POLITICS AND BUREAUCRACY IN COMMUNITY-CONTROLLED ECONOMIC DEVELOPMENT

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Introduction

A white businessman recently concluded a speech at a conference on ghetto development with the words, "Stay away from the government." He then described his experience in trying to start a minority-owned business with financing from the Small Business Administration. It was a story of delay, incompetence, and bureaucratic interference. The result was not a new business, but an increase in frustration and bitterness on the part of everyone concerned. At the end of the presentation, a black man rose from the audience and said that he had gone through similar experiences. "But," he asked, "where else do you get the money?" He then described his own efforts to get *private* financing for a ghetto business. There was not nearly the same red tape and infuriating bureaucracy as in the public sector, but in the end the answer was "No." The risks were simply too large and the private companies and banks would not ask their stockholders to invest in an enterprise whose major pay-off would be in social benefits.

The dialogue reflects a basic dilemma for those who have been struggling with community-controlled economic development programs. Government support is essential, but the bureaucracy that accompanies such support often dooms a program to failure.

There are three essential ingredients to effective economic development in poverty areas:

1. Social investment, which requires government—usually federal—resources;
2. Community control, which requires local organization;
3. Business organization, which requires freedom from bureaucratic constraints.

The ghettos, barrios, and poverty-stricken rural areas of this country are not attractive places in which to invest. Their labor forces are not competitive and the management talent is thin. In urban ghettos, physical safety is threatened and the population is likely to be black or Mexican-American, which is itself a major disincentive for outside investment. Effective economic development of these areas therefore requires that someone cover the costs of developing the labor force and management, of providing for the organization of community support and ownership, and for making long-term investments to improve the economy of the impoverished area. Only when these largely social investments make the area and its institutions attrac-

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tive places in which to invest, will private sector funds flow. Since these investments are recoverable in the form of benefits to society as a whole (higher tax revenues, lower welfare costs, and so on), society as a whole should pay for them.

Public investment alone, however, is not a sufficient condition for the economic development of poverty areas. The experience of the last decade with urban renewal, anti-poverty, manpower training, Model Cities, and similar programs is ample evidence that the direction in which the benefits of any government program flows is in part a function of who controls the program. Thus far, the major domestic programs have been put in the hands of local politicians and social scientists. If the social investment necessary to stimulate poverty area economies is to be effective in helping the poor residents, the poor residents must control it. Only they have the incentive to assure that benefits flow in their direction. To be of lasting value for the poor, economic development must be self-development.

To public investment and community control must be added a third item: the set of techniques and organizational forms that have proven effective in producing economic development in the private sector of the economy. One condition for organizational effectiveness is freedom from entangling bureaucratic red tape and interference. The great advantage private businesses have over government institutions is that they have the freedom to act decisively in their own interests. Economic development requires that the developer be able to take immediate advantage of sudden opportunities that cannot wait for approval through layers of bureaucracy. A piece of land becomes available and has to be purchased now or it is lost. A chance to invest in a good business having cash flow problems appears and disappears often in the space of days. A talented potential manager must be offered a job when he becomes available or he will go somewhere else.

I

FREEDOM VS. ACCOUNTABILITY IN ANTI-POVERTY PROGRAMS

To some extent, there is a natural tension between public investment and business organization. It is the proper concern of any financier, public or private, that funds are used as intended, and it is the proper concern of a business development organization that it have as much freedom as possible.

Where financing is done from the public sector, the tension is made greater by the natural tendencies of bureaucracies toward caution and delay. These tendencies are not due so much to the type of individual who becomes a bureaucrat as they are results of the incentive system in most government organizations; the rewards for accomplishment are much less than the penalties for failure. Furthermore, failure often is not identified in any objective way. For the bureaucrat, avoiding political embarrassment rather than accomplishing program goals is the first priority.

In order to protect himself from being held responsible for such embarrassment, the bureaucrat and the bureaucratic organization spread the risk through systems of coordination and multiple review of decisions. Where everyone is responsible for a decision, no one is responsible for it. Thus, the recipient of government aid has to contend with not just one set of bureaucratic forces, but as many as are needed by the bureaucracy to spread the risk. The familiar result is delay, obstruction, and interference in the internal workings of the program, all of which are accurately recorded by the businessman mentioned above who feels that dealing with the government is too difficult.

The power to delay and to obstruct is directly related to the power of the program's beneficiaries, or constituency. Thus the private contractors that deal with the Defense Department, the large farmers that deal with the Agriculture Department, the banks that deal with the Federal Reserve Board, and the airlines that deal with the Federal Aviation Agency or the Civil Aeronautics Board experience a level of bureaucratic frustration that is minimal compared with that experienced by poor people who deal with the local welfare department, or the community organizations that deal with the Office of Economic Opportunity (OEO) or the Model Cities program.

The power of the constituencies of the former set of agencies is not necessarily coercive. It may be primarily permissive in that it permits the individual bureaucrat wider latitude in serving the needs of the constituency. People who form the permanent labor force of a government agency generally identify with its constituency. As the constituency becomes more important, as the public treasury provides more resources to support it, the promotions and rewards come to the bureaucracy through which the support flows. The function of an organized constituency, therefore, is to protect its own interests by protecting the bureaucracy that is fighting for its interests and by seeing to it that the bureacracy continues to do so. Where the constituency does not play this role, the bureaucracy will try to protect itself, sometimes at the expense of its own constituency.

