustees "for the benefit" of the plan participants and are constrained in their ability to target investments. Since a pension trust holds the retirement assets of workers covered by the plan, strict fiduciary standards require prudence in investment, including diversification to minimize the risk of large losses. Until the 1970s, pension trustees generally administered their funds without reference to social or political goals, and union leaders tended to defer to trustees' cautious adherence to the prudence rule.

In recent years, however, labor leaders and community advocates increasingly have prompted pension trustees to target investments that support goals beyond simply maximizing return, in some cases contributing to community development. Protecting the retirement benefits of pension participants is still paramount, but pension investments can be targeted in part for the benefit of community development if those investments are not at the expense of overall performance of the fund. Pension investment in real estate to develop

70. JAYNE E. ZANGLEIN, AFL-CIO LAWYERS COORDINATING COMM., SOLEY IN OUR INTEREST: CREATING MAXIMUM BENEFITS FOR WORKERS THROUGH PRUDENT PENSION INVESTMENTS at xii (Labor Law Exchange No. 11, 1992); see also TERESA GHILARDUCCI, LABOR'S CAPITAL: THE ECONOMICS AND POLITICS OF PRIVATE PENSIONS 118 tbl. 6.1 (1992) (summarizing pension-fund assets from 1950 to 1987 and showing a steady increase in the size of these assets).


housing, for instance, is permissible provided that trustees make such investments with diligent investigation and careful analysis to produce adequate return on investment.\textsuperscript{74} A diversified portfolio of pension investments can include some investment targeted for community economic development if the overall performance of the pension fund meets industry standards.

Housing finance has been one community development focus of pension investments encouraged by labor and community constituents in order to create quality jobs and to provide affordable housing to working people, while also making investments that could be secured by real estate.\textsuperscript{75} In Boston, Massachusetts, the Bricklayers and Laborers Non-Profit Housing Co., sponsored by the Bricklayers and Laborers unions, directs pension investment into certificates of deposit in an area bank. The certificates of deposit are federally insured, while the bank, U.S. Trust of Boston, provides construction financing at its own risk for local housing development.\textsuperscript{76} This use of intermediary institutions—here, the local bank and the non-profit housing company—is a means for community-based pension investment.

Rather than direct local investment by a large pension fund, institutions based in the community can administer a portion of pension resources with more local sensitivity and accountability. Over time, targeted pension funds can help build an infrastructure of local organizations to channel investment to communities. For instance, driven by the need for housing


\textsuperscript{75} Union involvement in housing finance dates back at least to the 1950s with the formation of the United Housing Foundation by a consortium of unions, and to the 1960s with the formation of the AFL-CIO Housing Investment Trust (HIT). Since 1964, HIT has pooled more than $650 million, much of it from pension funds, to invest in unionized housing construction. SHOSTAK, supra note 73, at 240; AFL-CIO Housing Investment Trust Expands Range of Housing Investments, LAB. & INVESTMENTS (Industrial Union Dep't, AFL-CIO, Washington, D.C.), Fourth Quarter 1991, at 8 (on file with the University of Michigan Journal of Law Reform); see also Stanley S. Herr & Stephen M.B. Pincus, A Way to Go Home: Supportive Housing and Housing Assistance Preferences for the Homeless, 23 STETSON L. REV. 345, 391 (1994) (reporting that HIT "plans to invest $660 million and help obtain another $550 million from private and public sources to finance a variety of low-income housing projects").

\textsuperscript{76} ZANGLEIN, supra note 70, at 135; Andrew R. Banks, Dennis Walton's Capital Wars, LAB. RES. REV. #12, Fall 1988, at 47-48.
assistance to low- and moderate-income union members in Boston, Local 26 of the Hotel and Restaurant Employees and Bartenders’ International Union formed the Union Neighborhood Assistance Corporation (UNAC) in 1988.  

A nonprofit organization, UNAC is a community-based housing assistance effort that links jobs with housing, and millions of employer and union dollars to affordable housing development. UNAC uses private and public funds to generate housing, provide technical and counseling services, and offer financial assistance through a housing assistance trust funded by employer contributions. Jointly administered by employer and employee representatives, the fund provides financial assistance for home purchases or rentals by union members.

Pension fund involvement with economic development, although primarily in the area of housing, has included financing for business ventures. The Sheet Metal Workers National Pension Fund, for example, actively pursued an investment strategy in ventures that would create or secure jobs for its members. The Fund purchased a portion of a publicly traded company engaged in asbestos removal, after their analysis projected growth in that industry. The Fund then joined in the purchase of an insurance company and a bonding company, with the intention of making insurance and bonding available to sheet metal and other specialty contractors performing asbestos removal, including the company that it partially owned.

With a more populist hue, the Crocus Investment Fund in Winnipeg, Manitoba, offers a Canadian model of a labor-initiated finance institution focused strategically on local economic development. Created in 1993 by the Manitoba Federation of Labour, the Crocus Fund is a venture capital corporation designed to promote job creation and retention, support local ownership of businesses, and provide opportunity for investment and supplemental retirement benefits for Manitoba residents.

