Space-Based Economic Development?

Views from Los Angeles

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I. History and Logic of Area-Based Initiatives

I.1. Introduction

Almost thirty years after the urban riots of the 1960s and the ensuing area-based urban policies of the Johnson Administration, which were embedded in the simple linear logic that poverty is the root of all social problems and that poverty, as well as urban riots, is spatially defined (Gale, 1996), the Federal government once again adopted an area-based urban policy initiative under the Empowerment Zone legislation of August, 1993. Much the same as its 1960s precursor's ties to the 1960s urban riots, this *de jour* urban development is rooted in the civil disturbances of 1992, which created a new sense of urgency for the government to deal with the inner city. These were places left behind in the evolving courtship of private capital with a *laissez faire* government in the 1980s. Though the riots occurred on the Republican clock, it was the Democratic administration, under President Clinton, that passed the Empowerment Zone legislation in August of 1993. It should be noted that President Bush (senior) had visited South Central after the disturbance and had provided $1.3 billion in emergency relief to Los Angeles. However, his brand of area-based assistance, which was summed up in his "weed and seed" program, was more punitive than helpful (Ross and Levine, 1996) and carried the moral interpretation of poverty (see Ward, 1989) that has been endemic to inner-city urban policy in the U.S. The "weed and seed" program was meant to weed out social pathologies, especially crime, and plant the seeds of education and job opportunities. However, there was much more weeding (in the hands of the LAPD) than seeding in Los Angeles. Fortunately, this brand of corrective measures met its legislative death, as a number of politicians began to add their pet projects to the bill that carried its language, and the day after the 1992 presidential election, President Bush vetoed this over-stuffed $25 billion political pillowcase. Urban policy had to await the Empowerment Zone initiative and its mixed strategies for yet another federal attempt at engaging in the "war against poverty."

In the United States, the issue of poverty and programs to alleviate and/or manage this social ill have run the gamut of the people-based approaches of philanthropic organizations and the 1930s welfare style assistance programs to area-based initiatives that are typically prescribed by the government, both federal and local. The latter group has a long history, and in Los Angeles, alone, it can be traced to 1948 and the establishment of the Community Redevelopment Agency (CRA). This agency was created through the California Redevelopment Act of 1945, which had hoped that cities and counties would rebuild their blighted neighborhoods and create a large number of jobs through urban renewal projects (Modarres, 1999). This early realization of urban problems had not occurred in a vacuum, but rather in the wake of early urban disturbances, such as the 1943 Zoot-Suit riot and the August 1942 Sleepy Lagoon incident, and the realization of a structural marginalization, through which both African-Americans and the Latino population of Los Angeles were segregated and excluded from certain job markets (Laslett, 1996). While this article does not allow for a thorough discussion of the historical dynamics that led to the creation of the CRA, it should be noted that this local precursor to the federal Model Cities program rarely focused on social capital development, remaining largely concerned with physical planning/the built environment, and more specifically with

housing. Given the newness of a significant portion of the population in areas such as Watts, the CRA's agenda translated to very little of an attempt to deal with the deepening economic divide that would emerge only a decade later in African-American, Latino and other minority communities. Images of a run-down downtown, especially Bunker Hills (see Klein, 1997), and an overall politics of "downtown development" meant that from the 1950s to the 1990s, over half of CRA's projects would be built in the Central Business District and adjoining Bunker Hills (Regalado, 1992). The remainder was distributed among the other 18 development areas, which included south-central and other poverty-stricken neighborhoods. The Agency's biennial reports during the late 1980's indicate that as the federal government fully abandoned American cities, such as Los Angeles, the brick and mortar local government offices continued their obsession with the physical infrastructure. For example, in the five CRA areas that would be affected by the 1992 civil disturbance, Crenshaw, Hoover, Watts, Normandie 5, and Adams-Normadie 4321, the CRA expenditure focused primarily on housing and commercial development. In Crenshaw, 45% of the 1986-1988 $30 million funding was spent on public improvement projects . The Adams Normandie area received close to 68% of its $10 million funding in the 1988-1990 period for new and rehabilitated housing. This pattern was the same for Watts and Hoover, and Normandie received slightly more in commercial development.

The alphabet soup of program acronyms for urban development created a veritable maze of local, state, and federal initiatives, which were focused either on social assistance or infrastructure building, but were all too often area-based. The Community Development Block Grant (CDBG), Private Industry Councils (PICs), HOPE VI, Urban Development Action Grant (UDAG), Neighborhood Self-Help Development (NSHD), and Local Initiatives Support Corporation (LISC) are among many well intentioned, some still operating and some vanished programs that have had one goal in mind: to erase poverty from a capitalist society.

I.2. Social Construction of Development

Governance is concerned with the production of a nation, a state, and a spatially identifiable sphere of influence; however, space is not governed alone, but rather, people who live in its Euclidian tyranny are managed administratively. Governance demands and creates a "citizenry." Therefore, while there is ample theoretical evidence for the creation of consumers through the capitalist process (e.g., Knox, 1993, Harvey, 1989), the production of citizenship requires the direct involvement of the political process, which in turn is influenced by the social and economic processes. In other words, citizens are socially produced, politically managed and controlled by the capitalist economic forces in most western societies, including the United States. This does not diminish or deny the postmodern emphasis on the role of culture, especially multiculturalism; however, it does suggest that hybridity is hardly a negation of the structural processes. The fact that no single structure; and therefore, no single solution, can be offered is fundamental to the argument, here and elsewhere. Multiple versions of "reality" generate multi-vocality and demand multi-dimensional solutions to any social problem. Poverty is too complex to be remedied through one prescription. While a structuralist perspective is still illuminating, the single-solution, pseduo-scientific modern approach is no longer valid. Complex structures produce complex infrastructures and require multiple approaches to their solution. Since the infra-structure is uniquely visible in space, it has contributed to the obsession with creating geographic abstractions of social processes, namely poverty areas. As Dear (2000) argues, space is