The history of the war on poverty reveals a weak constituency that could neither protect its bureaucracy nor prevent its bureaucracy from exercising the self-protective devices of delay and interference. In 1967, the power of the constituency to defend itself against local governments was tested and found deficient with the passage of the Green Amendment to the Economic Opportunity Act which gave local governments the power to control the Community Action Program.[1] Soon after this defeat, there occurred a "tightening up" of OEO management procedures which meant a dramatic expansion in federal rules and regulations and a marked increase in the exercise of government power over recipients of anti-poverty money.

The crumbling of the anti-poverty constituency's power over the bureaucracy caused many people to look for new means of financing independent programs. One such means, the possibility of generating independent funds for anti-poverty programs, provided a partial reason for the attractiveness of community-based

[1] Economic Opportunity Act (1967 Green Amendment), 42 U.S.C. §§ 2790, 2791, 2795, 2796 (Supp. V, 1969).

economic development. Frustrated anti-poverty workers grasped at the notion that profits from economic development programs could generate funds for social programs. From the same frustrated sources the idea appeared that the private sector could finance such development with a little bit of prodding from the government. The idea was encouraged by both the Johnson and Nixon administrations whose budgets were being drained by the Viet Nam war.

The political failure of the anti-poverty constituency also led to the search for ways around the legislative process. Backdoor financing and a heavy dose of business philosophy were the twin features of the Community Self-Determination Act introduced into the Congress in 1968.[2] Although the bill had a number of legitimate defects, many liberals who opposed it completely lost the point that it was an attempt to continue financing anti-poverty efforts in an increasingly conservative environment.

Political weakness could not, however, be wished away. OEO-funded community economic development programs quickly became vulnerable to political pressures and the increasing dominance of the bureaucracy over the community organizations which it served. The earliest of these, Crawfordville Enterprises in Georgia, the Southwest Alabama Farmers Cooperative Association, and the Harlem Commonwealth Council were subject to political pressures and bureaucratic abuse. The first two, located in the South, where the political power of the minority anti-poverty interests was weakest, were particularly battered. Demands that the projects become self-sustaining in unreasonable periods of time, changes in directives from Washington, and visits by consultants and OEO staff members with conflicting authority and advice were added to the burdens which predictably affect black-controlled projects in hostile southern surroundings.

Another reaction to the weakness of the anti-poverty constituency was the placing of control of the Model Cities program in local governments. The resultant layering of bureaucracy has thus far prevented the Model Cities from making a meaningful impact upon poor neighborhoods despite the fact that the legislation has been in force since 1966. Of the more than one billion dollars appropriated to the Model Cities program, only about fifty percent had been committed and only about ten percent had been spent by June 30, 1970.[3] The inability or unwillingness of local city governments to spend Model Cities money despite the obvious need is another piece of evidence of how bureaucratic pipelines quickly clog when the constituency is too weak to demand that the flow of resources be maintained.

Although the anti-poverty constituency is too weak to take control of the Model Cities program, it is strong enough to press its claim. In city after city, conflict between city hall and neighborhood organizations over the issue of community con-

[2] S. 3875, 90th Cong., 2d Sess. (1968).

[3] As of July 31, 1970, the exact figures were: appropriations, $1.073 billion; obligations, $534 million; expenditures, $97 million. The source of this information is Mr. Harry Nolan, Division of Financial Management, Office of the Assistant Secretary for Model Cities, Department of Housing and Urban Development.

trol has stalled both planning and project implementation. In part, the Model Cities program is failing because the Department of Housing and Urban Development (HUD) refuses to recognize the reality of organization in urban neighborhoods. The 1960's saw a political awakening of minorities in ghettos and barrios all over the country; they will not be put back to sleep. By demanding that the mayor be responsible for programs even when he has agreed to turn programs over to the neighborhoods, HUD is creating unnecessary bureaucracy at city hall and unnecessary tension between that bureaucracy and the neighborhoods.

The community control issue has been particularly visible in the establishment of economic development programs, to which HUD has already committed over $30 million, more than half to support community development corporations (CDC) and their investments.

II

THE SPECIAL IMPACT PROGRAM

The Special Impact Program authorized by title I-D of the Economic Opportunity Act,[4] used for the most part to support community development corporations, illustrates the manner in which the absence of a strong constituency contributes to a distortion of program objectives and a hardening of the bureaucracy's demands for accountability at the expense of the CDC's freedom of operation. It also illustrates the degree of power which a constituency can develop when it is properly organized.

The Special Impact Program was written into the Economic Opportunity Act in 1966 in order to support a specific economic development project in the Bedford-Stuyvesant section of Brooklyn. The late Senator Robert F. Kennedy was the principal force behind the project. The Program was based upon the following assumptions:

—the war on poverty, particularly its major component, the Community Action Program, was insufficiently concerned with jobs and economic development;

—the conflicts and political influence which inevitably accompany a program run through city hall prevent accomplishment;

—the approach of the war on poverty was piecemeal while what was required was a comprehensive strategy.

—the business community must play a major role in solving poverty problems.

The last notion came from several sources. First, Kennedy saw, as Lyndon Johnson was to see shortly afterwards, that the Viet Nam war was draining away funds that had been promised for major domestic programs, and he postulated that the private sector might be persuaded to pick up the slack. Secondly, Kennedy saw that championing the role of business in the poverty program would moderate the hostility toward him among businessmen. Finally, the presence of influential businessmen in a ghetto development program would free the community organizations from

[4] Economic Opportunity Act, tit. I-D, 42 U.S.C. §§ 2763-68 (Supp. V, 1969).

dependence on the local politicians. Thus, the program embodied an alliance of businessmen and ghetto residents and specifically minimized the influence of the city and anti-poverty bureaucracies.

