THE URBAN ACT OF 1974: COMMUNITY DEVELOPMENT FUNDS AND BLACK ECONOMIC PROGRAMS

Chester McGuire*

The nation entered a new era in housing and community development assistance when President Ford signed the Housing and Community Development Act of 1974.[1] Although the federal government is still the ultimate source of most funds for local community development programs, the new housing act places much more responsibility upon local governments. Decisions as to how money is spent within metropolitan areas are now at the discretion of the local politicians (mayors, councils and county supervisors) rather than federal bureaucrats. Divestiture of some authority by the federal government is a calculated strategy, initiated by President Nixon, to turn over more decision making to the local level as an aspect of "New Federalism".

I. LOCAL CONTROL VS. REGIONALISM

The Housing and Community Development Act (HCDA) of 1974 can be thought of as a political backlash from the profusion of federal social programs of the 1960's. Of course, we all remember these programs: the war on poverty, model cities, and the subsidized housing programs. Impetus for all of these programs came at the federal level, as vehicles for redistributing income by providing services and jobs. This style of public intervention at the federal level reflects a rather deeply ingrained liberal attitude: that the federal government is really the only level of government to properly consider redistributive programs. It may also be the only level of government willing to consider such programs.

Local governments, on the other hand, are perceived as being the most regressive tier of government. Parochialism wins out over progressivism every time at city hall. Local politicians are not very interested in income redistribution or progressive social programs, at least not those that must be paid for out of local funds. This liberal suspician of local politics and politicians is probably correct. At least there is not much in the way of empirical evidence to refute it.

When it comes to community development, local and state governments have not been involved in any innovative ways, nor have they shown interest

---

*Chester C. McGuire, A.B., 1958, Dartmouth College; M.B.A., 1964, and Ph.D., 1974, Graduate School of Business, University of Chicago. Dr. McGuire is a Lecturer in City Planning in the Department of City and Regional Planning at the University of California, Berkeley. He presented this speech to a conference on Public Policy, Black Producers, and Black Consumers—Examining Issues in Black Economic Development: 1975, sponsored by the Joint Center for Community Studies in Los Angeles, California in July-August, 1975.

1. Housing and Community Development Act of 1974, 42 U.S.C. § 5301 (1970).

in developing their own programs. Cities and states have not been deeply involved in housing programs with their own money. The urban renewal program is a good example of a program which is almost totally federally funded which communities have used to their advantage. But would any community invest millions of dollars of local tax money on expensive clearance and redevelopment programs? Probably not, with the sole exception of commercial ventures in downtown areas. Certainly it is difficult to imagine any city devoting millions of its own dollars to socially oriented programs, especially those in the lowest income neighborhoods.

This is why the 1974 Act is so important as a milestone in the development of social programs. From now on community development programs will have different emphases. They will not disappear, but they are already changed. The most important change is that the administrators and constitutents of community development programs must deal with elected officials, the mayor, councils and supervisors. They will no longer be able to bypass city hall and go directly to a sympathetic ear in Washington. During the 1960's many mayors were not only bypassed, but even intimidated, by special constituencies going directly to Washington for funds and direction. Redevelopment agencies, model cities and community action agencies did not have to pay homage to mayors and city councils, as long as the federal representatives were on their side. Many tense political situations resulted from this kind of confrontation, which elected officials felt were often abetted by federal representatives.

The new era represented by the HCDA of 1974 came in on two prongs: First, the mayors have had their political revenge on those who abused them in the 1960's, such as model cities groups who challenged their authority (often quite raucously), the poverty lawyers who sued them, and the consultants and community organizers who often ridiculed them. Consider the mayor of a big city which had an active redevelopment program, model cities agency, and community action program. If he had kept an enemies list (certainly an upright and kindhearted mayor would have no such list) it probably reads like a who's who of federal grant recipients. Yes, the mayors have gotten their revenge and it is called "community development block grants." Now instead of being bypassed, all of the federal community development money comes through the mayor and council. It is no longer disbursed directly to client agencies by the federal government.