77. SHOSTAK, supra note 73, at 251.
79. ZANGLEIN, supra note 70, at 132.
81. CROCUS FUND PROSPECTUS, supra note 80, at 1; CROCUS FUND BUSINESS PLAN, supra note 80, at 4–5; Kristen Andrews, Made in Manitoba: Crocus Fund Home-Grown Chance to Save Tax Dollars, WINNIPEG SUN, Feb. 15, 1994, at 14.
The Fund is capitalized primarily by investments from institutions and citizens of the province, including sales of Fund shares to the general public and worksite campaigns that facilitate payroll deduction plans or direct sales. The Fund is an eligible retirement investment and a potential repository for Canadian equivalents of U.S. Individual Retirement Accounts. As such, all return on individual investments is tax deferred. Government incentives for investment in the Fund are a twenty percent provincial tax credit and a twenty percent federal tax credit.

Additional government support included a $500,000 grant to the Manitoba Federation of Labour to cover a portion of start-up costs, and investment in the Fund by the provincial government in the amount of $2 million, with an additional $2 million investment to be triggered by certain performance criteria. Fund organizers project total capitalization of $76 million after five years.

As a model for labor finance and community development, the Crocus Fund is significant in its combination of government, private, and grassroots capitalization, and more notably in its democratic governance and targeted investment. Legislative guidelines and internal criteria require a substantial portion of Fund assets to be invested in companies with less than $50 million in assets and with a majority of employees in Manitoba, and further require that the Fund make its best efforts to assure

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83. Id.

84. Id.

85. Id.; CROCUS FUND PROSPECTUS, supra note 80, at 8. The Quebec Solidarity Fund, started in 1984 with a similar means of capitalization, now holds assets totaling $600 million in a province with roughly 10 times the population of Manitoba. CROCUS FUND BUSINESS PLAN, supra note 80, at 1. See generally BOB BALDWIN ET AL., CANADIAN LABOUR CONGRESS, WORKER INVESTMENT FUNDS: ISSUES AND PROSPECTS 46 (1991) (discussing the creation and function of the Quebec Solidarity Fund). A number of other labor sponsored investment funds have emerged in the 1990s, including the Working Ventures Fund in Ontario and the Working Opportunity Fund in British Columbia. For summaries of these funds, see WORKING OPPORTUNITY FUND, LTD., SIMPLIFIED PROSPECTUS (1993) (on file with the University of Michigan Journal of Law Reform) and WORKING VENTURES CANADIAN FUND INC., PROSPECTUS (1993) (on file with the University of Michigan Journal of Law Reform).

86. The Crocus Fund is governed by a five-person board of directors, with a three-member majority selected by the Manitoba Federation of Labour, a group of provincial unions with 90,000 members. One director is selected by the provincial government and one is elected at-large by the individual investors. CROCUS FUND BUSINESS PLAN, supra note 80, at 6–7.
that a majority of its investments promote employee ownership or employee participation in corporate governance.\footnote{Manitoba Employee Ownership Fund Corporation Act, C.C.S.M., ch. E-95, § 11(2) (1992) (Can.).} Thus, the Crocus Fund has combined the mechanism of a labor-sponsored investment fund with a vehicle for local development finance and equity for worker ownership of businesses.

Provincial and federal government policy supports the Crocus Fund to a degree that is literally foreign to many policymakers in the United States. Still, public officials and community leaders south of the Canadian border would do well to import selected elements of this Manitoba model as one more strategy for urban reinvestment and community development finance.\footnote{The Washington State AFL-CIO, in fact, has resolved to create an investment fund similar to the Crocus Fund. Interview with Sherman Kreiner, Chief Executive Officer of the Crocus Fund, in Philadelphia, Pa. (Nov. 11, 1992).} In fact, the U.S. Department of Labor has encouraged pension trustees to administer "economically targeted investments," selected for the economic benefits they create—including urban revitalization—in addition to the investment return for the benefit of plan participants.\footnote{Interpretive Bulletin Relating to the Employee Retirement Income Security Act of 1974, 59 Fed. Reg. 32,607 (1994) (to be codified at 29 C.F.R. § 2509.94-1); cf. Maria Shao, \textit{Putting Pensions to Work}, BOSTON GLOBE, Nov. 2, 1994, at 45 (reporting on economically targeted investments (ETIs) by two public employee pension funds in Massachusetts).}

**CONCLUSION**

When Nathanael West published his 1939 novel, \textit{The Day of the Locust},\footnote{NATHANAEL WEST, \textit{THE DAY OF THE LOCUST} (1939), \textit{reprinted in The Complete Works of Nathanael West} 257–421 (1957).} he recalled the apocalyptic theme of his earlier poem, \textit{Burn the Cities}. We see protagonist Tod Hackett, in the midst of chaos and nascent rioting in Hollywood, gathering scenes for his painting, \textit{The Burning of Los Angeles}.\footnote{\textit{Id.} at 419–20.} West died long before he could witness the real burning of Los Angeles, in the 1965 riots in Watts and again in 1992 after the beating of Rodney King. Nevertheless, West's portrait of a chaotic metropolis is a graphic reflection of today's fluid moment in urban life and policy. So too, this Symposium Issue
reflects a period of urban transformation and evolving public policy, and adds a creative assortment of policy prescriptions for revitalizing America's cities.