This alliance was reflected in the structure of the project that emerged from Kennedy's efforts. Two separate corporations were set up to run the Bedford-Stuyvesant program: the Restoration Corporation, composed of twenty-six leaders chosen from the community, and the Development and Services Corporation, composed of twelve white establishment figures. In addition to Kennedy and his fellow Senator Jacob Javits, the Development and Services board included Thomas Watson of IBM, Douglas Dillon, William Paley of CBS, George Moore of the First National City Bank, and Benno Schmidt of the J. A. Witney Company.

To finance the program, Kennedy and Javits introduced an amendment to title I of the Economic Opportunity Act which authorized Special Impact Programs for urban areas with high concentrations of low-income people. Projects were to be designed "to arrest tendencies toward dependency, chronic unemployment, and rising community tensions."[5] They were to be carried out in the poor neighborhoods themselves and they were to be of "sufficient size and scope to have an appreciable impact."[6]

The language of title I-D is imprecise. The details of the program had not been thought out, but they did not need to be. It was the intent of the program that decisions should be made at the local level and that the business-community alliance should be as free as possible to respond to needs and opportunities.

Reflecting, in part, the desire of Kennedy and his staff to keep the Bedford-Stuyvesant project out of the hands of the local Community Action Program and the New York City bureaucracy, the Senate committee specified that the Department of Labor should initially administer the program. Twenty-five million dollars were appropriated for the program in fiscal year 1967, and of this sum, $6.9 million went to the Bedford-Stuyvesant project. The remainder was scattered in various projects throughout the country to supplement the Labor Department's concentrated employment program.

Such a scattering of the funds was not what the Senate committee had intended. The committee criticized the Labor Department in its Report on the 1967 amendments to the Economic Opportunity Act[7] and strengthened the language of the legislation to eliminate a special focus on youth employment, to concentrate on economic development programs, and to include rural areas in the program. In addition, because of the difficulty Kennedy had encountered in putting together the Bedford-Stuyvesant project, and also apparently because of an evolution in the Senator's thinking, the report of the Senate committee drew attention to the importance of community participation. The report commented:

[5] Economic Opportunity Act, tit. I-D (1967 Kennedy-Javits Amendment), 42 U.S.C. § 2763 (Supp. V, 1969).

[6] *Id.* § 2764.

[7] S. REP. 563, 90th Cong., 1st Sess. (1967).

> Experience of the first year's operation demonstrates that successful program operation, including the participation by business, requires and depends on the utmost cooperation of community residents. That cooperation, in the view of the committee, will best be achieved through effective and substantial participation of the residents in program decisions, responsibility and benefits. Community and community-based corporations, which have demonstrated their potential utility as vehicles for such participation should be encouraged by the Secretary of Labor to undertake sponsorship of programs under this part.[8]

There was great resistance to implementing title I-D in the Johnson administration. Part of the resistance was programmatic; officials in the Office of Economic Opportunity and the Labor Department wanted to concentrate on education and manpower training programs which would encourage the poor to disperse from impoverished areas. It was felt that the development of inner-city ghettos and poor rural areas would defeat that purpose. Part of the resistance was political; the White House under Lyndon Johnson was not anxious to build up a program identified with Robert Kennedy.

At the same time, some middle-level administrators in the Office of Economic Opportunity had developed an analysis of the weaknesses of the anti-poverty program which in part paralleled Kennedy's. The parallel was strongest in the perceptions that diffuse responsibility and a large bureaucracy were hobbling efforts to help the poor and that the growing interest in building up community controlled economic institutions could be a constructive movement. These bureaucrats felt that ghetto development could be a more certain stepping stone to social and economic integration than an approach emphasizing instant dispersal. They argued that dispersal as a short term solution was neither politically realistic nor economically sound and that concentration on dispersal was becoming a political excuse for not financing the immediate, practical needs of the poor. Despite the importance of the dispersal-development issue to urban strategy, the only national political dialogue on the subject occurred briefly during the Kennedy-McCarthy television debate preceding the 1968 California primary. Kennedy argued for the development strategy.

After a great deal of bureaucratic maneuvering, the Special Impact appropriation for fiscal year 1968 was finally split up among four federal agencies: the Departments of Labor, Commerce, and Agriculture, and OEO. OEO received the smallest part of the pie—$1.6 million of the $20 million total—to implement the ideas of some of its staff. The goal of the OEO program was the economic development of the poverty area under the control of indigenous institutions. It was built on the assumption that in order for institutions to evolve, they had to have control over resources—that is, they had to have real power. Without such power the institutions could not attract the talented, but cynical and alienated, males who held the key to strengthening ghetto economic life.

The emphasis on alienated males led to one other assumption. It was that the

[8] *Id.* at 34.

election process was not necessarily the best means of establishing leadership. Elections under the Community Action Program had produced one disappointing turnout after another. People were elected to CAP and neighborhood boards with two, three, five percent of the eligible voters participating. Moreover, many boards seemed to be dominated by women and clergy who tended to have a strong social welfare orientation. The young alienated male did not participate.