fundamental to the postmodern discourse as well, since space embodies meaning and social processes. However, here space becomes a geographic puzzle, whose solution may require more than quantitative measurements and econometric models. To the extent that these processes are intertwined, the emergent geographic puzzle can neither be analyzed from a singular analytical methodology nor solved by a singular vision of remedies. Trapped in the modernist logic of abstracting humans into citizens, ethnie into nations, and nations into states, poor people are grouped into poor communities, and poor communities into poverty areas. As such, the logic is turned around, and as Nietzsche warned, the state becomes the people (1980), space becomes the generator of social problems, and social problems are abated through spatial corrections. Somewhere along the line, humans are translated into dependent variables and space into an independent variable in the equation of social analysis.

It would not be fair to say that little has been learned over the last forty years of blatant area-based anti-poverty programs. The community and its voice have been discovered, as has the importance of a multi-sectoral partnership. But as Landau (2001) argues, even these approaches have been categorized as “arrogant” or “cowardly” at various times. This is especially true when a community has to submit a single, well-articulated vision of what it wants to do and how (as was demanded by the empowerment zone application process). This “arrogant” approach assumes that communities, not unlike states, need to create a homogenous membership whose needs can be averaged, their voices made unison, and their solutions agreed upon. This political demand for funding approvability has forcefully created communities around issues of need. Even when social capital development is discussed, it is within the confining boundaries of space and mostly void of political capital development. Putnam, et al.’s (1994) argument about the production of local-level political participation is amiss. However, it is ironic that as Keating (1999) and Gale (1996) argue, a significant number of anti-poverty programs were designed as a reaction to urban riots, wherein the federal, state, and local governments acting “cowardly” have reacted by throwing money at the areas within which civic disturbances have occurred. Landau (2001) argues that the “cowardly” approach goes farther by occasionally throwing the money at an area and submitting to the residents’ will regarding how it should be spent, but this pattern is more sporadic than the “arrogant” approach.

I.3 A Summary of Poverty Indicators and Their Change Over Time

No discussion of anti-poverty programs can begin without challenging the formal definition of poverty. After all, one cannot declare a war on something undefined. For the purpose of this article, it is sufficient to state that along with the 1960s policy attempts at poverty abatement, a “scientific,” or statistical definition of this phenomenon became necessary. The adoption of the Orshansky index by the Office of Economic Opportunity was a step in that direction. This index was a composite variable that assumed poor families spent more than one-third of their incomes on food, a bias introduced by the Department of Agriculture’s low-cost food budget and adjusted for family size, age composition and urban-rural difference. However, no allowance was made for inter-or-intra-urban differences. This calculation was then crudely transformed into a poverty income threshold. According to Fichtenbaum et al. (1992), this line was later adjusted downward to avoid an embarrassing discrepancy between welfare expenditures and the newly calculated income threshold. Starting with the 1970 census, the poverty area definition was changed to include only census

tracts or minor civil divisions outside tracted areas in which 20% of the residents had incomes below the official government poverty line of 1969. This rush toward a simplistic area-based poverty definition was partly due to the spatial bias of policy makers and the public alike. However, the areal cut-off line of "20% poor residents" was a further complication in understanding and encountering poverty. This magical determinant of poverty zones was invented when its application to 1960 data for the test states of Ohio and Texas yielded a set of areas closely resembling the poverty areas delineated in 1960 using the earlier five factors of: a) percent families with annual income under $3,000 in 1959; b) percent children under 18 years not living with both parents; c) percent persons 25 years and over with fewer than eight years of schooling; d) percent unskilled males in the employed civilian labor force; and e) percent housing units characterized as dilapidated or lacking some or all plumbing facilities (Littman, 1991). Note that while the earlier five factors accommodated some of the conceptual or structural aspects of poverty, relegation to a simple 20% poverty line and a purely income-based poverty definition reduced this phenomenon to income inequality and removed any attempts to remedy the structural shortcomings of the system as a whole. As such, poverty was reduced to a simple community problem and little importance was assigned to some of the exogenous factors contributing to what can be called the conditions of poverty.

With the exception of a handful of urban scholars (Rainwater, 1974; Kilpatrick, 1973; Morrill et al., 1971; and Ornati, 1966), most poverty research has fallen short of questioning and providing alternatives to this deterministic approach to the definition of poverty. Therefore, a modified Orshansky index has become the basis of many economic studies and urban policies, and has acted as the fundamental determinant of Empowerment Zones and HUD Section 108 areas.