But another equally compelling reason for the change in policy direction is the stark fact that social and community development programs conceived in the 1960's had lost much of their luster by 1970. There was no broad mandate from "the people" to continue these programs. Many supported President Nixon's contention that the programs just did not work. Although the ideas were laudable, implementation was ineffective. The prime villain for the failure was the massive federal bureaucracy itself.

Policy makers such as Daniel Patrick Moynihan called for retrenchment at the federal level. The remedy was to let local communities do for themselves with federal money. Let Washington write the check, but let the community decide how and where to spend it.

Looking back, it is somewhat surprising that despite the millions of dollars spent in the various community development and poverty programs, hardly a tear was shed when Nixon began dismantling the programs in earnest. Of course, there were protests from many who were about to lose their jobs. But the average poor person, for whom the programs were intended, assumed no great loss. Even in poverty areas when the programs were on their death bed, with Doctors Nixon, Wineberger and Moynihan preparing to operate, there was no popular outcry. This perhaps does say something about the general effectiveness of these programs at changing the lives of poor people.

But a candid look at the programs of the 1960's reveals yet another picture, and one that is important. That is, the programs did provide tremendous upward mobility to a significant number of aggressive and talented minority individuals. Every program had to have a director, assistant director, supervisors, accountants and others. A new source of managerial talent was tapped. The most talented of these persons are now in private industry, traditional government agencies or their own businesses. The poverty programs and model cities were the point of entry for a number of managers and entrepreneurs who otherwise would never have had such opportunities. This is obviously a secondary benefit, and one which is seldom mentioned publicly. But it is perhaps a lasting legacy of the 1960's.

One way to look at the experience is to note that the social programs replaced the Post Office as the bulwark of the black middle class. And just in time as the Post Office is tottering near bankruptcy and reeling from inefficiency. Another limit on the ability of the new Postal Service to retain its importance to the black middle class is suburbanization, which is just as pronounced as in many other sectors of the economy.

II. Minority Economic Development

Now to turn more directly to the subject at hand: minority economic development. What does the HCDA of 1974 mean in these terms? Will the new arrangements be boon or bane to minority enterprises and minority well-being? Without being flippant, let me address the impact of the new programs on the well-being of minority peoples in the nation. First of all, the administration of the programs of the 1960's did not see much cash actually trickle down to the very poor. A lot of jobs were provided for the middle class and the working class, but not much, at least not a large percentage of the actual funds, ever reached the poor and needy. In the 1974 HCDA, things will probably not be much different, although politicians and administrators will protest these crass remarks. Nonetheless, I am not at all sanguine that social programs a la services, whether administered locally or nationally, are the best solution for poverty and discrimination and all of the accompanying ills. Perhaps one day we will realize that the problem of the poor is lack of money and not lack of services. As long as the poor have no jobs, or poorly-paid jobs, they will have no income, hence they will be poor. Regardless of the extent and amount of specialized services heaped upon them, including the sacred cows of health and education, the poor will be poor as long as they have no money.

Now that we have dispensed with the problems of the poor, what about the economic advantages available to aspiring middle class entrepreneurs made available by the HCDA of 1974? Will the opportunities be as good as they were in the previous institutional arrangements? The answer is that they will probably be better for local entrepreneurs, especially in housing-related enterprises. At least this is potentially so.

The Housing Act of 1949[2], which established the urban redevelopment program, contained the now famous statement that each American family is entitled to "a decent home in a suitable environment". This has been the cornerstone of our stated national housing policy for the past 25 years. It is very interesting to note that the 1974 Housing and Community Development Act contains words in its preamble regarding "the development of viable urban communities. . .decent housing and suitable living environment and expanding economic opportunities, principally for persons of low and moderate income". So this current piece of legislation explicitly acknowledges economic development as one of its goals, as well as decent housing. This is an important fact to keep in mind in comparing this act with other housing bills.