The economic assumptions of the program were also based on the experience of the past. OEO staff members felt that attempts to induce outside established businesses to move into poverty areas had failed, and would continue to fail, because of the unattractive economic environment and racial fear. They had also concluded that economic development could not be built on the small marginal ghetto entrepreneur because of the need for both planning and large scale interrelated projects that could make an impact on the poor population.

The economic and political role of the business community was also recognized. However, the OEO staff did not attempt to replicate the Bedford-Stuyvesant model. They felt that in most places such a formal partnership would result in the "community" partner being the junior one, which would restrain its growth and development into a strong institution. They also felt that a sharing of power between the business establishment and the ghetto community would lead to the same tension that had characterized the sharing of power between the local political establishment and the ghetto community. Finally, the unusual circumstance of having a powerful Senator put the time and energy into a program in order to get the right balance between forces most likely could not be duplicated in other places.

Rather than have the federal or local government attempt to effect the business/community alliance, the OEO program left that task to the community organization itself. The community organization had to negotiate its own arrangement with the local business community as a requirement of the grant. A premise of the program was that it would build on *existing* neighborhood institutions, rather than establish new ones. Thus, the degree to which the community organization had the respect of the local business community was another measure of its ability to run an effective economic development program.

The grants were to be made directly from Washington to avoid the multiple levels of bureaucracy in OEO regional offices as well as in the local Community Action Agencies (CAA) that Kennedy's staff had also feared would hobble the program. The grants themselves called for maximum flexibility. In particular, they could be used for seed (equity) money in the establishment of businesses and housing projects. The question of political acceptability was left to the political abilities of the community organization. No formal approval rights were given either to the local government or to the local CAA. It was understood, however, that the local agency would be informed in advance of the program and that it would be up to the community development corporation to draw up sufficient political strength to overcome any objections. The selection of the organizations was entirely in the hands of the OEO staff.

In June of 1968 the OEO program began with a grant of $1.6 million (the total OEO allocation) to the Hough Area Development Corporation in Cleveland. In the winter of 1968-69, Bureau of the Budget officials under the outgoing Johnson administration determined that the OEO project had met the intentions of title I-D but that the projects in the Departments of Agriculture, Commerce, and Labor had not. The Bureau recommended that the entire program be run by OEO. The incoming administration concurred and the Special Impact Program became the first and only program to be "spun-in" to OEO. The agency spent $11.4 million in title I-D funds on community development corporations in 1969, and almost $36 million in fiscal year 1970. The estimated appropriation for fiscal year 1971 is approximately $31 million.

III

PRESSURES FOR GOVERNMENT CONTROLS

The restrictions on the flexibility of community development corporations financed by the Special Impact Program sprang from three separate, but interrelated sources: (1) political pressures arising from local opposition to projects in specific localities, (2) bureaucratic pressures arising from the natural tendency for the bureaucracy to protect itself with delay and obstruction, and (3) ideological pressures arising from the basic philosophy of the representatives of the administration who controlled the program.

A. Political Pressures

In April 1969, three months after the Nixon administration had taken over the Office of Economic Opportunity, a Special Impact grant was made to the Foundation for Community Development, a non-profit corporation in Durham, North Carolina. The grant was intended for the use of United Durham, Inc., a profit-making CDC which the Foundation for Community Development had helped establish. The grant raised a political storm among Republicans in North Carolina because of the presence on the staff of the nonprofit corporation of a controversial "black militant."

The bureaucrat who was in charge of the Special Impact Program, was called to the White House to explain. After listening to the rationale for the grant, White House aide Harry Dent said, in effect: "Oh, I understand all right. But now you have to understand that the South is very important to this administration. I know that OEO money has been used to start riots and elect Democrats and it is going to stop. The President wants that grant killed."

The CDC had the involvement of a number of highly respected businessmen, black and white. It was, however, in the South, and it was aimed at putting almost a million dollars of investment capital under the control of poor black people who were not part of the Republican constituency. And where there is no constituency there is no power. For example, Robert Brown, the only black White House assistant, who is from North Carolina, had personally intervened with the OEO staff to support the grant while it was being considered. But Brown was not at the meeting with Dent and could not be reached for weeks by those who were trying to save the program.

Ultimately, the grant was not killed, primarily because of the determination of some of the OEO staff to save it. It was held up for approximately a year, however. Legally, the grant could be terminated only "for cause."[9] Practically, however, the Republican administration would not release funds to a project that was so clearly in conflict with its southern strategy. Finally, as a result of the intervention of a white Durham businessman, OEO permitted the release of funds for a specific business project on the condition that it not go through the controversial nonprofit organization.

The delay was costly. A site for the location of a modular housing business which was available at a reasonable cost had to be given up. Committed orders for two hundred units of housing were lost and a potential manager had to be kept on the payroll. It cost the organization about $20,000 of scarce foundation money just to negotiate with OEO.

At the other extreme were projects that had too much local political support. One example was an urban CDC in the Midwest which was offered federal assistance for a ghetto transportation program. It was a sorely needed venture which would have had a great economic impact upon the neighborhood and would have established the credibility of the CDC. But the project would have caused conflict with the city-owned bus company. Since the mayor had supported the CDC, the corporation felt it did not want a confrontation with city hall so soon after it was funded. Such a confrontation might have strengthened the community support for the CDC and permitted it to be more independent of the mayor, but the CDC was not willing to take the attendant risk.