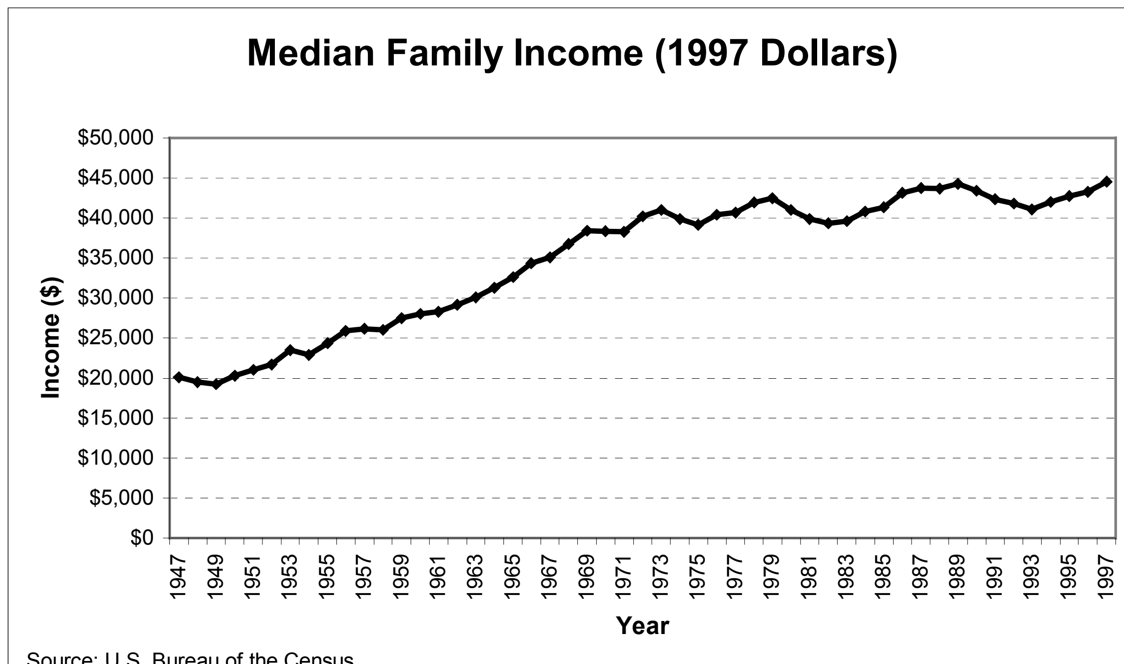
Even if one accepts this arbitrary definition of poverty, other questions emerge. For example, what percentage of the population experiences poverty at some point during their life; how geographically concentrated are the poor; and, what is the proportion of poor not living in predefined poverty areas? How successful has the "war on poverty," with its area-based focus, been in the last thirty years? In other words, have we seen a significant shift in the nature of or numerical indicators of poverty in the last three decades? While we can generally agree that no amount of money will eradicate poverty within a short period of time, it should be noted that almost all applications for funding assume to be able to radically transform their targeted neighborhoods, where "poor folks" live. It is therefore legitimate to question the outcome of individual projects, at least within the confines of their administrative "areas."

Rank and Hirschl (1999) suggest that poverty is endemic to the life experience of all Americans. Using the Panel Study of Income Dynamics (PSID) for the period of 1968 to 1992 (equivalent to 245,000 person years), these authors conclude that by age 30, 27.1% of adult Americans will have lived for one year below the poverty line; by age 40, around one-third, and by age 65, one-half of the population will have lived at least one year in poverty. Those surviving to age 85 will have an even higher probability, with two-thirds experiencing this misfortune. This study suggests that poverty is endemic to the nature of the American economy and that there is no safe age beyond which the "war on poverty" will become unnecessary. Furthermore, the probability of poverty among African-Americans is substantially higher than in whites, among all age cohorts. However, it is most severe among the younger population. For example, African-Americans in their 30s are four to five times more likely to have experienced poverty than their white counterparts. By age 75, over 90% of African-Americans have experienced poverty. This pattern of poverty, combined with the historical aspects of segregation, suggests that a "war on poverty"

should have a racial overtone, as well as a spatial logic. However, two issues remain unanswered. First, how has the geography of poverty changed over the last three decades, and given that two thirds of all Americans may experience some level of poverty in their lifetime, how concentrated can this phenomenon be? Furthermore, has the annual rate of poverty changed over time?

Sawhill and Thomas' (2000) recent study indicates that poverty rates at the national level have declined substantially over the last four decades. However, the income gap has also increased significantly. In fact, while poverty rate has declined from slightly over 20% in 1959 to 11.8% in 1999, the income gap has increased in a statistically staggering manner. The top 5% of families with the highest income earned ten times more than the families in the bottom 20% in 1966, but the same top group earned twenty times more than the low income population in 1997 (U.S. Census Bureau, 2000). By 1999, the top 5% population's share of the household aggregate income had reached 21.5%, a growth of 4% from 1969. However, the bottom 20 percent's share decreased from 4% to 3.6% (U.S. Census Bureau, 2000) (For further discussion and analysis of income inequality, see Burtlerss, 2001). These statistics suggest that while poverty rates may have declined over time, the share of the population slightly above the poverty line has increased substantially. If there is a pronounced geography of wealth, one needs to seek it among the top 5% families, who need gated communities and the protective support of hired police to preserve their social isolation from the increasing ranks of the working poor.

While the national trends of declining poverty may suggest some silver lining in the emerging landscape of differentiated wealth, the fact remains that the state of California, as one of the wealthiest states in the Union, remains an exception to this image. Not only have poverty rates in the state remained higher than the national average since 1987 (Johnson and Tafoya, 2000), but California's poverty rate has increased among all types of families from 1978 to 1998, except for those "living alone." Additionally, while "single parents with children" make up the largest national portion of those living in poverty, in California, the highest incidence occurs among families classified as "married with children." This is a sobering fact that requires some explanation. California's economy may be growing most visibly in entertainment and the high technology industries, but in fact, the greatest number of jobs are to be found in the low-paying service sectors employing immigrants and minorities, whose hard work can barely keep them above the poverty line. Mishel et al. (2000) show that while nationally, the 1999 hourly wage rate for low-wage workers stood at about $7.35, in California, this rate is $7.05 and has declined substantially from its 1979 equivalent rate of $8.31. This is also true for median wage-workers, who have seen a decline of over 6% in their hourly rates from 1979 to 1999. According to the same study (Mishel et al., 2000), jobs that pay poverty-level wages made up 28.7% of all jobs in California. Interestingly, in 1979, these jobs made only 18.4% of the market. Nationally, the figures for jobs that pay poverty-level wages has changed minimally, from 23.7% to 26.8%. Therefore, it would be no exaggeration to proclaim that California's economy is growing in the poverty-level wage market, hence its drastic income disparities. While from 1978-1980, the ratio of the top 20% income bracket to those in the bottom 20% was 7.6, by the 1996-1998 period, that ratio had increased to 11.9%. This translates to a profound realization that while the median family income continues to grow (see Figure 1), poverty rates show no sign of retreat in the sixth largest economy of the world, and a significant number of Californians can expect to experience poverty in their lifetimes. There is no doubt that the "war on poverty" has not altered the reality of poverty in California, but has it changed the geography of poverty, since so many of the anti-poverty initiatives were area-based?