III. Operational Aspects of The Act

How does this new law work? First of all, HDCA of 1974 consolidates several categorical programs such as model cities, urban renewal, water and sewer improvements, public facility and neighborhood facility programs. Rather than specifying exact amounts for each separate program, as in the past, each community receives a Community Development Block Grant which can be spent for those purposes. But the amounts to go into specific eligible categories are determined locally. That is, if a community wants to spend its entitlement on urban redevelopment at the expense of other programs, it is free to do so.

Each city of over 50,000 and counties of 200,000 are eligible to participate. Other smaller cities which have previously participated in HUD programs are also eligible. For fiscal year 1975, $2.5 billion dollars has been authorized by Congress. That figure increases to $2.95 billion in 1976 and 1977. The law provides for a period of six years for the program. Furthermore, the law has a provision that guarantees that communities will not receive less under Community Development Revenue Sharing than they received under the amalgam of categorical programs during 1968 to 1972. As an example of the amount of money available under Community Development Revenue Sharing (CDRS), the current entitlement of Los Angeles is almost $37 million dollars for fiscal year 1975-1976.

Not all expenditures are eligible under CDRS. Cities may not use CDRS funds to conduct what would be their normal maintenance and administrative functions. There is obviously a great temptation, at least one perceived in Washington, for cities to use CDRS as well as other revenue sharing monies to lower local property taxes. Cities also may not use CDRS funds for transit terminals and other direct transportation expenditures. Transportation capital improvements are still maintained under categorical

2. Housing Act of 1949, 42 U.S.C. § 1401 (1970).

programs administered by the Urban Mass Transit Assistance Administration. Cities may not build arenas or stadiums or other large scale public works or school buildings with CDRS funds. CDRS funds cannot be used to build or purchase housing. That is, CDRS funds cannot be used to pay for the actual construction of new housing or the purchase of existing units. However, CDRS funds can be used in a variety of creative ways to stimulate housing development.

IV. Utilization of Community Development Revenue Sharing Funds

There appear to be two ways of utilizing the CDRS funds to the advantage of minority economic development. One is the use of community development corporations who would be either grant recipients or contractors for some of the CDRS funds. The other is simply the traditional method of minority entrepreneurs dealing with the powers that be in an attempt to wrest some of the "action" in terms of contracts for services, management or construction. For both of these, the HCDA of 1974 may offer significant opportunities. But one major caveat is in order: any entity or individual obtaining any advantage from CDRS funds must be politically aware and astute, for the redistribution of funds is political. Now I must be quick to point out that I am not speaking of patronage, which typifies many cities in their dealings with vendors. What I mean is that the priorities which determine how and where money is distributed are political decisions. For instance, if one is interested in housing rehabilitation, one must use political acumen to assure that housing rehabilitation is included as a high priority item in the CDRS budget. In this regard, local politics will play an important role in resource allocation, since there is no real market test to distribute the money. Those with the political acumen stand a potential chance of capitalizing on the CDRS funds, and those without such skills will not.

The political arena is different from the market place—votes and not dollars determine relative values. Revenue sharing provides an almost perfect laboratory to test the hypothesis. Votes are not as concentrated as income. Whereas a rich man may have millions of dollars, he has but one vote (that is unless he lives in Chicago, my old home town, where as Dick Gregory says, "your vote counts, and counts, and counts . . . ."). Therefore, politicians are sorely tempted to spread funds and favors on as broad a basis as possible, to an entire city rather than to a special area, such as a "poverty" area or a model cities neighborhood. This means that CDRS money, which is no longer tied to specific geographic areas, will most likely be broadly distributed across the entire city. Since the funds, so broadly dispersed, will be inadequate to handle major problems or acute problem areas, it will require significant political skill to obtain funds over any sustained period of time. There are just too many claimants from all over the city for the funds that exist. And politicians, who cannot always count money, are adroit at counting votes. Never forget that the first law of a politician is getting elected.