Political pressure took another twist in Cleveland, where the Hough Area Development Corporation (HADC) was attacked by the *Cleveland Plain Dealer* for what the newspaper strongly implied was a mishandling of public funds. While the focus of the attack was the CDC, the obvious target was the black mayor of Cleveland whom the newspaper tried to link with HADC. The *Plain Dealer's* case turned out to be weak, and a number of prominent citizens and businessmen came to HADC's defense. The result, however, was a freezing of HADC's funds by the Office of Economic Opportunity and a halt to negotiations between the Small Business Administration and HADC over the financing of a shopping center. After an exhaustive investigation and "evaluation" by the OEO and the General Accounting Office—which duplicated previous investigations by the FBI and the McClelland Committee—funds were released, but with a significant tightening in the power of the government to control program decisions.

In eastern Kentucky, a CDC was funded over the strong objections of the

[9] Economic Opportunity Act, tit. I-D, 42 U.S.C. § 2765 (Supp. V, 1969).

governor of the state. The governor's representative had approached OEO staff people and agreed that in return for adding seats to the board for some hostile local officials, he would get the governor to withdraw opposition. Since the governor was a Republican presumably in favor at the White House, the deal was assumed by OEO staff to be the price for the grant. The governor opposed the grant anyway. Despite his opposition, the grant eventually was made, but the enlarged board remained, even though there was no longer a political rationale for it. It is worth noting that the OEO staff, and not the CDC, made the decision that the grant was worth the governor's price.

CDC's survive political pressures when they have strong establishment allies. One program in the South was funded by the Republican administration because of the involvement of a major corporation and the personal interest of the corporation's president in the program. Before the corporate involvement the program was considered too controversial *by Democratic appointees.* The program had not changed—the political support had.

The experience of two other black-controlled programs in the rural South presents an interesting contrast in ability and willingness to react to political pressures. Both CDC's were bitterly attacked by local white officials and conservative congressmen. The leadership of one CDC entrenched itself and waited for its white liberal allies in the North to rescue it. The rescue never came. The leadership of the other program confronted the white establishment politicians with the implicit threat that the growing black voting majority in the county could cost the congressman his next election and the explicit argument that the federal funds being spent in the poor county would bolster the local, white-controlled economy. It is uncertain which consideration was the decisive one, but the opposition to the grant was withdrawn with no damage to the CDC's independence.

B. Bureaucratic Pressures

The bureaucracy-generated pressures on CDC freedom are in many ways more damaging than the political pressures. Bureaucratic pressures tend to push against the entire program rather than against specific projects. They tend to affect the day-to-day workings of the community development corporations and in the long run have a greater effect upon the CDC's performance. The first issue to arise in the OEO bureaucracy concerned the degree to which CDC's would be able to make independent investment decisions. The designers of the program proposed that CDC's have the freedom to make any investment decision without approval from OEO as long as the decision met some general criteria as to benefits going to the poor and as long as the CDC could give reasonable evidence that the feasibility of the business or housing venture had been established. Accountability was to be determined by a periodic review of the program. This proposal was rejected by the Acting Director of the agency as not fulfilling OEO's responsibility toward the public funds. As a result, OEO insisted upon approval rights on all investment decisions.

The history of the first OEO Special Impact grantee, the Hough Area Development Corporation, exemplifies the gradual loss of freedom from bureaucracy-generated pressures. Initially, only accounting and auditing procedures were to be established, evaluation visits were to be made, and reports on the progress of the program were to be filed. In addition, a number of legislative prohibitions, such as those pertaining to the use of federal funds for political activity, had to be observed. There were no other serious restrictions on the freedom of the Hough Area Development Corporation in the first grant. By the winter of the following fiscal year (1968-69), however, the program had gained some prominence in OEO and the noose of bureaucracy began to tighten.

There were many hands on the rope: lawyers who lacked precedents, administrators who saw a need for massive reporting and who wanted the right to approve every action which fell within their jurisdiction, and reseachers and planners who were concerned that CDC's produce simple programs which could be readily evaluated.

1. *Lawyers*

Some of the lawyers' problems were understandable. OEO had been set up to provide the poor with services, not to give them independent economic power. Conventional service programs, such as recreation or manpower training, did not generate permanent income-producing assets. The legal problem was that both the income and the assets would be free from federal control after the twenty-four month grant period. How could OEO be sure that the poor community would always benefit from the successful investments made with the federal funds?

The question was an important one. Assuming that a community development corporation was responsive to the needs and interests of the poor area to begin with, what was to insure that it would always be so? The argument centered on projects with self-selected boards. Despite the history of meaningless elections, the lawyers were satisfied that elected boards were always "representative."

Out of the arguments over this point, there emerged the notion that a CDC had a choice as to how it would be accountable for its assets after the federal grant expired. On the one hand, the CDC could establish a structure whereby the board would be chosen in a neighborhood election or by future low income shareholders. On the other hand, OEO could retain the right in the future to step in and take over the CDC if OEO felt that the CDC was no longer responsive. All but one of the CDC's with self-selected boards chose the former arrangement.

In the negotiations between OEO and the CDC's over the question of corporate structures, the OEO lawyers revealed a creative flair for postulating every conceivable contingency. Charter provisions were included to accommodate each of these. The result in many cases was a legal monstrosity which most poor people could not comprehend, much less utilize. The negotiations over the structure of one grant continued for more than six months after the grant was made.