Two articles published in 1991 provide an insight into the changing geography of poverty. Littman (1991) examines national trends from 1972 to 1989 and concludes that on the one hand, total population living in poverty areas is affected more by national cycles of the economy than any other factor, and on the other, that relatively fewer poor lived in poverty areas in 1989 than in 1972. This suggests that a decentralization of poverty has occurred over the last three decades. This agrees with the multigenerational dimension of poverty presented earlier. As the likelihood of poverty among all citizens increases, the poverty areas become a less important arena for the display of poverty, and the logic of geographic isolation and causality of space becomes moot.

Greene's (1991) study of poverty concentration arrives at a similar conclusion. He further illustrates that while poverty areas in cities like Chicago and New York contain a significant portion of the poor population, cities like Los Angeles house only a small portion of their poor in poverty tracts. In other words, poor populations are not concentrated mostly in census tracts with low poverty rates. This information violates the basic premise of area-based anti-poverty programs, which emanates from an east coast interpretation of the urban underclass that contains racial overtones and the social psychology of equating poor areas with ghettos. While Greene examines 1970 and 1980 data, an analysis of more recent data suggests similar findings in Los Angeles. For example, in 1990, while there were over 1.3 million individuals below the poverty line in Los Angeles County (i.e., 14.8% of total population), only 729,000 (or slightly over half) lived in poverty areas (Census, STF3A and PUMS, 1990). Even within the poverty areas, only 29.5% of the population is below the poverty lines. In other words, an area-based initiative such as the Empowerment Zone has only a 30% chance of reaching a poor person in Los Angeles' designated poverty areas. To make matters worse, the designated Supplemental Empowerment Zone (SEZ), which according to the Federal mandate had to be contiguous, could only select 41 census tracts (still geographically divided into two parts), which housed 81,000 individuals below the poverty line. The poor in these census tracts made up only 38.4% of the resident population. With no geographic justification, area-based initiatives such as the SEZ have

to socially construct communities[1]. However, in their arrogance, they require univoice visions of a better “community” where one does not exist and manufacture membership in much the same way that citizenship is produced within a nationalist agenda. The failure of forty years of area-based initiatives lies not in their lack of innovative economic development strategies, but in the absence of cohesive communities and a collective vision of success and/or togetherness, beyond more low-paying jobs and maybe a better income. Communities do not exist in middle-class urban settings, so how arrogant can we be to demand their existence among the poor?

Against this backdrop of poverty and geography, we can now begin to assess the evolution of the SEZ in Los Angeles within its appropriate social, economic and political milieu. The overt criticism of the philosophy will no longer be necessary; however, focus on implementation and programmatic issues will be necessary. After a short introduction of the program, a discussion of some of the major issues will follow.

[1] Communities are typically defined like nations. They are envisioned as collectives of individuals who have a number of common social, cultural, and political characteristics. Much the same as nations, communities are also assigned a territorial characteristic or a spatially defined identity.

II. Empowerment Zones: Design and Prescription

On January 17, 1994, Martin Luther King's birthday and five months after the August, 1993 passage of the Empowerment Zone (EZ) legislation, President Clinton announced that communities would be able to apply for the Empowerment Zone and Enterprise Community (EZ/EC) designations. The selection criteria were implicitly defined as the degree to which an application responded to the four basic principles of economic opportunity, sustainable economic development, community-based partnerships and strategic vision for change. Furthermore, the Secretaries of Housing and Urban development (HUD) and Agriculture were authorized to use community need and geographic diversity to select the final urban and rural EZ/EC designees, respectively. After an unsuccessful application for the EZ designation (a program for which the post-riot Los Angeles seemed to be a poster child), Los Angeles received the compromise status of "Supplemental Empowerment Zone" and a funding package under the Economic Development Initiative. The obsession with geography of poverty at the federal level and organizational problems at the local level proved to be detremental to Los Angeles' application for the original designation. The fact that the selected six EZs are in older cities on the East Coast and in older industrial cities gives some indication of the one-dimensional interpretation of poverty at the federal level.

The proposed, and accepted, geography of the SEZ was 41 census tracts clustered in South Central, those with which the civil disturbance of 1992 was geographically associated, and Pacoima, an emerging Latino/African American neighborhood that can be viewed as a suburban counterpart to South Central (see Figure 1). These tracts, suffering from the reality of the diffused geography of poverty in Los Angeles, housed no more than 6% of those in the entire county who were below the poverty line (or 12.6% of the poor in the City of Los Angeles) (information derived from the Census of Population and Housing, STF3A, 1990). Interestingly, even within this area, individuals below the poverty line made up only 38.4% of the population. A striking aspect of the SEZ demography was its disproportionate focus on African-American communities, a fact that did not escape many Latino community advocates.

II.1. Designing an area-based economic development program

Once the Title XX social service monies were no longer available, the strategic plan lost three of the four key principles of the initial plan (the HUD language of "Economic Opportunity," "Sustainable Community Development," "Community-Based Partnership," and "Strategic Vision for Change") and was reduced to an economic development plan with small components for the other principles. According to the briefing, published on February 19th, 1996, the SEZ (plan) aims to:

- Provide opportunity and assistance to new businesses that will create jobs and provide needed services;
- Improve and enhance the competitiveness of existing industries, safeguarding jobs and creating new opportunities;

– Foster the development of emerging industries in transportation, health care and arts and entertainment; and,
– Create a viable workforce by improving job training, child care, housing and educational opportunities for residents.