V. The Community Development Corporation

The rather unique political arrangements which surround the actual disbursal of CDRS funds puts the community development corporation in a good position to capitalize on its political base and unique status to obtain money to be used for economic development. Community development corporations are usually non-profit corporations with a broad-based ownership and equity structure whose purpose is to either assist private entrepreneurs or to actually assume entrepreneural duties.

One style for a community development corporation (CDC) is to simply act as a conduit for private entrepreneurs. The CDC by virtue of its non-profit status and broad political base may be able to obtain public monies which might be suspect going directly to profit-motivated private entrepreneurs. For instance, if a community needed a small child care facility, the CDC might obtain the funds, then contract out the actual building of the structure to a local minority contractor. It would be an arms-length transaction with the CDC. On the other hand, it may not be possible for the private entrepreneur to deal directly with the city. As in the foregoing analogy the CDC can be a catalyst as well as conduit for minority businesses.

One advantage of the conduit approach is that the vital entrepreneurial ability of the private businessman is utilized. A good case can be made that in most instances, the individual entrepreneur is much more efficient than a broad based community organization when it comes down to details of business. Of course there are exceptions to every generalization. Some CDC's may have superior entrepreneurial and technical talent and be much more capable than the average independent businessman in a variety of endeavors. But this would probably be the exceptional case. Another value of the conduit approach is that the CDC will not alienate the independent small businessman in the area. If the area's businessmen sense unfair competition, or an unwillingness to share, it could be quite counter productive in the end.

However, the CDC could take over a direct entrepreneurial role in using CDRS funds. There is some precedent for this approach. An example of a quite enterprising CDC is Progress Enterprises of Philadelphia, made famous by its own good works plus the extraordinary abilities and strong personality of its founder, Reverend Leon Sullivan. Reverend Sullivan's personal fame and stature has made him the first Black director of General Motors, a well-deserved recognition for his talents. Progress Enterprises is a broadly based corporation which originally got its equity from local participation, rather than federal funds or grants. From this base it has expanded so that now it owns many enterprises and a shopping center and housing developments. However, the ingredients for this success story are a large church membership which was the nucleus, and extremely dedicated, dynamic leadership in the presence of Reverend Sullivan.

There are other CDC's which should be mentioned. The Bedford-Stuyvesant Restoration Corporation in Brooklyn has been active for several years. In this case the impetus was from several prominent people, such as the late Senator Robert Kennedy, who wanted to do something beneficial for that section of Brooklyn. The prominence of its board of directors, containing such men as Former Treasury Secretary Douglas Dillon, has led to its attracting much industrial and corporate capital. But here again this is an exception to the average CDC that cannot possibly attract all of this kind of "establishment" aid.

Along this same line, the FIGHT corporation in Rochester, a CDC, has been aided significantly by its home town industrial giants, Xerox and Eastman Kodak. This kind of support from local industry cannot and should not be overlooked. They can often be of valuable technical and perhaps even financial assistance to the local CDC. There is no real reason why a local CDC should not seek such assistance.

In the Los Angeles area there are two significant CDC's which should be mentioned. First, Operation Bootstrap which was started after the Watts riots in 1965. Like the other CDC's initiated in that period it started with private community-generated equity capital. It has subsequently branched out into several business ventures, the most notable being the Sindana Toy Factory (with some assistance from Mattel, Inc.).

Second, in East Los Angeles, there is the East Los Angeles Community Union (TELACU). This CDC was originally started with both community and labor union support. Now it operates several businesses in East Los Angeles and also engages in providing technical assistance to minority businesses.