Precedent existed for the making of federal investment grants to be without such complexity. The subsidization of private business is well rooted in the nation's economic history. Railroad, shipbuilding, and airline subsidies; land grants to farmers; and tax subsidies for the oil and real estate industries are but a few examples of the use of public funds to achieve social goals through private institutions. Certainly the plight of the nation's poor is at least as important as the problems these other subsidies are intended to solve. For the OEO legal staff, however, there was a practical difference. There were no influential interest groups to argue the cause of the poor and no congressional committees eager to please a rich and powerful constituency.

Traditionally, government agency lawyers take for themselves the task of standing guard against agency decisions that may be politically controversial. The Durham episode, therefore, gave the Office of the General Counsel the opportunity to expand its influence over the Special Impact Program. Several lawyers began to exercise rights of review of programs, as well as of legal problems.

One such instance occurred in connection with a CDC project in Chicago. The proposal called for the renovation of a four block area in North Lawndale for a commercial and housing program. It had been developed by a community organization with the assistance of a number of established banks and businesses in Chicago. It was one of the most competently written proposals that OEO had received. During the last two weeks of the fiscal year, however, the project almost collapsed when an OEO lawyer demanded that the calculations involved in projecting the million dollar program be explained in detail. A half-dozen experts traveled from Chicago to explain such matters as the projected cost for maintaining white lines in a parking lot over a twenty year period! Such absurdities and indignities would have never been suffered by a business applicant. In fact, only when the nature and depth of the business involvement in the Chicago project became apparent did the politically sensitive General Counsel's office back down.

2. *Administrators*

The increase in the number of forms that accompanied the growth of the Special Impact Program was illustrative of a familiar bureauratic phenomenon. Each week the program staff was notified of another obscure governmental regulation which required another form. At first, the program staff consciously resisted. As the program came under political criticism, however, the bureaucrats in charge of the program had to spend their time in other battles, and the complicated procedures grew relentlessly. When complaints were made, those responsible for the increase in paperwork would reiterate their devotion to principals of efficiency. While each form seemed to have a reason, together they were an irrational burden.

This paper snowstorm had two effects. First, it added to the number of things a CDC had to do in order to get and keep a grant. Failure to fill out each form or otherwise fulfill the new requirements put the CDC in violation of its agreement with OEO. The CDC therefore had to spend more staff time filling out the forms and less time doing economic development. The second result was delay. Failure to fill out all the forms properly and in the right order meant that funds could not be released. These delays were in addition to those caused by an overworked staff having to approve every CDC investment decision.

The delays in approving projects lengthened from weeks to months. CDC's made business deals on which they had to renege because OEO could not process the papers in time. The credibility of the CDC's with their neighborhoods and local business communities was seriously eroded.

Along with the delays came increasing insensitivity to the CDC's problems. For example, in June 1969, a grant was made to a CDC in Hancock County, Georgia. In late October, money still had not been released because the clerk with the authority to release the funds had not completed a review of all the forms. The director of the Georgia CDC had to track down the clerk himself. He told her that the people in Hancock County had concluded that he had taken the money himself and that if she didn't release the funds, they would kill him when he got back to Georgia. He was quite serious. The clerk released the money but only after making it clear that in the future such a situation would not be a sufficient excuse to go out of channels.

Jurisdictional disputes were perhaps inevitable. Regional offices wanted the right to approve and monitor all programs in their regions. This added another layer of bureaucracy. The Community Action Agencies wanted the same right to approve programs as did the state Offices of Economic Opportunity. Topping it off was a thick sauce of interagency committees, administrative offices, advisors to the director, and "liaison" offices which was beginning to make the Special Impact Program indigestible to the poor.

The first grant to the Hough Area Development Corporation required the approval of three separate offices within OEO. Two years later, the number was ten and rising. The saving grace was that some of these offices were interested only in being consulted and made little or no effort to contribute to the grant-making process. In these cases the major result was delay. In other instances, however, attempts were made to change the program and, at times, to thwart it. In the rural South, for example, one project was stopped, and several seriously hampered, by the opposition of local Community Action Agencies which preferred that resources *not* go to the poor of their counties if the money was to be controlled by an independent organization.

3. *Social Scientists*

The program was also subject to pressures from that part of the bureaucracy interested in research and planning. The people involved were primarily social scientists who were spending a few years at OEO away from the university or the RAND Corporation. Their complaint was that the objectives of the program did not fit into neat categories. Employment was not, for example, the chief goal. It was one of several goals which included developing the economic base of the poverty area, spreading ownership and control of enterprises, providing managerial and entrepreneurial opportunities, and developing community institutions. Quantitative analysis, which the planners felt should be the major determinant of a program's value, could not handle such multiple objectives and interrelated goals. Although such goals reflected the needs of the community as seen by the community, they could not easily fit the academic frame of reference of the planners. The Program Planning and Budget System required simple "inputs" and simple "outputs." There is nothing simple about organizing people for economic development in a place like Hough or Bedford-Stuyvesant.

At OEO, the planners had great influence on the budget, and the result was a pressure upon the CDC's to concentrate on projects that maximized one goal. Thus, a project like the combination shopping center-public housing project in Cleveland, which was the single most important project in the Hough community, became much harder to justify than a project to create a few unskilled jobs with no future and no impact upon the community. The multiple benefits of a shopping center-public housing project on employment, ownership, community services, and the economic base were hard to quantify; employment of the poor was easier.