This language is clearly focused on economic development, and social service issues are only small footnotes to the process. It is actually the challenge for all participants to harness funds for the community development issues left out by the design of the LACDB, as the sole solution for the SEZ.

Since EDI funding was the only remaining alternative, the Mayor's office took the lead and established a non-commercial lending institution (i.e., the Los Angeles Community Development Bank) that would promote job growth in the SEZ neighborhoods. This was done with little community, or for that matter, multi-agency, input. The initial important players were the former Deputy Mayor, two lawyers from a private firm who helped with the legal processes and the development of the appropriate documents, and two other influential businessmen, one of whom later became the Chief Executive Officer of the bank (based on personal interviews). [This group apparently came up with the idea of the bank.] Interestingly, the City's Community Development Department (CDD), which is really the pass-through agency for the Bank's money, was excluded from the initial design process, but was brought back into meetings in late May, 1995. An explanation offered for this process (keeping inter-departmental problems in mind) was that HUD didn't want the City to make political decisions about the money. HUD actually pushed for the Bank to be independent of the City, but there were disagreements surrounding that issue, at least for the next couple of years. Based on the final design format, the Bank negotiates with HUD directly; however, for financial reasons, it requests money from the City (CDD), which in turn requests the money from HUD without examining the content of the request. Based on our local knowledge, the relationship between the LACDB and the CDD seems to have emerged as part of an incremental decision-making process. While the CDD does have a role in the overall operation of the Bank, it has little or no influence on its day-to-day operations.

In the design and procedural development of the LACDB, the Mayor's office, with assistance from the local HUD office, provided the majority of the support. A number of council district representatives, especially the councilman from District 1, which encompasses Latino neighborhoods west and north of the Los Angeles Central Business District, were involved in advancing the idea and pushing for the final development and implementation of the Bank.

After the City Council approval of the HUD agreements in October, 1995, the LACDB Board began to hold its first meetings. The final County appointment occurred in December of 1995 and in the first and second quarter of 1996, the Bank was to hire a CEO and staff to operationalize the LACDB functions. During this period, the Mayor's office provided support staff and the City CDD helped with the procedural aspects of the operation (e.g., holding orientation meetings for the SEZ Oversight Committee). These delays created a high level of public anxiety, which was reflected in a May 26th, 1996 (?) article in the Los Angeles Times. At that point, little was known about how and when the bank would begin offering loans. While the goal of hiring a CEO had been achieved, the staff and the intermediaries for the community connection and micro-lending had not been identified.

By design, the LACDB emerged as one of the largest non-commercial banks established for the sole purpose of economic development. In total, HUD provided $430 million ($115 million in EDI, $15 million of which was targeted for the few areas that fall in the County jurisdiction and $315 million in section 108, $15 million of which was designated for the County).

Because the $315 million was in loan guarantees, it must be paid back. This puts the Bank under pressure to be a successful lending agency. In an interview with the Los Angeles Times (…), Andrew Cuomo, then the Secretary of HUD, indicated that the balancing trick for the LACDB was to create jobs for the community and be a flexible bank, but also to protect taxpayer dollars (this refers to the loan guarantee monies). This meant that despite the perception of a large sum of money being given to the bank, the funding was not the bank's to lose. Despite this harsh reality, there is little evidence that an acceptable default rate was ever established by the bank, even though the Section 108 application refers to a leveraging factor of 4 to 1.

In addition to the federal dollars, commercial banks also committed $210 million, bringing the total of "imaginary funds" to $640 million. The role of the commercial banks and business representation on the board was an attempt to remedy previous application shortcomings (i.e., private sector commitment).

The bank's design for lending practices was clearly based on diverse perspectives of what may or may not work in targeted communities. The final allocation for expenditures fell into the following categories:

- Microloans (will be mostly done through the intermediaries)
- Business loans
- Commercial Real Estate loans
- Commercial loan guarantees
- Loan loss reserves
- Venture capital
- Business and technical support
- Economic development grant

Based to the Section 108 application, the Bank estimated that $200-300 million will be used to make loans available to qualified applicants, generally ranging from $25,000 to $10 million, $25-50 million will be used to cover any loan defaults, $50-100 million will be set aside for venture capital to fund investments at increments of $500,000 or more and an additional $10 million to fund investments in the under $500,000 category, while $5-15 million is to be used for economic development grants. According to this plan, miscellaneous revenues may be used to fund social services programs.

In support of this program, another $4.7 million was earmarked for business expansion and technical assistance in the SEZ, the City of Los Angeles adopted a $2.3 million Annual Business Tax Relief Program in January of 1995, and both City and County committed over $5.6 million of their property taxes over a five-year period to the redevelopment of the SEZ. As a one-time deal, the City also committed $5 million in CDBG money.