VI. Special Opportunities in Housing

Housing offers an especially interesting area for CDC involvement. The HCDA of 1974 seems to offer special incentives for rehabilitation of housing and this area would seem ripe for exploitation by CDC's in a variety of ways. One inducement for rehabilitation of housing stems from the perverse nature of the act itself. The 1974 HCDA has proposed a new housing program, known as Section Eight[3], which is so poorly conceived that it will assure that hardly any new low-moderate income housing will ever be built. Prior programs, like all housing programs, had some faults. But regardless of their deficiencies they produced a lot of low and moderate income housing. In 1972, almost 25 percent of all the new housing built was federally subsidized.

The Achilles Heel of the program is the fact that HUD is setting "fair market rents" too low to accomodate new construction. Due to rampant and sustained inflation in the construction sector the cost of new construction has risen to the point that it is almost impossible to build new units at today's construction costs and interest costs which will rent for less than $300 per month. HUD, for various reasons, is reluctant to authorize rent payments at a level high enough to encourage much new building. This fact alone will kill the program as a stimulus for new construction.

However, the Section Eight program may prove somewhat of a boon for rehabilitation, especially if the rehabilitation will keep subsequent rents below that of new construction and within the "fair market rent" levels imposed by HUD. In addition to the peculiarities of Section Eight there is one other movement which gives impetus to housing rehabilitation. Many communities are now abandoning urban renewal programs. It is unlikely that many

3. 42 U.S.C. § 1403 (1970).

new clearance programs, especially those aimed at providing low income housing, will ever be attempted again. They are so expensive, and take such a long time to complete that they have fallen into disfavor with almost everyone. It is no secret that urban renewal was for many years called "Negro removal" because of the inequities imposed by forced relocation and displacement without adequate economic or social compensation.

Many cities have expanded their activities in conservation and rehabilitation using CDRS money. Certainly these funds will go much farther in rehabilitation than they will in clearance projects. This gives CDC's the opportunity to get heavily into housing rehabilitation. The city can make funds available to CDC's to act as developers on rehabilitation projects. The role of the developer is similar to the role private developers traditionally play in real estate development; that is, they arrange for the purchase of and construction of real property.

Housing rehabilitation is an excellent way for CDC's to interact with independent minority contractors. Since construction is such a competitive and technical field, I would certainly not recommend that any CDC get into the construction business. Any actual construction can be handled by using professional builders in arms-length transactions. However, the relationship can be highly beneficial to all concerned.

Here again, the unique status of the CDC enables it to obtain advantages which are unavailable to the individual entrepreneur. For instance, the CDC can obtain CDRS money which can be used to provide technical assistance to small contractors. The CDC can provide what may be the most important service with the small contractor, that is, with bonding requirements. The CDC can either waive the bond if it is the developer; or it can, through its financial muscle, assist with surety problems via guarantees. The Los Angeles current community development budget contains such an item for the Greater Watts Housing Development Corporation, a CDC. It provides for $182,000 for rehabilitation, seed money, and various financial assistance to small contractors. This is a good example of the creative opportunities for the city, CDC and private entrepreneur to work together.

Finally, I would recommend expanded CDC activity in housing rehabilitation because it is an area in which the small business can operate. Housing rehabilitation happens to be one of those rare economic activities for which there are no economies of scale. Economists use the term economies of scale to describe the process whereby average costs tend to get lower as the scope of the undertaking expands, just as prices at Safeway are lower than at the "mom and pop" store, because of higher volume and efficiency. But this is not the case in the housing industry. Most construction companies are small, but those specializing in rehabilitation are even smaller. No one has yet figured out a way to greatly increase the efficiency of rehabilitation. Thus the small contractor is just as efficient as the industry giant.

VII. Conclusion

In conclusion, the Housing and Community Development Act of 1974 has much to commend it in terms of its potential impact on some aspects of community economic development. Some small portion of the benefit results from the good will and intent of its authors in Congress. Some larger portion of its impact, however, is because of the fortuitous perversity with which some side effects will operate. Nevertheless, when compared with its predecessors, in terms of economic development opportunity for minorities, it will be just as effective, or perhaps slightly more so. In terms of what it will do for the poor . . . well, why don't we just forget about that and end on a good note.