Another result was a narrowing of the concept of economic development. Rather than a broad comprehensive program such as that originally envisaged by Robert Kennedy for Bedford-Stuyvesant, and by those who put together the Hough Area Development Corporation, the Special Impact Program gravitated toward the small business-oriented "minority capitalism" program of the Nixon administration. The concept of using public funds for basic investment in the ghetto to some extent gave way to an objective of creating individual businesses, *which had been rejected originally by the designers of the program as doomed to failure.* But individual businesses were easier to count.

The final and politically most tragic limitation imposed by the social scientists was the insistence that all Special Impact Programs be judged on their direct impact upon the poor as defined by OEO. The agency's definitions were kept deliberately low for political and program reasons. Politically, it was and is important to the Johnson and Nixon administrations to show a relatively small amount of resources being devoted to poverty programs. Given the low level of resources, the OEO budget planners insisted upon keeping the poverty definition low so that the funds could be concentrated on the lowest portion of the poverty population. Although this limitation made some sense as a device for maximizing the delivery of services to those most in need, it was a destructive notion in an economic development program which required the involvement of many skilled individuals. Moreover, a large portion of the key target population—adult males—could not be drawn into a program with arbitrarily low income standards.[10] The demand that the benefits be limited to such a small segment of the population also defeated the notion of developing community institutions, and had the effect of limiting the constituency for the program. The insistence of the social scientist planners that OEO funds be used only for the poor in the interests of program efficiency, combined with the decision to keep the income definition unreasonably low, cost the poor and their programs the chance to broaden their base of support.

C. Ideological Pressures

The ideological pressures on the Special Impact Program reflected the way in which OEO's leadership looked at the problem of poverty. While these pressures had political implications, their source was not so much specific political problems as a desire to operate programs according to a general political philosophy. In the last year of the Johnson administration the ideological opposition to the Special Impact Program centered upon two points: (1) that development programs, particularly in the cities, would lead to racial separatism, and (2) that the development of businesses would necessarily mean concentration on the nonpoor.

As indicated previously, the designers of the program had argued that development would lead to integration and not separatism. The second point was answered by the argument that the benefits of an economic development program in large part was a function of who controlled the program. If the poor controlled it, they would benefit. The differences between those who designed the program and the OEO leadership were not completely resolved, but the ideological concerns of the latter were recognized by the designers as reasonable concerns. When these were approached with sufficient seriousness, a limited number of projects was approved.

Donald Rumsfeld, the Republican OEO director, and his staff brought an entirely new set of objections to the program. Shortly after he assumed the directorship, a report to Rumsfeld written by one of his assistants recommended that the program be terminated immediately and all of the oustanding funds returned to the treasury. Another report to Rumsfeld stated that the primary question was whether the program was consistent with the *Protestant ethic.* Rumsfeld declared that making grants without very tight controls was irresponsible. "What happens," he asked, "if ten years from now the Black Panthers are chosen by the stockholders to run one of these CDC's? How are you going to prevent that?" The program staff replied that businesses could not be run effectively under government controls, but that argument was brushed aside. "They" were using "our" money and "we" had to control its use. Thus, it was the Republicans—the party of business and advocates of local control and freedom from government regulation—which gave the final shove that pushed the Special Impact Program into the bureaucratic quicksand.

[10] Some notion of the adequacy of OEO poverty definition ($3800 for an urban family of four) can be gained by a comparison with the Bureau of Labor Standards minimum level of $6960. *See generally,* Bureau of Labor Standards Press Release, Dec. 21, 1970.

The lawyers were set to work creating still more restrictions upon the program. Ironically, it was a point on which the lawyers previously had insisted—the CDC's electoral responsiveness to the neighborhood—that most concerned the Republicans. But there was no attempt by the Geenral Counsel office to defend the program. The theme was *control,* control over staff, control over investment decisions, control over strategies.

The concern for controls, however, was selective. Those projects such as the original Kennedy program in Bedford-Stuyvesant, which had strong establishment support, were not questioned. In fact, so that Rumsfeld might have something to deliver on a trip to New York City, he announced the $10 million refunding of the Bedford-Stuyvesant program before the basic documents had been prepared. Neither Rumsfeld nor anyone else on his staff knew what they were announcing. But with important business leaders involved in the project it did not seem to matter.

Another example of the selective concern for accountability for federal monies was the creation of the Opportunity Funding Corporation (OFC). The OFC was the creation of Theodore Cross, author of a book on black capitalism who was hired by Rumsfeld to come up with innovative business-oriented programs.[11] Cross proposed that the OFC be formed by a small group of financiers and businessmen and be supported by OEO for the purpose of experimenting with new ways to encourage investment in poverty areas. While no one could quarrel with the general goals of the program, none of the ideas to be pursued were defined. Nonetheless, Rumsfeld agreed to terminate the entire CDC program and use the funds for the OFC, sight unseen, programs undefined, and relationship to the poor unclear. The important thing to Rumsfeld was that the OFC would be run by reliable white businessmen. So anxious was Rumsfeld to shift resources from control by the poor to control by the rich, that he announced the OFC program to the press before it had been reviewed for legality. Only after the community development corporations themselves organized to fight the plan, and several members of Congress joined in their protest, was the Opportunity Funding Corporation modified. The monies for the support of OFC that were to come out of title I-D were decreased considerably, and two CDC leaders, one of whom was a Special Impact grantee, were added to the board.

Despite the Republican Party's rhetoric against federal controls, particularly economic controls, those who ran OEO favored central state control when it came to programs in which the poor were participating. Freedom and independence were reserved for the higher social orders.