Section N of the 108 Application identified the milestones based on the HUD approval date. These were:

- **July 1, 1995** or 60 Days after HUD approval: form the LACDB (Bank incorporated, Board of Directors established, Comprehensive CDB Agreement drafted, negotiated and executed. EDI grants and Section 108 Guarantees transferred from HUD to the City and the County and from them to LACDB)
- **August 1, 1995** or 120 days after HUD approval: 10% of available CDB capital committed
- **October 1, 1995** or 180 days after HUD approval: 20% of available CDB capital committed
- **April 1, 1996** or 12 months after HUD approval: 35% of available CDB capital committed
- **October 1, 1996** or 18 months after HUD approval: 50% of available CDB capital committed

Obviously, because of the delay in the hiring of the Chief Executive Officer, these original deadlines were missed. However, a February 2, 1996 document identified revised milestones as follows:

- **May 1995**: Vice President Al Gore announces the plan to create the LACDB.
- **July 1995**: The Los Angeles City Council and the Los Angeles County Board of Supervisors approve initial HUD agreements for the formation of the LACDB
- **October 1995**: The Los Angeles City Council approves final agreements.
- **November 1995**: The Los Angeles Board of Supervisors and HUD approve the final agreements, paving the way for official formation of the LACDB.
- **November 1995**: Mayor Riordan (with approval of Los Angeles City Council), the LACDB incorporators and president of three Southern California universities appoint the LACDB Board of Directors.
- **November 1995**: The LACDB Board of Directors holds a meeting.
- **December 1995**: The County of Los Angeles announces its appointment to the LACDB Board of Directors.
- **December 1995**: The Board of Directors hires a search firm to find a qualified CEO for the LACDB
- **December 1995**: Arrangements are finalized with HUD to obtain access to $1 million in working capital to assist with start-up operations of the LACDB.
- **December 1995**: Members of the LACDB board of directors begin working with the City and County of Los Angeles and HUD to define qualification requirements for potential bank intermediaries.
- **December 1995**: An implementation team is formed to oversee day-to-day operations of the LACDB until a full-time staff can be hired.
- **First and Second Quarter of 1996**: The LACDB expects to fund its first loans late in the first quarter or early in the second quarter of 1996.
- **First and Second Quarter of 1996**: Board of Directors conducts search for bank CEO and full-time staff.

While this timeline was met (post-facto), the lending component, which was the actual responsibility of the bank, did not begin until later. Prior to discussing the operational aspects of the Bank, it is important to note that despite the early involvement of the community in the design of the original EZ application, the onset of the SEZ meant that the community voice, short of its symbolic presence in the non-effectual Oversight Committee, was largely absent. While Gittell et al.'s first study (1996) of the EZ process did not include Los Angeles, their national findings indicate a similar problem in other jurisdictions. By and large, community organizations were able to exert more influence in the process of designing the original EZ application (i.e., Phase One), where strong coalitions already existed. The pattern remained the same even after two years (Gittell, et al., 1998). This suggests that political capital is an important complement to social capital in creating a comprehensive sense of empowerment. One may even argue that political capital is an important building block of social capital (it acts as a bridge to connect a community with the larger organizational structure around it). As such, it is no wonder that political institutions are resistant to incorporation, and that "politics as usual" can occur in the presence of an economic development agenda.

II.2.a Governance Structure of the Bank and the "Voice" of the Community

According to its vision statement of February, 1996, the SEZ program, embodied in the LACDB, aimed to:
- Provide opportunity and assistance to new businesses that will create jobs and provide needed services;
- Improve and enhance competitiveness of existing industries, safeguarding jobs and creating new opportunities;
- Foster the development of emerging industries in transportation, health care and arts and entertainment; and,
- Create a viable workforce by improving job training, child care, housing, and educational opportunities for residents.

With no funding for the last goal, the LACDB's vision translated into a business development/business assistance program, a fact that is obvious to many participants in this program.

Given this vision, the governance structure of the LACDB was designed to consist of a 15-member Board of Directors, the majority of whom were appointed by the Mayor (and confirmed by the City Council) and the Bank's initial incorporators. The voice of the community was to be captured in the form of city council districts' representatives, and in a group that would be referred to as the Supplemental Empowerment Zone Oversight Committee (SEZOC), to which LACDB was required to make quarterly reports of its operations.

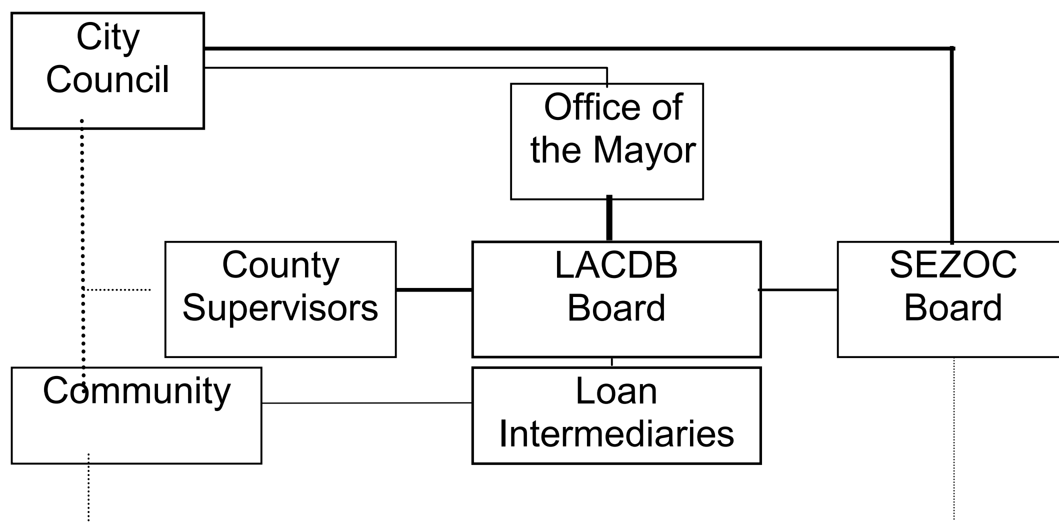
The SEZOC itself was designed to include 12 members appointed as follows:
- Six members appointed by each City Council Member representing the SEZ;
- Four members appointed by the Mayor; and
- Two members appointed by each Supervisor representing the EZ.

At least half of the members of the LASEZOC had to be residents of the Zone and all 12 must be stakeholders (i.e., live, work, own property or do business in or provide services to residents in the Zone). In addition, each Council Member whose district is in the Zone was to establish a task force to coordinate Zone-related activities. The City and County were to provide Staff for the Zone (without any earmarked funding!). The role of the SEZOC was described as
1. Updating the strategic plan as appropriate, ensuring maximum community input in establishing and monitoring progress toward benchmarks;
2. Making recommendations for use of surplus miscellaneous revenue from the CDB;
3. Reviewing waiver requests and assisting in grant seeking, or evaluating grant requests;
4. Providing community feedback to the CDB and providing general input to both City and County on EZ matters; and,
5. Reviewing and recommending actions and taking positions on legislation impacting the EZ.

The SEZOC inherited tasks without funding and became the token gesture of community involvement in an otherwise narrow economic development plan that focused only on business financing. While the original EZOC was designed to develop a work plan for spending $1 million for social services (which was not funded by HHS), the SEZ variation had no money to spend and was left with the task of seeking funds to help promote the other five goals of the original strategic plan (e.g. safety, sustainable communities, housing, education and family support). The final marching order of the

SEZOC can be summarized in the following tasks: 1) Update the strategic plan as appropriate, 2) Establish benchmarks and update annually; 3) Monitor progress toward achieving benchmarks; 4) Make recommendations for use of surplus miscellaneous revenue from the Community Development Bank; 5) Ensure maximum community input in updating and monitoring the strategic plan and benchmarks; 6) Review waiver requests; 7) Assist in grant seeking or evaluating grant requests; 8) Provide community feedback to the Community Development Bank; 9) Provide general input to City and County on EZ matters; and 10) Review, recommend actions, and take positions on legislation impacting the EZ (CDD, April 26, 1996). For a non-funded committee, this is a tall order indeed, and the operation of the SEZOC became riddled with problems, the least of which was a politically hierarchical relationship with the Bank.

Therefore, the eventual design for the community involvement included a disempowered SEZOC and a governance structure that was divided between the emerging bureaucracy of the LACDB and the existing political machine in the city and the county. The governance structure, below, indicates the marginality of the community and the centrality of the bank, in what was to become a journey to an eventual failure. Based on the politics of arrogance, the bank would face its challenge in the following years of its operation.



II.2 Performance of the Bank in the last five years

Empowerment Zones with arguably larger community participation, such as in Detroit, created a momentum unlike any previous area-based initiative and achieved the largest accomplishments after two years of operation (Brownstein, 1996; Chandler, 1999). However, even in Detroit, the disproportionate role of the auto industry created questions about the level of business interference in the process of community development. Nonetheless, the fact remains that cities such as New York and Chicago lagged behind, due to structural problems, an important dimension of which was the minimal participation of the community in the design and the implementation of the EZ (Keating, 1999 and Gittell, et al., 1996 and 1998). In Los Angeles, a similar story can be traced.

With the absence of the community from the process and the clear indication that the Bank was not a comprehensive community development tool, or even a complete economic development tool, the road to failure and mediocrity was paved. By July 3, 1997, more than a year after the appointment of the CEO and hiring of the staff, the LACDB had finalized six loans and was completing an additional 12. In value, this translated in $11.2

million of the Section 108 money (total amount of loans was $57.8 million) for the six loans and $21.5 million for the 12 pending ones. This was close to the new target established by the bank, which was listed in the revised Business Plan of July 15, 1996. This plan projected a total of $33,187,000 in loans, $5 million in loan guarantees and $4,359,350 in loan loss reserve by December, 1996.

Three years later, the Bank reported a total lending and investment of $117 million to 121 borrowers (In 1999, a newspaper report indicated 132 loans, worth $73.1 million). Interestingly, about 75% of these loans were under $500,000, including micro-loans of $1,000 to $25,000. This means that a significant portion of the Bank's customers were introduced through intermediaries, which are typically faith-based, community-based organizations, or other private organizations. The Bank's reliance on community resources has paid off in securing successful smaller loans that are less likely to default in their payments. Despite this achievement, it is in the larger loans that the LACDB is facing its demise. This is exmplified by a multi-million dollar loan given to the Copeland Beverage Group (Santee Dairy in South Central Los Angeles), the legal upheaval around which is threatening the existence of the Bank.

This began with the major funding of a $6 million loan, which was touted by then Vice President Al Gore, in 1998, as an example of inner-city investment that saved over 100 jobs (U.S.A. Today, April 4, 1999); however, within a year the tables turned on the company and suddenly the owners found themselves liable to the Bank for $10 million (the overall investment of the Bank in this dairy company reached close to $20 million). As accusations began to fly, it became clear that the LACDB's style of doing business, which included protection of its assets, as well as lending to individuals that commercial banks refused to fund, had become a mixture of risk and heavy-handed oversight. The latter created a tense business environment within which the Bank began to interfere in many aspects of the business operation, including a seat on the company's board. A higher degree of reporting and oversight translates to passing some of the liability to the Bank, which now finds itself the subject of a lawsuit from the company's founder. Thought the lender liability is denied by the Bank, it is the court that will have the final word on this, unless some arrangement is made between the lender and the borrower. Since the beginning of this financial show-down, the LACDB CEO has resigned and the new CEO is none other than the previous head of Rebuild LA.

III. Concluding Remarks

Over its five-year life span, the LACDB has tried a number of different initiatives to invest in the social capital of the targeted census tracts. These are marked by a board composition that includes community advocates and individuals who have dedicated their lives to improving the quality of life in many of the inner-city communities. However, all the good-will of these individuals and attempts by the Bank to make up for the shortsightedness of its original design are not translating to a major success rate. In the words of Jack Kyser of the Los Angeles Economic Redevelopment Agency, “all these good intentions run into the real world” (Wood and Teicher, 1999).