IV

THE NEED FOR AN EFFECTIVE CONSTITUENCY

The history of the Special Impact Program illustrates that the tension between

[11] T. CROSS, BLACK CAPITALISM (1968).

a community development organization's need for freedom and the bureaucracy's need for accountability are directly related to the political support that the former can muster. Individual community development corporations successfully defended themselves against political and bureaucratic pressures only because they had been able to secure influential allies. The Bedford-Stuyvesant program with its built-in alliances with the business community has been most successful. The Hough Area Development Corporation's program was saved by supporters in Cleveland's business and political community. The key individual in saving the Durham project was the local manager of an IBM plant. In Chicago, the prestigious group of businessmen which agreed to help the North Lawndale Economic Development Corporation was instrumental in overcoming its problems with the bureaucracy. Where such allies have been absent, projects have experienced more difficulty, particularly in the rural South and in Appalachia.

Most of the support has come from the business community. Thus the original hypothesis of the Kennedy-Javits Amendment that established businessmen could act as effective guards against political and bureaucratic interference has proven correct. Usually some price must be paid for local business support. In some cases the price is tangible; deposits are expected to be made with a particular bank, or real estate transactions must be handled by a particular downtown firm. In some cases, the price may be less tangible but higher—a reliance on the protection of a dominating institution which prevents the community development corporation from solving its own problems and growing into an independent institution.

Business support is also of uncertain stability. As the memory of urban riots fades and business conditions deteriorate, the enthusiasm of businessmen in assisting community organizations diminishes. The assumption of many that the business community would provide the massive resources to develop rural slums and urban ghettos has not proven correct.

That community-controlled economic development programs were forced to rely upon outsiders for protection was inevitable. Just as a degree of economic protection in the form of subsidies and guaranteed markets is needed at the beginning stages of economic development, a degree of political protection is also needed. Those who support anti-poverty programs are still small in number and the hostility in Washington to community control has never been stronger. But if the public investment necessary to develop urban and rural poverty areas under community control is ever going to be made, CDC's, cooperatives, and similar organizations will have to develop their own constituency on a national, as well as a local level.

Businessmen cannot be expected to give the kind of political attention to the needs of poor people that they give to their own needs. An example of the political priorities in the private business sector is the Administration's recent success in persuading Congress to approve a loan to the Lockheed Aircraft Corporation to enable that firm to survive its own mismanagement of the C5A program. The estimated cost of this loan—to help one firm recover from its own mistakes—is ten times what the same Administration is seeking from Congress so as to support CDC's throughout the entire nation under the Special Impact Program in 1971.[12]

Moreover, the private business sector has been of help primarily in the large urban areas, where local self-help organizations pose no immediate threat to the establishment. On the other hand, the histories of both the Community Action Program and the Special Impact Program have demonstrated how thin the support is for social and economic change on the part of those who control the destinies of small cities and rural areas. When the relationship between the economic facts of poverty and the structure of political influence becomes clear, the mere existence of a semi-independent organization with the responsibility to "eliminate poverty" is enough to cause uneasiness at city hall and the county courthouse.

The rhetoric of community economic development often tends to emphasize the conservative aspects of self-help. Indeed, the notion of people organizing for their own economic improvement is in the best traditions of American business. But it would be a fatal mistake for those interested in strengthening the movement for community economic development to forget that on the national level their cause is linked to the cause of anti-poverty efforts in general. The notion that political conservatives who opposed social welfare programs would support local control and economic independence for the poor and disadvantaged has been tested in the first years of the Nixon administration, and it has failed. Only as part of a reconstituted and revitalized anti-poverty constituency which crosses racial as well as programmatic lines will community economic development organizations gain the scale of resources and degree of freedom they need.

To begin playing this role, community economic development organizations will first have to organize themselves. Even now, most of these organizations define themselves nationally in terms of their financiers—as OEO programs, Model Cities programs, Ford Foundation programs—rather than in terms of what they themselves do. A network that cuts across such lines is needed to share experiences and for mutual protection and reinforcement. Efforts also should be made by those concerned to encourage the expansion of the community development corporation idea to groups that thus far have not been much involved, such as the white urban poor and near-poor. To the extent that these groups are more concerned with *community* development than with *economic* development, it may require a broadening of the concept of "community economic development." As the history of the Special Impact Program shows, a social scientist's concern for definitional purity can be detrimental to the building of a political constituency. If efforts at community control of an area's economic development are to be taken seriously, they must be seen as applicable to disadvantaged people generally and not simply as a program just for ghetto residents or minority businessmen.

Outside alliances, of course, should be maintained and strengthened. At present,

[12] N.Y. Times, June 30, 1970, at 82, col. 4.

businessmen will play an important role in any economic development program. But other players must also be drawn into the game, including the more progressive elements in the labor movement who in areas such as Los Angeles have given financial support to community economic development organizations.

A Washington consultant with long experience in the economic development field recently noted that when people come to Washington to lobby for urban programs, they concentrate on programs such as education, welfare, and housing. The issue of economic development programs rarely comes up. Therefore, senators and congressmen assume that it is not very important. If community economic development is to be a claimant for public funds, community organizations will have to talk to those congressmen and senators and talk to those who influence them. If community organizations are to use economic development funds to respond to the needs of their people rather than the political needs of Washington or city hall, the process of building political strength cannot begin too soon.