It would be ridiculous to expect that any one organization would be able to negate the eroding effects of capitalism, deep-rooted racism, and total neglect that have plagued the inner-cities of America over the course of the twentieth century. Empowerment Zones are “white-knight”[2] approaches that last for a few years and disappear. The amount of money offered and the heavy-handedness with which the lender gets involved in the monitoring and operation of these businesses leaves little chance for a major overhaul of the inner-city economy. In the words of Landau (1988), the result is a “hyper innovation” phenomenon through which hundreds of economic and community development programs are created. The maze of bureaucracies and fragmented funding, combined with the expectation of miracle recoveries, has set up most of these programs for collective failure, mixed with occasional successes. While not all these programs are area-based initiatives, and in fact, in the U.S., more money is spent on person-based programs[3], the area-based initiatives are more usable politically in an electoral system that is tied to geography.

The lesson from Los Angeles is clear. Initiatives like the LACDB do very little to improve the economic and social condition of the inner-city poverty-stricken neighborhoods. As a bank insider indicated, the Bank was a business assistance program and not a community development program. This was a mayoral innovation with little constituency and few strong partnerships. Ironically, where the Bank excelled was in the area of micro-lending, which signals community support and direct involvement. The importance of micro-lending is in creating the much needed goods and service in the community. Here the Bank indirectly achieved one of its goals. However, the Bank built very little of an infrastructure, socially or politically, to enhance the chances of sustainability for business retention or attraction. Bringing America’s large companies back to the inner-city requires the education of these companies about the economic potential of these areas. However, as one newspaper argued, it is ironic that CEOs of major corporations know much more about the business environment of Malaysia than South Central Los Angeles.

In the end, the LACDB has emerged as neither a good area-based nor a successful person-based economic development initiative. If America’s established companies are not interested in South Central, the Bank should be focusing on creating a business infrastructure that allows for the gradual growth of a healthy economy. This will involve the recognition that very few local entrepreneurs are interested in loans larger than $250,000, and almost

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[2] This word was used by Dr. Clyde Oden, Chairman of the Watts Health System Inc., in his explanation of the SEZ operation in Los Angeles (Wood and Teicher, 1999).

[3] For example, in 1996, a total of $917 million was spent by Federal social assistance programs (O’Hare, 1996).

none of them like the excessive reporting and paternalistic behavior that has been exerted by the LACDB. The Bank is under pressure to reduce its losses and protect the Section 108 money. Therefore, it behaves more like a Bank mixed with a usurer's constant fear of losing its assets. Smaller loans through intermediaries, combined with collaboration on job training and job placement organization should form a better basis for a "community" development bank. This would be economic development through change agents and the existing infrastructure for micro-lending and capacity building. Furthermore, micro loans may not add additional jobs or increase substantial revenue to the community on a short-term basis, but they build social capital by providing much needed goods and services, while they build localized business knowledge and the potential for "smarter" economic growth. Micro-lending also brings the community voice back to the process, even if it is the economic voice of small entrepreneurs filtered and refined through the intermediaries' assistance.

Inherent in the design of community development is building the knowledge-base for envisioning, planning, acquiring resources, and implementing. Building locally, at scales that are more reasonable and do not follow either space or person-based anti-poverty agendas, is not only more equitable, but also directly affects the social infrastructure and attempts to decrease the gap in "relative" poverty, an approach forgotten in the wake of the "war on poverty." In the end, policies should be dealing with enhancing the capacity for envisioning a future (as individuals or a community, and not simply capacity building), rather than focusing on specific neighborhoods and the spatiality of politics.

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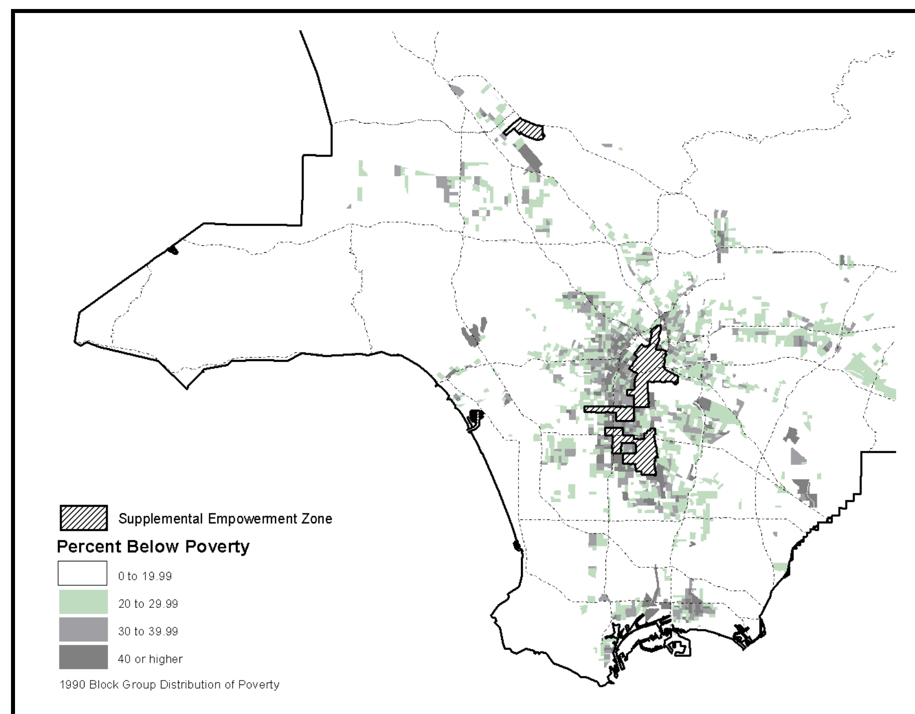

Figure 1 – Geography of Poverty and the Location of the Supplemental Empowerment Zone